



As risks rise, boards respond
A global view of risk
committees



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Foreword



Boards of directors have been working hard to fulfill their risk oversight responsibilities in a challenging environment. Regulations are changing rapidly in most industries, and vary significantly across countries. Investors, analysts, and the public are demanding greater transparency into risks and risk management, as are creditors, counterparties, and other stakeholders. Many boards legitimately wonder not only what regulators want, but which approaches to risk oversight actually work.



This report sheds light on a specific and very effective risk governance mechanism: board-level risk committees. Based on Deloitte's analysis of 400 large public companies in eight countries, this document catalogs the prevalence of board-level risk committees. It also cites specific drivers of board-level risk committees, which include stock exchange listing requirements as well as regulatory rules and expectations.

Our goals are to gauge the extent to which companies have established board-level risk committees and the form of these committees – and to set a baseline for assessing future developments. Board-level risk committees take the form of standalone committees focused solely on risk, or hybrid committees focused on risk in addition to other responsibilities. Establishing such a committee recognizes risk oversight and risk governance as vital to the continued growth, profitability, and even existence of the organization. This sends a powerful message to stakeholders regarding the importance of risk, both as a threat to be mitigated and as an opportunity to be exploited.

Dan Konigsburg

Dan Konigsburg
Global Center for Corporate Governance Leader
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In the risk committee charter the board can articulate its risk-related roles and responsibilities, its reporting relationship with the chief risk officer (if present), the types and levels of risks it will oversee, and the means by which it will oversee the risk management infrastructure. Those means include periodic reports from and meetings with management, and involvement in setting the organization's risk appetite and in monitoring its risk profile.

Does risk oversight warrant a separate board-level committee? Each board must answer that question in light of the organization's needs. The prevalence of risk committees as indicated in this report reflects the fact that many boards, and most regulators, see risk as a serious matter. The number, variety, and magnitude of risks, the complexity of risks and their potential interactions, and the proliferation of regulatory demands suggest that most boards at major companies should at least consider establishing a board-level committee responsible for risk.

While not every organization needs a board-level risk committee, every board does need to articulate and fulfill its risk-related roles and responsibilities. While a board-level risk committee is one mechanism for doing so, the key point is that the board must, in the current and foreseeable environment, come to grips with risk.

We trust that this report will provide insight for boards concerned about risk, as well as objective information on the prevalence of board-level risk committees. This report may also prompt organizations to more closely consider their governance structures and whether a separate board-level risk committee is needed.

Henry Ristuccia

Henry Ristuccia
Global Governance, Risk and Compliance Leader
Deloitte Touche Tohmatsu Limited



Introduction: Risks are rising and boards are responding

Risk oversight and risk governance are demanding ever-increasing attention and resources from corporate boards. New risk-related priorities have arisen at the board level in response to the proliferation of risks in business, the increasing magnitude of risks, and the often significant impact of risk events on organizations and their stakeholders. In addition, regulators have intensified their focus on boards' risk governance structures and executive teams' risk management practices. Meanwhile, audit committees, which have traditionally overseen risk in many major organizations, face increasing responsibilities for oversight of reporting, compliance, and controls. Given these developments, many boards have established board-level risk committees.

To assess the prevalence of board-level risk committees in large publicly held companies around the world, Deloitte undertook a substantial research effort in eight countries: Australia, Brazil, China, Mexico, the Netherlands, Singapore, the United Kingdom, and the United States. The companies examined (see "Methodology") were the top 50 listed on a major stock exchange or widely recognized stock market index in each of these eight countries (e.g., the top 50 listed companies, ranked by market capitalization, on the Shanghai Stock Exchange in China, FTSE 100 in the United Kingdom, Standard & Poor's 100 in the United States).

The findings of this research indicate the extent to which large companies have adopted board-level risk committees in these countries, the general forms of these committees, and the forces driving adoption.

The companies analyzed were grouped into five industry categories: Financial Services Industry (FSI), Consumer and Industrial Products (C&IP), Energy and Resources (E&R), Life Sciences and Health Care (LS&HC), and Technology, Media, and Telecommunications (TMT).

As might be expected, board-level risk committees were most often found in FSI companies, but were also present in other industries – often to a significant extent, depending on the country. The greater prevalence of board-level risk committees in FSI companies might be expected given the regulated nature of financial services and the fact that, unlike companies in other industries FSI organizations not only acquire risk but also trade in risk, to the extent that risk is in a sense their product. (This report presents FSI findings separately and bundles those of non-FSI industries into one category.)

Boards of all types of companies must fulfill their risk-related roles and responsibilities as effectively as possible. The stakes are high, and the complexities of risk oversight and governance have never been greater. Related needs include risk committee charters, risk oversight and governance expertise, ongoing education of the board, risk governance models, and means of gaining visibility into risk management. Therefore, this report concludes with Deloitte's observations on board-level risk committees and what these committees can enable boards to accomplish.



Methodology: A sharp focus on board committees

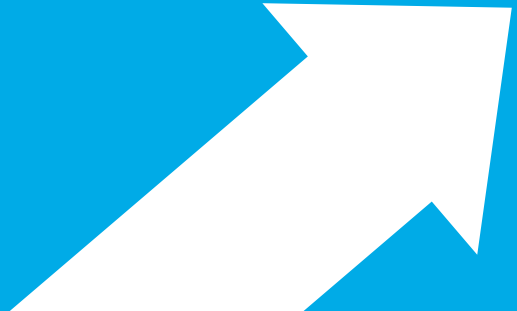
Deloitte analyzed a total of 400 companies (sometimes referred to as the global sample in this report) across eight countries and reviewed the local regulations regarding requirements for board-level risk committees. The documents analyzed were annual reports and other filings made publicly available at company websites and other sources. These documents typically disclosed information regarding the membership, composition, and structure of the board of directors and board-level committees. When language was identified indicating the presence of a board-level risk committee, the company was considered as having such a committee.

In addition, interviews were held with a board-level risk committee member in Australia, China, Mexico, the Netherlands, Singapore, and the United Kingdom. Brief quotes from these interviews are included in these countries' sections of this report, as are quotes from Deloitte specialists in each country analyzed. All quotes are provided to lend a bit of additional perspective; the reported results on the prevalence of board-level risk committees are based solely on Deloitte's analysis of documents.

The question to be answered by Deloitte's analysis of company documents was, "Does the company have a board-level risk committee?" For each company the answer was categorized as "Yes", "No", or "Hybrid." The "Yes" category indicated the presence of a standalone committee dedicated to risk. The "No" category indicated the lack of language indicating the presence of a board-level risk committee. The "Hybrid" category allowed for cases in which a risk committee was combined with a board-level committee with other responsibilities, such as an audit and risk committee or a risk and capital committee.

