



ASIC

Australian Securities & Investments Commission

CONSULTATION PAPER 263

Risk management systems of responsible entities: Further proposals

July 2016

About this paper

This paper sets out our proposals to provide guidance to responsible entities on our expectations for compliance with their obligation to maintain adequate risk management systems under s912A(1)(h) of the *Corporations Act 2001* (Corporations Act).

This paper builds on the proposals in Consultation Paper 204 *Risk management systems of responsible entities* (CP 204).

We have set out our proposed guidance in the draft regulatory guide attached to this paper.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This paper was issued on 21 July 2016 and is based on the Corporations Act as at the date of issue.

Disclaimer

The proposals, explanations and examples in this paper do not constitute legal advice. They are also at a preliminary stage only. Our conclusions and views may change as a result of the comments we receive or as other circumstances change.

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The consultation process

We invite you to comment on the proposals in this paper, which are an indication of the approach that we may take and are not our final policy.

As well as responding to the specific proposals and questions, we also ask you to describe any alternative approaches you think would achieve our objectives.

We are keen to fully understand and assess the financial and other impacts of our proposals and any alternative approaches. Therefore, we ask you to comment on:

- the likely compliance costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Where possible, we are seeking both quantitative and qualitative information.

We are also keen to hear from you on any other issues you consider important.

Your comments will help us develop our policy on risk management systems of responsible entities. In particular, if we prepare a Regulation Impact Statement, we will take account of any information about compliance costs, impacts on competition and other impacts, costs and benefits: see Section D, 'Regulatory and financial impact'.

Making a submission

You may choose to remain anonymous or use an alias when making a submission. However, if you do remain anonymous we will not be able to contact you to discuss your submission should we need to.

Please note we will not treat your submission as confidential unless you specifically request that we treat the whole or part of it (such as any personal or financial information) as confidential.

Please refer to our privacy policy at www.asic.gov.au/privacy for more information about how we handle personal information, your rights to seek access to and correct personal information, and your right to complain about breaches of privacy by ASIC.

Comments should be sent by 1 September 2016 to:

Leanne Damary
Senior Lawyer, Investment Managers and Superannuation
Australian Securities and Investments Commission
Level 5, 100 Market Street
Sydney NSW 2000
email: leanne.damary@asic.gov.au

What will happen next?

Stage 1	21 July 2016	ASIC consultation paper released
Stage 2	1 September 2016	Comments due on the consultation paper
Stage 3	November 2016	Release of proposed regulatory guide

A Background to the proposals

Key points

As Australian financial services (AFS) licensees, responsible entities are required to comply with the obligation to have adequate risk management systems under s912A(1)(h) of the *Corporations Act 2001* (Corporations Act).

There is currently no detailed guidance on what is required for responsible entities to comply with this obligation.

In 2013 we consulted on proposed guidance in [Consultation Paper 204](#) *Risk management systems of responsible entities* (CP 204). However, we did not implement any of the proposals as we were awaiting the outcome of the 2014 Financial System Inquiry. We have decided to consult further on our proposed guidance, taking into account feedback we received in response to CP 204.

Note: See the 'Key terms' in the draft regulatory guide for a list of terms and definitions used in this paper.

Obligation to have adequate risk management systems

- 1 As AFS licensees, responsible entities have an ongoing obligation under s912A(1)(h) to have adequate risk management systems. This obligation also applies to responsible entities that are dual-regulated entities. A dual-regulated entity is a registrable superannuation entity (RSE) licensee that also operates schemes.
- 2 [Regulatory Guide 104](#) *Licensing: Meeting the general obligations* (RG 104) outlines general guidance for all AFS licensees (including responsible entities) about what we expect of them in meeting their risk management obligations.
- 3 There is, however, currently no detailed guidance for responsible entities on what is required to ensure their business and any schemes operated comply with s912A(1)(h).

