

# NECESSARY & UNNECESSARY RISK BOARD DISCUSSION HANDOUT

*Support board oversight of strategic risk by strengthening decision discipline, exposure visibility, and governance alignment.*

01

## Governing Principle

Necessary risk is exposure deliberately authorised in pursuit of strategic objectives, sustained through active ownership and ongoing justification.

Unnecessary risk is exposure that persists without current strategic value, consumes organisational capacity without proportional strategic contribution.

02

## Board-Level Framing

- *Strategic Question:* Which risks are we deliberately funding to create value?
- *Governance Question:* Which exposures remain justified today?
- *Capacity Question:* How much of our risk appetite and risk capacity is consumed by risks that no longer advance strategy?

03

## The Governance Test for Necessary Risk

A material exposure remains necessary when all four conditions are satisfied:

1. *Strategic Justification:* Clear linkage to defined strategic objectives.
2. *Named Ownership:* An accountable executive responsible for continued validation.
3. *Tolerance Alignment:* Exposure remains within defined operational thresholds.
4. *Capacity Sustainability:* The organisation can absorb plausible stress without impairing resilience, liquidity, or regulatory standing.

04

## Indicators That Classification Is Weakening

Boards should monitor for structural signals:

- Escalations framed as unexpected events
- Repeated tolerance breaches without redesign
- Controls increasing without measurable reduction in exposure
- Ownership rotating without continuity
- Portfolio aggregation not reviewed at enterprise level

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## **Portfolio-Level Oversight**

Individual decisions may appear proportionate in isolation.

Enterprise exposure emerges through interaction effects:

- Capital allocation commitments
- Operational strain
- Regulatory positioning
- Strategic momentum

Board oversight should examine exposure trajectory and aggregation, not only individual thresholds.

**06**

## **Structured Review Prompts for Board Sessions**

At least annually and for material initiatives, boards should request:

- Original approval rationale
- Updated exposure profile
- Tolerance trend analysis
- Capacity stress assumptions
- Executive recommendation: continue, recalibrate, or exit

**07**

## **Governance Orientation**

Effective boards do not eliminate risk. They ensure exposure remains:

- Strategically justified
- Owned
- Monitored
- Sustainable within capacity

Decision discipline preserves value creation and prevents cumulative misaligned exposure.