

Intelligent Risk Management Why It Is Everyone's Responsibility





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What can be included in Operational Risk Management ?

Privacy of Data

People

Process

Physical Security

Business Practices – Fiduciary Duties

Fraud

Outsourcing

Information Security

Internal and External Relationship Management

Regulatory Compliance

Financial Accounting and Reporting

Business Continuity

Key Service Providers

Changing Regulatory Expectations on Risk Management

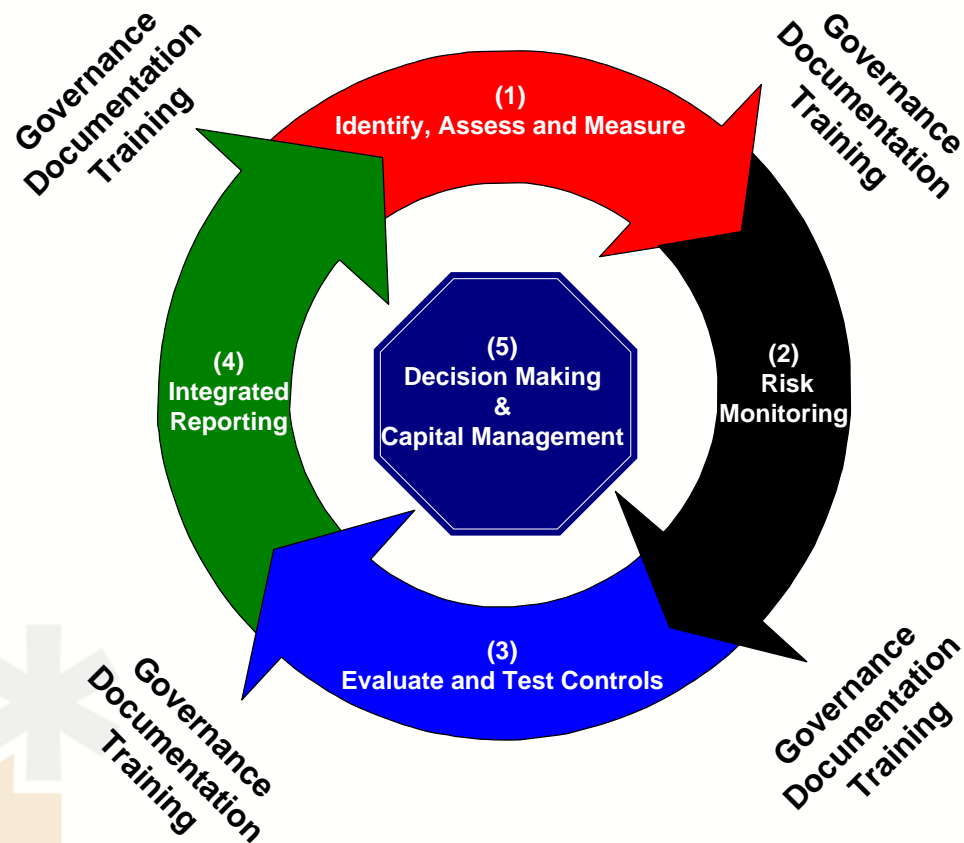
“Going forward, our examiners intend to focus on understanding how risk management is embedded in key business processes and decision-making at a number of levels.

These are issues that go beyond legal and compliance teams, beyond systems and procedures. Investors deserve – and we will be looking for – a commitment by boards and executives to make enterprise risk management part of a firm or corporation’s culture.”

