

Chief Risk Officer Role¹ and Responsibility Assessment Tool:²

Part of IFC's Advanced Methodology for Financial Institutions

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
I. Personal Qualifications³	<ol style="list-style-type: none"> Integrity – understands duties of loyalty and care. Communication skills. Honest and ethical. 	<ol style="list-style-type: none"> Same.⁴ Same. Same. Strong quantitative skills. 	<ol style="list-style-type: none"> Same. Same. Same. Same. 	<ol style="list-style-type: none"> Same. Same. Same. Same.
II. General Knowledge and Professional Skills	<ol style="list-style-type: none"> General understanding of risk factors affecting financial institutions. Specific understanding of risk factors affecting the Bank. 	<ol style="list-style-type: none"> Same. Same. Same. Same. Same. 	<ol style="list-style-type: none"> Same. Same. Same. Same, <i>and holds internationally accepted relevant certification</i> 	<ol style="list-style-type: none"> Same. Same. Same. Same. Same. Same.

¹ At some financial institutions in emerging markets, particularly smaller ones, the functions of the chief risk officer (CRO) may be split among the chief compliance officer, chief financial officer, and others. Even at institutions that have CROs, some functions may be divided between CROs and others. In all cases, the relevant functions should be coordinated ensure that there are no gaps.

² Prepared by Sinclair Capital, a G3 affiliate.

³ As the CRO position is relatively new, the normal experience requirements don't seem to apply. There are CROs with banking backgrounds, but also with scientific, mathematics, operational, auditing, risk management and compliance backgrounds. But they have to know the business of the bank. It is, however, a senior level position, and the CRO generally has a record of accomplishment, regardless of the field. CROs typically have at least 12 years of business experience.

⁴ "Same" in a column means that the recommendation with the same number in the column immediately to the left is carried over into that column. Where the recommendation is the same but with additions, the additions are in italics.

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	3. Familiarity with risk-oriented regulations (e.g. Basel II). 4. Holds all applicable licenses (if required by local regulation). 5. Has basic knowledge of and is generally familiar with anti-money laundering/combating the financing of terrorism (AML/CFT) and risks related to these.		<i>(e.g. PRMIA, CPA, CFA, etc.).</i> 5. Same. 6. Detailed knowledge of business lines in the Bank.	
III. Appointment	1. Appointed by CEO.	1. Same. 2. Appointment subject to consultation with Board (or Board committee ⁵).	1. Same. 2. Same.	1. Same. 2. Same.
IV. Reporting Line and Accountability	1. Independent of any business line, so as to avoid any conflicts of interest. 2. Reports to senior level official (defined as a	1. Same. 2. Same, and has <i>unrestricted access to CEO.</i>	1. Same. 2. Reports to CEO or to management committee or executive committee or Board. If reports to the CEO, the	1. Same. 2. Same.

⁵ Such consultation should be conducted with the risk committee of the board or, if that committee has not been established, then the audit and compliance committees.

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	maximum of two steps removed from CEO).		CRO has a “dotted line” reporting relationship to Board or Board Committee.	
V. Reporting	<ol style="list-style-type: none"> 1. Routine and regular reports to CEO and/or CFO. 2. <i>Ad hoc</i> reports to Board. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Formal report to Board, at least annually. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Responsible for reports to regulators. 5. Assist senior management and Board in drafting risk report for inclusion in the Bank’s annual report. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Same. 6. Ensures risk reports shared appropriately across the Bank. 7. Positions the Bank as a leader in risk transparency and public disclosure.
VI. Resources	<ol style="list-style-type: none"> 1. Adequate time (if not such employee’s sole role) to fulfill CRO role. 2. Ensures that risk measurement/manage ment function has adequate expertise and resources to fulfill its responsibilities 3. Ability to contract appropriate external 	<ol style="list-style-type: none"> 1. Risk management is such employee’s sole responsibility. 2. Same. 3. Same. 4. Same. 5. Ensures that ongoing training is provided to all relevant staff. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Same. 	<ol style="list-style-type: none"> 1. Same. 2. Same, and ensures that expertise and function are sufficiently robust to be a competitive advantage compared to other financial institutions. 3. Same. 4. Same.

