

# Comparative Analysis of Risk Management and Risk Disclosure in the Banking Sector

## Italian vs. World Practices

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### Abstract

The paper – that is a part of a bigger project - is based on the assumption of an important relationship between risk management principles and procedures, corporate governance and accounting. Its aim is to evaluate what are, at this stage, the theoretical approaches and the practical solutions adopted by the companies to manage the risks and to disclosure to stakeholders qualitative and quantitative elements referring to this aspect and necessary to evaluate the company profile. The paper examines the 2010 Consolidated Annual Reports of a sample of 25 Italian and worldwide listed banks on two main topics: (i) the quality of disclosure on *Internal Organization Process Risk* in terms of correspondence to the international best practice framework as stated in CoSo reports, (ii) the instruments adopted in the *Risk Management Process* to assess corporate exposure to market risk, focusing on Interest Rate risk, Price risk and Currency risk<sup>1</sup>.

**Keywords:** IFRS 7, Risk Disclosure, Risk Management, ERM, Banks

### Introduction

Since 2005, over 7,000 listed firms in the European Union and many more around the world are required to adopt International Financial Reporting Standards (IFRS). The introduction of a uniform accounting regime is expected to ensure greater comparability and transparency of financial reporting around the world. However, recent research has questioned the quality of financial statements prepared under IFRS standards, particularly in the presence of weak enforcement mechanisms and adverse reporting incentives (Ball et al., 2003).

In this context, the relation between risk management, corporate governance and accounting risk disclosure has significantly grown, especially in the banking system (Bhimani, 2009; Power, 2009; Harney, 2010). This importance was recently highlighted by the financial crisis in 2008 that has shown the “*weakness*” of some corporate governance and risk management principles and of some accounting standards (OECD, 2009).

The relationship between accounting, corporate governance and risk management principles is the subject of this paper. In particular, the paper examines the level of compliance of risk management disclosure policies - so that, risk exposure, risk evaluation and risks hedging

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policies – adopted by a sample of listed companies to IFRS 7 issued in 2007 in order to assess if accounting principles requirements are considered and transparently reflected in the Notes of Annual Report and related disclosure (i.e., risk reports). In particular, the research is focused on disclosure for market risks exposure and risk management process in terms of objectives, policies and internal organization.

After a brief review of the literature and a short discussion of the theoretical approach, the study analyzes the banking sector data, comparing a sample of Italian listed banks with a sample of the largest world banks. The analysis follows two-step logic. The first step includes a selection of more representative Italian listed banks and provides analysis on the following aspects: (i) details on internal organizational structure in order to manage market risk exposure, as defined by each bank in its annual accounts; (ii) information about policies and tools adopted to assess and manage market risk exposure, considering compliance with specific requirements stated in IAS/IFRS principles. In the second step additional banks considered representative of the best practices in organizational processes and tools used in market risk and compliance to disclosure requirements were selected from among the world's twenty-five largest banks. Nationality was varied as much as possible. The analysis has been extended to answer to following research questions:

- Are accounting and non-accounting standards requirements (IAS/IFRS, SFAS, CoSo Report discussed and other accounting practices) sufficiently standardized and homogeneous in the banking sector to permit a good level of knowledge of structures, objectives and policies adapted to manage risk?
- Can the risk management process - in terms of functions of the internal organization involved, specific instruments adopted and parameters used in calculating risk exposure and evaluation - be considered "globalized"?
- How much do both previous items impact management and policies adopted by banks referring to market risk?

## **Literature Review**

Many academic contributions have recently focused on the relation between risk management, finance, corporate governance and accounting and on their techniques. In particular, some papers have analyzed, from a theoretical point of view, the relation between accounting and finance (Pope, 2010) and accounting and risk management (Bhimani, 2009, Power, 2009; Harney, 2010); some authors have estimated, from a quantitative point of view, the relation between accounting and the measurement of risks (Carey, 1995; Anderson and Fraser, 2000; Agusman, Monroe, Gasbarro, and Zumwalt, 2008; Behr, Schmidt and Xie, 2010); while others have examined the link between incentives for risk reporting and discretionary disclosure (Dobler, 2008). Risk management is also connected to the theme of sustainability (Krysiac, 2009). In recent years, the relationship between risk management, corporate governance and accounting has also been analyzed by local and international supervisory authorities, by international bodies and by groups of experts who try to find the “best” framework in which to define risk management objectives and policies and their reporting in internal documents and in financial statements. Important points of reference are the OECD Principles of Corporate Governance (2004), Enterprise Risk Management Principles defined by CoSo (2004) and subsequent guides such as Developing Key Risk Indicators to Strengthen Risk Management (2010), the AIRMIC papers (2008, 2010) and some IASB and FASB accounting principles in which information about risk evaluation and solutions are required.