Industry developments

- 4 Since the introduction of the requirement in s912A(1)(h), there have been a number of significant developments in the managed funds sector that highlight the importance having an adequate risk management system in place, including:
 - (a) an increase in the amount of assets managed in the managed funds sector. As at December 2015 the managed funds industry had \$2,649 billion in funds under management, compared to \$616.2 billion in December 2002;

- (b) growth in the number of schemes operated. There are now approximately 460 responsible entities and 3,642 registered schemes. In 2002, the number of registered schemes was approximately 1,806;
- (c) diversification in the size, complexity and nature of the types of schemes managed by responsible entities; and
- (d) a number of high-profile collapses of responsible entities. The significance of risk management was identified as an issue following the collapse of Trio Capital Limited in June 2010 and in subsequent inquiries.

5 There has also been the release of relevant international guidance and standards for risk management for responsible entities and expectations for the regime of the local regulator. For example, the International Organization of Securities Commissions (IOSCO) publications [Methodology for assessing implementation of the IOSCO Objectives and Principles of Securities Regulation](#) (PDF 667 kb) and [Principles of liquidity risk management for collective investment schemes: Final report](#) (PDF 231 kb).

ASIC review of risk management systems

6 In 2011–12, we reviewed a cross section of responsible entities to assess the adequacy, and strategic and operational effectiveness, of their risk management systems and how they specifically manage financial, investment and liquidity risks. Our findings were published in [Report 298 Adequacy of risk management systems of responsible entities](#) (REP 298).

7 In February 2015, we surveyed 118 responsible entities to examine the adequacy of risk management and disclosure practices in the current environment. The survey was a proactive response to increased volatility in global and domestic markets: see [Media Release \(15-020MR\) ASIC enquires into risk management by responsible entities](#) (13 February 2015).

8 Based on the above reviews, we identified that there were inconsistencies in the arrangements between various responsible entities, particularly smaller responsible entities, and improvements could be made to some responsible entities' arrangements.

Release of CP 204 and feedback received

9 In March 2013 we published CP 204, which sought feedback on proposals to introduce more targeted requirements for risk management systems of responsible entities. The proposals were to be imposed by way of guidance and a class order modifying s912A(1)(h).

Note: Class orders are legislative instruments made by ASIC. Legislative instruments made from 2015 are referred to as ASIC instruments.

- 10 As we were awaiting the outcome of the 2014 Financial System Inquiry, we did not implement any of the proposals outlined in CP 204.
- 11 Generally, respondents supported the need for specific guidance on the risk management systems of responsible entities. Feedback indicated that most of the proposed processes were already included in the existing risk management systems of most responsible entities, to varying degrees of sophistication.
- 12 The main concern raised by industry related to the proposed ASIC instrument. The feedback outlined that an instrument may be appropriate if it was necessary to modify the law and exempt responsible entities from the law (albeit on conditions), but it seemed unnecessary and not appropriate to use an instrument to record our guidance and expectations.
- 13 Other key issues raised include the need for:
- (a) responsible entities to have the flexibility to implement this guidance in a way appropriate to the nature, scale and complexity of their operations;
 - (b) the guidance to expressly recognise the ability of a responsible entity within a group of entities to leverage group compliance and risk frameworks;
 - (c) clarification of whether the requirements should also apply to unregistered schemes;
 - (d) alignment of the proposed requirements with those of the Australian Prudential Regulatory Authority (APRA); and
 - (e) a transitional period.

B Overview of the proposed guidance on risk management systems

Key points

Our proposed guidance is intended to provide flexibility for responsible entities to develop and maintain risk management systems that are appropriate for the nature, scale and complexity of their operations.

We have taken into account the feedback we received in response to CP 204. One of the key changes is that we do not propose to supplement the guidance with an ASIC instrument imposing more prescriptive requirements.

Our proposed guidance outlines that we expect responsible entities to have:

- overarching risk management systems in place;
- processes for identifying and assessing risks; and
- processes for managing risks.

Our proposed guidance to assist responsible entities

Proposal

- B1** We propose to release draft Regulatory Guide 000 *Risk management systems of responsible entities* (draft RG 000) to help responsible entities comply with their obligation under s912A(1)(h).

The guidance is for responsible entities and is also relevant to AFS licensees authorised to operate a scheme but not currently operating schemes, investor directed portfolio service (IDPS) and managed discretionary account (MDA) operators, and entities operating unregistered managed investment schemes.

