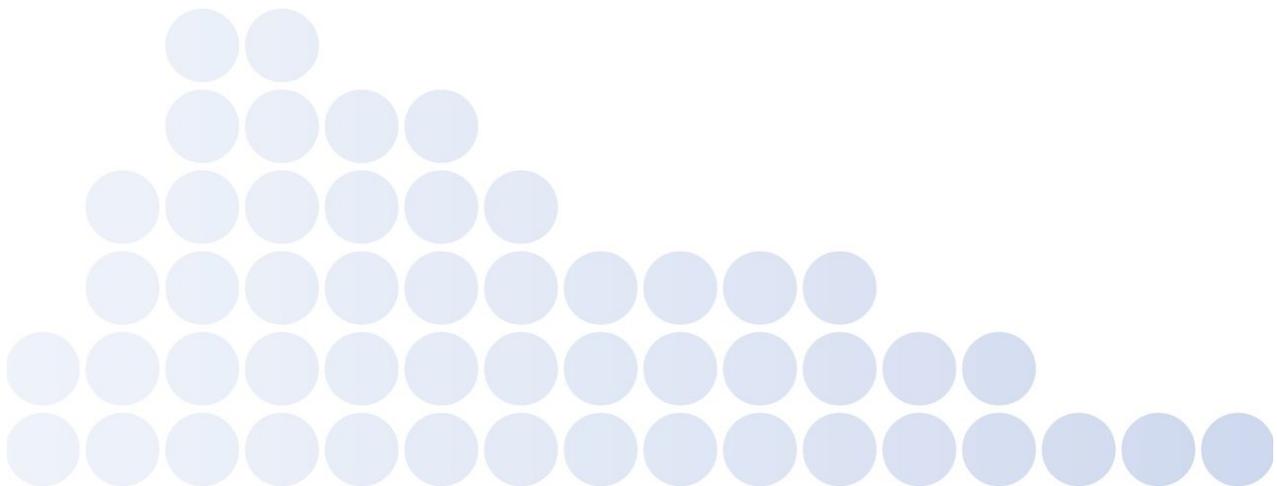




The Gibraltar Financial Services Commission

Risk Appetite Statements

Published: April 2016



Introduction

In October 2014 we published our Strategic Plan and the steps we would be taking in order to deliver on our objectives.

We committed to continue to develop and mature the GFSC's risk framework and capability to ensure that there is good consistent understanding of risk and risk tolerance, focusing our regulatory activity and resource allocation in those areas which are outside the GFSC's risk appetite and tolerance.

Our supervisory approach is based on proactive and open engagement with firms to identify, manage and mitigate risks to ensure compliance with regulatory requirements. The effectiveness of this approach largely depends on there being an open and responsive two-way relationship between ourselves and those we regulate.

As a risk based regulator, we prioritise our finite resources on the areas which pose the highest risk to our regulatory objectives. Where a firm or individual fails to comply with regulatory requirements, we consider carefully what course of action is a proportionate response for us to take.

Where a firm fails to demonstrate an acceptance and understanding or a failure to comply with regulatory requirements, and the breach poses a serious or persistent risk to our regulatory objectives, we may decide to take regulatory enforcement action.

Publishing our appetite to risk will help regulated entities, individuals and other stakeholders better understand our regulatory actions.

This document sets out the GFSC's Risk Appetite.

Why establish a Risk Appetite

A clear risk appetite is fundamental to ensuring that activity is aligned with the strategic priorities by providing a mechanism through which risks can be prioritised, key stakeholders can be engaged, operations sustained and controls adjusted according to the nature and extent of risk. It helps the decision-makers within the organisation make risk based decisions in keeping with an established risk appetite.

An integrated Risk Appetite Framework will provide comfort to the Board Committee, and other stakeholders, that risks to objectives are being managed within agreed levels. This will help the Board Committee discharge their corporate governance responsibilities more effectively.

Risk Appetite

While there are a number of definitions, at an organisational level, Risk Appetite can be defined as ‘the amount and type of risk that an organisation is willing to take in order to meet its strategic objectives’ and is the process by which an organisation establishes its approach and strategy to the acceptance, mitigation and taking of risk to achieve its objectives. It is derived through an informed view of the inherent risks to achieving objectives, combined with the ability to reduce or mitigate these risks to a more acceptable residual level.

In a regulatory context it could be considered ‘**the amount and type of risk that the GFSC is willing to accept, tolerate or be exposed to at any point of time in order to work towards its regulatory objectives**’.

The appetite for risk may change over time to reflect changes in the market, culture and objectives.

Risk Appetite Statements

The following risk appetite statements have been agreed by the GFSC’S Board Members and Senior Management:

*In fulfilling its regulatory obligations, the GFSC **will not** attempt to prevent regulated entities from failing. In any market economy, firms will fail. The GFSC’s priority in such cases is to ensure an orderly wind-down with minimum disruption to consumers or the stability of the local market. We do however retain a low appetite for the insolvency of local systemically significant entities.*

The GFSC has **no appetite** for:

- *individuals who are not fit & proper holding influential positions within regulated entities;*
- *breaches of confidential or sensitive data, dishonest or misleading information, or a lack of integrity;*
- *regulated entities or individuals who put their own interests ahead of customers and the reputation of Gibraltar;*
- *unfair treatment of customers;*
- *deliberate or reckless acts that negatively affect customers of licensees (regardless of where they are located);*
- *regulated entities or individuals that jeopardise client assets and monies;*
- *deliberate, reckless or complacent behaviour that leads to, or facilitates, criminal acts;*
- *deliberate, reckless or complacent behaviour that jeopardises the achievement of our regulatory objectives;*
- *short-termism in firms;*
- *organisations with poor governance arrangements;*

- *poor management, or abuse, of conflicts of interest;*
- *regulated entities or individuals with a lack of regard for the GFSC's regulatory objectives;*
- *evident disdain of regulators and regulation and attempts to bully, bribe or cajole the regulator;*
- *failure to co-operate and be open with the GFSC.*

The GFSC has an appetite for:

- *making individuals accountable for actions taken in fulfilling their obligations that results in a default or breach;*
- *raising standards in the financial and professional services industries;*
- *trusting firms that can demonstrate that they have a strong ethical culture;*
- *well-considered innovation;*
- *transparent, consistent, robust supervision of regulated entities and individuals (including saying NO quicker where necessary);*
- *making decisions with the best available information;*
- *transparency of our regulatory approaches, strategy, policies and outcomes;*
- *taking a considered approach to legacy issues in order to avoid unnecessary market disruptions (however, we will not tolerate sustained non-compliance with legal and regulatory requirements);*
- *constructive dialogue and engagement in determining regulatory policy and approach;*
- *exploring uncharted regulatory waters;*
- *reviewing priorities against jurisdictional aspirations;*
- *investing resources into consumer education to increase financial literacy.*

*The GFSC **will**, in pursuit of its objectives tolerate legal challenge from licensed entities, individuals or any other stakeholder, if deemed necessary to further its regulatory objectives.*

*The GFSC **will** tolerate short term risk exposures which are deemed necessary to secure, and which will benefit, long term objectives.*

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