Ivan Choi

The financial crisis and its rippling effects on the wider corporate sector have prompted companies to rethink how they govern and manage risk. This paper discusses the board’s role in the governance of risk and the benefits of establishing a separate board-level risk-management committee—a need that applies to financial and nonfinancial institutions, as well as large and small companies.

Foreword

All business decisions involve risk. The challenge to boards and senior management is to balance risk with acceptable reward, to create value without hazarding the enterprise. This means understanding the corporate exposure to risk, determining how those risks are to be faced, and ensuring that they are handled appropriately.

There are four possible responses to a business risk:

1. **Avoid the risk.** Abandon the proposed project.
2. **Mitigate the risk.** Make capital investments or incur ongoing expenditures—for example, by obtaining standby equipment, duplicating critical components, investing in staff training—plus establish risk policies, such as requiring top executives to travel separately in case of an accident.
3. **Transfer the risk.** Spread the exposure to other parties. Insure against the risk, although some risks may be uninsurable. Hedge the risk by negotiating long-term contracts. Create derivative instruments, agreements with financial institutions that transfer the risk to third parties.
4. *Retain the risk.* In other words, accept the risk. This is often the only available solution for strategic risks.

Risk is often handled well at the operational level, taking appropriate precautions and insurance against, for example, fire, theft, employee accidents, and vehicle damage. Risks internal to the organization are usually recognized.

Risks at the managerial level tend to be less well-handled. These risks are not so obvious: product liability, loss of profits following an incident, failure of computer-based systems, reputational loss following a media allegation of corporate bribery, for example.

But risks at the strategic level may not be recognized at all, even by top management. Consider, for example, the massive fines that international banks had to pay for the Libor rate-rigging scandal, the market disaster and product liability that Boeing faced with the failure of the batteries on its 787 Dreamliner airplane, the loss of life and horrendous cost to BP of the collapse of the Deepwater Horizon oil rig, or Tokyo Electric Power’s disaster at the Fukushima Daiichi atomic power station. These examples cover catastrophic costs and huge reputational damage, but every company faces strategic risks that could threaten its existence. Many strategic plans fail to consider risk. Directors and senior management need to face up to the unexpected “what if…” questions.

This paper goes to the heart of these issues.

Crucially, it argues that successful organizations should focus on risk management at every level. But the responsibility for risk management starts with the board. The paper advocates that a board-level risk management committee, separate from the board-level audit committee, offers a sound basis for enterprise-wide risk management.

Many corporate failures can be attributed to the board’s inability to recognize the underlying risks faced by the company and to take appropriate mitigating actions.

Corporate governance and enterprise-wide risk management are interconnected. Risk management, like corporate governance, involves both conformance and performance aspects: ensuring that past and present issues are well handled while also looking to the future.
This paper differentiates the roles of the audit committees and the risk-management committee. The risk-management committee has an oversight role in developing, updating, enforcing, and monitoring the implementation of the risk-management policy on behalf of the board. Usefully, the paper makes specific recommendations on the duties of such a committee and realistically sets the benefits against the costs.

All company decisions involve risk. Sound risk management starts with board-level responsibility. This paper has important messages for board chairmen and directors, both executive and nonexecutive. The paper will also provide valuable insights for chief executives and senior management responsible for implementing the board’s risk policies. Staff involved in risk management, including the CFO and finance staff, the company secretary and secretarial staff, and the risk function if there is one, will also find this paper relevant to their work.

Bob Tricker

Professor Tricker is founder-editor of the journal Corporate Governance—An International Review. His Oxford research was published as Corporate Governance (1984), the first book with this title, which Sir Adrian Cadbury said he adopted for his seminal corporate governance code. Tricker’s books in print include The Economist Pocket Director (5th edition) and Corporate Governance: Principles, Policies and Practices, Oxford University Press (second edition, 2012). He currently holds honorary professorships at two Hong Kong universities.
When Do Companies Need a Board-Level Risk Management Committee?

Ivan Choi

Risk management is nothing new. But the global financial crisis and corporate failures in recent years have put risk management in the spotlight. Who is ultimately responsible for it?

Responsibility for risk management should start in the boardroom, as the board is ultimately responsible for the organization’s decision making, business performance, and value creation, all of which are associated with risk. The chief executive officer, who is accountable to the board, has the responsibility to ensure proper execution of the risk-management strategy and policies laid down by the board. The board governs while management manages. The board’s risk-management role should therefore be the governance of risk—overseeing, directing, and setting policies and monitoring performance.

