

Directorate General Internal Market and Services /
Company Law, Corporate Governance and Financial Crime Unit
European Commission
SPA2 03/103
B - 1049 Brussels

21 July 2011

Dear Sir or Madam

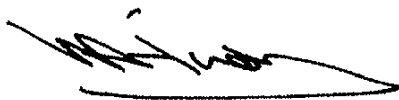
**EUROPEAN COMMISSION GREEN PAPER ON THE EU CORPORATE
GOVERNANCE FRAMEWORK**

Our ID No: 58233274005-86

The Institute of Risk Management is pleased to respond to your request for comments on the current consultation launched by the European Commission on the 'EU Corporate Governance Framework'.

The Institute of Risk Management welcomes the general aim of the paper to promote good corporate governance across Europe. We have some specific comments on the risk management aspects of the consultation which are included in the Appendix to this letter.

Yours sincerely,



On behalf of the Institute of Risk Management

Alex Hindson
Chairman, Institute of Risk Management

APPENDIX

IRM COMMENTS ON EUROPEAN COMMISSION CONSULTATION ON EU CORPORATE GOVERNANCE FRAMEWORK

Background

The Institute of Risk Management (IRM) is the world's leading enterprise-wide risk education Institute. We are independent, well respected advocates of the risk profession, owned by practicing risk professionals. IRM passionately believes in the importance of risk management and that investment in education and continuous development leads to more effective risk management. We provide professional qualifications, short courses and events at a range of levels from introductory to expert. IRM supports risk professionals by providing the skills and tools needed to put theory into practice to deal with the demands of a constantly changing, sophisticated and challenging business environment. We operate internationally, with members and students in over 90 countries, drawn from a variety of risk related disciplines and a wide range of industries.

Section 1.5 - Risk Management

Q11 Do you agree that the board should approve and take responsibility for the company's 'risk appetite' and report it meaningfully to shareholders? Should these disclosure arrangements also include relevant key societal risks?

The Institute firmly believes that it is essential that the board has a sound understanding of the nature and extent of the significant risks faced by the company in achieving its strategic objectives.

The Institute therefore agrees strongly that the board should approve and take responsibility for the company's 'risk appetite' and report it meaningfully to shareholders. Executive management should then be held to account for any deviations from agreed risk appetites or risk tolerance limits.

However we also feel that the phrase 'risk appetite' in this context is widely used but poorly understood and there has been to date little formal guidance on the subject. The Institute of Risk Management has therefore been working on a paper that aims to provide clarification and practical guidance. This paper is due for release in September, following extensive consultation both with Institute members and also with other interested institutes and associations. The consultation draft of the paper can be accessed on the IRM's website here:

http://www.theirm.org/publications/risk_appetite.html

A copy of the post consultation version of the paper will be provided to the Commission as soon as possible. The Institute does not however see this as the last word on the subject and will continue to work with interested parties to develop the concept further, particularly in the light of practical experience.

Our work concludes that risk appetite is not a single, static concept: an organisation will have multiple risk appetites and these will change over time. Risk appetite also should not be

considered in isolation from the propensity of the organisation to control its risks, which in turn is linked to the organisation's risk culture. The company must clearly have appropriate risk management arrangements in place to organise this process effectively (which is elaborated in our response to Question 12 below).

We feel that it is important that shareholders and stakeholders should understand the strategy of the organisation and the risks inherent in this strategy. In order to achieve business objectives and produce the returns expected by investors and stakeholders, organisations must be able to take proportionate levels of risk. The Board should therefore be able publicly to articulate the organisation's risk appetite and how it gains assurance that the organisation operates within this appetite. Organisations should be allowed to adopt strategies within different levels of risk associated with them provided these have been understood, challenged and endorsed by the board.

The board should be required to articulate its risk strategy (including risk appetite) clearly to shareholders and stakeholders and explain how it has considered and addressed the material risks inherent in this strategy. The board should be required to provide an opinion on the effectiveness of the controls in place to manage these risk exposures within the agreed risk appetite.

The Institute supports the intention of the Commission in that such reporting must be 'meaningful' - 'boilerplate' wordings must be seen as inadequate. Risk appetite will be a complex subject in many organisations and this must be properly understood and acknowledged. Reporting requirements should also be proportionate to the size of the organisation.

In respect of societal risks, an effective enterprise risk management approach will include assessment of the wider stakeholder context. We would be reluctant to mandate detailed disclosure of risks not directly relevant to the organisation's own business objectives - such matters are more clearly dealt with by means of effective industry regulation, including of systemic risk, and corporate social responsibility obligations.

Additionally, we would point out that members of a professional body such as the IRM are also committed to individual integrity, supported by a code of ethics, which requires that the wider public interest is taken into account.

Q12 Do you agree that the board should ensure that the company's risk management arrangements are effective and commensurate with the company's risk profile?

The Institute strongly supports this proposal that there should be an explicit responsibility on the board to ensure that its risk management arrangements are effective and commensurate with the company's risk profile. It also agrees with the Commission's assessment that there cannot be a 'one size fits all' risk management model for all types and sizes of company – the exact nature and extent of such arrangements should be for the board to agree.

To meet this challenge, we feel that this responsibility should include making sure that individuals at all levels of the organisation are appropriately competent in managing risk. Enterprise-wide risk management is a specialist area that requires appropriate knowledge, skills and experience.



Boards must ensure that the executives entrusted with the company's risk management arrangements are suitably qualified and experienced, as they would be for any other of the company's functions. They should also ensure that board members, including non-executives, receive training and have appropriate experience in dealing with risk issues.