AMERICAN ACADEMY *of* ACTUARIES

September 30, 2013

Chairman Mark Carney
Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland
Via email: fsb@bis.org

Re: Comments on *Principles for an Effective Risk Appetite Framework*

On behalf of the American Academy of Actuaries'[1] ERM Committee, I am pleased to provide comments on the Financial Stability Board's (FSB's) Supervisory Intensity and Effectiveness Group's Consultative Document, *Principles for an Effective Appetite Framework.*

We agree that the principles articulated within the paper would enhance supervisory oversight of systemically important financial institutions (SIFIs). We understand that one of the primary goals of the FSB is to develop minimum expectations for the key elements of an effective risk appetite framework (RAF), such as an actionable risk appetite statement; quantitative risk limits; and responsibilities of the board of directors, senior management, and business lines. It is encouraging that the paper aims to establish a common nomenclature for terms used within the RAF, which will help facilitate a common understanding between supervisors and organizations and narrow any gaps between supervisory expectations and practices.

We encourage the FSB to consider the following observations in future versions of the paper:

Section	**Comment**
Page 1, Introduction	Should supervisors consider applying the principles to smaller non-SIFIs, there is an issue of scalability and complexity that may alter the scope of what might be considered to be an appropriate RAF that is not addressed within the paper.
Page 2, Key Definitions	Risk capacity could include consideration of not only regulatory and liquidity constraints, but also the views of management and the expectations of rating agencies.

[1] The American Academy of Actuaries is a 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Page 4, Section 2 Introduction	A single RAF may be appropriate for a group and the legal entities within the group, should the group framework be developed to consider the underlying relationships of the legal entities, including any pooling or other legal entity relationships.
Page 4, Section 2.1b	This section references "the interests of its customers…and shareholders." Given the significant differences in the "interests" of a firm's stakeholders, we suggest clarifying these interests to reflect a firm's contractual responsibilities to its customers and fiduciary responsibilities to its shareholders.
Page 5, Section 2.1c	Material risks often have interactive relationships which may make it appropriate to combine those risks before setting the maximum levels of risk that the firm is willing to take.
Page 5, Section 2.1d	A firm's quantitative measures of risk are often compared to risk limits in addition to comparisons with risk appetite and risk capacity.
Page 5, Section 2.1d	It may be unrealistic to expect cascading risk limits to business units and risk type within every firm. In certain circumstances, cascading limits to business lines and legal entities may not be as effective from a risk management perspective as the ability to efficiently assess the risk return tradeoffs of alternative risk strategies.
Page 5, Section 3	Risk limits that are established to be consistent with the organization’s aggregate risk appetite, while forward-looking, may be based on expert judgment rather than formalized forward-looking assumptions.
Page 6, Section 4	While a firm's risk appetite statement needs to be well understood by the board and senior management and provide clear guidance to the firm for establishing targets and constraints, a risk appetite statement for a complex insurance company may not be easy for all stakeholders (e.g., customers) to fully understand.
Pages 6-10 Section 4	Because organizations can have many different organizational structures, roles and responsibilities may be more effectively assigned on a functional basis rather than by specific position.
Pages 8, 9 Section 4.2, 4.3	Policies should be established requiring both the CEO and CRO to notify the board and supervisors should material breaches of risk limits potentially place the firm's financial or reputational condition in danger.
Page 10, Section 4.5	Capital, reinsurance, catastrophe bonds, and other instruments are options that are sometimes used to offset exposures of a business line or legal entity in order to remain within risk limits.

Thank you for this opportunity to comment. If you have any questions, please contact Tina Getachew, senior policy analyst, Risk Management and Financial Reporting Council, via email (getachew@actuary.org) or phone (202-223-8196).

Sincerely,
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Chairperson, ERM Committee
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