Successful organizations often demonstrate a consistent emphasis on risk management. The key to effective risk management is being anticipatory and not waiting for the fire to start or spread. Prevention is the best remedy, and one role of the board is to recognize and accept how management is handling risks. Risk management is simply a matter of acting explicitly in advance to prevent a risk event from happening or to diminish its consequences when it does. For some conservative enterprises, this has meant not taking on any new projects, which minimizes potential risks but also opportunities to create value. For more aggressive enterprises, this has meant taking on new projects without due consideration for risks. It would be the board’s duty to strike a balance between the two.

As the scope and complexity of risks faced by enterprises are ever increasing, there has been a growing interest in many boardrooms in setting up a board-level risk-management committee (RMC). The purpose of this paper is to provide an analysis of the need to establish such a committee and how to make it work better.

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Is Risk Management a Board Responsibility?

Many corporate failures are attributed to the board’s inability to recognize the underlying risks faced by the company and take appropriate mitigating actions. The recent decade has seen many seemingly infallible corporate giants faltering or outright failing. While the causes are different from one case to another, they all point to the inability of the companies’ boards to understand and foresee risks. After all, the board is responsible for governing the company in meeting its objectives.

People often associate corporate risks with dramatic incidents, such as the frauds in Satyam and Enron, BP’s oil spill, or TEPCO’s nuclear power plant disaster in Fukushima. In reality, however, risks facing most companies on a daily basis are often much more mundane but no less devastating for their bottom line and the shareholder value. Recent examples include RIM (the manufacturer of the BlackBerry) and Nokia, which failed to anticipate new entrants and product categories in the smartphone market and were caught flat-footed by Apple’s iPhone. Both companies are currently trading at a fraction of their all-time high stock valuations.

Corporate governance drives risk management, and risk management anchors corporate governance. Corporate governance is a board responsibility because it is the board of director’s role to direct and to ensure that controls are in place, with the objective of increasing shareholder value. To increase shareholder value requires the board to formulate strategy and business decisions. Strategy and business decisions carry risk; and risk and reward thus go together. Risk management is therefore an integral part of the board’s corporate governance function and thus is a board responsibility. Figure 1 describes the board’s corporate governance functions, and risk management is embedded in the other functions.

Figure 1. Board Responsibilities

<table>
<thead>
<tr>
<th>PAST &amp; PRESENT-ORIENTED</th>
<th>FUTURE-ORIENTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROVIDING ACCOUNTABILITY</td>
<td>STRATEGY FORMULATION</td>
</tr>
<tr>
<td>MONITORING &amp; SUPERVISING</td>
<td>POLICYMAKING</td>
</tr>
<tr>
<td>Succession Planning</td>
<td>Risk Management</td>
</tr>
</tbody>
</table>

The board’s role in risk management is reflected in the regulations and guidelines in many jurisdictions. For example, the UK Corporate Governance Code states that “The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.” The NYSE Corporate Governance Listing Standards require the audit committee to discuss policies with respect to risk assessment and risk management.

Similar to other corporate governance functions, the board’s main role in risk management is to provide oversight. Through risk oversight, the board should—

- establish the organization’s risk appetite/tolerance level;
- identify and monitor operational, managerial, and strategic enterprise risks and know the degree of flex in how these risks are to be treated;
- ensure that an effective risk-management system is in place; and
- oversee management actions, especially as they relate to excessive risk-taking, and provide input to management regarding critical risk issues in a timely manner.

To carry out the risk oversight role, a system of risk governance should be in place. Risk governance refers to the architecture within which risk is managed by a company. It defines what risks are being managed and how, and who is responsible for what. As stated in the risk governance guidance published by the Singapore Corporate Governance Council, “a sound risk governance allows for the articulation of how, in the context of its risks, a company is able to—

- achieve its business objectives;
- formulate its value proposition;
- assess its risk tolerance; and
- design its processes with respect to the reasonable expectations of stakeholders.”