Note that the absence of language indicating a "Yes" or "Hybrid" answer to the question posed by Deloitte's analysis does not mean that the boards of those companies do not exercise risk oversight and risk governance in other ways or through other committees. Rather, in Deloitte's analysis the absence of that language was taken to indicate that the company does not explicitly disclose the presence of a board-level risk committee.

The views and opinions expressed in this report do not necessarily reflect the view of Deloitte Touche Tohmatsu Limited.
Due to rounding, the percentages indicating responses to the questions covered in this report may not aggregate to 100.



Key findings: Board-level risk committees are prevalent worldwide

Four key findings emerged from Deloitte's analysis:

1 Board-level risk committees are well-established and widespread. About a quarter (22 percent) of the 400 companies we analyzed have board-level risk committees. The country with the highest percentage of companies with a standalone board-level risk committee was Singapore (at 42 percent), followed by China (30 percent), Brazil (26 percent), and the United Kingdom (20 percent) (see Figure 1). In addition, 16 percent oversee risk through hybrid board-level committees. (Companies in Australia most often had this arrangement.) Thus a total of 38 percent of all companies had a board-level committee involved in risk.

2 FSI companies are more likely to have board-level risk committees than non-FSI companies. Among the global sample, 67 percent of FSI companies have standalone board-level risk committees and 21 percent have hybrid board-level committees involved in risk, for a total of 88 percent (see Figure 2). In contrast, 11 percent of non-FSI companies have board-level risk committees and 15 percent have hybrid committees involved in risk, for a total of 26 percent (see Figure 3).

The findings for any given country may be affected by the number of FSI companies among the top 50 companies listed on the securities exchange, which can skew the overall results for that country upward or downward. In addition, listing requirements of securities exchanges may affect the types of board-level committees as well as public reporting regarding their presence.

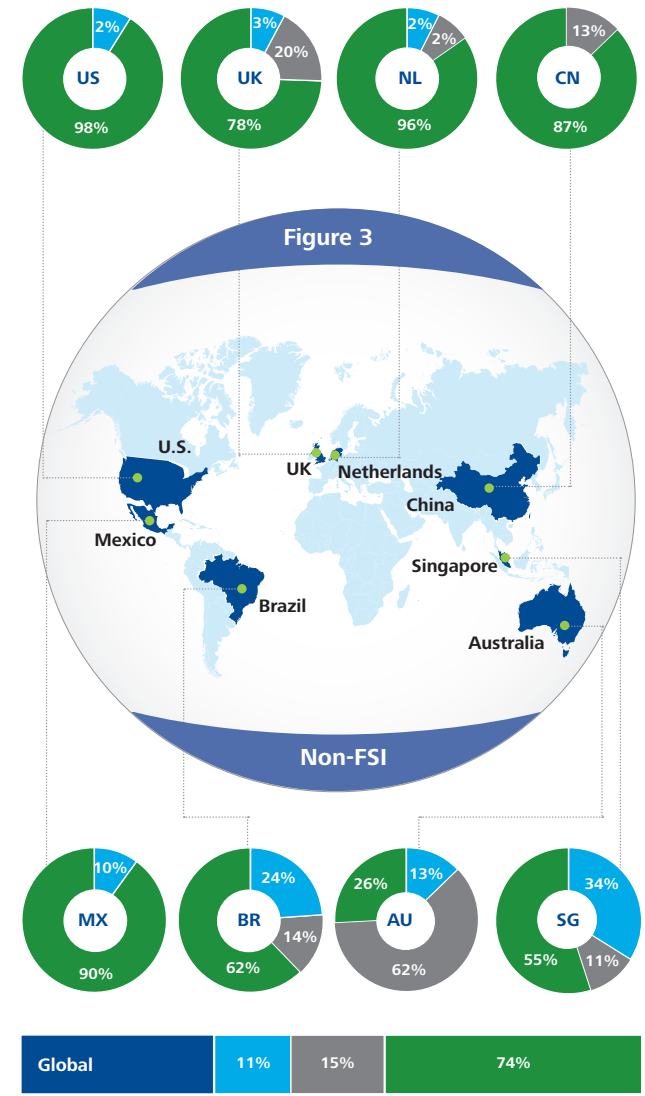
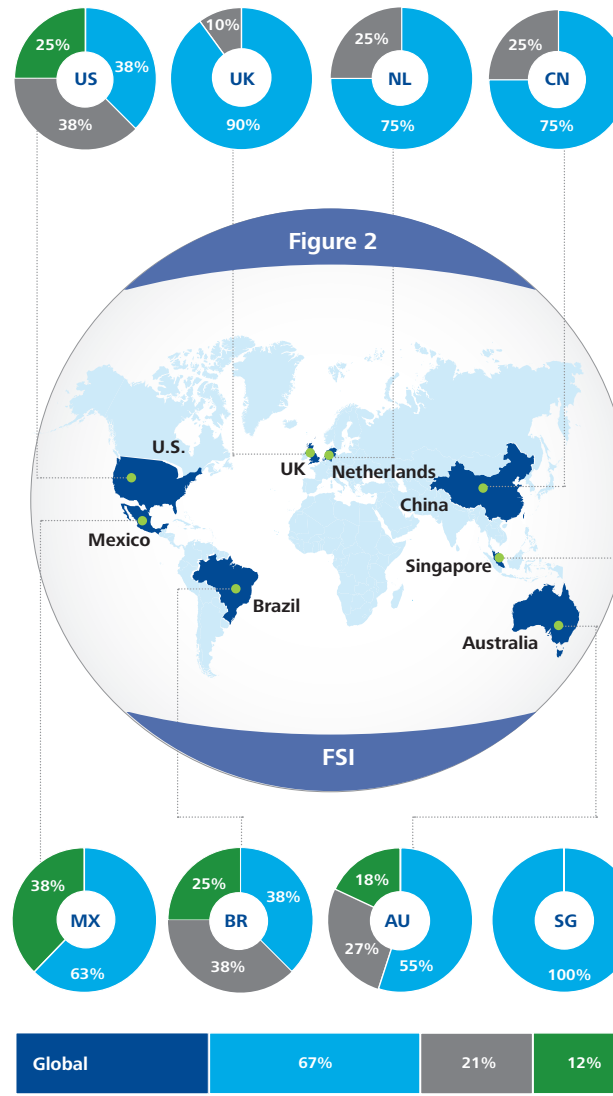
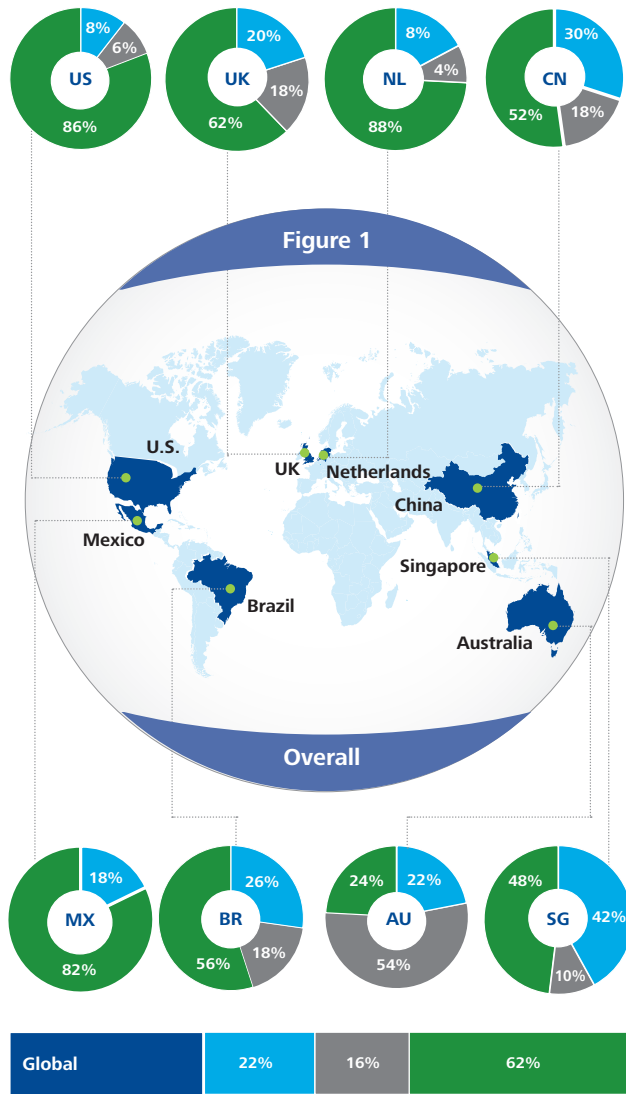
3 Some boards choose hybrid risk committees. Rather than establish a standalone risk committee, a number of boards articulate and execute their risk-related responsibilities through a hybrid committee. Hybrid committees are particularly prevalent in Australia (see Figure 1) and, to a lesser extent, in Brazil, China, and the United Kingdom. Except in Mexico and Singapore, some FSI companies in each country analyzed have chosen hybrid committees (see Figure 2). Similarly, some non-FSI companies have chosen hybrid committees in each country except Mexico and the United States.

