



Proudly Presents...

Creating & Implementing a Risk Appetite Statement

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AGENDA

- What is a Risk Appetite Statement?
- Why do you want a Risk Appetite Statement?
- How to create a Risk Appetite Statement for your organization?
- CMHC and the CMHC Risk Appetite Statement
- Good Governance and Enterprise Risk Management
- Implementing a Risk Appetite Statement as part of an Enterprise Risk Management program
- Questions?

What is a Risk Appetite Statement?

- Key Component of an effective Enterprise Risk Management framework
- Written statement
- Approved by senior management/Board
- Specifies the level of risk that is acceptable/unacceptable as organization pursues its goals
- Usually contains a number of quantitative and qualitative statements of tolerance levels



Why a Risk Appetite Statement?

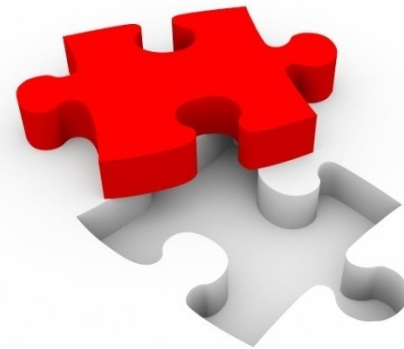
- Critical to ensuring a clear and consistent understanding throughout the organization of what risks/risk levels are acceptable/unacceptable
- Provides clear indication of when risks must be mitigated or eliminated thus enabling immediate mitigation actions to occur when new risks arise
- Provides clear guidance on acceptable risk levels which can be utilized during the strategic planning process to evaluate new activities/products

How to create a Risk Appetite Statement for your Organization

- Get agreement for the need for a Risk Appetite Statement either:
 1. With argument that “we need a clear consistent understanding of the levels of risks that our organization is comfortable with” or
 2. Survey of Board and/or Senior Management team – ask for quantitative and qualitative descriptions of what the organization’s risk appetite should be
- If your organization has not already had substantive discussions on acceptable/unacceptable levels of risk, then a survey will show a significant variance of opinions on an appropriate appetite and the argument that we need a “clear consistent understanding of our risk” will easily be accepted.

How to create a Risk Appetite Statement for your Organization

- Risk Appetite Statement will be unique for each organization based upon:
 - Key business drivers
 - Strategic Plan goals
 - Significant risks
 - Expectations of stakeholders – shareholders, rating agencies, regulators
 - Senior management and Board focus



How to create a Risk Appetite Statement for your Organization

- Recommended steps:
 - Consult senior management and Board on key business drivers and issues for consideration in Risk Appetite Statement
 - Determine:
 - What risks should be included
 - Timelines (1 year, 5 years, 10 years)
 - Tolerance levels, amounts (quantitative and/or qualitative), how to measure, by business unit and/or risk typ

Development of Risk Appetite Statement at CMHC

- 6 month exercise
- Consulted senior management on items to include in Risk Appetite Statement
- Developed discussion paper for comment and feedback
 - Recommended types of risks to include
 - Timelines
 - Potential measurement techniques and tolerance levels