## Risk management Function, Policies and Disclosure Rules

As AIRMIC affirms in its 2010 Report “*the risk architecture needs to be clearly defined, regardless of the risk maturity or expectations that the company has for risk management. The nature of the risk architecture should be relevant to the risk profile of the company*” (AIRMIC, 2010, p. 2). As it has been previously underlined, the companies have a lot of theoretical and empirical solutions to define the risk architecture and the choice applied has a great influence on the way in which the risk is assessed, managed and reported. This is an internal choice of the company that is related to the size, the internal organization model, the market in which the company acts and the environment (laws, accounting standards, products, clients, competitors, etc.).

The disclosure of risk management exposures, strategies, policies and the effects that the choices made produce on the “profile” of the company impacts all stakeholders and may have an important role in the company evaluation by market investors. Because of this, both IASB, FASB and other standard setters and supervisory authorities have shown a great interest in disclosure requirements regarding risk management. The requirements are often qualitative and quantitative and, combining both information perspectives, it would be possible to have a clear knowledge of the risk management approach followed by the companies (*Managerial Risk*) and of the effects on the present and future cash flows (*Organizational Risk*). As an example of the qualitative information required, par. 33 of IFRS 7 states that “*for each type of risk arising from financial instruments, an entity shall disclose:*

- (a) *The exposure to risks and how they arise;*
- (b) *Its objectives, policies and processes for managing the risks and the methods used to measure the risk; and*
- (c) *Any changes in (a) or (b) from the previous period”.*

## Research Methodology and Data

For the purposes of the research, a sample of banks adopting different accounting principles has been observed. The next paragraphs provide the frameworks used to deal with research questions previously stated, the methodology adopted in the analysis, the sample observed, and main data recorded and organised in tables.

In order to underline differences in practices adopted, cross-sectional analysis has been conducted for a comparison. Companies’ Risk Reports, included in their Annual Reports, have been analysed. The analysis has been focused on 2010 Consolidated Annual Reports and 2011 Quarterly Reports of a wide sample of Italian and World listed banks. Sections below provide focus and objectives of research, with evidence of main research questions, methodology adopted and the sample of research.

### Focus of research

The main objective of the paper is to measure the degree and the completeness of risk disclosure using IFRS 7 as a proxy for best practices. We provide analysis of the information released in Annual Reports distinguishing risk management *approaches* adopted by a single bank, the *deepness* of disclosure provided on risk management processes, and the *size and position* of risk disclosure in the annual reports in order to evaluate the degree of transparency of the disclosure provided by the full sample. That being stated, the topics of analysis paper can be summarized as follows:

- The *quality of disclosure on internal organization process risk* in terms of correspondence to the international best practice framework as stated in the CoSo report,
- The *instruments adopted in the risk management process* as stated in IFRS 7 in order to control for corporate exposure to market risk, focusing on interest rate risk, price risk and currency risk,
- The *impact of previous items on management and policies* adopted by banks referring to market risk.

The Committee of Sponsoring Organizations of the Treadway Commission's (CoSo) “*Enterprise Risk Management (ERM) – Integrated Framework*” is a model for reviewing and assessing the quality of internal control systems and risk management processes. According to CoSo, the ERM framework facilitates three main classes of objectives:

- *Operations* objectives: efficient and effective operations;
- *Financial reporting* objectives: reliable financial and non-financial reporting; and
- *Compliance* objectives: compliance with internal procedures and external laws and regulations.

The following figure (Figure 1) summarizes the CoSo framework.

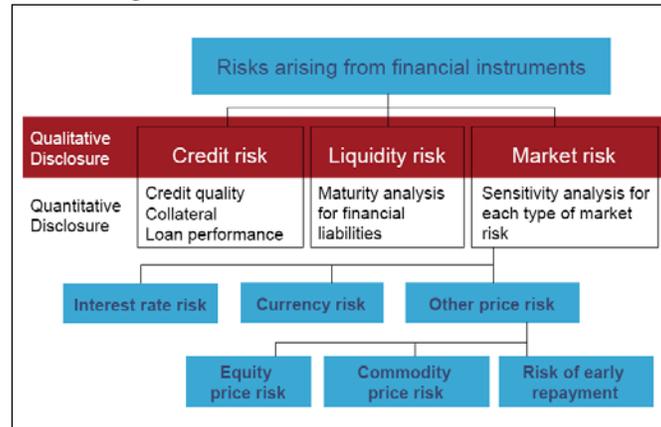
**Figure 1 – Updated CoSo Cube, Dec. 2011**



