PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Accountants N.V.
Thomas R. Malthusstraat 5
1066 JR Amsterdam
P.O. Box 90351
1006 BJ Amsterdam
The Netherlands
Telephone +31 (0) 20 568 66 66
Facsimile +31 (0) 20 568 68 88
Direct phone +31 (0) 20 568 7256
www.pwc.com/nl

Mr Arnoud Vossen
Secretary General
CEBS
cp24@c-ebs.org

9 July 2009

Subject: Commission Communication on Financial Supervision in Europe, May 2009

Dear Mr Vossen,

PricewaterhouseCoopers would like to thank you for the opportunity to respond to the high-level principles on risk management set forth in Consultation Paper 24. We applaud all efforts to harmonise and strengthen risk management practices, and hope our input will prove useful. Please find our comments below.

We wholeheartedly agree with the weight the principles assign to fostering a strong risk culture. Being aware of and consciously handling the risks an organisation faces should not be limited to "relevant" personnel only; risks are an organisation-wide phenomenon which involves and affects all members of a company.

Placing the responsibility for day-to-day management of risk with senior management is an important principle. After all, senior business management is in the best position to react rapidly to risks within their business processes. Additionally, by accepting this responsibility the senior management also sends out the message that managing risk is an integral part of sound business practices. This kind of "tone at the top" is vital if all layers within an organisation are to acknowledge and accept the importance of risk awareness.

In a similar vein, we underwrite the necessity of evaluating risks across business lines/departments. Business elements are rarely, if ever, insulated from other parts of the company. This interconnectedness is a source of risk in itself, as a lack of clear communication between departments may lead to undetected risks being allowed to grow. Integrated risk evaluation is a necessary approach if this is to be avoided.

We would like to note that the expertise on integrated risk management is already present in the market; there is no need for developing new risk management models as the current ones are both mature and well-documented. The focus should rather be placed on a rigorous implementation of these models within financial institutions and increased focus on its outcome and effectiveness, with specific attention for involving the right personnel. A large issue in the market nowadays is that risk models are being used as an end result rather than as a tool to create insight. Further, risk management must not be allowed to become the sole domain of the risk management department; business personnel should be equally engaged in this process. This will not only create the proper combination of multi-disciplinary knowledge, but will also stimulate company-wide risk awareness without which risk management cannot fully succeed.

The proposed high-level principles state on numerous occasions the need for identifying and managing **all relevant risks**. Given the necessity of integrated risk evaluation we wholly subscribe to this view and interpret it to encompass both financial and non-financial risks (such as compliance risk, operational risk etc.). We feel, however, that the consultation document focuses solely on the financial side of the risk spectrum, both implicitly and explicitly. To illustrate: examples provided to elucidate the principles on risk ownership (vide 18) refer only to credit risk, liquidity risk etc.; principles referring to risk tolerance and appetite (vide 15) use only financial indicators such as rate of return for illustration.

We believe that focussing solely on managing financial risks does not reflect the breadth of the risk spectrum which institutions face. More than any other type of risk, non-financial risks affect every single member of an organisation; consider financial/economic crime, information security, privacy, internal/external codes of conduct etc. Failure to manage such risks may result not only in easily quantifiable damages such as monetary loss, but also more diffuse issues such as litigation or reputational damage.

Monetary loss is relatively easy to mitigate, at least on a conceptual level. Capital reserves can be built up against such damages; tolerance levels for monetary loss can be defined. This is much harder to achieve with non-financial risks; how does one build up reserves against loss of reputation? To avoid such hard to mitigate damages, institutions should invest proportionate amounts of effort and resources into managing non-financial risks before these have the chance to manifest themselves.

The high-level principles proposed in Consultation Paper 24 provide a useful paradigm for harmonised risk management practices. We believe that by explicitly including non-financial risks in these principles, CEBS will have constructed an overarching framework that truly does justice to the scope of risks financial institution have to cope with in the 21st century.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Martin Eleveld (+31 20 568 7010) or Olivier Sueur (+31 20 568 4518).

Kind regards,

Martin Eleveld,
Partner Regulatory Compliance Services

Aleksander Grocz, MSc
Associate Regulatory Compliance Services