4 Local regulations affect risk oversight structures. Country-specific regulations play a significant role in boards' risk oversight structures and practices for FSI and non-FSI companies. Australia, Brazil, Mexico, Singapore, the United Kingdom, and the United States have regulations that require risk committees at the board level for FSI companies, in some cases depending on the type and size of the company. China currently has suggested guidelines, and in the Netherlands appropriate authorities monitor FSI and non-FSI compliance with the Corporate Governance Codes on a "comply or explain" basis. In general, the countries analyzed place greater regulatory emphasis on risk oversight in FSI companies. In the overall global sample (as shown in Figure 1), 62 percent of all companies analyzed do not have a board-level risk committee. This largely reflects the lack of regulatory requirements for board-level risk committees in non-FSI companies in most countries.

In contrast, FSI companies in most countries analyzed face regulatory requirements or securities exchange listing requirements regarding risk oversight and governance. These requirements are no doubt among the reasons that only 12 percent of all FSI companies do not have risk committees.

Given that companies' practices are highly influenced by local regulations, which are subject to change, both regulations and risk committee configurations warrant continued monitoring. That said, regulations have often lagged or failed to anticipate companies' actual risk-related needs; therefore, every board should periodically assess the risk oversight and governance needs of the organization and take whatever steps it deems necessary to address those needs.

Prevalence of board-level risk committees



Due to rounding, the percentages indicating responses to the questions covered in this report may not aggregate to 100.

Yes Hybrid No

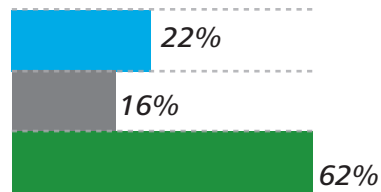


Country specific findings

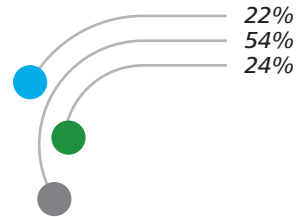
The following pages summarize the findings regarding the prevalence of board-level risk committees in each of the countries analyzed. These country-specific findings provide an overall, FSI, and non-FSI breakdown of companies with either type of board-level risk committee or no such committee.

Australia

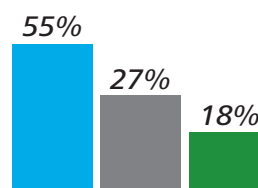
Global overall



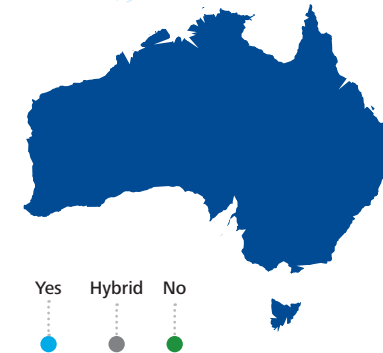
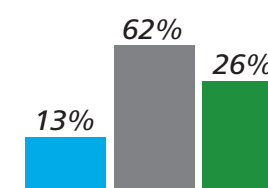
Australia overall



Australia FSI



Australia non-FSI



“Boards today are facing the dichotomy of managing seismic changes in the way they do business and capitalising on the opportunities they present. Boards are keen to consider the company’s longer term outlook and sustainability. A key question for many is whether risk should continue under the traditional remit of the audit committee. Many outside of FSI are considering setting up a separate risk committee to ensure that risk remains at the top of the committee agenda. Others are questioning if the audit committee has the right skill set to oversee risk.”

— John Meacock, National Leader Clients & Markets, Deloitte Australia

Methodology

The top 50 companies (by market capitalization as of August 5, 2013) listed on the Australian Securities Exchange (ASX) were analyzed in August and September 2013 through a review of company annual reports and committee charters.