Speech by SEC Chairman Mary L. Schapiro at SIFMA’s Compliance and Legal Society Annual Seminar 3/23/11

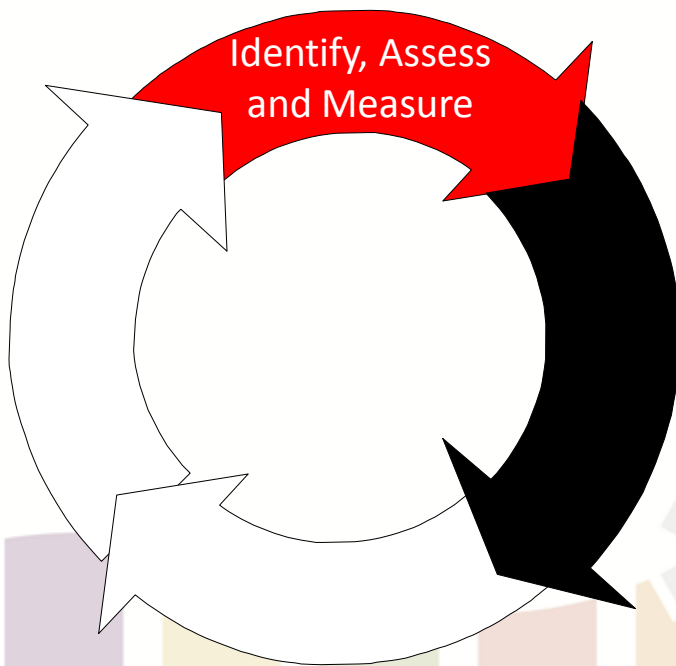
Operational Risk Management Framework

A firm's strategic plan and supporting growth initiatives need to be aligned with a firm's risk appetite and supported by a comprehensive Operational Risk Management Framework



1. Risk Identification, Assessment, and Measurement

“Know your business and its risks”



Goal

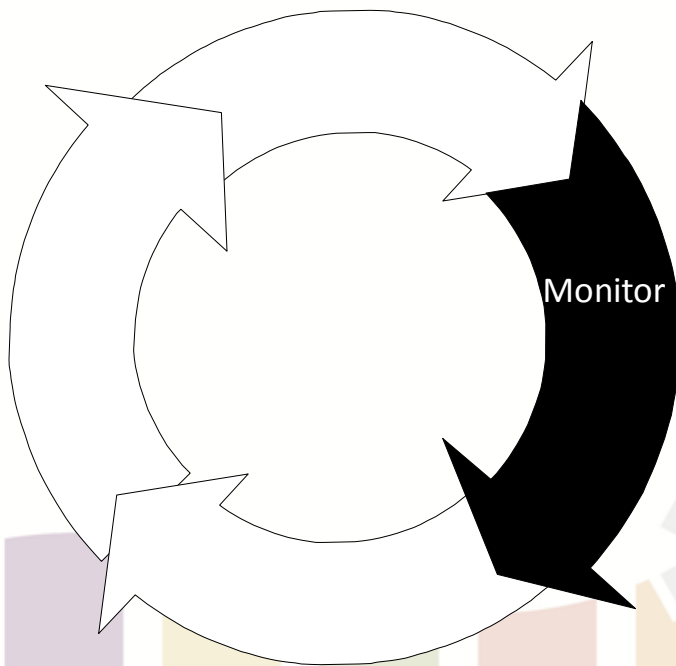
Understand strategy, risk profile, and potential exposures

Tools and processes might include:

- Client on-boarding procedures
- New product reviews
- M&A
- Risk and control assessments
- Scenario analysis
- Internal audit risk and control reviews (completed during audit planning)

2. Risk Monitoring

“Continually take the temperature”



