

PRESS RELEASE

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Governance and risk appetite frameworks of euro area banks need to be strengthened, ECB report finds

- The report assesses industry practices in the areas of internal governance and risk appetite frameworks, highlighting both shortcomings and good practices.
- The report outlines supervisory expectations and concludes that many euro area banks need to improve in both areas to achieve international best practices:
 - most banks need to improve the quality of debate on the board and its capacity to independently challenge the management;
 - many banks need to boost their board's collective knowledge, strengthen its independence and have a clearer allocation of responsibilities;
 - most banks still need to implement more robust and comprehensive risk appetite frameworks, which should be consistent with their overall risk profile.

The European Central Bank (ECB) today published a report summarising the findings of a thematic review in which the ECB evaluated the governance and risk appetite frameworks of the banks it directly supervises. The report identifies good practices and concludes that many euro area banks still need to improve to reach best international practices.

In addition to its regular day-to-day supervisory work, ECB Banking Supervision regularly prepares industry-wide reports, also known as thematic reviews, on particular supervisory topics. The effectiveness of banks' governance and risk appetite frameworks was identified as a priority for such a review.

The review, which applied a harmonised approach, led to concrete supervisory follow-up actions, defined areas for subsequent on-site inspections, and identified issues to be included in the Supervisory Review and Evaluation Process (SREP).

Danièle Nouy, Chair of the Supervisory Board, emphasised that, *“In our review, we conclude that boards need to continue enhancing their capacity to independently challenge and oversee the management body in its executive functions. In addition, our review identified a number of institutions where the board’s collective knowledge, independence and division of responsibilities could be strengthened.”*

The report also calls on banks to develop and establish a comprehensive risk appetite framework to help strengthen risk awareness and support a sustainable business model. Such a framework should define the level of risk tolerance a bank is willing to take in relation to both financial and non-financial risks. Banks’ managements should deploy risk metrics and limits more consistently, closely monitor them and report back to the board regularly. The risk appetite framework also needs to be aligned more closely with the business plan, strategy development, capital and liquidity planning, and remuneration schemes of banks.

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