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1 UK Corporate Governance Code C.2.
Specific roles of the board in enterprise risk management (ERM) can be categorized in terms of conformance and performance:

<table>
<thead>
<tr>
<th>Conformance</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ensure the board’s accountability for risk and internal controls</td>
<td>• Determine the ERM objectives</td>
</tr>
<tr>
<td>• Define the organization’s risk appetite</td>
<td>• Steer and approve the ERM strategy</td>
</tr>
<tr>
<td>• Monitor the risk-management process</td>
<td>• Approve risk-management policies</td>
</tr>
<tr>
<td>• Monitor key performance indicators (KPIs) and key risk indicators (KRIs)</td>
<td>• Make risk-management decisions based on KPIs and KRIs</td>
</tr>
<tr>
<td>• Determine the ERM objectives</td>
<td>• Work with the CEO and the chief risk officer (CRO) in managing risks</td>
</tr>
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</table>

**Is the Audit Committee the Best Candidate to Assume the Risk-Governance Role?**

Certain issues or decisions of the board require extensive discussions and closer monitoring, and they are best taken up by a committee. Committees are set up to assist the board in coming to deliberated, sensible, focused, and informed decisions on specific areas and in monitoring the execution of decisions and implementation of related policies. The board delegates matters to a board committee to an extent that would not significantly hinder or reduce the ability of the board as a whole to discharge its function.

Given the complexity of inherent and emergent risks faced by many companies, risk-governance responsibility is a natural candidate to be delegated to a board-level committee. The responsibility often falls on the audit committee for the following reasons:

- The establishment of an audit committee or something of that nature is currently a mandatory requirement under the listing rules and/or the codes of corporate governance in many jurisdictions.
- The remit of an audit committees is to ensure that an internal control system is in place to manage risks.

Even with audit committees being common for many companies, it is still not unusual to find cases of corporate failures or scandals. One such well-publicized case in the nonfinancial institution sector is China Aviation Oil (Singapore) Corporation Limited (CAO). The audit committee failed to detect false reporting by the CEO to cover up losses resulting from speculative fuel options trading, and there was no risk-management policy for such trading.
China Aviation Oil (Singapore) Corporation Ltd. (CAO) is the Singapore subsidiary of China Aviation Oil, a state-owned enterprise in China. CAO practically handles 100 percent of China’s jet fuel imports for civil aviation. CAO went public and was listed on the Singapore Stock Exchange in 2001. The company was in the spotlight in November 2004 when it announced that it was not able to meet some of the margin calls arising from speculative derivatives trading. The company sustained losses up to $550 million as a result of unauthorized speculative options trading in fuels and was on the brink of collapse. The company’s CEO, Chen Jiulin, was arrested on charges of insider trading in March 2006.

It all started in March 2003 when the company’s management entered into speculative fuel options trading with the aim of seeking profits from market movements. This was beyond the remit authorized by the board whereby the company should use derivatives as a hedging instrument to hedge against risks inherent in its primary business of physical oil procurement and trading. There was also no risk-management policy to govern options trading. Despite early successes, trade losses began to accumulate when oil price movements went against the company’s trading strategy. The CEO manipulated the accounts and did not report the losses in the company’s financial statements. This became one of the largest corporate scandals in Asia since the $1.2 billion loss and bankruptcy of Barings in 1995. There was a general failure of corporate governance in CAO. Subsequently, the CEO and head of finance were convicted and sentenced to 51 months and 24 months of imprisonment, respectively. Other directors were fined for making false and misleading statements.

There are several possible reasons why audit committees often are not able to fulfill their risk governance roles:

- They may be already overwhelmed by increasingly complex financial reporting standards and internal controls requirements.
- The skill sets required for risk governance and management are different from those typically possessed by members of the audit committee.

Could Separate Risk-Management Committees Be the Answer?

A board-level committee called the RMC could provide the alternative. The establishment of a separate RMC is currently not mandatory in most jurisdictions except for financial institutions. The Walker Report requires that “the boards of a

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1 The final report of the Walker review of corporate governance in UK banks and other financial industry entities, published November 2009, available separately from HM Treasury website at www.hm-treasury.gov.uk/walker_review_information.htm
FTSE 100-listed bank or life insurance company should establish a risk committee separately from the audit committee. The corporate governance codes issued in many jurisdictions, such as Hong Kong and Singapore, emphasize the need for having risk-management processes and systems in place although they fall short of requiring the establishment of a board-level RMC.

The RMC is a board-level committee that advises and makes recommendations to the board, independent of management, on governance of risk management by the organization.