Your feedback

- B1Q1** Overall, is the proposed guidance helpful?
- B1Q2** Is there an alternative approach to the guidance that you consider is more appropriate to help responsible entities comply with their obligation under s912A(1)(h)? If so, please provide details.

- B2** For a period of 12 months from the date of release of the guidance, we propose to take a constructive and conciliatory approach to any breaches if the responsible entity demonstrates they are taking steps to ensure compliance.

Your feedback

- B2Q1** Do you agree with our proposed 12-month interim approach to compliance? Please give reasons.

Rationale

- 14 In response to industry developments and our review of the existing risk management systems of responsible entities (as outlined at paragraphs 4–8), we consider that additional guidance is required to clarify for responsible entities what is expected to comply with s912A(1)(h).
- 15 We are seeking to ensure that the risk management systems of responsible entities:
- (a) include minimum procedures and practices;
 - (b) are adaptable to changing market conditions; and
 - (c) remain effective in identifying and managing risks on an ongoing basis.
- 16 The guidance is intended to provide flexibility for responsible entities to develop and maintain risk management systems that are appropriate for the nature, scale and complexity of their operations.
- 17 The proposed guidance takes into account feedback received on CP 204 and during our preliminary consultation on the proposals with a selection of responsible entities and industry bodies.
- 18 There is no transitional period proposed, as we consider that the expectations outlined in the guidance are not new but simply set out our view of the existing obligation under s912A(1)(h). However, we consider it appropriate to take a facilitative approach to compliance for the initial 12-month period, to assist those responsible entities working to bring their arrangements into compliance with the minimum standards.
- 19 We considered the following alternatives to the proposed guidance:
- (a) *Do nothing*—This approach would maintain the status quo and require industry to rely on the current limited guidance under RG 104. We consider that this approach does not provide sufficient clarity to responsible entities on their obligation under s912A(1)(h) and may result in inconsistencies in approaches by some responsible entities. Given the diversity of the managed funds sector, we consider it is also difficult for there to be industry-initiated guidance on risk management that would apply to and assist all responsible entities.
 - (b) *Release joint APRA–ASIC guidance*—This approach would assist dual-regulated entities. We do not consider that this approach is preferable, as the proposed guidance needs to apply to all responsible entities and address ASIC’s wider regulation of responsible entity conduct and risk management at both responsible entity and scheme level. We have, however, consulted with APRA in developing the proposed guidance.
 - (c) *Issue an ASIC instrument*—This approach would impose requirements as additional legislative obligations. Based on feedback from industry

(see paragraphs 21–22), we did not consider this approach was preferable. The introduction of prescriptive requirements would also impose significant compliance costs, particularly for smaller operators.

20 Given the advantages and disadvantages of the alternatives available, we consider the proposed guidance is the most suitable approach.

Key differences between the proposed guidance and CP 204

21 Based on feedback received from industry on CP 204, we are not proposing to supplement the guidance with an ASIC instrument imposing more prescriptive requirements. Risk management is an area where there are a number of ways that the requirements could be met, taking into account the nature, scale and complexity of the particular business and schemes operated. We consider flexibility is required to accommodate this and to enable responsible entities to respond to any changes in market conditions.

22 In addition, the introduction of prescriptive requirements would impose significant compliance costs, particularly for smaller operators, which we did not consider were proportionate to the regulatory benefit we would achieve.

23 Other key differences to the approach we outlined in CP 204 are:

- (a) adopting more consistency with the APRA requirements where appropriate;
- (b) including an expectation for a liquidity risk management process to be maintained;
- (c) clarifying that risks need to be managed by responsible entities at both the responsible entity level and the scheme level;
- (d) including references to international guidance where appropriate; and
- (e) providing some additional guidance in the regulatory guide on relevant risks and risk management strategies (e.g. cyber security, fraud risk and liquidity risk).

Preliminary feedback from industry

24 Our preliminary consultation with a selection of responsible entities and industry bodies on the proposed guidance indicated that responsible entities are generally already complying with most, if not all, of the proposed guidance. In light of this, we do not anticipate there to be significant additional costs associated with compliance with our proposed guidance. Smaller standalone responsible entities are anticipated to be the most affected and may incur some costs engaging expertise or embedding the arrangements.

