

March 1, 2018

Ms. Ann E. Misback  
Secretary, Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551


By E-mail: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

**Re: Board of Governors of the Federal Reserve System  
Proposed Supervisory Guidance – Large Financial Institutions Risk Management  
Supervisory Expectations  
(Docket No. OP- 1594)**

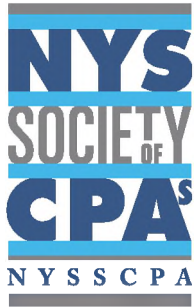
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned proposed guidance.

The NYSSCPA's Banking Committee deliberated the proposed guidance and prepared the attached comments. If you would like additional discussion with us, please contact Jo Ann Golden, Chair of the Banking Committee, at 315-724-6505 or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

  
Harold L. Deiters III  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

**PROPOSED SUPERVISORY GUIDANCE – LARGE FINANCIAL INSTITUTIONS  
RISK MANAGEMENT SUPERVISORY EXPECTATIONS  
(Docket No. OP- 1594)**

**March 1, 2018**

**Principal Drafter**

**Matthew T. Clohessy**

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**New York State Society of Certified Public Accountants**  
**Comments on**  
**Board of Governors of the Federal Reserve System**  
**Proposed Supervisory Guidance – Large Financial Institutions Risk Management**  
**Supervisory Expectations**  
**(Docket No. OP- 1594)**

**General Comments**

Overall, we support the proposed supervisory guidance on large financial institution risk management supervisory expectations. The requirements are well-defined and are generally consistent with industry best practices.

We have several specific comments on areas where expanded guidance would promote stronger risk management practices.

**Specific Comments**

Section II.D – Business Controls: Business line management should develop and maintain an effective system of internal control for its business line that helps to ensure compliance with laws and regulations, including those related to consumer protection, and supports effective risk *management...*

...Business line management should regularly test to ensure the controls within its business line are functioning as expected and are effective in managing risks. More frequent testing is appropriate for key controls, or controls that have undergone a material change...

... Business line management should provide periodic reports on the operation of controls to senior management and escalate to senior management material internal control deficiencies and any systematic control *violations...*

We agree with the guiding principles described within this section, however, we recommend that this guidance is expanded to state that line management self-testing should be conducted by individuals who do not operate the controls, such as by individuals from different departments within the business line, dedicated line management quality assurance functions or internal audit.

We also recommend that the guidance state that reporting activities should be conducted by the independent line management or a quality assurance function as well. Guiding management towards ensuring that self-testing is conducted and reported by individuals independent of the

control execution would increase the reliability of the results and decrease the risk of bias or intentional misrepresentation by control owners.

Section III.B.1 – Risk Tolerance and Limits: Under direction of the CRO, IRM should establish *enterprise-wide risk limits that are consistent with the firm’s risk tolerance for the firm’s full set of risks, including risks associated with revenue generating activities and those inherent to the business.* Risk limits should be assigned to specific risk types, business lines, legal entities, jurisdictions, geographic areas, concentrations, products or activities, *commensurate with the firm’s risk profile.*

We concur that IRM should have final authority in the organization to establish risk tolerance and limits. We recommend that the guidance be expanded to encourage IRM to seek line management input for consideration when setting and reviewing risk tolerance limits. This is a common practice to ensure that IRM is well-informed by line management when establishing the risk tolerance limits.

### **Response to Specific Requests for Comments**

We reviewed the questions and offer the following response for question (6).

Request for Comment #6 - *Other supervisory communications have used the term “risk appetite” instead of risk tolerance. Are the terms “risk appetite” and “risk tolerance” used interchangeably within the industry, and what confusion, if any, is created by the terminology used in this guidance?*

The terms “risk appetite” and “risk tolerance” are sometimes used interchangeably and the meaning of those terms is dependent upon internal terminology definitions within organizations. In general, “risk appetite” is a term utilized to express a target range and is more qualitative in nature (e.g., ‘Moderate’). The term “risk tolerance” is generally used to express an upper risk limit in quantitative terms (e.g., Key Risk Indicator Thresholds).

Use of these terms simultaneously at different levels of granularity is a common practice. For example, organizations may have risk tolerances for a maximum dollar amount of exposure by loan type or maximum dollar amount of loans with lending policy exceptions and a risk appetite statement that qualitatively expresses how aggressive that institution wants to pursue loan growth. In this example, a single risk tolerance threshold could be exceeded without exceeding an overall risk appetite; conversely, if many lower level tolerances are near but not in excess of their risk tolerances, the aggregate exposure may cause an organization to be outside of its risk appetite even if no risk tolerances are individually exceeded.

We believe that the use of the term “risk tolerance” throughout the proposed supervisory guidance is consistent, clear and would not create confusion.