Requirements and current developments

The Australian Prudential Regulation Authority (APRA)¹ released a proposed prudential practice guide on risk management, Prudential Standard CPS 220 Risk Management, on January 31, 2013. Under the revised standard, authorized deposit-taking institutions (ADIs), general insurers, life insurers, and single industry groups will need to establish a board risk committee, to which a designated chief risk officer will be accountable. Affected entities are expected to develop and introduce implementation plans to ensure that they are able to meet all requirements by January 1, 2015. The APRA will monitor the progress of these implementation plans.

The Australian Securities Exchange (ASX) released their third edition of Corporate Governance Principles and Recommendations on 27 March 2014, and recommends that all listed entities in Australia establish risk management committees by July 1, 2014. The recommendation states that a listed entity should establish a risk committee, on a standalone basis or within the

responsibilities of the audit committee – or disclose that it does not have a risk committee – and also disclose its processes for overseeing risk.

Analysis

Overall, 22 percent of Australian companies analyzed have standalone board-level risk committees, which matches the 22 percent of the global sample. However, 54 percent of Australian companies have hybrid committees – more than three times the percentage of the global sample. Companies having either type of risk committee are predominately FSI companies, of which a total of 82 percent have some form of risk committee. Only 13 percent of non-FSI companies, have a standalone risk committee; however, 62 percent of non-FSI companies have a hybrid committee.

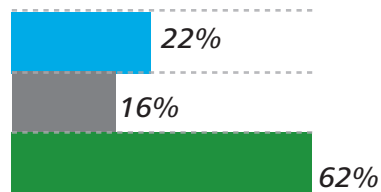
“Some businesses face relatively modest risks; some face huge risks. The biggest risks occur when the gap between entering into a project or transaction and knowing its financial outcome can be several years. A risk committee should try to be outward looking and follow the experience of other companies’ problems as examples.”

— Ian MacFarlane, Risk Committee Chairman, Australia and New Zealand Banking Group Limited

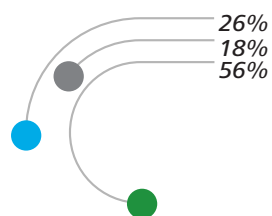
¹ The Australian Prudential Regulation Authority (APRA) regulates the Australian financial services industry, overseeing banks, credit unions, building societies (similar to U.S. savings banks), life and general insurance companies and reinsurance companies, and most of the superannuation (pension) industry.

Brazil

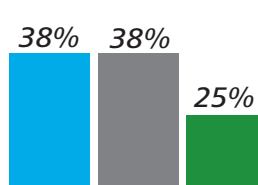
Global overall



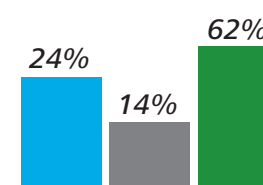
Brazil overall



Brazil FSI



Brazil non-FSI



“Risk committees are paramount in supporting and advising the board of directors. They serve to establish general guidelines for activities and strategic decisions in accordance with the risk appetites established by the controlling shareholders. In addition, risk committees play an important strategic role in guiding the organization’s risk management processes and, when deemed necessary, in establishing specific boundaries for its capital structure.”

– Gustavo Lucena, Director, Deloitte Brazil

Methodology

In Brazil, Deloitte conducted an analysis of the top 50 companies listed on the São Paulo Stock Exchange, ranked by market capitalization and based on information found on the companies’ corporate websites as of August 12, 2013.

Requirements and current developments

Risk management practices in Brazilian banks have evolved since the 1980s, when asset and liability committees emerged. These structures focused on capital management, resource allocation, foreign exchange and derivative risks, stress testing, and forecasting. In 1998, the Brazilian National Monetary Council’s (CMN) Resolution number 2.554 issued principles relating to control, risk, and compliance processes and recommended that senior management-level risk committees be established. Some committees were to be risk-specific, while others were to perform a broader supervisory role vis-à-vis internal control and compliance.

In the 2000s, FSI governance practices were strengthened through Basel II and III followed by CMN guidance regarding senior management-level risk committees. The Brazilian Central Bank then issued its own recommendations pertaining to risk management, anti-money laundering, and credit, swap, and foreign exchange operations, among others.

FSI and non-FSI public companies are encouraged to follow the Brazilian Institute of Corporate Governance (IBGC) guidance. Specific rules calling for board-level risk committees can be seen

only in the São Paulo Stock Exchange (Bovespa) requirements for public companies that want to be classified under the “Novo Mercado” category. This category requires companies to adopt mature corporate governance structures and practices. Yet adherence to this governance category is strictly voluntary, and there are currently no legal or regulatory requirements to institute board-level risk committees in Brazil.

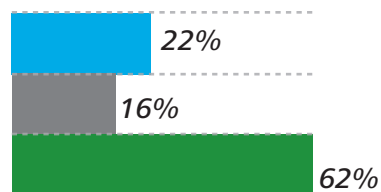
Analysis

Overall, Brazilian companies analyzed closely matched the percentages of the global sample. Regarding the financial sector, over three-quarters of Brazilian FSI companies analyzed have either a standalone (38 percent) or hybrid (38 percent) board-level risk committee, compared with the total global FSI sample of 88 percent having either type of committee (per Figure 2). The adoption of standalone risk committees among Brazilian non-FSI companies (24 percent) more than doubles that of the global sample (11 percent, per Figure 3).

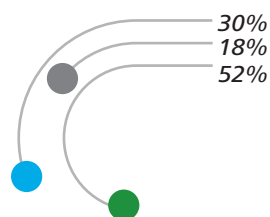
Brazil is a rapidly growing, newly industrialized economy – among the “BRIC” nations of Brazil, Russia, India, and China; its government debt recently received an investment grade rating from major credit rating agencies. This has attracted foreign investment which, together with rising consumption and easier credit, has prompted companies to rethink and improve their governance practices. As the world’s attention turns to Brazil, Deloitte expects that the country’s larger companies will increase their focus on risk oversight practices, and adoption of risk committees, in the years ahead.

