

well as major changes to the framework. Management roles and accountability must be clearly established.

S 3. The board of directors and management must ensure that appropriate resources are allocated to support the operational risk framework.

The board is responsible for overseeing the establishment of the operational risk framework, but may delegate the responsibility for implementing the framework to management with the authority necessary to allow for its effective implementation. Other key responsibilities of the board include:

- Ensuring appropriate management responsibility, accountability and reporting;
- Understanding the major aspects of the institution's operational risk as a distinct risk category that should be managed;
- Reviewing periodic high-level reports on the institution's overall operational risk profile, which identify material risks and strategic implications for the institution;
- Overseeing significant changes to the operational risk framework; and
- Ensuring compliance with regulatory disclosure requirements.

Effective board and management oversight forms the cornerstone of an effective operational risk management process. The board and management have several broad responsibilities with respect to operational risk:

- To establish a framework for assessing operational risk exposure and identify the institution's tolerance for operational risk;
- To identify the senior managers who have the authority for managing operational risk;
- To monitor the institution's performance and overall operational risk profile, ensuring that it is maintained at prudent levels and is supported by adequate capital;
- To implement sound fundamental risk governance principles that facilitate the identification, measurement, monitoring, and control of operational risk;
- To devote adequate human and technical resources to operational risk management; and
- To institute remuneration policies that are consistent with the institution's appetite for risk and are sufficient to attract qualified operational risk management and staff.

Management should translate the operational risk management framework into specific policies, processes and procedures that can be implemented and verified within the institution's different business units.

Communication of these elements will be essential to the understanding and consistent treatment of operational risk across the institution. While each level of management is responsible for effectively implementing the policies and procedures within its purview, senior management should clearly assign authority, responsibilities, and reporting relationships to encourage and maintain this accountability and ensure that the necessary resources are available to manage operational risk. Moreover, management should assess the appropriateness of the operational risk management oversight process in light of the risks inherent in a business unit's activities. The testing and verification function is responsible for completing timely and comprehensive assessments of the effectiveness of implementation of the institution's operational risk framework at the line of business and firm-wide levels.

Management collectively is also responsible for ensuring that the institution has qualified staff and sufficient resources to carry out the operational risk functions outlined in the operational risk framework. Additionally, management must communicate operational risk issues to appropriate staff that may not be directly involved in its management. Key management responsibilities include ensuring that:

- Operational risk management activities are conducted by qualified staff with the necessary experience, technical capabilities and access to adequate resources;
- Sufficient resources have been allocated to operational risk management, in the business lines as well as the independent firm-wide operational risk management function and verification areas, so as to sufficiently monitor and enforce compliance with the institution's operational risk policy and procedures; and
- Operational risk issues are effectively communicated with staff responsible for managing credit, market and other risks, as well as those responsible for purchasing insurance and managing third-party outsourcing arrangements.

B. Independent Firm-Wide Risk Management Function

Supervisory Standards

S 4. The institution must have an independent operational risk management function that is responsible for overseeing the operational risk framework at the firm level to ensure the development and consistent

application of operational risk policies, processes, and procedures throughout the institution.

S 5. The firm-wide operational risk management function must ensure appropriate reporting of operational risk exposures and loss data to the board of directors and senior management.

The institution must have an independent firm-wide operational risk management function. The roles and responsibilities of the function will vary between institutions, but must be clearly documented. The independent firm-wide operational risk function should have organizational stature commensurate with the institution's operational risk profile, while remaining independent of the lines of business and the testing and verification function. At a minimum, the institution's independent firm-wide operational risk management function should ensure the development of policies, processes, and procedures that explicitly manage operational risk as a distinct risk to the institution's safety and soundness. These policies, processes and procedures should include principles for how operational risk is to be identified, measured, monitored, and controlled across the organization. Additionally, they should provide for the collection of the data needed to calculate the institution's operational risk exposure.

Additional responsibilities of the independent firm-wide operational risk management function include:

- Assisting in the implementation of the overall firm-wide operational risk framework;
- Reviewing the institution's progress towards stated operational risk objectives, goals and risk tolerances;
- Periodically reviewing the institution's operational risk framework to consider the loss experience, effects of external market changes, other environmental factors, and the potential for new or changing operational risks associated with new products, activities or systems. This review process should include an assessment of industry best practices for the institution's activities, systems and processes;
- Reviewing and analyzing operational risk data and reports; and
- Ensuring appropriate reporting to senior management and the board.

C. Line of Business Management

Supervisory Standards

S 6. Line of business management is responsible for the day-to-day management of operational risk within each business unit.

S 7. Line of business management must ensure that internal controls and