CoSo (2011), *Draft Update to Internal Control - Integrated Framework*, available on <http://www.coso.org/documents>

IFRS asks for disclosure of a wide range of “*risks arising from financial instruments*”. The following figure (Figure 2) shows the risk disclosure framework as stated in IFRS 7 referring to market risk:

**Figure 2 – IFRS 7, Risk Framework**



Redaelli L. (2007), *La prima applicazione del principio contabile IFRS 7*, PWC Conference Proceedings, Milano, 29 November.

### Main research questions

The main research questions, as stated in paragraph 1, are the following:

- Are accounting and non-accounting standards requirements (IAS/IFRS, SFAS, CoSo Report discussed and other accounting practices) sufficiently standardized and homogeneous in the banking sector to permit a good level of knowledge of structures, objectives and policies adopted to manage risk?
- Can the risk management process - in terms of functions of the internal organization involved, specific instruments adopted and parameters used in calculating risk exposure and evaluation - be considered "globalized"?
- How much do both previous items impact management and policies adopted by banks referring to market risk?

### Methodology and sample

A content analysis methodology has been adopted in this research. This is a transparent and flexible method that can also be used for both qualitative and quantitative studies and allows comparative analysis between samples. In particular, this paper analyzes the content of consolidated annual financial reports adopting a replication logic (Eisenhardt, 1989), which allows each "analytic unit" observed to be considered as a "new experiment" useful to extend emerging theory (Yin, 1984).

We have used data from 2010 Consolidated Annual Reports and 2011 Quarterly Reports from a sample of 25 listed banks. We selected banks from the Italian market (17) and foreign markets (8) to compare disclosure. The sample banks were selected taking into account two main parameters.

First, the substantial absence of relevant control between companies in terms of level of *autonomy in the governance process*. Even if some banks included in the sample are linked with crossing participation in share capital, each bank can be considered as a single market player relative to the others.

Second, we selected a sample of banks with a wide range of financial services. All but two were involved primarily in the core business of financial intermediation, such as *lending activity to public and private sectors*. Two banks (Mediobanca and Banca Finnat) were included

because of their growing presence in the specific operating area and their “political weight” in the Italian banking sector. Nevertheless, most of the Total Assets of banks included in the sample is invested in lending activity. For the World sample we chose 8 top listed banks included in the FT Global 500 list, released in March 2011, considering 8 different countries.

The following table provides the whole sample investigated, ranked by Total Assets as of 31 March 2011, as stated in FT Global 500. Because of size, some Italian banks were not included in the list mentioned. The value of total assets expressed in dollars has been calculated using the Euro/US Dollar exchange rate at a specific date multiplied by the value released in reports by each company. The sample observed is reported in the following table (Table 1).

**Table 1 – Banks Total Assets (Value in US\$ Million and % on full sample)**

<b>Country</b>	<b>Bank</b>	<b>Total Asset (31 March 2011)</b>	<b>Total Asset (in %)</b>
FRA	BNP Paribas	2.662.542	15.71%
UK	HSBC	2.459.130	14.51%
JAP	Mitsubishi UFG Financial	2.177.027	12.84%
USA	JP Morgan Chase	2.117.605	12.49%
CHI	ICBC	2.042.094	12.05%
SWI	UBS	1.400.109	8.26%
ITA	Unicredit	1.244.296	7.34%
ITA	Banca Intesa-San paolo	881.384	5.20%
BRA	Banco Brasil	488.791	2.88%
ITA	Banca Monte dei Paschi	329.781	1.95%
RUS	Sberbank	282.191	1.66%
ITA	Banco Popolare	193.371	1.14%
ITA	Unione di Banche Italiane	188.581	1.11%
ITA	Mediobanca	87.118	0.51%
ITA	Banca Popolare dell'Emilia Romagna	84.208	0.50%
ITA	Banca Popolare di Milano	78.931	0.47%
ITA	Cassa di Risparmio di Genova	57.436	0.34%
ITA	Credito Emiliano	40.700	0.24%
ITA	Credito Valtellinese	38.741	0.23%
ITA	Banca Popolare di Sondrio	37.793	0.22%
ITA	Banco di Sardegna	19.655	0.12%
ITA	Banca Popolare dell'Etruria e del Lazio	15.314	0.09%
ITA	Credito Artigiano	13.303	0.08%
ITA	Banco Desio e della Brianza	11.719	0.07%
ITA	Banca Finnat	686	0.00%
		<b>16.952.506</b>	<b>100.00%</b>