Goal

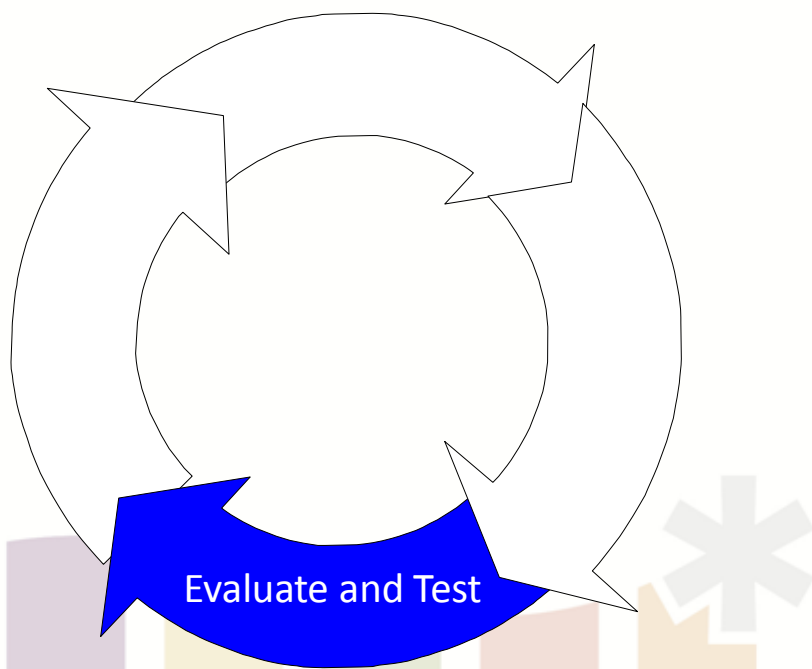
- Proactively monitor the environment and operational risk exposure

Tools and processes might include:

- Operational key risk indicators
- Business unit performance metrics
- Operating loss data
- External loss events
- Environmental changes (e.g. new laws, regulations, or legal precedents)

3. Control Evaluation/Testing

*“Have we got the right controls
and are they working?”*



Goal

Ensure that internal controls and practices are:

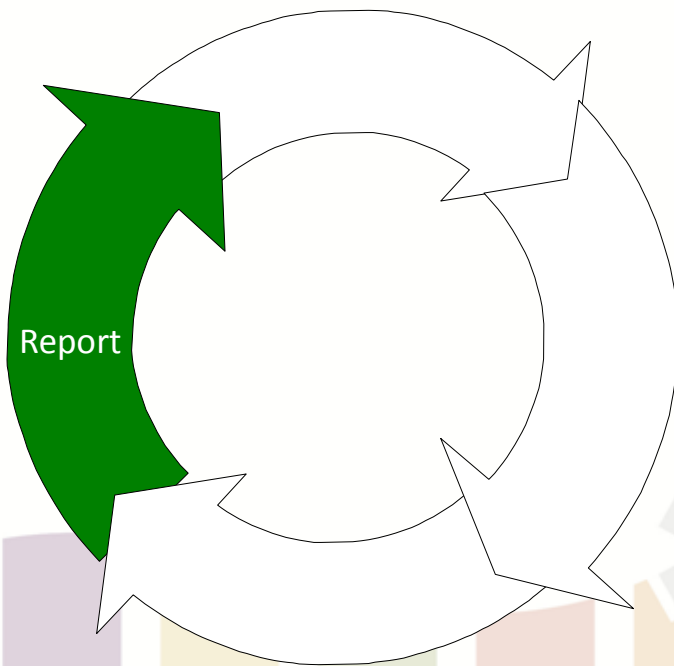
- Designed appropriately
- Consistent with corporate policy or regulatory standards
- Operating effectively

Tools and processes might include:

- Business unit self testing
- Risk & control assessments
- Sarbanes-Oxley testing
- SAS 70 (or other control) reviews
- Internal audit
- Regulatory exams

4. Reporting

*“Integrate and interpret the data
and convey the message”*



Goal

Reporting facilitates management’s ability to:

- Maintain control and provide oversight
- Escalate issues in a timely manner
- Make risk-based operating and investment decisions

Tools and processes might include:

- Operational key risk indicators
- Business unit reporting
- Risk self-assessments and risk plans
- Capital allocation

5. Decision Making and Capital Management

“Use all available information and make risk-based decisions”



Goal

- Determine and then institutionalize “risk appetite”
- Make conscious risk acceptance/rejection decisions
- Understand the trade-offs between risk and return

Tools and processes might include

- Launch risk management initiatives
- Make improvements to the control environment
- Develop technology
- Transfer risk (e.g. insurance)
- Enhance legal/documentary protections

Allocate risk capital using a scenario based approach

- Internal loss data
- External loss data
- Expert judgment

Panel Discussion

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Questions?