There is a good degree of overlap, but also distinctive differences, between the roles of an RMC and those of an audit committee:

<table>
<thead>
<tr>
<th>Audit Committee</th>
<th>RMC</th>
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</thead>
<tbody>
<tr>
<td><strong>Focus</strong></td>
<td></td>
</tr>
<tr>
<td>• Historical performance</td>
<td>• Future performance</td>
</tr>
<tr>
<td>• Effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations</td>
<td>• Broader risks at both strategic, managerial, and operational levels</td>
</tr>
<tr>
<td>• Risks with financial and/or nonfinancial consequences</td>
<td></td>
</tr>
<tr>
<td><strong>Terms of Reference</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Audit</strong></td>
<td><strong>Risk Assessment</strong></td>
</tr>
<tr>
<td>• Ensure that the company’s external and internal audits are sufficient to address business risks</td>
<td>• Ensure that the company’s management regularly assess its risks and updates its risk register</td>
</tr>
<tr>
<td>• Ensure that risk assessment is part of the decision-making process and that risks taken are within the risk appetite level set by the board</td>
<td></td>
</tr>
<tr>
<td><strong>Internal Control</strong></td>
<td><strong>Risk Management</strong></td>
</tr>
<tr>
<td>• Ensure that management has put in place appropriate internal controls to address business risks</td>
<td>• Ensure that management has put in place a risk-management system to assess, control, and monitor all risks</td>
</tr>
<tr>
<td>• Ensure effective functioning of such controls</td>
<td>• Ensure the effective functioning and currency of such a system</td>
</tr>
<tr>
<td><strong>Financial Reporting</strong></td>
<td><strong>Risk Reporting</strong></td>
</tr>
<tr>
<td>• Review the company’s financial reports, in particular ensuring that the duties of the directors on disclosure and representation of the company’s financial affairs are fully discharged</td>
<td>• Review information and reports to the board on the company’s major risks and exposures and their management</td>
</tr>
</tbody>
</table>

**Committee Members’ Core Attributes**

<table>
<thead>
<tr>
<th>Audit Committee</th>
<th>RMC</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Analytical</td>
<td>• Analytical and creative</td>
</tr>
<tr>
<td>• Quantitative</td>
<td>• Qualitative</td>
</tr>
<tr>
<td>• Financial expertise</td>
<td>• Broader experience</td>
</tr>
</tbody>
</table>

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6 Recommendation 23 of the Walker review, November 2009.
7 A Risk Register acts as a central repository for all risks identified by the organization and, for each risk, includes information such as risk probability, impact, counter-measures, risk owner and so on.
The RMC has an **oversight** role in developing, updating, enforcing, and monitoring the implementation of the risk-management policy on behalf of the board. It reports to the board periodically (at least annually) on the risk-management status and practices of the entity. More specific duties of the RMC are as follows:

- In conjunction with and based on input from management, discuss the risk appetite and risk tolerance of the entity, determine and confirm the risk management objectives, and develop the annual enterprise risk-management strategy to be recommended to the full board for adoption.

- Review the entity’s risk-management infrastructure and control systems to ensure that they are capable of fulfilling the risk-management objectives and enforcing the risk-management policies.

- Ensure that management has put in place a comprehensive risk-management system.

- Review policies, procedures, methodologies, and tools to be adopted by the entity in identifying, evaluating, managing, reporting, and communicating risks.

- Ensure that risk assessment is carried out regularly throughout the entity, as part of the enterprise’s risk-management practice.

- Communicate with the board of directors and senior executives, including the CEO and CRO, on matters related to risk management.

- Oversee the CRO’s role and responsibilities and provide direction on them.

- Monitor risks faced by the entity by receiving periodic reports from the CRO on top and emerging risks and risk-mitigation and treatments.


- Monitor excessive risk-taking behavior of management and take appropriate actions.

- Monitor insurance policies and practices as a risk-transfer strategy.

- Recommend to the board changes required in risk-management policies and strategies.

It must be emphasized that, in principle, committees do not make decisions, but only advise and enable the board to make better-informed decisions collectively. Ultimate decision-making authority and accountability remain with the board. This also applies to the RMC.
Of particular importance is the RMC’s oversight role. **Execution and implementation remain the responsibilities of management**, which is tasked with—

- identifying the significant risks of the entity;
- implementing risk-management strategies that are responsive to the entity’s risk profile;
- integrating risk factors and risk management into the entity’s decision-making process; and
- putting in place mechanisms to ensure effective communication of risks to senior management, the RMC, and the board.