In order to better evaluate the results obtained, the following elements must be considered:

- Different accounting rules between countries – distinguishing EU countries, the U.S.A., China, Japan
- which can lead to different levels and quality of information provided on specific aspects;

- Supervisory rules are not considered in the analysis at this stage, however different choices of supervisory authorities may have relevant effects on the level and quality provided in financial statements relating to market risk information;
- Principles established by the CoSo guide and ERM model principles, although they do not constitute the only model of risk management, are considered representative of best practices and are therefore an important reference for the paper;
- Absence of a standardized form for Notes of Annual Consolidated Reports and, consequently, the non-uniformity of the information provided by the whole sample.

## Methodology and sample

The main results of the research at this stage may be summarized as follows. As it has been underlined, a lot of approaches are possible from a theoretical point of view because a lot of them are described in the literature. The first question refers to the risk management model practically adopted by the companies in the sample. The “name” of the models, that the companies shown in the Notes, are the following:

**Table 2 – Disclosure on Risk Management Theoretical Models**

	<b>Italy</b>	<b>World</b>
Integrated Model	11.80%	12.50%
Holistic Model	0.00%	12.50%
Risk Appetite Model	11.80%	37.50%
Dualistic Model	5.90%	0.00%
Risk Tolerance Model	5.90%	0.00%
Not disclosed	64.60%	37.50%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Percentages in the table have been calculated breaking up the number of observations, each indicating the adoption of a particular model as reported in the Annual Report, to the number of the Italian sample (column *Italy*) and World sample (column *World*). For instance, the percentage of Italian banks adopting an Integrated model for the risk management process, that is 11.80%, is obtained dividing the number of Italian banks that disclose on adopting *that* specific model (number of observations: 2) to the full sample of Italian banks (number of observations: 17).

It must be noted that some “name” adopted to indicate a specific risk management model disclosed in Annual Report, and presented in the table above, may hide the same substance. For instance, analyzing the Notes to Financial Statements, it is frequently that, even if a specific name of risk management model adopted in the company is disclosed, the conceptual building blocks of each model is not clearly describe. So that, disclosure on model adopted rather than another one to manage risk exposure can be very similar even in presence of qualitative different model.

Nevertheless, further aggregations are not allowed considering information reported in risk disclosure provided.

Table 2 above highlights the important differences between Italian and international practices in reporting. In terms of completeness of information, Italian sample practices are still far from standards adopted in the international context.

Two main results can be underlined: (i) roughly 35% of Italian banks disclose useful information to understand risk management model adopted in 2010; (ii) just two model, *Integrated Model* and *Risk Appetite Model*, appear quite widespread, common and applied (both recording a 11.80% of application), while others models - such as *Holistic Model*, *Dualistic Model* and *Risk Tolerance Model* - seem not to be considered much (0.00% for the former one, 5.90% for latter models both).

Observing World sample, results are quite different: the *Integrated Model* has been reported with same frequency as in the Italian bank sample (12.50% versus 11.80%). Nevertheless, the model most adopted worldwide in banks is the *Risk Appetite Framework* (observed with a frequency of 37.50%), followed by the *Holistic Model* (in 12.50% of cases), never reported in the Italian sample.

Considering the corporate function as described in the financial statements examined, the following exhibit (Table 3) shows the main results.

**Table 3 - Disclosure on Corporate functions participating in Risk Management process**

	Italy	World
	Yes	Yes
Strategic Planning	100.00%	100.00%
Consultative	70.60%	87.50%
Reporting and Monitoring	88.20%	75.00%
Asset Liability Management	35.30%	37.50%
Internal Audit	47.10%	62.50%
Legal & Compliance	35.30%	50.00%
Anti-Money Laundering	5.90%	0.00%
Treasury & Capital Manag.	11.80%	12.50%

It is noteworthy that most Italian banks broadly describe the structures involved in managing risk exposure and the key objectives, even if they don't sufficiently disclose the theoretical model adopted (as shown in Table 2).

The relationships between corporate functions such as *Legal & Compliance*, *Internal Audit* and *Risk Management*, defined in most cases by the managing body, must be carefully analyzed to avoid overlap and to ensure the independence of each function.