China

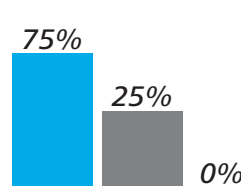
Global overall



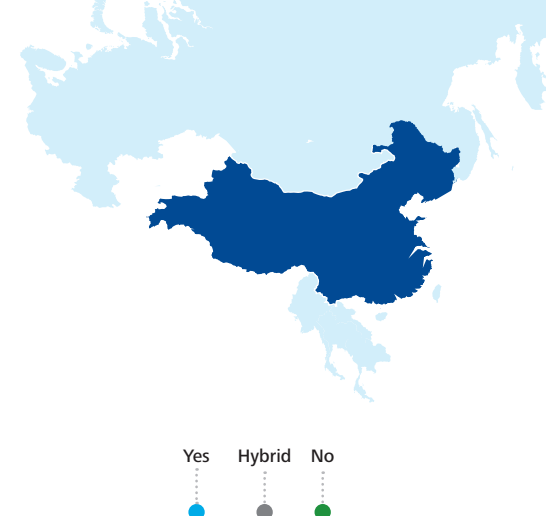
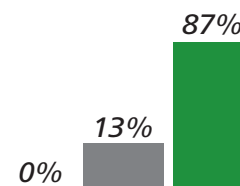
China overall



China FSI



China non-FSI



“More Chinese companies, especially companies in a specific segment or industry (e.g., State-owned Assets Supervision and Administration Commission (SASAC)- supervised large State-Owned Enterprises (SOE) and financial services companies), have recognized the importance of risk management, and are willing to take steps in their organizations to address the risks that they are facing. Organized risk governance capabilities can help the board to adapt in today’s highly uncertain environment.”

– Rebecca Jiang, Partner, Deloitte China

Methodology

In Mainland China, Deloitte analyzed the top 50 listed companies on the Shanghai Stock Exchange, ranked by market capitalization as of July 1, 2013, through a review of corporate filings and other documents disclosing companies’ corporate governance practices.

Requirements and current developments

In Mainland China, there are no general regulations mandating that companies establish risk committees at the board level. However, there are requirements for some industries – for example, FSI companies which are deemed to hold relatively higher risk. Corporate governance and risk management guidance issued by the main FSI regulatory organizations, which include the China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC), clearly state that a corporation should set up a risk committee at the board level either separately or integrated with another committee or committees.

At the same time, enhancing risk management is also a key emphasis for state-owned enterprises (SOEs) and SOEs directly under the central government (CSOEs). Enterprise Risk Management Guidance issued by the SASAC and some provincial SASACs suggests that companies establish a risk committee at the board level, where appropriate.

Analysis

In sharp contrast to non-FSI companies, all Mainland China FSI companies analyzed disclosed having a board-level risk committee, with 75 percent having a standalone committee and the remaining 25 percent having a hybrid committee. This no doubt reflects the CBRC and CIRC regulations.

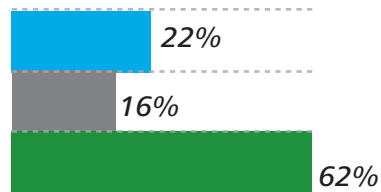
However, only 13 percent of non-FSI companies had risk committees – all hybrid – with their risk-related roles and responsibilities varying, depending on the organization’s needs and the board’s preferences. Thus, while FSI companies in Mainland China are likely to have a risk committee, adoption in non-FSI Chinese companies has only just begun.

“Recently, risk committees are focusing on oversight of risk associated with new and high risk business, as well as the change in risk management brought by the trends of interest rate liberalization.”

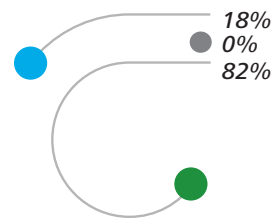
— Risk management committee representative From a leading national joint-stock commercial bank

Mexico

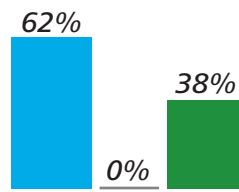
Global overall



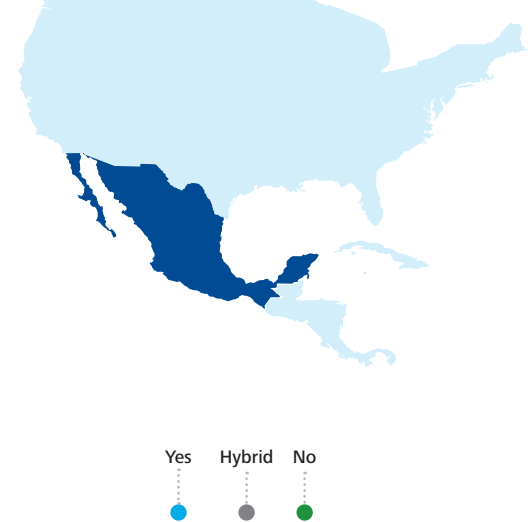
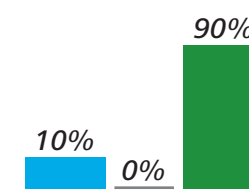
Mexico overall



Mexico FSI



Mexico non-FSI



“Risk management approaches have become quite relevant over the past several years. Boards of publicly listed companies and financial services organizations have become increasingly aware of risk and of the need for continued discussions on risk at the board and board committee levels. This is partly due to new regulation including anti-money laundering and anti-corruption laws and to the recognition that risk belongs on most boards’ agendas.”

— Daniel Aguinaga, Partner, Deloitte Mexico

Methodology

In Mexico, the top 50 organizations listed on the Mexican Stock Exchange were ranked by net profits; however, our analysis included a few governmental FSI and non-FSI institutions. Our analysis reviewed publicly available documentation to ascertain whether the organization had a board-level risk committee.

Requirements and current developments

Local regulations regarding risk are still developing. Currently, non-FSI organizations are not required to have a board-level risk committee. However, all publicly held companies must have an audit committee, which is usually responsible for risk oversight. This committee must be composed exclusively of independent directors.

Moreover, specific regulations require that every FSI organization have a board-level risk committee, which is responsible for identifying and discussing strategies for mitigating financial risks. These requirements, issued by the Mexican Securities Commission, complement the Mexican Stock Exchange act. The designated regulatory framework is designed to ensure compliance in this area and to determine that a risk assessment is properly carried out in each organization. The Mexican Stock Exchange act does not apply to the governmental National Funding Institution for social security, since all governmental institutions in Mexico are regulated by their own regulatory framework, specifically designed for each of them, and the disclosure of

their governance bodies is not always mandatory. Hence, the requirement that all FSI organizations have a board-level risk committee does not apply to governmental institutions, which is why 38 percent of Mexican FSI companies in our sample do not disclose having such a committee.

Analysis

While 90 percent of the Mexican non-FSI companies analyzed do not have a risk committee, 62 percent of FSI companies do disclose having one. This reflects the regulatory mandate that FSI companies establish a board-level risk committee.