In determining the need to set up a separate RMC, the board should consider the benefits and risks of such a decision:

**Benefits of Setting up an RMC**

The establishment of appropriate committees to consider and report on specific and important matters can increase the board’s effectiveness. The committees should consider and scrutinize the issues in greater depth and make recommendations to the board for decision making. This will save precious time for the full board and allow it to focus on decision making and monitoring the most important and strategic issues.

In this light, the establishment of a RMC will bring about the following values to the board and the company:

- elevate risk oversight to the highest level in the company;
- strengthen the quality of risk management;
- inculcate a risk culture and risk-management environment to mitigate and manage risks effectively across the organization;
- establish a platform for continuous assessment of risks in light of the changing internal and external environments;
- improve communication among the board, management, and other stakeholders about risk management; and
- demonstrate to internal and external stakeholders the company’s commitment to risk management.
Risks of Setting up an RMC

It is important to be aware of and address certain risks, some of which are related to the role of the RMC itself:

- *Role conflicts created among committees.* It is likely that there is more than one board committee with some responsibilities in risk governance, notably the audit committee and the finance committee. Having more than one committee overseeing risks might create conflicts if the scope and terms of reference are not clearly defined and agreed upon at the outset. Because audit committees are established in most companies, there will be political considerations in introducing an RMC and defining its terms of reference (how to carve out part of the risk-governance responsibilities that are assumed by the audit committee).

- *Danger of unlinking risks managed by different committees.* There is also a danger that overall risk governance could be unlinked if risks are overseen by different committees (Figure 2). Some risks might be looked at by more than one committee, while some might be overlooked entirely. This danger is more probable if the board is weak or if the committees are not communicating effectively.

**Figure 2. Board Committees Dealing with Risk**

- *Lack of role clarity with senior management and department heads.* Although the establishment of a board-level RMC would give prominence to the board’s responsibilities in risk management, this might send the wrong message that risk management is no longer the responsibility of senior management and heads of divisions, departments, and business units. It must be clearly promulgated and communicated that the board only plays an oversight role, and senior management and department heads are still accountable for managing risks in their areas.
There are also resource issues:

- *Too many committees.* Not only do committees require directors’ time and commitment, they also demand management’s attention and support. In addition to the standard board committees such as audit, nomination, and remuneration and finance, some companies’ boards will also have an executive committee, a human resources committee, a corporate governance committee, and others. In considering an RMC, the board would need to consider a broader perspective and take a more holistic view.

- *Not enough directors.* This would probably be less of a challenge for larger companies. But many small and medium-sized companies are facing the challenge of appointing suitable directors, notably independent nonexecutive directors.

The ability to find directors with the required skills for the RMC could also pose a challenge. RMC members require certain attributes, which are not necessarily possessed by existing board members—knowledge and experience in risk governance and management being one example. To illustrate the point, members of the audit committee tend to be analytical and numeric and typically have a finance and accounting background. Members of the RMC would need to be more creative, with broader business experience.

**Key Questions for the Board**

To guide the board through the decision-making process on whether a separate RMC makes sense for the company, I suggest the following questions:

- **Is your industry exposed to more unusual risks than others?** Some industries are—for example, banks and insurance companies in terms of financial risks; airlines and energy companies in terms of long-term capital investments; and pharmaceutical and food companies in terms of product quality and supply chains. Will a dedicated RMC strengthen the governance of risks?

- **Have the current board and committees been effective in managing risks?** There could be different factors affecting their effectiveness. For example, there may be too little time for the full board to deliberate on risks because of other pressing issues. Top risks may not be identified and agreed to by all board members.

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8 At present, the author is not aware of any best practice guidelines on the composition of an RMC. But the corporate governance codes or listing rules in many jurisdictions require the listed companies to have at least one independent director in the audit committee. This may also apply to RMCs.
members. Will a dedicated RMC help improve effectiveness and inculcate the risk-management culture within the board? Have your competitors set up an RMC and made this fact known to investors?

• **Will the introduction of RMC increase the complexity of risk governance?**

  Given the potential role conflicts and unclear terms of reference among various board committees, a dedicated risk committee might create unnecessary complexity in the risk-governance structure that would unduly reduce its effectiveness. Will the board be able to define the terms of reference of the RMC and redefine the roles of some of the existing committees to avoid that?