It should be noted that the subdivision of the areas of competence of each function, although always feasible in theory, can be much less feasible in practice and could give rise to overlapping of duties and checks. If this were to occur, the overall set out controls, rather than making the company more aware at the time of their strategic and business decisions, would lead to an excess of information which would not facilitate the decision-making process, and also create a more costly overall system that would not be fully effective and efficient. Therefore, it seems to be necessary to manage possible areas of overlap, as well as collaboration between the various functions, while continuing to ensure their mutual independence. Such collaboration is necessary to prevent matters subject to controls by more than one person - each having own target, own information and own control - giving rise to partial results for each function to be assembled by the managing body.

The following tables examine the model in which risk management strategies and policies are defined. It can be easily seen from Table 4 that in the sample analyzed, the strategic guidelines relating to risk management are generally defined by the Board of Directors.

**Table 4 - Disclosure on Strategic Function Assignment to Board of Directors**

	<b>Italy</b>	<b>World</b>
Holding	88.20%	75.00%
Subsidiaries	11.80%	25.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Looking at the Italian banks sample, the definition of guidelines for the Risk Management process is a *Strategic Function* assigned to the Board of Directors of the Holding company (88.20%); this solution provides groups with strategic lines referring to the same kinds of risks. Considering the World sample, this percentage is much lower (75.00%) showing a more decentralized assignment of this particular strategic function in the organizational structure.

Evidences in Table 4 have to be read pair wise with Table 5. Italian banks' organizational structures are highly centralized in 58.80% of the cases observed and have a low centralization in 23.50%. It's interesting to note that 17.70% of banks observed do *not* disclose their level of centralization of the risk management process. The World banks sample shows a situation completely reversed: the parent company tends to decentralize the strategic role, giving powers to the Boards of Subsidiaries belonging to the group (62.50%).

**Table 5 - Disclosure on Level of Centralization of Risk Management Process**

	<b>Italy</b>	<b>World</b>
High	58.80%	12.50%
Low	23.50%	62.50%
Not disclosed	17.70%	25.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

As shown in Table 6, the *Monitoring and Reporting Function* for the measurement and control of market risk exposure for Italian banks is performed by two different internal structures, each one related to a specific area of governance process: *Risk Management Area*, in charge of periodical measurements of risk indicators and control limits set by steering committees, and *Accounting Area*, responsible for preparing the Annual Report. Considering the World sample, the Accounting Area seems not to be involved in the monitoring and reporting function (0.00%), while the Risk Management Area is hardily supportive in the measurement activity and risk control (75.00%).

**Table 6 – Disclosure on Monitoring and Reporting Function**

	<b>Italy</b>	<b>World</b>
Risk Management Area	88.20%	75.00%
Accounting Area	11.00%	0.00%
<b>Total</b>	<b>99.20%</b>	<b>75.00%</b>

Specific strategies and policies adopted in order to manage and report for market risks are not always identified. Evidence underlines that the level of qualitative information varies depending on risk type: more information is provided regarding price risk, limited data is provided regarding currency risk. Since all banks adopt the *Var Model* for risk exposure evaluation, information on specific parameters adopted is often given, as shown in Table 7.

**Table 7- Disclosure on VaR Model Parameters**

	<b>Italy</b>	<b>World</b>
<b><i>VaR Information</i></b>		
Confidence Interval	88.20%	100.00%
Holding Period	87.50%	87.50%
<b><i>Monitoring frequency</i></b>		
Daily	70.60%	62.50%
Monthly	5.90%	12.50%
<b><i>Not disclosed</i></b>	<b>23.50%</b>	<b>25.00%</b>

Banks seems to be quite aligned in regard to parameters adopted for calculating risk exposure. This is particularly evident looking at the percentage of Confidence Interval adopted provided for *VaR Information*, showing a percentage close to 90% for Italian sample banks and 100% for world sample banks.

Greater differences can be found looking at *Monitoring Frequency*. It is more concentrated on a daily basis for the Italian sample than the world sample. Similar results are shown related to percentage of banks not disclosing on this particular topic, both samples are close to 25%.

### **Conclusion and future research**

The following conclusions emerge from the analysis of the full sample:

- *Theoretical approaches adopted in risk management*: it is interesting to note that different approaches to risk management are used: a Traditional ERM, a Holistic Approach and an Integrated Approach.
- *Level of disclosure on management process*: when the management process is built on more than one level - from the definition of the firm's overall Risk Appetite Framework (Upper Level) to the definition of risk appetite for a single business line, to the accountability of all officers in managing risks within the scope of their assigned responsibilities (Lower Level) – it is also well disclosed in the Annual Report; in terms

of autonomy in risk management of single subsidiaries, some cases show delegated power to a local CFO (Chief Financial Officer) exists for each subsidiary.

