Treasury’s Leading Role in Enterprise Risk Management

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Presented To

Presented By

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Principal

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The Expanding Scope and Value of Treasury

**Historical**
- Managing Liquidity and Visibility to Cash
- Managing Working Capital
- Managing Risk

**Today**
- CFO Changing Role = Treasury Changing Role
- Changing Landscape for the Business and for Treasury
- New and Expanded Responsibilities

**Tactical Value** – *Keep us going and keep us out of trouble*

**Strategic Value** – *Help us be a better organization*
New andExpandedResponsibilities

…withscarceresources

…whoarebeingaskedtodo more withless

…inamuch morecomplex,sophisticatedglobalenvironment

…whereithardtofindtherighttalent

…andweassumeallthenutsandboltsareinplace to begin with

Oneofthoseresponsibilitiesmaywellbetakingonresponsibility and/orleadership for
**EnterpriseRiskManagement (ERM or EPRM)**.
Understand ERM, Your Role, and The Tools You Need (and likely already have)

• ERM Essential Elements
• Your Role
• The Tools You Need
• Next Steps
ERM Essential Elements

Risk Identification and Risk Governance Approach

Step 1: Define roles and responsibilities

Step 2: Define risk appetite/tolerance

Step 3: Develop approach for identifying, assessing and communicating risk

Step 4: Validate risks with senior leadership

Step 5: Assess risks against tolerance limits

Step 6: Develop risk monitoring, reporting and response plans

Risk Management Approach: Supporting Elements

- Infrastructure & People
- Policies, Procedures and Controls
- Communication and Reporting
- Automation and Technology
Your Role

Option One: Participant

• Responsible for identifying, assessing and communicating risk up through the organization, likely to the Director or Head of Risk, ERM, CRO, CFO
• Still responsible for risks within treasury function

Option Two: Guiding Role

• Responsible for assisting the Director or Head of Risk, ERM, CRO, CFO on the quantitative side of risk assessment and scale of risk appetite
• Some ability to leverage tools and processes for ERM
• Still responsible for risks within treasury function

Option Three: Leader

• Responsible for leading ERM efforts
• Ability to implement tools and processes for performance measurement and finer understanding of risk – true enterprise *performance* risk management
• Still responsible for risks within treasury function, but NOT responsible for the risks across the organization
The Tools You Need

Start By Asking the Right Questions

• How well do we know the risks we have identified?

• Do we know if we are taking the right risks? How would we know?

• Are we accepting the level of risk we are comfortable with? How would we know?

• Are we managing the risks correctly? How would we know?

• What else is out there?
The Tools You Need

Roles and Responsibilities

1. Define roles and responsibilities
   - Define roles and responsibilities within the organization for risk oversight, risk coordination, risk management, communication and action planning. Who is reviewing, validating, approving risk-taking and risk management efforts?

2. Coordinate with the risk and business owners to develop risk monitoring, reporting and response plans
   - Develop policies and procedures for monitoring, reporting, escalation and response plans for key risks

So What?
- Establishing responsibility and accountability - everyone has a role to play
- Risk is communicated and managed at the appropriate level of the organization

What You Need
- These channels of communication and responsibility often exist for other efforts
- The ERM effort is to formalize and document. The risk owners can be deputized to create the policies and procedures to support
- A mandate from leadership, early and often
The Tools You Need

Define Risk Appetite and Risk Tolerance

1. **What are the Metrics that Matter?**
   - Define assessment method (qualitative, quantitative, both)

2. **Define risk appetite and risk tolerance**
   - **Appetite**: How much risk are we WILLING to take across the organization?
   - **Tolerance**: How much risk can we TOLERATE across the organization?

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<th>Operations</th>
<th>Compliance</th>
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**So What?**
- Organization has a common language and understanding for risk, and is aware of how others think about risk
- Provides a tool to both define risk appetite and tolerance but also to evaluate individual risks on a qualitative basis

**What You Need**
- Your ERM leadership team to review and validate the organization’s risk appetite and risk tolerance
- A good memory – major risk events define the organization’s risk culture
The Tools You Need

Identify, Assess and Communicate Risks

1. Identify and Assess
   • Determine the method of collecting information (data request, interviews, survey, other)
   • Consider the questions being asked, the level of expertise of the different respondents, the consistency of responses and the amount of data being collected

2. Communicate Risk Information
   • Aggregate risk information and clean up data for validation

So What?
• Having a consistent set of risk categories, along with details about the likelihood, impact and severity of risk is critical for a qualitative analysis
• Provides guidance for leadership on the risks that matter across the organization

What You Need
• Time or Outside Assistance: It takes time to train people to ask questions about risk, develop the templates to document that information and communicate it in a consistent fashion
The Tools You Need

Validate, Assess and Monitor (Qualitative)

1. **Review top risks and validate assessment of likelihood, impact of risk**
   - Use below ratings scale to get consistency on each top risk (generally the 10-20 most critical risks are considered by senior leadership)

2. **Define responsibility and timeline for addressing risk and defining risk policies, procedures and monitoring plan**

3. **Document**

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<td>5</td>
<td>Critical</td>
<td>$10M or greater</td>
<td>High impact to normal business operations</td>
<td>- Loss of customer confidence, reputation, or brand, employees, customers, regulators, etc.</td>
<td>- Loss of key personnel, impacting ability to operate or major market</td>
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<td>4</td>
<td>High</td>
<td>$5M or greater</td>
<td>High impact to normal business operations</td>
<td>- Significant risk to impacting regulation or ability to operate or major market</td>
<td>- Loss of leadership</td>
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<td>3</td>
<td>Moderate</td>
<td>$1M or greater</td>
<td>High impact to normal business operations</td>
<td>- Major obstacles to major market access</td>
<td>- Major obstacles to major market access</td>
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<td>2</td>
<td>Minor</td>
<td>$500K or greater</td>
<td>Moderate impact to normal business operations</td>
<td>- Major obstacles to major market access</td>
<td>- Technology platform impact</td>
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<td>1</td>
<td>Insignificant</td>
<td>$50K or greater</td>
<td>Limited impact to normal business operations</td>
<td>- Technology platform impact</td>
<td>- Major change in senior leadership</td>
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**So What?**
- Provides consistency across senior leadership on critical risks, responsibility, and time to respond
- Contributes to audit and assurance plans

**What You Need**
- Validation is generally done in a **workshop** with senior leadership. Time and planning is critical, and this is another area where outside help is generally sought
- Workshop and results aggregation take time to plan, execute and deliver
Don’t Panic!

• You already have most or all of what you need, and can deputize others in the organization to assist in this effort

• The Treasury team is naturally positioned with the tools and experience to implement an ERM assessment process

• If you do need professional consulting, you may not need as much as you thought
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