- 25 Generally, industry were supportive of the release of additional guidance and acknowledged these changes have been anticipated for some time, given our previous releases in this area.

Overarching risk management systems

Proposal

- B3** We expect responsible entities to establish and maintain risk management systems with documented processes to identify, assess and manage risks.

We also expect responsible entities to:

- (a) foster a strong risk management culture;
- (b) consider relevant industry, local and international standards;
- (c) have a liquidity risk management process;
- (d) ensure the board or its delegate reviews whether the risk management system has been complied with, is operating effectively and remains current as frequently as appropriate, given the nature, scale and complexity of the business and schemes operated (at a minimum, annually); and
- (e) if relying on external service providers, maintain a strong understanding of risk management and have sufficient skills to independently monitor and assess the performance and ongoing suitability of the service provider.

See *draft RG 000.24–RG 000.58*.

Your feedback

- B3Q1 Do you agree with our proposed guidance? If not, please give reasons.
- B3Q2 To what extent do you already implement these risk management arrangements?
- B3Q3 Please provide details of any costs or benefits that may result from the proposed guidance. If possible, please quantify.

Rationale

Documented risk management systems

- 26 We consider that what is an ‘adequate risk management system’ for any responsible entity depends on the nature, scale and complexity of its business and the schemes it operates. We have outlined core processes that we consider are essential to an adequate risk management system in any responsible entity’s business at draft RG 000.29.

Risk management culture

- 27 The risk management culture of a responsible entity fundamentally affects the effectiveness of its risk management system. A strong risk management culture will encourage a responsible entity's staff to understand and comply with its risk management system.
- 28 We consider a strong risk management culture is driven from the top down. It is important for the board to demonstrate its commitment to risk management and fully embrace the value of risk management.
- 29 We expect that this includes reviews by the board or its delegate at appropriate intervals to ensure the system has been complied with, is operating effectively and remains current at appropriate intervals. At a minimum, we consider this should be undertaken annually.

Outsourcing

- 30 A responsible entity retains ultimate responsibility for the operation of the scheme. Accordingly, we expect that responsible entities that outsource the functions of establishing and monitoring their risk management system should have sufficient skills and exercise effective and robust oversight of the outsourced functions.

Relevant industry, local and international standards

- 31 We consider that there are other materials—such as relevant industry, local and international standards on risk management—that can help responsible entities develop and maintain their risk management systems.
- 32 At a minimum, we expect responsible entities to take into account guidance that exists for the key risk areas identified in the business and schemes operated.

Liquidity risk management process

- 33 We consider that liquidity risk is a key risk for responsible entities. To help manage this risk, we consider that responsible entities should include a liquidity risk management process as part of their risk management system. This process should include measures to ensure there are adequate financial resources to meet the financial obligations and needs of the responsible entity and schemes operated.

Identifying and assessing risks

Proposal

- B4** We expect responsible entities to:
- (a) have documented processes in place to identify and assess risks (including maintaining one or more risk registers);
 - (b) ensure that their risk management systems address all material risks at both the responsible entity and scheme level. These may include (but are not limited to) strategic risk, governance risk, operational risk, market and investment risk, and liquidity risk; and
 - (c) take into account the factors set out in draft RG 000.69–RG 000.82 when choosing processes for identifying and assessing risks.

See draft RG 000.69–RG 000.82.

Your feedback

B4Q1 Do you agree with our proposed guidance? If not, please give reasons.

B4Q2 To what extent do you already implement these risk management arrangements?

B4Q3 Please provide details of any costs or benefits that may result from the proposed guidance. If possible, please quantify.

Rationale

Maintaining risk registers

- 34 We consider that maintaining one or more risk registers that record risks to the business and scheme will help responsible entities ensure that all material risks are identified. There is flexibility for the responsible entity to select the format of the risk register(s) that is most suitable for the business and schemes operated.