- *Presence and “position” of risk disclosure in the Annual Report:* a risk disclosure is always present. Nevertheless, it can be presented as an integrated part of the Notes, or as a part of the Board Report or as a separate and autonomous document. This difference is not relevant if all public documents are publicly certified; it can be considered relevant if only a portion of these documents are certified. It is also important to distinguish between voluntary and mandatory disclosure. In some cases these aspects are very clear: each paragraph states whether the content is revised or not, or if it is compulsory or not.
- *Form of the risk report and structure of information disclosed:* form and type of structure adopted to disclose information on risk profile varies significantly, therefore it is not easy to compare the level of disclosure;
- *Transparency level of qualitative and quantitative disclosure:* in most cases the qualitative information can be easily found, presenting a wording clear and understandable; alternatively, from stakeholders perspective, quantitative information is often too technical, releasing information affected by low transparency about financial risk exposure.
- *Impact of supervisory rules and accordance with Basel Pillar 2:* in some cases the impact of supervisory rules seems to be highly important. It is noteworthy that in some banks Basel Pillar 2 prescriptions are applied, even if not compulsory.

In summary, from the sample analysis it is possible to affirm that a level of globalization and standardization of information for risk exposure and evaluation exists and it is quite high.

Risk disclosure is always present in financial statements even if the form for presentation to stakeholders and the depth of information may vary significantly among banks. In general, disclosure related to decisional structures, objectives and policies adopted to manage the risk exists, even if information disclosed seems to be sometimes too technical and too difficult to be widely understood: identifying specific implications of policies and strategies adopted by each company is often not easy because a lack of consequences of main assumptions exists.

Some considerations emerge comparing sub-sample, “Italian banks” versus “World banks”:

- In general, no relevant differences exist in the corporate functions participating in Risk Management processes, except for the role of specific internal organization functions - as Internal Audit and Consultative and Legal Staff - in the sub-sample “World banks” this seems to be more relevant than in the sub-sample “Italian banks”.
- The degree of centralization of Risk Management processes in the banking sector seems to be higher in Italy than in the rest of the world. A possible reason may be the low number of big banks in Italy, so that decisions on main objectives and specific strategies are made by the Board of Directors.
- From an operating point of view, some differences exist in terms of specific parameters and assumptions adopted in each risk management model and also in frequency of monitoring. VaR details and related confidence intervals are presented in 100% of the sub-sample “World banks” versus a lower percentage of 88% in the sub-sample “Italian banks”. In contrast, frequency of monitoring activity is higher in Italy.

In summary, even if IFRS 7 generally improved risk disclosure in the banking sector, the results of the research at this stage do not show clear evidence of a superior level of disclosure

compared with other accounting principles applied, so that US-GAAP or Local GAAP. It is possible to affirm that a high level of standardization exists, both considering the principles and objectives inspiring accounting principles on risk disclosure and instruments adopted to manage risk exposure, and that it is going to improve over time. At the same time, a low level of standardization is evident if internal processes and functions involved in risk management are considered.

Taking into consideration initial results achieved in this research, future issues should be addressed by:

- Defining a more synthetic and structured disclosure framework to provide in Annual Reports, useful for both investors and stakeholders, and avoiding excess of information.
- Defining a set of disclosure rules that permits release of more in depth information on internal organizational functions in terms of specific duties, responsibilities and competences related to risk management process.
- Observing whether a convergence over time toward some specific models for the quantification of risk exposure exists, in particular for information on assumptions and parameters underlying the models adopted, which are too often not sufficiently clear.
- Providing a deeper and comparative analysis of specific rules issued by the Supervisory Authorities of each country on organizational structures to improve internal processes for risk management.

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# Comparative Analysis of Risk Management and Risk Disclosure in the Banking Sector

## Italian vs. World Practices

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### Abstract

The paper – that is a part of a bigger project - is based on the assumption of an important relationship between risk management principles and procedures, corporate governance and accounting. Its aim is to evaluate what are, at this stage, the theoretical approaches and the practical solutions adopted by the companies to manage the risks and to disclosure to stakeholders qualitative and quantitative elements referring to this aspect and necessary to evaluate the company profile. The paper examines the 2010 Consolidated Annual Reports of a sample of 25 Italian and worldwide listed banks on two main topics: (i) the quality of disclosure on *Internal Organization Process Risk* in terms of correspondence to the international best practice framework as stated in CoSo reports, (ii) the instruments adopted in the *Risk Management Process* to assess corporate exposure to market risk, focusing on Interest Rate risk, Price risk and Currency risk.

