

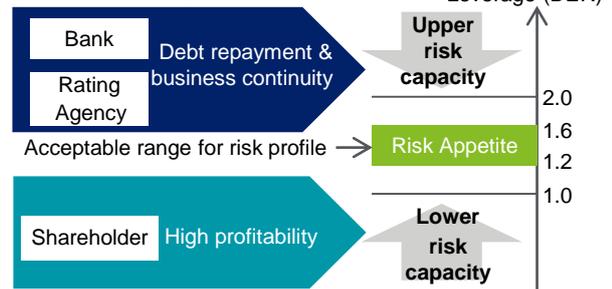
Risk Appetite Framework

Integration of Strategy and Risk Management to be pursued by Global Firms

More and more global firms have introduced Risk Appetite Framework

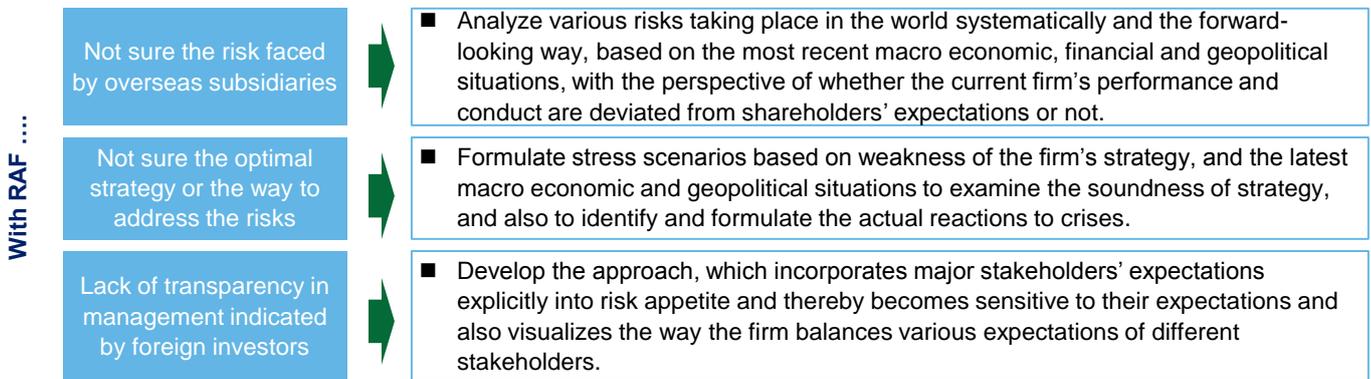
Relapse of Greek Crisis, plunge in crude oil prices, prolonged territorial disputes in Ukraine, sharp slowdown of China's economy and anticipated interest rate hike in the US, etc. ... these uncertainties facing global firms have continued to increase. Meanwhile, increasingly globalized and diversified stakeholders request the management of global firms to be more transparent and accountable. Under such circumstances, the increasing number of global firms have now tried to build "Risk Appetite Framework" (RAF) as a new management system to address emerging risks the forward-looking way

Example of Risk Appetite Structure (Financial Risk)



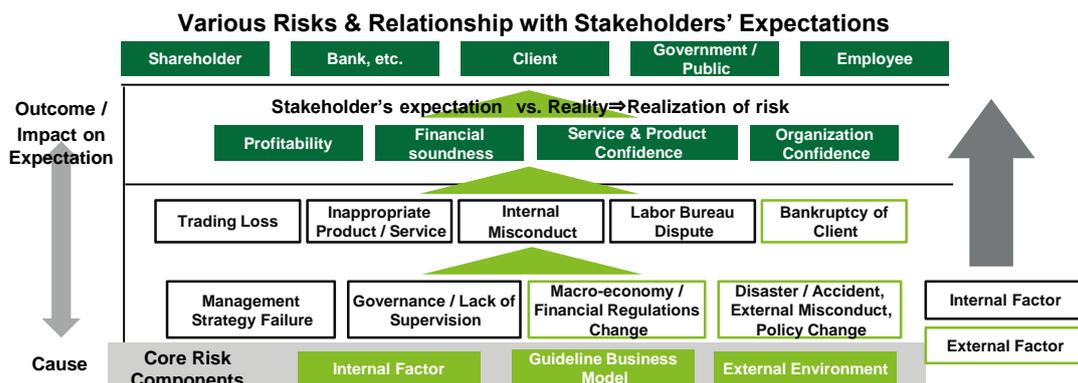
RAF is dubbed as "Risk Management Revolution" after the Global Financial Crisis

Risk Appetite refers to 'the risks to be taken willingly' by the management, in order to satisfy various expectations of stakeholders. In RAF, the management: ①specifies various risks associated with the business strategy: ②determines whether the level of risk measured is appropriate for risk appetite, or stakeholders' expectations: ③articulates KPI corresponds to management's risk appetite and thereby allows management's decision to reach the furthest end of business operation. Thus, RAF serves as cranial nerve function of firm's decision making process, which is transparent to outside stakeholders. Its potential effect could be promising, partly evidenced by the move of financial regulators, which experienced hardship in the financial crisis and now request every global banks to be equipped with RAF.



Importance of defining clearly the scope of risk and setting risk appetite for them

To formulate an effective RAF, all the important risk on the premise of stakeholders' expectations must be included. Some risks might be hard to be measured but could often be visualized by using stress scenarios. Risk appetites are supposed to be set as a range, with which all these major risks remain in .



Our Services

Identify various hidden risks & setting risk appetite for them

DTT examines your business environment, using our 'Stress Event Database', which stores the information of ever changing internal and external environments such as macroeconomic, financial, and geopolitical situation, and thereby identify the situation where the firm could 'betray' stakeholders' expectations (or the materialization of risks to be avoided). Also, we assist the management to set risk appetite for these risks

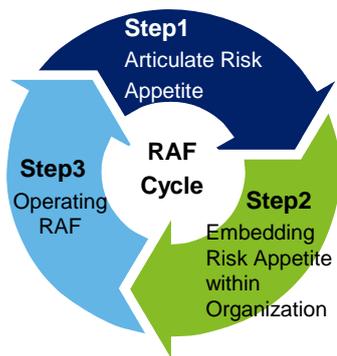
Formulate stress scenarios to articulate the risks to be compared with risk appetite

DTT formulates probable several stress scenarios based on some typical patterns implied by "Stress Event Database" and observed in historical events. Additionally, we indicates the level and changes in probability of materialization of those stress scenarios on a monthly basis.

Decide the reactions to the crises and set KPI

DTT assists you with preparing countermeasures to mitigate or avoid the risk materialization, and also setting KPI

Transparent Strategy Decision Making Process by RAF



Confirm major stakeholders' expectations
Identify risk appetite in the management
Articulate risk appetite statement
Share risk appetite within organization
Embedment of business strategy KPI
Formulate risk appetite and a consistent performance evaluation system
Verify the adequacy of the risk appetite and management strategy
Respond to changes and modification of risk appetite

Expertise of Deloitte Tohmatsu



'Building Risk Appetite Framework'(CHOUKEIZAI-SHA) illustrates difficult and complex on-going development of RAF, providing an insights and step-by-step examples of guidance for organizations to understand its complexity. This is **the first ever** RAF reference published in Japan.

'Stress Testing in the Future' (KINZAI INSTITUTE FOR FINNCIAL AFFAIRS, INC.) contains macros views of 'historical', 'present', and 'potential future' scenario testing. This book explains step-by-step of scenario testing methodology in details.

At DTT, this author alongside of experienced macro economists and risk specialists provide a diverse range of services to overcome challenges associated with building/implementing RAF and Stress Testing.

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