Relevant risks and methodologies for identifying and assessing risks

- 35 Given the diverse nature, scale and complexity of responsible entities' operations, we do not consider it practical or possible to prescribe all relevant risks for responsible entities and what risk identification and assessment methods should be used. We have, however, outlined some relevant risks and factors that we consider responsible entities should consider: see draft RG 000.69–RG 000.82. These are not intended to be exhaustive.

Managing risks

Proposal

- B5** We expect responsible entities to have processes in place to manage risks, including:
- (a) appropriate strategies for managing each of the risks identified, including a control monitoring and assurance process;
 - (b) conducting stress testing and/or scenario analysis of liquidity risks of the business and schemes it operates as frequently as appropriate, given the nature, scale and complexity of the business and schemes operated (at a minimum, annually). If this is not conducted, we expect responsible entities to keep appropriate records of the reasons why and to review this decision regularly;
 - (c) regular reviews and monitoring of risks by experienced staff;
 - (d) regular reporting and escalation of issues to the board, risk committee and compliance committee as appropriate; and
 - (e) ensuring compliance with other relevant obligations as an AFS licensee.

See draft RG 000.84–RG 000.103.

Your feedback

- B5Q1** Do you agree with our proposed guidance? If not, please give reasons.
- B5Q2** To what extent do you already implement these risk management arrangements?
- B5Q3** Please provide details of any costs or benefits that may result from the proposed guidance. If possible, please quantify.

- B6** We propose to include in an appendix to draft RG 000 a summary of key risks that may be relevant to responsible entities, and examples of techniques that may help manage or mitigate those risks.

See the appendix to draft RG 000.

Your feedback

- B6Q1** Are there any additional risks or risk treatments that we should include in the draft appendix? If so, please provide details.

Rationale

Controls

- 36 We consider that controls and measures to manage risks are integral to the risk management system. It is also important for a responsible entity to implement a control monitoring and assurance process to ensure the controls are effective.

Stress testing and scenario analysis

- 37 We consider that regular stress testing and scenario analysis is an important strategy for responding to relevant risks. This is because stress testing and scenario analysis can allow responsible entities to assess how they will be affected and respond to different scenarios before they arise. We consider that liquidity risk is a key risk area where stress testing and scenario analysis should be conducted.
- 38 We consider that an appropriate interval for conducting and reviewing the framework for stress testing and scenario analysis for any given responsible entity will depend on the size, nature and complexity of its business and schemes operated. At a minimum, we consider this should be undertaken annually.

Monitoring and reporting

- 39 We consider processes for monitoring and reporting on risk management are essential for ensuring compliance and early identification and escalation of issues. This can increase the risk-related information available in the organisation to assist decision making and improve the risk management system.

Compliance with other key obligations

- 40 Many of the existing obligations for responsible entities as AFS licensees are also relevant to managing different types of material risks. Therefore, we have proposed that responsible entities incorporate measures into their risk management systems to ensure the entities also comply with these existing obligations.

Examples of risks and risks treatments

- 41 Based on our regulatory experience we have included in the draft appendix examples of risks and risk treatments. These examples are intended to help responsible entities establish and review their risk management processes. They are not intended to be exhaustive.

C Proposed good practice guidance

Key points

We are proposing to provide guidance on good practice measures responsible entities can adopt to enhance their risk management systems. The good practice guidance is not mandatory for responsible entities.

Good practice measures

Proposal

- c1 We propose to provide guidance that it is good practice for responsible entities to:
- (a) in establishing and maintaining risk management systems:
 - (i) conduct an independent review to determine whether the risk management systems have been complied with and are operating effectively (at least annually);
 - (ii) conduct a comprehensive independent review of the appropriateness, effectiveness and adequacy of the risk management system (at least every three years);
 - (iii) segregate functions to allow for independent checks and balances;
 - (iv) establish a designated risk management function and/or risk management committee;
 - (v) appoint a chief risk officer; and
 - (vi) publicly disclose appropriate details of the responsible entity's risk management system; and
 - (b) in identifying and assessing risks, use risk indicators and regularly report on these;
 - (c) in managing risks:
 - (i) conduct regular stress testing and scenario analysis of all material risks to the responsible entity's business and schemes it operates;
 - (ii) have a written plan for treating risks; and
 - (iii) include in the compliance plan procedures for ensuring that the key risks identified for the responsible entity and relevant scheme are managed on an ongoing basis.