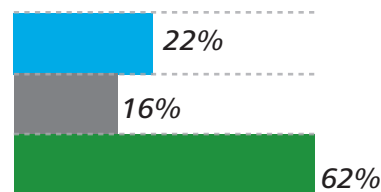
Although regulations do not require non-FSI companies to have a board-level risk committee, proposed regulatory reforms (to be approved by the Congress) would mandate that every publicly listed company have an audit committee charged with risk oversight, as well as the internal controls and internal audit. Hybrid risk committees among non-FSI companies would likely increase if these reforms were enacted.

“In different forms, we all are risk managers”

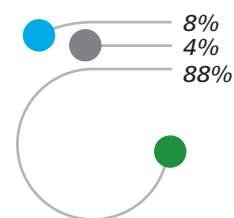
— Heleodoro Ruíz Santos, Grupo Financiero Banorte, Financial Institution

Netherlands

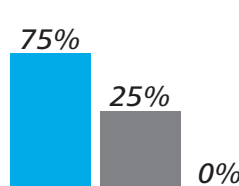
Global overall



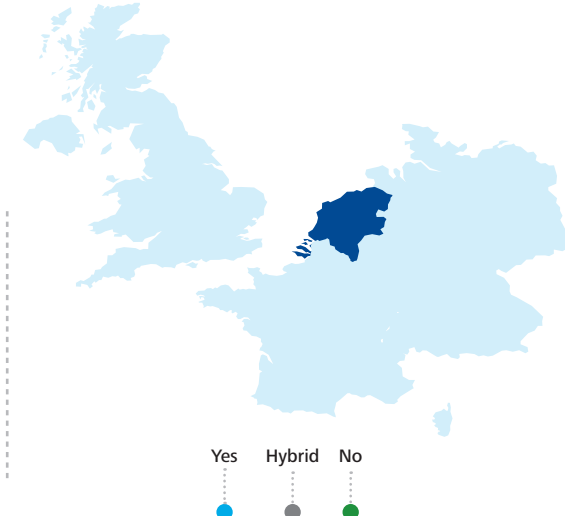
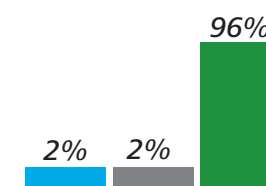
Netherlands overall



Netherlands FSI



Netherlands non-FSI



“The transparency of supervisory boards in the Netherlands has been enhanced over the last five years. As part of this process attention to risk management has increased, driven mainly by proliferating risks of companies across all industries. Concurrently, we have seen increasing workloads for audit committees regarding financial statements and audits in the past few years, limiting the resources available for discussion of organizational risk. This trend may fuel interest in forming a board-level risk committee.”

— Aida Demneri, Director, Deloitte Netherlands

Methodology

In the Netherlands, the analysis included 50 companies listed on Euronext Amsterdam ranked by market capitalization. Of these companies, 25 were part of the AEX index (Large Cap) and 25 were part of the AMX market index (Mid Cap) as of October 15, 2013.

Requirements and current developments

General risk oversight strategies are a component of the operating culture for FSI and non-FSI companies in the Netherlands, given that risk governance is covered in the principles outlined in the Dutch Corporate Governance Code² and other sector specific codes such as the Dutch Banking Code³ and the Governance Principles for Insurance Companies.

Specifically, board-level risk committees are encouraged in the Netherlands banking and insurance supervisory framework outlined in the Dutch Banking Code published by the Netherlands Banking Association (NVB) and the Governance Principles published by the Dutch Association of Insurers. These codes, essentially a form of self-regulation, present the operating principles that the associations recommend and expect from Dutch banks and insurance companies. In these frameworks, the respective associations suggest a board-level risk committee. The Dutch Banking Code took effect on January 1, 2010 on a “comply or explain” basis.

In general, at sampled companies responsibility for risk oversight rests with the supervisory board and in particular with the audit committee. Management is responsible for complying with relevant laws and regulations and for managing risks related to activities undertaken to achieve strategic objectives.

Analysis

All Dutch FSI companies analyzed have a board-level risk committee, with 75 percent having a standalone risk committee and the remaining 25 percent having hybrid committees. However, a total of only 4 percent of Dutch non-FSI companies analyzed have a risk committee at the board level. This is well below the global figure of 26 percent (composed of 11 percent standalone and 15 percent hybrid, per Figure 3) and matches the low U.S. percentages for non-FSI companies. The fact that all Dutch FSI organizations have a risk committee reflects the emphasis on board-level risk committees in banking and insurance, as noted in the preceding section.

Deloitte expects the overall focus on risk oversight and governance in the Netherlands to intensify given the priority regulators have placed upon it.

“A risk committee ensures that appropriate attention is given to risk topics. It allows for spreading the workload among the members of the supervisory board; as such, more time can be spent on risk topics.”

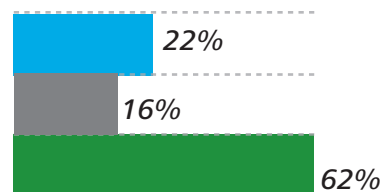
— Jan Holsboer, Supervisory board member of a large financial institution

² Dutch Banking Code, Netherlands Bankers Association, September 2009 <http://www.ecgi.org/remuneration/documents/Dutch%20Banking%20Code%20-%20Sep%202009.pdf>

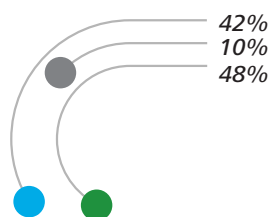
³ The Governance Principles for insurance companies, July 2013 [https://www.verzekeraars.nl/overhetverband/zelfregulering/Documents/Gedragscodes/Governance_Principes%20\(1%20juli%202013\).pdf](https://www.verzekeraars.nl/overhetverband/zelfregulering/Documents/Gedragscodes/Governance_Principes%20(1%20juli%202013).pdf)

Singapore

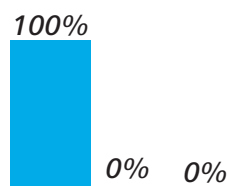
Global overall



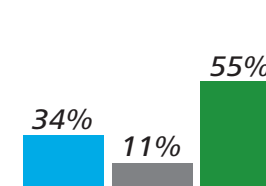
Singapore overall



Singapore FSI



Singapore non-FSI



Yes Hybrid No

“To achieve a high standard of corporate governance, an effective risk governance framework is important. Nonetheless, it is also important for organizations to find the right balance between business operations and growth, and the related risk oversight controls.”

