



As part of the G31000 RECOMMENDATIONS ON GOOD PRACTICES
IN RISK MANAGEMENT STANDARDIZATION,

Recommendation to the Basel Committee for Banking Supervision about the revision to the Pillar 3
disclosure framework

Based on recommendations from

INTERNATIONAL ORGANIZATION FOR STANDARDIZATION (ISO)

ISO Technical Committee TC 262 – Risk Management

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE (UNECE)

Working party on Regulatory cooperation and standardization Policies



The ISO 31000 Risk Management Guidance Standards was approved for publication as International Standard by a two-thirds majority of the Permanent ISO member representative of the international committee ISO TC 262 and publish on November 15th, 2009.



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The Global Institute for Risk Management Standards

Paris, New-York, Singapore

Email: Contact@G31000.org

Website : www.G31000.org



RECOMMENDATION TO THE BASEL COMMITTEE FOR BANKING SUPERVISION,

THE G31000 Advisory Board,

With references to

The ISO Council, made up of 20 member bodies, the ISO Officers and the Chairs of Policy Development Committees (CASCO, COPOLCO, DEVCO) taking care of most governance issues;

The Technical Management Board, responsible for the technical committees that lead standard development and any strategic advisory boards created on technical matters, and on the ISO Technical Committee ISO TC 262 Risk Management in particular;

The Article 5(b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960, making **recommendations to OECD members**;

Considering the **benefits of ISO International Standards** for ensuring that products and services are safe, reliable and of good quality. For business, they are strategic tools that reduce costs by minimizing waste and errors, and increasing productivity. They help companies to access new markets, level the playing field for developing countries and facilitate free and fair global trade.

The development of the first ISO risk management standard developed by the Technical Committee ISO TC 262 – Risk Management called **ISO 31000:2009, Risk management – Principles and guidelines** and its official publication on 15th November 2009.

Considering the ISO 31000 risk management standard and

The mission of the Global Institute for Risk Management Standards under the label G31000 to raise awareness and education on the international ISO 31000 risk management standard;

The large adoption of the ISO 31000 risk management standard by 62 countries (status on 24 February 2015) as their **national risk management standard**, and its translation into 23 languages (status on 18th August 2013);

The Good practices in risk management standardization for National and Local Governments set out in the Annex A to this document (hereinafter referred to as “**G31000 Good practices**”)



Considering the UNECE work on Regulatory Framework and

The Recommendations made by the Working Party on Regulatory cooperation and standardization Policies on “Managing Risk in Regulatory Framework” set out in the Annex B to this Recommendation (hereinafter referred to as “the **UNECE Risk Recommendations**”)

The G31000 Good practices in risk management standardization and the UNECE Risk Recommendations have also been structured to **ensure compatibility** with the international ISO 31000 risk management standard [developed in parallel by the ISO TC 262 committee];

The implementation of the UNECE Risk Recommendations will have to take account, depending national specificities, of the differing needs for awareness and education in management of risks.

Considering the role of the Basel Committee on Banking Supervision (BCBS) and

Its purpose to encourage **convergence toward common approaches and standards**, without issuing binding regulation but acting as an informal forum in which policy solutions and standards are developed.

The combination of the **increasing exposure** of public, private or community enterprise, association, group or individual households to a wide range of known and emerging risks of the banking sector and its collective nature and the establishment of public, corporate and solidarity funding for social, environmental and economic risks which could trigger an economic crisis, a financial disaster or any other form of public service disruption

The role of Financial institutions like banks - public, private or community enterprise, association - of all types and sizes facing internal and external factors and influences that make it uncertain whether and when they will **achieve their objectives while complying with legal requirements**.

The Committee's review of banks' operational risk modelling practices and capital outcomes revealed that the Advanced Measurement Approach's (AMA) **inherent complexity, and the lack of comparability** arising from a wide range of internal modelling practices, have exacerbated variability in risk-weighted asset calculations, and eroded confidence in risk-weighted capital ratios. The Committee is therefore proposing to remove the AMA from the regulatory framework.

The Basel Committee, whose members include the U.S. Federal Reserve and the European Central Bank, proposed in March 2016 to **bar banks from using their own models** for determining how much capital they need to cover operational risk, which encompasses losses from litigation, rogue traders and cyber crime.