See draft RG 000.59–RG 000.68, draft RG 000.83 and draft RG 000.104–RG 000.107.

Your feedback

- C1Q1 Do you agree with our proposed guidance on good practice measures? If not, please give reasons.

C1Q2 To what extent do you currently adopt the proposed good practice measures?

C1Q3 Are there any other good practice measures that should be included to help responsible entities enhance their risk management systems? If so, please provide details.

Rationale

- 42 We consider that the measures in proposal C1 will help responsible entities establish and maintain their risk management systems to achieve the maximum benefits. These measures reflect current good practice in the industry to manage potential conflicts of interest and ensure appropriate oversight of these systems.
- 43 The guidance on good practice measures is not mandatory. It is intended to help responsible entities improve their risk management systems to operate at a level above their statutory obligations.
- 44 We consider that responsible entities are best placed to identify whether these good practice measures are appropriate for their business.

D Regulatory and financial impact

- 45 In developing the proposals in this paper, we have carefully considered their regulatory and financial impact. On the information currently available to us we think they will strike an appropriate balance between:
- (a) providing additional clarity to responsible entities on what is required to comply with their obligation under s912A(1)(h), with sufficient flexibility to develop and maintain risk management systems that are appropriate for the nature, scale and complexity of their operations; and
 - (b) building retail investor and financial consumer confidence by mitigating exposure to relevant risks that responsible entities and their schemes confront.
- 46 Before settling on a final policy, we will comply with the Australian Government's regulatory impact analysis (RIA) requirements by:
- (a) considering all feasible options, including examining the likely impacts of the range of alternative options which could meet our policy objectives;
 - (b) if regulatory options are under consideration, notifying the Office of Best Practice Regulation (OBPR); and
 - (c) if our proposed option has more than minor or machinery impact on business or the not-for-profit sector, preparing a Regulation Impact Statement (RIS).
- 47 All RISs are submitted to the OBPR for approval before we make any final decision. Without an approved RIS, ASIC is unable to give relief or make any other form of regulation, including issuing a regulatory guide that contains regulation.
- 48 To ensure that we are in a position to properly complete any required RIS, please give us as much information as you can about our proposals or any alternative approaches, including:
- (a) the likely compliance costs;
 - (b) the likely effect on competition; and
 - (c) other impacts, costs and benefits.

See 'The consultation process', p. 4.

List of proposals and questions

Proposal	Your feedback
<p>B1 We propose to release draft Regulatory Guide 000 Risk management systems of responsible entities (draft RG 000) to help responsible entities comply with their obligation under s912A(1)(h).</p> <p>The guidance is for responsible entities and is also relevant to AFS licensees authorised to operate a scheme but not currently operating schemes, investor directed portfolio service (IDPS) and managed discretionary account (MDA) operators, and entities operating unregistered managed investment schemes.</p>	<p>B1Q1 Overall, is the proposed guidance helpful?</p> <p>B1Q2 Is there an alternative approach to the guidance that you consider is more appropriate to help responsible entities comply with their obligation under s912A(1)(h)? If so, please provide details.</p>
<p>B2 For a period of 12 months from the date of release of the guidance, we propose to take a constructive and conciliatory approach to any breaches if the responsible entity demonstrates they are taking steps to ensure compliance.</p>	<p>B2Q1 Do you agree with our proposed 12-month interim approach to compliance? Please give reasons.</p>
<p>B3 We expect responsible entities to establish and maintain risk management systems with documented processes to identify, assess and manage risks.</p> <p>We also expect responsible entities to:</p> <ul style="list-style-type: none"> (a) foster a strong risk management culture; (b) consider relevant industry, local and international standards; (c) have a liquidity risk management process; (d) ensure the board or its delegate reviews whether the risk management system has been complied with, is operating effectively and remains current as frequently as appropriate, given the nature, scale and complexity of the business and schemes operated (at a minimum, annually); and (e) if relying on external service providers, maintain a strong understanding of risk management and have sufficient skills to independently monitor and assess the performance and ongoing suitability of the service provider. <p>See draft RG 000.24–RG 000.58.</p>	<p>B3Q1 Do you agree with our proposed guidance? If not, please give reasons.</p> <p>B3Q2 To what extent do you already implement these risk management arrangements?</p> <p>B3Q3 Please provide details of any costs or benefits that may result from the proposed guidance. If possible, please quantify.</p>