**How to Make an RMC Work Better**

**Form follows function.** Making an RMC work is actually not the objective. The key is to make the risk function work. By risk function we mean the governance and management structure, as well as the system and processes, that enable risk management to be fully integrated into the organization’s management systems. The RMC does not need to exist forever. When the risk-management processes are embedded into the culture and daily working of the firm, the risk-oversight functions can be passed to the board as a whole or to other relevant committees. The ultimate aim should be to dissolve this committee because the work of risk is now embedded in the culture and daily working of the firm.

**Simplicity, not complexity.** Whatever form it takes, the principle is to keep the structure simple but effective, not adding more unnecessary complexity to the operation. One also needs to be aware of the legacy, historical backdrop, and culture of the organization to find the most appropriate way to manage risk more effectively for the good of the organization.

If the audit committee can fulfill the function, an RMC would not be needed. If a subcommittee or a task force can do the job, it’s also fine. Some companies opt for setting up an RMC at the management level and have the executive committee report to the audit committee. While the audit committees in these companies are well established and already include risk management in their terms of reference, the members might not be able to devote sufficient time and energy to risk governance. An executive-level RMC will provide that missing link.
Lenovo is a case in point. Its RMC at the management level reports to the audit committee at the board level. Lenovo has grown into one of the top computer companies in the world.

**Does that mean directors outside of the Risk Management Committee are relieved of the risk-management responsibility?** Definitely not. It is important to note that establishing a board committee does not mean that directors’ responsibilities are diluted or divided because they are collectively responsible for the board’s conduct and act in the interests of all of the company’s shareholders. Board committees do not make decisions but make recommendations to the board of directors, which does make decisions and whose members are therefore jointly and severally responsible for the decisions made.

A director with risk awareness should be asking the following questions all the time: What is our exposure to a key fatal risk? What if something bad has happened, and we are not aware of it? Or we are aware and have done nothing? Or we’ve done something, but such actions were totally ineffective? Or the actions were effective, and then we have become complacent because we believe the future will be the same as the past?

**Good Practices from Emerging Markets**

There are many nonfinancial institution companies that have embraced the concept of an RMC. An example is Aboitiz Power, one of the companies of the Aboitiz Group, which is one of the largest family-owned businesses in the Philippines.

**Aboitiz Power (AP)** is one of the leaders in power generation in the Philippines. It operates a mix of energy assets to provide power supply to homes and industries across the country. The board believes that it can make decisions related to risk management more effectively and in a timelier manner if it can delegate to an RMC the task of preparing an appropriate strategic agenda for the board and ensuring that the board is given the information necessary for making good risk-management decisions. The RMC is intended to assist the board and not to preempt any board responsibilities in making any decisions related to risk management.

The RMC also assists in defining the AP’s risk appetite and oversees the AP’s risk profile and performance against the defined risk appetite. The RMC is responsible for overseeing the identification, measurement, monitoring, and controlling of AP’s principal business risks. The RMC has established constructive, collaborative relationships with AP’s senior leadership, especially, the CEO, the CRO, and the heads of each of the businesses within the company.
Going back to the case of China Aviation Oil, the corporate failures have prompted CAO’s board to strengthen risk governance and management.

**China Aviation Oil (Singapore) Corporation Ltd. (CAO)** implemented a three-tier risk-management system, comprising an RMC at the strategy/governance level, a company risk meeting (CRM) at the tactical/policy level, and a risk management department at operational level. The board-level RMC reviews and approves new businesses proposed by management; establishes appropriate risk limits to those businesses; and identifies acceptable levels of market, credit, and operational risks that CAO is willing and able to accept for its day-to-day operations. The CRM periodically discusses and makes decisions on various risk-management matters arising from day-to-day operations, based on the scope of the RMC’s delegations. The CRM also ensures that decisions made and policies set by the RMC are implemented. The risk management department provides risk-management support on day-to-day operations.

**Conclusion**

The notion that risk management is a board’s responsibility is widely accepted and reflected in corporate governance codes and practices in many jurisdictions. We described the benefits and risks of establishing a separate RMC as a good practice. A company should, however, assess its own circumstances and needs when making the decision to establish an RMC. For smaller companies or companies with a strong and mature audit committee, the risk-management responsibilities may be subsumed under the audit committee. To take on the additional risk-governance responsibility, an audit committee needs to expand its traditional focus of historical financial performance, compliance and control, to include future performance and risks.

**It is important for a company to recognize risk governance as a board responsibility and have systems in place to manage it. The functions and substance of risk governance outweigh the form.**