**Keywords:** IFRS 7, Risk Disclosure, Risk Management, ERM, Banks

French version\*

Comparative Analysis of Risk Management and Risk Disclosure in the Banking Sector: Italian vs. World Practices

# Analyse comparative de la gestion et de la divulgation des risques dans le secteur bancaire: Pratiques italiennes versus Mondiales

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## Résumé

Cette contribution - qui fait partie d'un projet plus large- est basée sur l'hypothèse qu'il existe une relation importante entre les principes et des procédures de la gestion des risques, la gouvernance d'entreprise et la comptabilité. Son objectif consiste à évaluer, à ce stade, les approches théoriques et les solutions pratiques adoptées par les entreprises pour gérer les risques ainsi que pour communiquer des données qualitatives et quantitatives aux parties prenantes, faisant référence à cet aspect et nécessaires pour évaluer le profil de la société. La contribution examine les rapports annuels consolidés de 2010, d'un échantillon de 25 banques italiennes et mondiales cotées en bourse, sur deux sujets principaux: (i) la qualité de l'information sur les *Internal Organization Process Risk*, correspondant au cadre des meilleures pratiques internationales comme indiquées dans les rapports du COSO, (ii) les instruments adoptés dans le processus de gestion des risques pour évaluer l'exposition des entreprises aux risques de marché, en se concentrant sur le risque de taux d'intérêt, le risque de prix et le risque de change.

**Mots-clés:** IFRS 7, Informations sur les risques, communication des risques, gestion des risques, banques

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German version\*  
Comparative Analysis of Risk Management and Risk Disclosure in the Banking  
Sector: Italian vs. World Practices

# Eine vergleichende Analyse des Risikomanagements und der Risikoberichterstattung im Bankensektor – Italienische versus weltweite Praktiken

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## Zusammenfassung

Diese Studie – als Teil eines größeren Projektes – basiert auf der Annahme einer engen Verbindung von Grundsätzen und Prozessen des Risikomanagements mit der Corporate Governance und der Rechnungslegung. Es zielt auf die Evaluation der theoretischen Ansätze und der praktischen Lösungen ab, die Unternehmen gewählt haben, um Risiken zu steuern und diese durch qualitative und quantitative Elemente an die Anteilseigner zu kommunizieren und notwendigerweise zu bewerten. Die Studie betrachtet hierzu die konsolidierten Jahresabschlüsse aus dem Geschäftsjahr 2010 von 25 italienischen und weltweit gelisteten Banken aus zwei Dimensionen: (i) Die Qualität der Berichterstattung zum *Internal Organization Process Risk* im Sinne des internationalen Best Practice-Framework COSO, (ii) Die genutzten Instrumente des *Risk Management Process* zur Beurteilung der Risikoberichterstattung, vor dem Hintergrund des Zinsrisikos, des Preisrisikos und des Währungsrisikos.

**Keywords:** IFRS 7; Risikoberichterstattung, Risikomanagement, Enterprise Risk Management, Banken

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Spanish version\*  
Comparative Analysis of Risk Management and Risk Disclosure in the Banking  
Sector  
Italian vs. World Practices

# Análisis Comparativo de la Gestión y de la Divulgación del Riesgo en el Sector Bancario Prácticas Italianas vs. Mundiales

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## Resumen

Este artículo – que es parte de un proyecto mayor – está basado en la asunción de la existencia de una fuerte relación entre los principios y procedimientos de la gestión del riesgo, el gobierno corporativo y la contabilidad. Su objetivo es evaluar cuáles son, en este momento, las aproximaciones teóricas y las soluciones prácticas adoptadas por las compañías para gestionar los riesgos y divulgar a los *stakeholders* los elementos cualitativos y cuantitativos referentes a este aspecto que son necesarios para evaluar el perfil de la compañía. Este artículo examina los balances anuales consolidados del año 2010 de 25 bancos Italianos y mundiales que cotizan en bolsa desde dos perspectivas distintas: (i) la calidad de la divulgación de los Procesos Internos sobre Riesgos en función de su correspondencia con el marco de buenas prácticas internacionales como se establece en los informes CoSo. (ii) Los instrumentos adoptados en el Proceso de Dirección de Riesgos para valorar la exposición corporativa al riesgo del mercado, concentrándose en el riesgo del Tipo de Interés, el riesgo en materia de Precios y el riesgo del Tipo de Cambio.