Proposal	Your feedback
<p>B4 We expect responsible entities to:</p> <ul style="list-style-type: none"> (a) have documented processes in place to identify and assess risks (including maintaining one or more risk registers); (b) ensure that their risk management systems address all material risks at both the responsible entity and scheme level. These may include (but are not limited to) strategic risk, governance risk, operational risk, market and investment risk, and liquidity risk; and (c) take into account the factors set out in draft RG 000.69–RG 000.82 when choosing processes for identifying and assessing risks. <p>See draft RG 000.69–RG 000.82.</p>	<p>B4Q1 Do you agree with our proposed guidance? If not, please give reasons.</p> <p>B4Q2 To what extent do you already implement these risk management arrangements?</p> <p>B4Q3 Please provide details of any costs or benefits that may result from the proposed guidance. If possible, please quantify.</p>
<p>B5 We expect responsible entities to have processes in place to manage risks, including:</p> <ul style="list-style-type: none"> (a) appropriate strategies for managing each of the risks identified, including a control monitoring and assurance process; (b) conducting stress testing and/or scenario analysis of liquidity risks of the business and schemes it operates as frequently as appropriate, given the nature, scale and complexity of the business and schemes operated (at a minimum, annually). If this is not conducted, we expect responsible entities to keep appropriate records of the reasons why and to review this decision regularly; (c) regular reviews and monitoring of risks by experienced staff; (d) regular reporting and escalation of issues to the board, risk committee and compliance committee as appropriate; and (e) ensuring compliance with other relevant obligations as an AFS licensee. <p>See draft RG 000.84–RG 000.103.</p>	<p>B5Q1 Do you agree with our proposed guidance? If not, please give reasons.</p> <p>B5Q2 To what extent do you already implement these risk management arrangements?</p> <p>B5Q3 Please provide details of any costs or benefits that may result from the proposed guidance. If possible, please quantify.</p>
<p>B6 We propose to include in an appendix to draft RG 000 a summary of key risks that may be relevant to responsible entities, and examples of techniques that may help manage or mitigate those risks.</p> <p>See the appendix to draft RG 000.</p>	<p>B6Q1 Are there any additional risks or risk treatments that we should include in the draft appendix? If so, please provide details.</p>

Proposal	Your feedback
<p>C1 We propose to provide guidance that it is good practice for responsible entities to:</p> <p>(a) in establishing and maintaining risk management systems:</p> <ul style="list-style-type: none"> (i) conduct an independent review to determine whether the risk management systems have been complied with and are operating effectively (at least annually); (ii) conduct a comprehensive independent review of the appropriateness, effectiveness and adequacy of the risk management system (at least every three years); (iii) segregate functions to allow for independent checks and balances; (iv) establish a designated risk management function and/or risk management committee; (v) appoint a chief risk officer; and (vi) publicly disclose appropriate details of the responsible entity's risk management system; and <p>(b) in identifying and assessing risks, use risk indicators and regularly report on these;</p> <p>(c) in managing risks:</p> <ul style="list-style-type: none"> (i) conduct regular stress testing and scenario analysis of all material risks to the responsible entity's business and schemes it operates; (ii) have a written plan for treating risks; and (iii) include in the compliance plan procedures for ensuring that the key risks identified for the responsible entity and relevant scheme are managed on an ongoing basis. 	<p>C1Q1 Do you agree with our proposed guidance on good practice measures? If not, please give reasons.</p> <p>C1Q2 To what extent do you currently adopt the proposed good practice measures?</p> <p>C1Q3 Are there any other good practice measures that should be included to help responsible entities enhance their risk management systems? If so, please provide details.</p>
<p>See draft RG 000.59–RG 000.68, draft RG 000.83 and draft RG 000.104–RG 000.107.</p>	