

FREQUENTLY ASKED QUESTIONS (FAQS)
ON THE **MFSA'S** RISK APPETITE
STATEMENT



REVISIONS LOG

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CONTENTS

FAQ 1 - What is a Risk Appetite Statement?.....	4
FAQ 2 - Why establish a risk appetite for the MFSA?.....	4
FAQ 3 - How is the concept of risk appetite used within the MFSA?	4
FAQ 4 - What is the difference between a risk appetite framework and a risk appetite statement?	5
FAQ 5 - What are the components of the MFSA’s Risk Appetite Statement?	5
FAQ 6 - How is the risk appetite framework created within the MFSA?	5
FAQ 7 - What are the roles and responsibilities of key stakeholders?	6

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FAQ 1 - What is a Risk Appetite Statement?

The Malta Financial Services Authority's ("MFSA" or "the Authority") risk appetite is defined as the amount of risk (volatility of expected results) the Authority is willing to accept in pursuit of its mission and in carrying out its strategic plan.

FAQ 2 - Why establish a Risk Appetite for the MFSA?

Exposure to risk is an inevitable part of the MFSA's activities. What differentiates a successful organisation from one that is not is the ability to take on calculated risks in order to realise strategic goals. The goals achieved and the risks undertaken to achieve them should be demonstrable to stakeholders.

The Risk Appetite Statement enables the Authority to demonstrate that the achievement of its strategic goals has not been the result of chance.

Setting a risk appetite is not about elimination of all risks: rather it is about embracing risks in areas in which management has the appropriate skills, knowledge and experience to take advantage of the opportunities presented, whilst limiting risks in other areas. When the risk appetite and the strategy statements are reviewed holistically, they clearly explain why an organisation goes about executing its business activities in the way it does.

A clearly defined risk appetite provides the Board of Governors, Management and Staff with a framework which facilitates the identification and management of both risks and opportunities.

Clear and concise strategic objectives should underpin the Risk Appetite Statement. Even though this implies that risk appetite and strategy are interlinked, it is clear that one does not lead the other; risk appetite and strategic planning occur and evolve in parallel.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Authority while giving the Board of Governors and management confidence to avoid risks that are not in keeping with the strategic objectives.

FAQ 3 - How is the Concept of Risk Appetite used within the MFSA?

The concepts of risk appetite and risk tolerance are often used interchangeably, but they have distinctly different meanings.

Risk tolerance encompasses the broadest expression of risk the Authority is willing to assume in executing its strategy. Risk appetite offers a pragmatic view of risk tolerance. The annual plan and budget of the MFSA is developed within the constraints of the appetite and tolerance for risk. This ensures that the Authority does not exceed its stated bounds or limits for risk.

The MFSA's stakeholders are calling for clearly-articulated risk appetite statements that are broadly communicated, understood, embraced, and used to manage the activities of the Authority. A statement of risk appetite is as much about culture and a way of thinking and behaving as it is about risk policies, tolerances, parameters, models, reporting, and governance.

FAQ 4 - What is the difference between a Risk Appetite Framework and a Risk Appetite Statement?

The Risk Appetite framework provides a structured approach to the management, measurement, and control of risk, i.e., a way that people and processes ensure that the MFSA's activities provide an appropriate balance of return for the risk assumed and remain within the stated risk appetite of the Authority.

The risk appetite statement is an expression of the amount and type of risk that the MFSA is willing to accept in the pursuit of its mission and in carrying out its strategic plan.

It is important for the MFSA's Employees, Management and the Board of Governors to understand the critical links among strategy, business plans, and risk. A risk appetite statement is one tool that facilitates this linkage. In this context the risk management function is an integral part of the MFSA's overall strategies and specific business objectives - an essential part of the Authority's success and value creation.

FAQ 5 - What are the Components of the MFSA's Risk Appetite Statement?

The MFSA's statement of risk appetite consists of two parts:

- Preamble - which states the high-level guiding principles of the institution, why the risk appetite statement is being developed, how it was developed, and how it is to be used in the planning process.
- Metrics - a set of qualitative and quantitative metrics that articulate the Authority's risk appetite.

The MFSA's risk appetite statement is the natural evolution of the functions found within the Authority. Risk appetite, when it is operating properly, can provide the common thread running throughout the Authority's functions.

FAQ 6 - How is the Risk Appetite Framework created within the MFSA?

Developing a statement of risk appetite requires time, discussion, debate, and significant involvement of the key stakeholders. To create a robust risk appetite process for the MFSA, we have included the following elements:

1. The Authority's strategic objectives as articulated by the Board of Governors and shared with the key stakeholders.
2. The MFSA's Chief Executive Officer served as the central point of contact between stakeholders and articulated the importance, benefits, and use of the statement of risk appetite.
3. The Head of Risk Management coordinated the risk appetite process and held a series of focus groups with the Authority's Chief Officers to ascertain and document the level of risk they are willing to assume in pursuit of their functions' objectives.

4. A comprehensive document articulating the risk appetite framework, identifying and reconciling the key initiatives proposed by the Functions with the top-down corporate strategic objectives, and the amount and type of risk that the Authority is willing to take, is prepared by the risk team.
5. The document is discussed with the Executive Management team, then revised and presented to the Risk Committee for discussion prior to approval by the Board of Governors.
6. Once approved, the risk appetite statement is communicated institution-wide.
7. Functions are asked to build their plans within the context of the risk appetite statement.
8. Functions review their existing risk policies and limits to ensure they are aligned with the risk appetite statement.
9. Risk appetite is monitored and reported regularly in accordance with the internal policies and discussed as required with the Board of Governors within the provisions of the Risk Committee Charter.
10. Risk reporting is conducted in line with the approved and established policies and tolerances. Management reports should routinely include risk appetite measures.

FAQ 7 - What are the Roles and Responsibilities of Key Stakeholders?

The Board of Governors approves the risk appetite framework and, by definition, the risk appetite statement.

Once approved, the governance of the MFSa's risk appetite is assigned to the appropriate person(s) and / or group(s).

Responsibility for execution and monitoring is assigned to the Risk Management Function. Even though the Risk Management Function holds the day-to-day responsibility for the risk appetite framework, risk identification, risk assessment and risk management are and remain the responsibility of the Authority's management of each individual Function.