– Gek Choo Seah, Partner, Deloitte Southeast Asia, Singapore

Methodology

In Singapore, annual reports and disclosures were analyzed for the top 50 companies on the Singapore Stock Exchange (SGX) as ranked by market capitalization as of September 11, 2013.

Requirements and current developments

Risk committees are not mandatory in Singapore. However, companies listed on the SGX are required to disclose in their annual reports their corporate governance practices with reference to the Code of Corporate Governance⁴ issued in 2012 (the “Code”) and explain any deviation from the practices and guidelines of the Code. Specifically, under Practice 11 of the Code, the board should, at least annually, review and comment on the adequacy and effectiveness of the company’s internal control systems, including financial, operational, compliance, and information technology controls, and risk management systems.

In addition, SGX listing Rule 1207(10) requires a listed company to disclose in its annual report the opinion of the board, with the concurrence of the audit committee, regarding the adequacy and effectiveness of the internal controls, addressing financial, operational, and compliance risks.

Analysis

All of Singapore’s top 50 FSI companies analyzed have a standalone board-level risk committee. In addition, a total of 45 percent of non-FSI companies have either a standalone or hybrid board-level committee that focuses on risk, compared with a total of 26 percent of the global sample (per Figure 3). Singapore companies can be expected to continue their relatively strong focus on risk oversight and to expand their use of risk committees in non-FSI sectors.

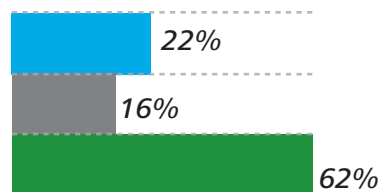
“Risk-related policies and limits should be subjected to periodic reviews to ensure that these continue to support business objectives effectively and proactively, and address risks in the context of the prevailing business climate and the organization’s risk appetite.”

— Ms Oon Kum Loon, Chairperson, Risk Management Committee, Keppel Corporation Ltd

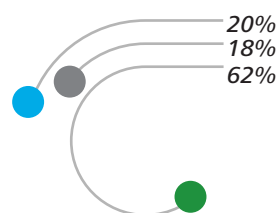
⁴ Code of Corporate Governance, Monetary Authority of Singapore, May 2012 http://www.mas.gov.sg/~media/resource/fin_development/corporate_governance/CGCRevisedCodeofCorporateGovernance3May2012.pdf

United Kingdom

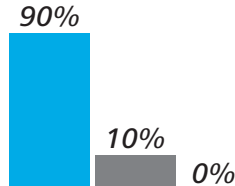
Global overall



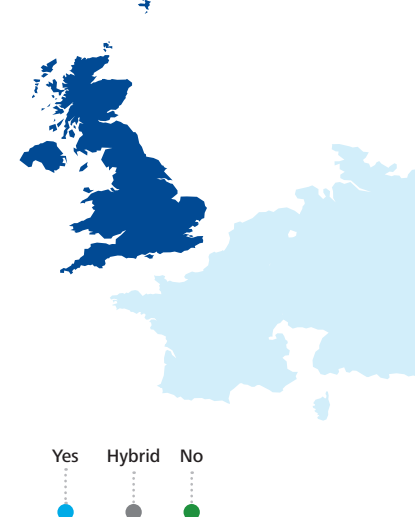
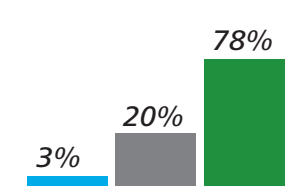
United Kingdom overall



United Kingdom FSI



United Kingdom non-FSI



“The changes being proposed by the Financial Reporting Council (FRC) will put risk oversight firmly on the board agenda on a continuous basis – not just once a year. Non-executive directors will be pushing for much more visibility into risk oversight processes and procedures. It is likely that we will start to see more risk committees outside of the FSI sector.”

– Tracy Gordon, Director, Deloitte United Kingdom

Methodology

In the UK, the disclosures regarding board risk governance were analyzed for the top 50 companies, ranked by market capitalization, of the FTSE 100 as of July 29, 2013.

Requirements and current developments

A number of high-profile risk events have intensified the regulatory and corporate focus on risk management in recent years. The Walker Report⁵ on corporate governance, in conjunction with regulatory and political pressure, has driven major changes in UK FSI companies. So far the UK’s FRC, the owner of the UK Corporate Governance Code⁶ (the Code), has resisted pressure to extend the Code to include a requirement for all premium listed companies to have a board-level risk committee. (Premium listed companies are expected to meet the UK’s highest standards of regulation and corporate governance.) Currently, responsibility for oversight of risk rests with the audit committee, while the full board is responsible for determining the nature and extent of the significant risks the organization is willing to take in pursuing its strategic objectives.

Two major factors are likely to drive an increase in board-level risk committees outside the FSI sector. First, there has been a significant increase in the workload of the audit committee

regarding financial statements and audit relationships in the past year; this is prompting companies to consider splitting the traditional duties of the audit committee to separate out risk-related activities. Second, the FRC is consulting on changes to the Code in relation to risk management and internal control; these changes may well increase the board’s responsibility for risk assessment and management.

Analysis

In the UK, 90 percent of FSI companies analyzed have a standalone board-level risk committee and 10 percent have a hybrid committee. As is the trend elsewhere, risk committees are far less prevalent among non-FSI companies. Regarding the trends in the overall presence of board-level risk committees (that is, in all analyzed companies: FSI and non-FSI companies combined), the UK more or less parallels global trends.

“Risk, reward and opportunity should all be part of the cut and thrust of the board discussion at all times.”

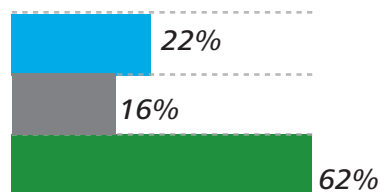
— Audit Committee Chairman, FTSE 100

⁵ A Review of Corporate Governance in UK Banks and Other Financial Industry Entities, Final recommendations, 26 November 2009, The Walker Review Secretariat <http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/walker_review_261109.pdf>

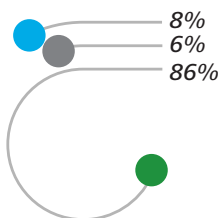
⁶ The UK Corporate Governance Code, Financial Reporting Council, September 2012 <<https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf>>