Its formulation for broad supervisory standards and guidelines and recommends statements of best practice in banking supervision (see bank regulation or "Basel III Accord", for example) in the **expectation that member authorities** and other nations' authorities will take steps to implement them through their own national systems,

National and Local Governments have the **authority, the resources and the competences** to mitigate negative consequences and make financial provisions for the effect of uncertainty on their objectives.



Operational Risk management being an increasingly important source of **protection for the public** and that this also enhances its impact on financial markets, worldwide;

Results of the FRBR researchers looking at 10 years' of quarterly operational risk data gathered by the Federal Reserve from 31 Bank Holding Companies (BHC) in the USA, including 'large and complex' banks and smaller (though still significant) 'other' banks and finding that "the simultaneous occurrence of large losses [in large banks] may cause financial stress for the entire financial system and thus may be a **source of systemic risk**".

Not only do organisations and banks in particular consistently demonstrate low levels of operational risk management and governance in general, but often **lack sufficient awareness** of the risks to which they are exposed, the ability to correctly assess their risk exposure, and good literacy, knowledge, and skills regarding the mitigation solutions;

Awareness and sufficient education and skills of organisations regarding risk management is essential in order to facilitate their social and economic integration and development and their well-being, that this may also help to limit social public spending and that this is equally important for the development of sound, efficient and competitive enterprises in global markets;

Government and relevant public and private institutions in National and Local Governments economies may benefit from international guidance aimed at improving awareness and education on risk management issues;

Local initiatives already undertaken by many National and Local Governments, by stakeholders involved in the awareness and education process and the risk management **regulatory and supervisory framework in place**;

Considering the role of Pillar 3 and

The fundamental need for the Pillar 3 of the Basel framework to promote market discipline through regulatory disclosure requirements and to acknowledge the potential dangers of Operational Risk to the banking system

Its aim to complement the minimum capital requirements and supervisory review process by developing a set of disclosure requirements which will allow the market participants to gauge the capital adequacy of an institution.

The importance of market discipline supplementing regulation as sharing of information facilitates assessment of the bank by others, including investors, analysts, customers, other banks, and rating agencies, which leads to good corporate governance.

Its relation to allow market discipline to operate by requiring institutions to disclose details on the scope of application, capital, risk exposures, risk assessment processes, and the capital adequacy of the institution, with the imperative of being consistent with how the senior management, including the board, assess and manage the risks of the institution.

The revised disclosure requirements form part of the Committee's broader agenda to reform regulatory standards for banks in response to the global financial crisis.



On the basis of G31000 Good practices in risk management standardization and the UNECE Risk Recommendations, The Global Institute G31000:

1. **RECOMMENDS** that the Basel committee along with its sister organizations, the International Organization of Securities Commissions and International Association of Insurance Supervisors to promote awareness and education in relation to operational risk management and that, in this regard, governments and relevant public and private institutions take due account of and implement the internationally-recognized ISO 31000:2009 risk management guidance standard as part of the Recommendations made by the UNECE Working Party on Regulatory cooperation and standardization Policies on “Managing Risk in Regulatory Framework” set out in the Annex to this Recommendation, of which they form an integral part.
2. **RECOMMENDS** that the Basel committee along with its sister organizations, the International Organization of Securities Commissions and International Association of Insurance Supervisors to disseminate a reference to the ISO 31000:2009 risk management guidance standard among Committee members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. thus encouraging awareness and education in operational risk management issues.
3. **RECOMMENDS** The Standards Monitoring Procedures Task Force part of the Standards Implementation Group (SIG) to develop procedures to achieve greater effectiveness and consistency in standards aligned with the international ISO 31000 risk management standard.
4. **RECOMMENDS** The Risk Management and Modelling Group as part of the Policy Development Group (PDG) to invite the Global Institute for Risk Management Standards, acting as point of contact with the banking industry on the latest advances in risk management standardization such as the ISO 31000 standard. We are proposing a network of experts on ISO 31000 to work directly with the Cross-border Bank Resolution Group, which compares national policies, legal frameworks and the allocation of responsibilities for the resolution of banks with significant cross-border operations.
5. **RECOMMENDS** The Accounting Task Force (ATF) to include the latest advancement in risk management standardization (such as ISO 31000) in accounting and auditing standards help promote sound risk management thereby maintaining the safety and robustness of the banking system.
6. **RECOMMENDS** that the consultation Pillar 3 disclosure requirements - consolidated and enhanced framework promote market discipline through regulatory disclosure requirements such as references to the content of the ISO 31000 risk management standard.
7. **RECOMMENDS** the fundamental Review of Operational Risk Capital and the need to build theories around Operational Risk, so that the evaluation of the likelihood of significant losses would lead to take action, including increasing capital requirements, to protect taxpayers.