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	<p>assistance.</p> <p>4. Resources adequate to meet regulatory requirements.</p>			<p>5. Same.</p> <p>6. Provides appropriate training broadly throughout the Bank.</p>
VII. Responsibility – Policy⁶	<p>1. Assists in developing policies and processes for identifying, classifying, assessing, monitoring and managing risks.</p> <p>2. Specifically, reviews and recommends aggregate loss limit targets for various risk categories (e.g. loan losses, market losses, operational risk), paying special attention to capital adequacy and liquidity requirements.</p> <p>3. Develops and</p>	<p>1. <i>Same, and specifically assists in creating overall credit and market risk limits, as well as country risk limits for non-domestic exposures, and counterparty risk limits.</i></p> <p>2. <i>Same.</i></p> <p>3. <i>Same, including exception reporting mechanisms.</i></p> <p>4. <i>Same, and business continuity planning.</i></p> <p>5. <i>Suggests appropriate levels of delegated</i></p>	<p>1. Same.</p> <p>2. Same.</p> <p>3. Same.</p> <p>4. Same.</p> <p>5. Same.</p> <p>6. Same.</p> <p>7. Specifically addresses non-financial reputational risks.</p> <p>8. Recommends risk measurements and rating methodologies to be reported to regulators and used by the Board in evaluating corporate performance and risk appetite (e.g.</p>	<p>1. Same.</p> <p>2. Same.</p> <p>3. Same.</p> <p>4. Same.</p> <p>5. Same.</p> <p>6. Same.</p> <p>7. Same.</p> <p>8. Same.</p> <p>9. Moves the Bank risk policies towards an “enterprise risk management” approach (as defined by COSO⁷ or similar).</p> <p>10. Specifically addresses strategic risks.</p> <p>11. Stays abreast of “best</p>

⁶ This and the following sections attempt to show the fairly typical evolution of risk management from the most basic elements (credit, market, macro-economic) to more advanced (operations, competition, reputation, technology, etc.) to the broadest possible (Enterprise Risk Management).

⁷ The Treadway Commission’s Committee of Sponsoring Organizations (COSO) issued a report, “Enterprise Risk Management – Integrated Framework” in August, 2004 which attempted to integrate COSO’s earlier internal controls framework into a broader, risk management approach.

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	<p>recommends a comprehensive risk management program.</p> <p>4. Reviews the Bank's risk management infrastructure and control systems to ensure adequacy to enforce Bank's risk policies.</p>	<p>authority to commit the Bank's resources in each area of its business.</p> <p>6. Specifically addresses non-financial operational risks.</p>	<p>Value at Risk, Economic Capital, internal measures, Risk Adjusted Return on Capital, credit ratings, etc.).</p>	<p>practice" risk management practices and suggests modifications to Bank policy based on new developments.</p> <p>12. Suggests ways to instill risk culture in the Bank, such as training, compensation, etc. Works with Board (the Risk Committee) and CEO to implement.</p>
VIII. Responsibility - Implementation	<p>1. Implements risk policies and framework established by Board (Risk Committee) to monitor and report risk exposures and assess how the Bank's changing risk profile affects need for capital.</p> <p>2. Regularly reviews Bank's risk exposures and compares to</p>	<p>1. Same.</p> <p>2. Same.</p> <p>3. Same.</p> <p>4. Same.</p> <p>5. Same.</p> <p>6. Supervises contingency (business continuity) planning.</p>	<p>1. Same.</p> <p>2. Same.</p> <p>3. Same.</p> <p>4. Same.</p> <p>5. Same.</p> <p>6. Same.</p> <p>7. Reviews exposures to major clients, counterparties, countries, and economic sectors.</p> <p>8. Reviews assumptions</p>	<p>1. Same.</p> <p>2. Same.</p> <p>3. Same.</p> <p>4. Same.</p> <p>5. Same.</p> <p>6. Same.</p> <p>7. Same.</p> <p>8. Same.</p> <p>9. Same.</p> <p>10. Same.</p> <p>11. Same.</p> <p>12. Same.</p>

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	<p>approved limits. Serves as independent and objective check of the risk-taking activities.</p> <p>3. Reviews Bank's risk management infrastructure to ensure adequacy, at least annually.</p> <p>4. Documents risk measurement/management program.</p> <p>5. Proposes CRO's annual work plan to the Board (ordinarily the Risk Committee or, if not established, the Audit and Compliance Committee).</p>		<p>used in risk measurement models. Considers whether model risk issues have been properly considered.</p> <p>9. Conducts stress tests on credit, liquidity, market, and operational risks.</p> <p>10. Examines and analyzes risks over various time frames.</p> <p>11. Supervises Bank's preparations and implementation of Basel II with respect to risk management and measurement issues.</p> <p>12. Together with senior management, reviews adequacy of Bank's capital and allocation to business units.</p> <p>13. Provides technical assistance to business unit managers.</p> <p>14. Reviews new products to ensure they are</p>	<p>13. Same.</p> <p>14. Same.</p> <p>15. Works with senior management and Board (Risk Committee) to establish an enterprise-wide risk management framework for all business units at all levels.</p> <p>16. Responsible for instilling a risk culture in the Bank.</p>

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			consistent with the Bank's risk policies and risk management systems.	

- Acceptable** Minimum acceptable practices in corporate governance and risk management. Elementary. Meets the basic and regulatory/legal requirements. Reflexive.
- Better** Taking further steps to strengthen corporate governance and risk management. More established. Beginning to form a system. Meeting some internal and external regulatory/legal requirements.
- Desirable** Major contributor to improving corporate governance and risk management nationally. Established. A system is in place. Meets all internal and external requirements. Proactive and forward-looking. Working toward best practices.
- Best Practice** Conforms with international best practices in the industry. Well-established system. Risk management is integrated with the corporate governance framework. Forward looking and focused on continuous improvement.