United States

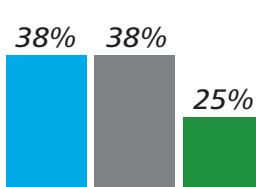
Global overall



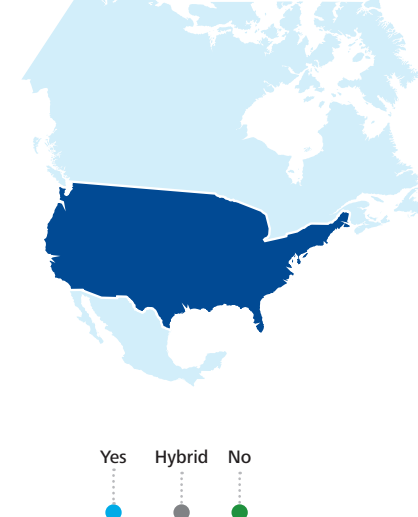
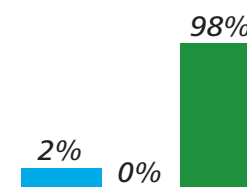
United States overall



United States FSI



United States non-FSI



“Boards of large U.S. non-bank financial companies as well as those of commercial enterprises recognize that their organizations are facing a broad range of risks, including, for example, strategic, security, property, information technology (IT), legal, regulatory, reputational, and other risks, as well as heightened financial risk. In any enterprise, risk governance means ascertaining, to a reasonable degree, that the executive team has identified and assessed critical risks and has appropriate risk mitigation and management in place.”

– Maureen Bujno, Director, Deloitte LLP United States

Methodology

In the U.S., analysis of the top 50 Standard & Poor’s companies, ranked by market capitalization, was conducted through an inspection of the board’s risk-related roles and responsibilities as disclosed in their “board’s role in risk oversight”, or similar disclosure, in their proxy statements issued between January 1 and May 31, 2013.

Requirements and current developments

In December 2009, the Securities and Exchange Commission (SEC) issued new requirements regarding risk disclosures in proxy statements. These amended rules, which went into effect in 2010 and apply to all U.S. publicly held companies, aim to enhance disclosures regarding risk-related practices of the board. For instance, disclosures may note who is responsible for risk oversight and management, the risk-related role of the audit committee, and whether there is a CRO present and to whom the CRO reports.

Also, with regard to FSI companies, the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) delegated to the Federal Reserve final rule-making authority to implement overall governance and risk governance policy. Related to this initiative, the Federal Reserve has issued rules on enhanced prudential supervision for domestic and foreign

institutions. These rules require 1) U.S. banks and bank holding companies (BHCs) with greater than \$50 billion in assets, 2) those with greater than \$10 billion in assets and that are publicly-traded, 3) foreign banks with U.S. operations, and 4) non-bank financial companies designated as systemically important to establish a board risk committee with a formal written charter approved by the company’s board of directors.

Given the increased regulatory requirements for risk committees at these FSI companies, those not required to have a separate risk committee may begin to adopt board-level risk committees or practices associated with enhanced risk oversight.

Analysis

U.S. FSI companies analyzed are far more likely than non-FSI companies to have board-level risk committees. U.S. companies in both FSI and non-FSI categories are less likely than the overall global sample to have standalone or hybrid board-level risk committees. Instead, it appears that U.S. companies tend to spread their risk-oversight responsibilities among multiple board committees – rather than having a risk committee. However, these practices vary across industries.

In general, the trend in FSI companies would be to establish a separate board-level risk committee (provided the size and scope of the institution – and the risks it faces – warrant it), and in non-FSI companies for the audit committee to take primary responsibility for risk oversight.

⁷ Wall Street Reform and Consumer Protection Act, H.R. 4173 <<https://www.sec.gov/about/laws/wallstreetreform-cpa.pdf>>

⁸ Federal Reserve Enhanced Prudential Standards and Early Recommendation Requirements for Covered Companies, Federal Register Vol. 77 No. 3 (Jan 5, 2012) <<https://www.sec.gov/about/laws/wallstreetreform-cpa.pdf>>

Deloitte's observations on board risk committees

As the overseer of risk for their organizations, boards must fulfill their risk-related roles and responsibilities as effectively as possible. Although those roles and responsibilities vary, they typically include advising senior executives regarding risk and risk management, being informed of risk exposures of specified magnitudes, and obtaining assurance that management has established risk monitoring and mitigation mechanisms equal to the risks the organization faces. Other activities may include involvement in setting the organization's risk appetite, disclosing risk exposures, and influencing the risk culture (the latter, for example, through senior executive hiring decisions and compensation plans).

However, board workloads have increased, as have those of audit committees, which are often tasked with risk oversight. In addition, potential for board member liability or exposure to legal action for risk-related events or impacts may exist in some jurisdictions.

Given these responsibilities and realities, many boards have established or are considering establishing a risk committee. Depending on the organization and its industry, risks, and regulatory and risk governance needs, a board-level risk committee can enable the board to:

- Assert and articulate its risk-related roles and responsibilities more clearly and forcefully.
- Establish its oversight of strategic risks, as well as the scope of its oversight of operational, financial, compliance, and other risks.
- Task specific board members, external directors, and other individuals with overseeing risk and interacting with management and the chief risk officer.
- Recruit board members with greater risk governance and risk management experience and expertise.
- Keep the board more fully informed regarding risks, risk exposures, and the risk management infrastructure.

- Elevate risk as a management and organizational concern in day-to-day operations.
- Improve advice provided to management regarding risk, response plans, and major decisions, such as mergers, acquisitions, and entry into new markets or new lines of business.

Specific roles and responsibilities of the board risk committee are identified in its charter, as are means of fulfilling them. The board risk committee has substantial authority and freedom to craft its charter as it sees fit. Of course, a board-level risk committee also requires resources, including funding, expertise, time, and attention. Yet the level of formality that board-level risk committee brings to risk oversight responsibilities and the level of rigor that such a committee lends to an organization's risk governance infrastructure are attractive to a good number of companies, particularly FSI organizations.

Whether an organization operates in a heavily regulated or lightly regulated industry, and regardless of where it operates, the board remains responsible for risk oversight and governance. Meanwhile, strategic, operational, financial, political, technological, security, intellectual property, and reputational risks are proliferating, and interactions among risks can amplify their impact. Given that the business, economic, and regulatory environment appears to be trending upward in number and magnitude of risks, Deloitte expects to see more rather than fewer companies establishing board-level risk committees.

Management urgently needs effective ways of identifying, measuring, tracking, mitigating, and managing risk. Equally urgent, given that the full board is responsible for risk oversight, is the board's need to understand risks and their potential impacts, and how management is addressing them.

A board-level risk committee, either standalone or hybrid, is one effective means of attaining the necessary visibility into risks and risk management and of exercising risk oversight. It is also one that most boards should at least consider.

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