**ANNEX A****G31000 GOOD PRACTICES IN RISK MANAGEMENT STANDARDIZATION*****Enhanced awareness and education on risk management issues*****I. Awareness and education on risk management issues - Framework, definition and objectives**

1. Taking into account national circumstances, awareness and education on risk management issues should be specifically encouraged, whether as part of the wider financial education effort or through distinct programmes. Such education programmes should be conducted in a coherent and transparent manner between main education stakeholders.
2. Within this context, education on risk management should help to promote two core objectives:
 - Item 1. to heighten awareness and responsibility vis-à-vis the potential risks to which organizations and individuals are exposed and the means by which mitigation and financing can best manage those risks;
 - Item 2. to enable organizations and citizens to develop the knowledge, understanding, capacities and confidence needed to adequately appraise and understand the policies they require, to know where to look for additional information, objective advice or help if they need it, to take informed decisions about how to protect themselves and their stakeholders and to adopt a proactive and responsible behaviour as regards to their risk exposure.
3. Education on risk management issues should be taken into account within the existing regulatory and supervisory framework and considered as a tool to enhance social and economic growth and well-being through reliable, transparent, efficient and competitive markets along with prudential regulation and consumer protection. Education on risk management issues does not substitute but rather complements prudential regulation and policyholder protection. These are especially needed in the financial sector to protect consumers' rights and to promote market efficiency and symmetrical information.
4. In this respect, specific measures to be considered within a jurisdiction concerning education on risk management issues should first take account of the existing regulatory framework, in particular as regards provision of quality information before, during and after legal requirements or codes of conducts applicable to organizations or citizens.

II. Main stakeholders' responsibilities and roles**A. Public Action**

5. As a rule, public promotion of education on risk management issues, should be considered taking into account the jurisdictions' circumstances and policy choices, especially when lack of awareness and of risk management capabilities may involve particularly damaging consequences for organizations and citizens in the long run, and where no effective alternative (private) education initiatives are available or under consideration.



6. Governments' involvement in this education process should be mainly aimed at enhancing awareness of major risks and the need for adequate protection, including through various legal and financial instruments, and at enabling organizations and citizens to attain a sufficient level of knowledge, understanding and skills in order to adopt a responsible stance and make sensible choices as regards insurance issues.
7. In this respect, Governments should ensure that organizations and citizens are appropriately educated – possibly as part of school curricula- to be knowledgeable, capable and responsible in risk management issues, as early as possible and on an on-going basis at key points through the life of an organization, and to its wide range of activities, including strategies and decisions, operations, processes, functions, projects, products, services and assets.

8. In this connection, a series of actions should be encouraged, including:

Action 1. Promoting a “culture” of responsibility for organizations and citizens ‘personal protection, in particular by educating people about notions relating to risk, risk mitigation and compensation including possibilities offered by mitigation tools and basic financial mechanisms and products:

- Item 1. School curricula, in particular at the secondary level, should encompass more specific notions relating to risk (taught separately or within finance or economics classes), including, inter alia, basic financial mechanisms and products and the major dynamics and components of a competitive market;
- Item 2. Higher-level studies and courses at universities and/or specialised institutes in the business field should be promoted and publicised through different communication approaches including competitions and special events;
- Item 3. Specialised teaching, training and awareness/information centres on risk management issues should be promoted and/or developed;

In this respect, educators should be appropriately qualified and trained to feel confident when instructing young people about risk management issues.

