Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Risk Tolerance Framework Overview

June 2025

1. Introduction

As part of fulfilling our statutory mandate, the Central Bank must manage exposure to risks that arise in the day-to-day running of our organisation. We categorise these as strategic, financial and operational risks. To enable us to manage these effectively and proportionately, we maintain a Risk Tolerance Framework that specifies the level of exposure we judge to be acceptable.

This note provides a brief overview of our Organisational Risk Tolerance Framework, including its objectives, the categories of risk it covers, and how it is implemented and used in the Central Bank.

2. Risk Tolerance Objectives

The Central Bank's approach to risk management recognises that it is neither possible nor necessarily desirable to eliminate all of the risks to which we are inevitably exposed. In some cases, some level of risk is unavoidable, or necessary and appropriate, if we are to effectively pursue our mandate and operate in an efficient and effective manner. The goal of expressing a tolerance for risk is, therefore, to better understand and manage towards an acceptable level of risk in pursuit of our mission and mandate. Of course, there are times when the level of risk exceeds our tolerance, and we must then judge what we should do to mitigate the risk, weighing this against other priorities, obligations, and requirements, to determine the best course of action.

Given the wide range of risks that may arise, the Risk Tolerance Framework helps us to evaluate the Central Bank's relative risk exposures and the associated effort that should be applied to manage and mitigate these. This contributes to more effective, proportionate and consistent risk management practices across the organisation and assisting with prioritisation decisions that need to be taken. There are often difficult trade-offs required when responding to risks. Being clear and discerning about our tolerance for different types of risks supports better decision-making and proportionality in determining our actions, thereby enhancing our effectiveness and efficiency.

3. Organisational Risks

Organisational risks are the risks borne directly by the Central Bank itself, relating to our own strategic, financial and operational exposures. The risks that may arise within the organisation may be a function of developments in the global environment and of developments in the economy and financial system, as well as being endogenous to the resource and process choices of the Central Bank itself. Relative to broader economic and financial system risks, organisational risks are deemed to be far more within our control, or for which relatively direct management actions can be defined, and where we can consider acceptable levels of exposure in terms of a defined risk tolerance.

Strategic Risks: The Central Bank defines strategic risk as the risk of material adverse outcomes for the fulfilment of our mission, due to a failure to set and implement an effective strategy or a failure to adequately fulfil our mandate and statutory responsibilities, because of internal or external factors. Strategic risk encompasses a range of sub-risks relating to strategic planning, internal governance and stakeholder engagement processes with consequences for the implementation of our policy objectives and reputation. By evaluating potential sources of strategic risk - through regular assessments of risk drivers, horizon scanning and engagements with relevant stakeholders - the Central Bank aims to manage and mitigate risks to the successful formulation and execution of its strategy, maintain effective governance, and avoid material damage to its trust and credibility.

Financial Risks: The Central Bank defines financial risk as the risk of direct or indirect losses, or of reputational damage, arising from: exposures in our investment asset portfolio; the use of our balance sheet as a monetary policy tool; or from inadequate management of operating costs, pension liabilities, and overall balance sheet resilience. These risks, which are both discretionary and non-discretionary in nature, are identified and evaluated using an established financial risk management framework and, where relevant, with reference to Eurosystem risk management frameworks and procedures.

In managing its financial risk profile, the Central Bank aims to: accept - but manage the implications of - risks required in the implementation of Eurosystem monetary policy; manage discretionary financial risks prudently; and preserve its long-term financial resilience and financial independence.

Operational Risks: The Central Bank defines operational risk as the risk of direct or indirect losses, or of reputational damage, arising from inadequate or failed internal processes, people and systems or from external events. This definition encompasses a broad range of sub-risks that may have adverse consequences for the achievement of the Central Bank's objectives.

Potential sources of operational risk exposure are identified and assessed on a periodic basis using an established operational risk management framework. Treatment options are considered and appropriate responses are agreed with the objective of ensuring continuity of our critical operations; protecting our staff; avoiding material losses of our information and physical assets; managing material sources of third party risk; and maintaining compliance with principal statutory obligations.

4. Using the Risk Tolerance Framework

4.1. Risk Governance

The Risk Tolerance Framework forms part of the Central Bank's broader risk management approach and operating model. This includes a wide range of measures for identifying and assessing risk, implementing and monitoring the adequacy of control measures, triggering policy and other actions, managing incidents and breaches, and reporting the status of risk, control and remedial or policy actions to governance committees.

The treatment of risks, and the actions required in response to those risks, may differ given the diverse nature of the risks and the varying nature of the tools and trade-offs available to the Central Bank to manage these risks.

The Central Bank Commission reviews and approves the Risk Tolerance Framework and associated Risk Tolerance Statements at least every three years. The Executive Leadership Committee (ELC) reviews the risk taxonomy and risk tolerances on at least an annual basis, including taking a holistic approach to determining whether to revise tolerances and/or take actions to align with agreed risk tolerances. The Risk Management Committee oversees the activities associated with organisational risk.

4.2. Risk Evaluation, Risk Alignment and Monitoring

The Risk Tolerance Framework informs and guides our decisions on priorities, the allocation of resources, and the nature and extent of actions we deem necessary to achieve our strategic objectives, preserve the Central Bank's long-term financial resilience and financial independence, and ensure continuity of our critical operations.

Periodic risk assessments are completed to evaluate the current risk exposure compared to the approved tolerance and are considered by the Risk Management Committee. Risks may be assessed as within tolerance, exceeding tolerance and requiring mitigation, or below tolerance and where there may be opportunities to enhance effectiveness while remaining within the approved tolerance. Actions will be identified to align assessed risk exposures with approved tolerances, or a decision may be taken to risk accept the exposure.

ENDS

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