**Palabras Clave:** IFRS 7, Divulgación del Riesgo, Gestión del Riesgo, ERM, Bancos

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Arabic version\*

## Comparative Analysis of Risk Management and Risk Disclosure in the Banking Sector: Italian vs. World Practices

# تحليل مقارنة لادارة و كشف المخاطر في قطاع البنوك الممارسات الايطالية مقابل العالمية

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### ملخص

هذه الدراسة- التي تعد جزء من مشروع كبير- مبنية على افتراض أهمية العلاقة بين مبادئ ادارة المخاطر و الاجراءات، حوكمة الشركات و المحاسبة. هدفها هو تقييم الوضع الحالي و الطرق النظرية و الطول العملية المتبناة من قبل الشركات لادارة المخاطر و كشف العناصر الكمية و النوعية المتعلقة بهذا البعد بالاضافة الى تقييم وضع الشركة.

تدرس الورقة التقرير السنوي لعام 2010، من خلال أخذ عينة مكونة من 25 بنك في ايطاليا و العالم في لبحث موضوعين أساسيين: (1) أثر جودة الاعلان عن الخطر في العملية الداخلية من حيث مدى اتباعها لنموذج أفضل الممارسات العالمية حسب تقرير كوسو (لجنة المنظمات الراعية). (2) الأدوات المستخدمة في عملية ادارة المخاطر لتقديم مدى تعرض الشركات لمخاطر السوق، التركيز على الخطر المتعلق بسعر الفائدة، الأسعار و العملة

**الكلمات الدالة:** المعايير الدولية لإعداد التقارير المالية IFRS7، اعلان الخطر، ادارة المخاطر، ادارة المخاطر للمؤسسات ERM، البنوك

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Italian version\*  
Comparative Analysis of Risk Management and Risk Disclosure in the Banking  
Sector  
Italian vs. World Practices

# L' informativa sulle modalità di gestione del rischio nel bilancio. Un' analisi comparativa tra mercato italiano e contesto internazionale nel settore bancario

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## Abstract

Il presente lavoro prende le mosse dall'ipotesi della, ormai necessaria, esistenza una relazione tra principi e modelli per la governance dell'attività di risk management ed informativa contabile presente nei bilanci annuali. In questa prospettiva, l'obiettivo del lavoro è verificare quali fra i modelli teorici possibili per il risk management siano in concreto stati applicati da parte di un campione di aziende bancarie per la gestione dell'esposizione al rischio nell'ambito del governo d'impresa e se le informazioni su di essi fornite nei conti di fine esercizio rispondano al fabbisogno informativo degli stakeholders per la valutazione del profilo di rischio dell'azienda o se i dati riportati consentano solo il rispetto formale dei principi contabili attualmente esistenti in materia di disclosure del rischio (soprattutto finanziario) ma non forniscano una informativa davvero rilevante per il processo decisionale.

Prendendo le mosse dall'esame dei principali documenti informativi esterni per l'esercizio 2010, quali i bilanci consolidati e i documenti ad esso allegati presentati da un campione di banche (che, per loro natura, operano con i rischi finanziari), l'analisi osserva le strategie organizzative di un campione di 25 aziende bancarie quotate, italiane (17) e internazionali (8), focalizzando l'attenzione su due aspetti principali: (i) la corrispondenza dei processi interni adottati in relazione alle best practices internazionali riconducibili al set di principi e procedure indicate nel CoSo Report per la gestione dell'esposizione al rischio, (ii) gli strumenti utilizzati per la valutazione ed il controllo del grado di esposizione ai principali rischi di mercato, quali i rischi di tasso d'interesse, di prezzo e di valuta.

**Keywords:** IFRS 7, Risk Disclosure, Risk Management, ERM, Banche

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Chinese version\*

Comparative Analysis of Risk Management and Risk Disclosure in the Banking Sector  
Italian vs. World Practices

# 对银行业风险管理与风险披露的比较研究：意大利与全球实践的比较

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## 摘要

风险管理的原则和过程、公司治理、会计这三者间有着重要关系，本文——一个大型项目的一部分——就是以这一假设前提为基础的。本文旨在评估，在当前阶段，公司在管理风险，以及向利益相关者披露有关风险和其他评估公司状况所必需的质化和量化信息时所采用的理论路径和实践方案。本文从两个方面考察了25家意大利和全球上市银行的2010年合并年度报告：（1）根据全美反舞弊财务报告委员会发起组织（简称COSO委员会）报告中的全球最佳实践框架，考察内部组织流程风险的披露质量；（2）考察在风险管理流程中，用以评价公司所面临的市场风险，尤其是利率风险、价格风险和货币风险的工具<sup>2</sup>。

**关键词：**国际财务报告准则（IFRS）7；风险披露；风险管理；企业风险管理（ERM）、银行

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