CORE
CONCEPT

Risk Appetite Framework, Risk Tolerance and Key Risk Indicators (KRIs)

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Technical depth: Practitioner · **Practical mode:** Modelling build

Introduction

Many boards approve a risk appetite statement that no one can apply: it is too vague to guide a decision, it is not translated into limits, and the indicators reported against it change colour only after the loss has happened. Management then cannot tell whether the organisation is inside or outside appetite. This Core Concept course equips managers to build a working risk appetite framework, from risk capacity and appetite statements to calibrated key risk indicators and escalation. Participants build each element with numeric data and leave with a Risk Appetite Framework and KRI Dashboard.

Course Objectives

- Distinguish risk capacity, appetite, tolerance and limits, and link them to strategy and objectives
- Apply the FSB Principles, COSO ERM and COSO risk appetite guidance to design a risk appetite framework and its governance
- Draft risk appetite statements by category and cascade them into business unit tolerances and limits
- Select leading and lagging key risk indicators and calibrate their thresholds using historical data
- Test appetite against stress scenarios and apply breach escalation protocols when indicators move outside tolerance
- Produce a Risk Appetite Framework and KRI Dashboard ready for executive and board approval

Target Audience

- Risk managers and ERM teams responsible for the risk appetite framework
- Finance, treasury and planning managers setting financial limits and capital buffers
- Business unit and operations managers who own tolerances and indicators
- Risk reporting and management information analysts building KRI dashboards
- Compliance and internal audit managers testing adherence to approved appetite

Course Outline

Day 1: Risk Appetite Foundations

- Risk Capacity, Appetite, Tolerance and Limits Hierarchy
- Risk Criteria Under ISO 31000:2018 Clause 6.3.4
- Strategy, Objectives and Performance Link in COSO ERM 2017
- Qualitative and Quantitative Appetite Statements Compared
- Current Risk Appetite Practice Diagnostic Checklist

Day 2: Risk Appetite Frameworks and Guidance

- FSB Principles for an Effective Risk Appetite Framework 2013
- COSO Risk Appetite—Critical to Success Guidance 2020
- COSO Key Risk Indicator Guidance: Developing KRIs to Strengthen ERM
- BCBS 239 Principles for Risk Data Aggregation and Reporting
- Risk Appetite Governance: Board Approval and Three Lines Roles

Day 3: Building Appetite Statements and Indicators

- Risk Appetite Statement Drafting by Risk Category
- Cascading Appetite into Business Unit Limits Using a Limit Tree
- KRI Selection from Risk and Control Self-Assessment RCSA Outputs
- Leading and Lagging Indicator Design with the SMART Test
- KRI Threshold Setting: Green, Amber and Red Trigger Levels

Day 4: Calibration, Stress and Breach Management

- Statistical Threshold Calibration Using Historical Data and Percentiles
- Stress Testing and Reverse Stress Testing Against Risk Capacity
- Breach Escalation Protocols and Remediation Triggers
- Appetite Metrics for Non-Financial Risks: Conduct, Cyber and Reputation
- KRI Data Quality Controls and Metric Ownership

Day 5: Modelling Build and the Risk Appetite Framework

- Energy Sector Scenario: Calibrating Operational Risk Tolerances
- Financial Services Scenario: Credit and Liquidity Limit Setting
- KRI Dashboard Build with Trend and Threshold Visualisation
- Risk Appetite Framework Assembly for an Own Organisation
- Peer Review Panel and Framework Defence

Skills You Will Gain

- Risk Appetite Articulation
- Risk Tolerance Setting
- Limit Cascading
- KRI Design
- Threshold Calibration
- Stress Testing
- Breach Escalation
- Risk Dashboard Development

Why Attend This Course

- Return to work with a Risk Appetite Framework and a working KRI Dashboard for your own organisation, already tested by peers
- Give decision-makers a clear answer to whether a proposal sits inside or outside approved appetite
- Replace indicators that report losses after the event with thresholds that give early warning
- Compare appetite practice with managers from other sectors and countries who report to similar boards

Conclusion

Risk appetite is useful only when it is specific enough to guide decisions and measured by indicators that warn before limits are breached. This course moves from capacity, appetite and tolerance concepts, through the FSB Principles and COSO guidance, to drafting statements, cascading limits, designing indicators and calibrating thresholds under stress. The final day turns that work into a Risk Appetite Framework and KRI Dashboard that participants take back to their executives, giving them a structured and defensible basis for the next appetite review.