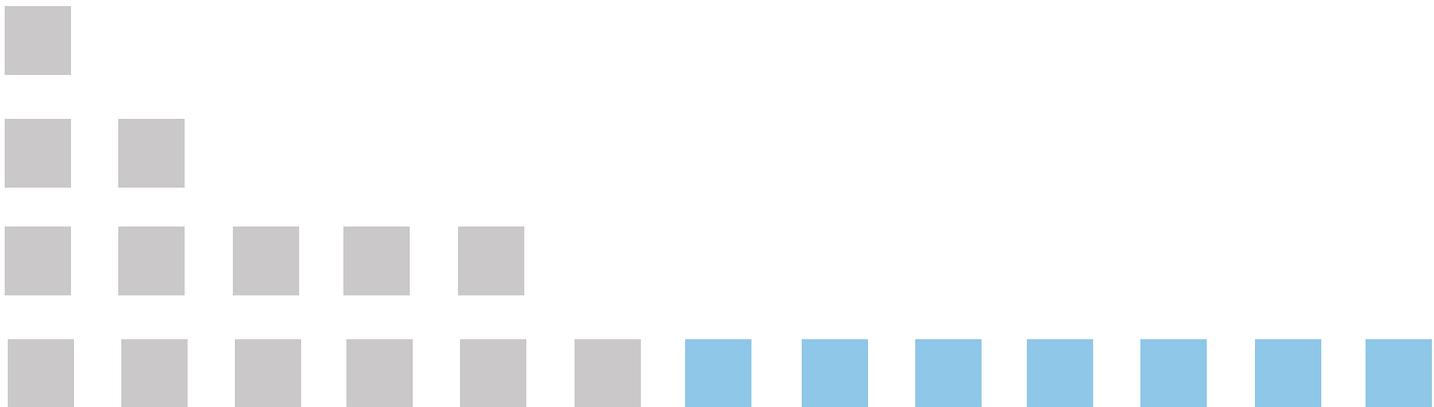


GFSC's Risk Appetite Statements

July 2019

V2



Introduction

The GFSC continues its commitment to develop and mature its 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 with a focus on how best to support the safe growth of the jurisdiction.

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 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 firms, individuals and other stakeholders better understand our regulatory approach and actions taken.

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 GFSC Board, GFSC Audit and Risk Committee and other stakeholders that risks to objectives are being managed within agreed levels and will help 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 firms 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 and/or the stability of the local market. We do however retain a low appetite for the disorderly wind-down of a firm or the insolvency of domestic systemically significant firms¹.*

The GFSC has **no appetite** for:

- *organisations with poor and/or ineffective governance arrangements;*
- *poor management, or abuse, of conflicts of interest;*
- *deliberate, reckless or complacent behaviour that leads to, or facilitates, criminal acts;*
- *deliberate, reckless or complacent behaviour that negatively affect customers of a regulated firm (regardless of where they are located);*
- *deliberate, reckless or complacent behaviour that jeopardises the achievement of the GFSC's regulatory objectives;*
- *individuals who are not fit and proper holding influential positions within regulated firms;*
- *regulated firms or individuals with a lack of regard for the GFSC's regulatory objectives;*
- *breaches of confidential or sensitive data, dishonest or misleading information, or a lack of integrity;*
- *regulated firms or individuals who put their own interests ahead of customers and the reputation of Gibraltar;*
- *unfair treatment of customers;*
- *regulated firms or individuals that jeopardise client assets and monies;*
- *regulated firms who take a short-term approach without considering or containing the long-term risks (i.e. short-termism);*
- *attempts to bully, bribe or cajole the regulator;*
- *failure to co-operate and be open with the GFSC.*

¹ *In determining if a firm is systemically important, the GFSC will take into account factors such as the size, interconnectedness, substitutability and impact to customers and other stakeholders*

The GFSC **has an appetite** for:

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

The GFSC will act within its powers and wider legal framework, but accepts the possibility of legal challenge from regulated firms, individuals or any other stakeholder, if deemed necessary to further its regulatory objectives.

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

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