Action 2. Promoting and developing awareness and information programmes and campaigns regarding seriously damaging risks, vulnerable populations, innovative or complex contractual and financial products as well as applicable rights and obligations of contracting parties.

This promotion could involve the development of specific websites or a sub-site of the supervisory authority dedicated to information to organizations and citizens.

9. Public action should also consider the development, at the national and local level, of appropriate specialised structures – possibly within the framework of existing authorities- which would be in charge of promoting and coordinating awareness and education on risk management issues.

B. Role of other social and business partners

14. Depending on the country context, associations of market players, consumers' associations, employers, trade unions, other NGOS and specialized institutes, should also contribute to risk management education programmes.



15. For instance, these social and business partners should be encouraged to conduct surveys on the needs of organizations and citizens as regards awareness and education on risk management issues and on how organizations and citizens prefer to receive such information. They should endeavour to provide information, advice and training on risk management issues or to inform organizations or their employees about where they can receive such help. They should also be encouraged to sponsor materials for public education programmes, provided that the information is sufficiently neutral and distributed under public oversight. Employers and/or trade unions in particular should play a role in making sure that employees know what types of mitigation and financial coverage are available to and most suitable for them.

III. Programmes to raise awareness and strengthen education on risk management issues

A. Assessing needs and existing programmes

16. According to national circumstances, education initiatives should make ongoing efforts, inter alia, to develop methodologies and criteria to assess the needs of the population as regards literacy, capabilities and responsibility on risk management issues as well as the impact and effectiveness of existing programmes in this respect.
17. According to the needs of the jurisdiction, these processes should inter alia involve:
 - Item 1. Evaluation on a more systematic basis of the risks that could affect organizations and citizens, along with analysis of risks and populations that are particularly exposed;
 - Item 2. Evaluation of the population's degree of literacy and more or less active behaviour as regards their risk exposure, protective or risk mitigation actions;
 - Item 3. Identification and assessment of the education needs of the population with respect to specific groups, risks, products and players as well as the reasons for any shortcomings;
 - Item 4. Systematic evaluation of measures and programmes intended to enhance education on risk management issues, based on predefined criteria and including a cost-benefit assessment.

B. Mechanisms and tools

18. Programmes aimed at improving the level of awareness and education on risk management should consider making use of a large variety of means so as to ensure that a wide audience - including targeted and vulnerable groups- may be appropriately and effectively reached.
19. This should imply, according to national circumstances, encouraging:
 - Action 1. Broad media coverage (i.e. radio, television, print journalism, billboard advertising and internet), and the organisation of events to raise awareness on risk management issues and on the importance of education in this area. In this perspective, awareness and knowledge of risk issues of the main players in the information and instruction channels (i.e. the media, teachers, educators and parents) should be reinforced;
 - Action 2. The development of high-profile sources of reliable, objective and free information and/or specific bodies or centres through which stakeholders could - possibly - co-ordinate to offer information, education, assistance and advice on risk management issues to organizations and citizens;



- Action 3. The development of various tools - internet sites, but also guides, brochures, leaflets and other available traditional or modern communication methods - enabling consumers to consult reliable sources for comparisons of the options for mitigations and financing and to assess their level of protection against potential risks - e.g. through calculators and quizzes -, as well as their own knowledge of their needs.
20. For the most severe risks, without limiting the freedom to contract, under and/or inappropriately-managed risks, default mechanisms, which take into account potential temporary or long-term deficiencies in education or the passive behaviour of organizations and citizens, should be considered and properly regulated.
21. Similarly, the financial sector should also be encouraged to develop innovative initiatives that can best meet the need for protection of organizations and citizens particularly of the most vulnerable segments of the population.

¹ 1 For the purposes of this document, “risk management issues” will be construed in a broad understanding

² Main “risk management stakeholders” refers to responsible public bodies and authorities, main market players, as well as associations of organizations and of consumers, other NGOS, and relevant institutes or foundations, and third parties.



UNECE Risk Recommendations

See separate document : <http://G31000.org/wp-content/uploads/2016/02/UNECE-Recommendations-on-regulatory-cooperation-and-standardization-policies-2013.pdf>