



Monetary Authority of Singapore

OBJECTIVES AND SCOPE

February 2006

1 These guidelines aim to provide financial institutions supervised by MAS with guidance on sound risk management practices. They cover credit risk, market risk, internal controls and the role of an institution's Board of Directors (Board) and senior management.

2 The guidelines call attention to four cornerstones of effective risk management and sound internal controls. These are:

- (i) the role of the Board in its oversight of risk management policies and their implementation;
- (ii) the role of senior management in ensuring that sound policies, effective procedures and robust systems are in place;
- (iii) the presence of sound risk management processes and operating procedures that integrate prudent risk limits with appropriate risk measurement, monitoring and reporting;
- (iv) the presence of competent personnel in the risk management, control and audit functions.

3 The practices articulated in these guidelines are not intended to be exhaustive, nor do they prescribe a uniform set of risk management requirements for all institutions. The sophistication of processes, systems and internal controls for risk management is expected to vary according to the nature, size and complexity of the business activities of an institution. Nevertheless, these guidelines should have broad applicability as there is a high degree of commonality in the risk management challenges faced by financial institutions operating in an environment of global interdependencies.

4 While these guidelines are organised by risk type, it is important to note that these risk types, as well as the risks arising from lapses of internal controls, are often inter-related. Different risk types can be manifested concurrently. Such a confluence of risks is particularly pronounced in stress

situations and systemic events. An institution should therefore consider the potential inter-linkages of risk types in its risk management approach.

5 Financial institutions are encouraged to establish a comprehensive risk management framework and adopt the sound practices recommended in these guidelines. These guidelines would be reviewed on a periodic basis to ensure their relevance.