



ENTERPRISE RISK MANAGEMENT

APRIL 9, 2018

Part I: Overview with Robert Hirth, COSO Chairman Emeritus

Part II: Panel Discussion with:

1. Jim Enstrom, Cboe Global Markets, Inc
2. David Juengel, Navistar
3. Michael McGarry, Walgreens
4. Brad Rachmiel, Protiviti (moderator)

AGENDA



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Topic

ERM Integrating with Strategy and Performance

Ten Things to Know about the Framework

Key Definitions, Four Big Concepts, and ERM Myth Busting & Motivations

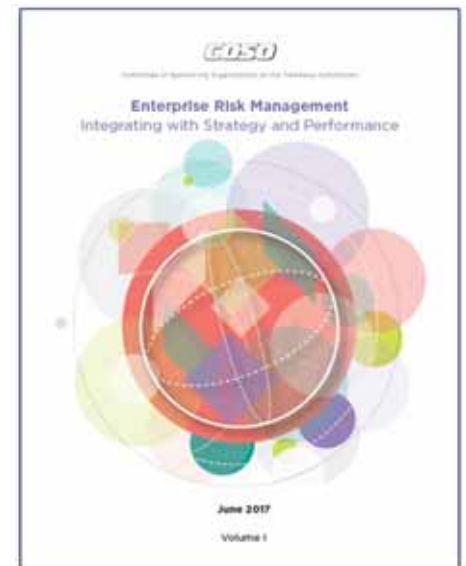
ERM Panel Discussion

ENTERPRISE RISK MANAGEMENT



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- Integrating Strategy with Performance
 - Robert Hirth
 - Coso Chairman Emeritus

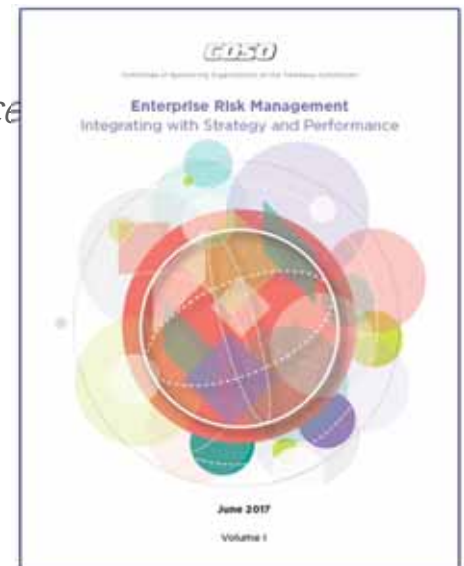


A NEW TITLE...



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- Retitled as *Enterprise Risk Management—Integrating with Strategy and Performance*
- Recognizes the importance of strategy and entity performance
- Further delineates enterprise risk management from internal control



10 KEY THINGS TO KNOW ABOUT THE FRAMEWORK



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PROVIDES A NEW DOCUMENT STRUCTURE



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- Framework focused on fewer components (five)



**Governance
& Culture**



**Strategy &
Objective-Setting**



Performance



**Review
& Revision**



**Information,
Communication,
& Reporting**

- Uses focused call-out examples to emphasize key points (> 30)
- Follows the business model versus an isolated risk management process

INTRODUCES PRINCIPLES



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- 20 key principles within each of the five components



Governance & Culture

1. Exercises Board Risk Oversight
2. Establishes Operating Structures
3. Defines Desired Culture
4. Demonstrates Commitment to Core Values
5. Attracts, Develops, and Retains Capable Individuals



Strategy & Objective-Setting

6. Analyzes Business Context
7. Defines Risk Appetite
8. Evaluates Alternative Strategies
9. Formulates Business Objectives



Performance

10. Identifies Risk
11. Assesses Severity of Risk
12. Prioritizes Risks
13. Implements Risk Responses
14. Develops Portfolio View



Review & Revision

15. Assesses Substantial Change
16. Reviews Risk and Performance
17. Pursues improvement in Enterprise Risk Management



Information, Communication, & Reporting

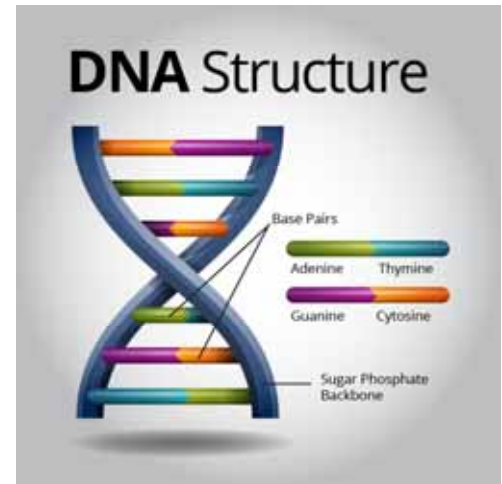
18. Leverages Information and Technology
19. Communicates Risk Information
20. Reports on Risk, Culture, and Performance

INCORPORATES NEW GRAPHICS/CONCEPTS



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- Graphic has stronger ties to the business model



FOCUSES ON INTEGRATION



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Integrating ERM with business practices results in better information that support improved decision-making and leads to enhanced performance

It helps organizations to:

- Anticipate risks earlier or more explicitly, opening up more options for managing the risks
- Identify and pursue existing and new opportunities
- Respond to deviations in performance more quickly and consistently
- Develop and report a more comprehensive and consistent portfolio view of risk
- Improve collaboration, trust, and information sharing



INTEGRATED, NOT ADDED ON

COSO

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EMPHASIZES VALUE



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- Enhances the focus on value – how entities create, preserve, and realize value
- Embeds value throughout the framework, as evidenced by its:
 - Prominence in the core definition of enterprise risk management
 - Extensive discussion in principles
 - Linkage to risk appetite
 - Focus on the ability to manage risk to acceptable levels



LINKS TO STRATEGY



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- Explores strategy from three different perspectives:
 - The possibility of strategy and business objectives not aligning with mission, vision and values
 - The implications from the strategy chosen
 - Risk to executing the strategy



LINKS TO PERFORMANCE



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- Enables the achievement of strategy by actively managing risk and performance
- Focuses on how risk is integral to performance by:
 - Exploring how enterprise risk management practices support the identification and assessment of risks that impact performance
 - Discussing tolerance for variations in performance
- Manages risk in the context of achieving strategy and business objectives – not as individual risks

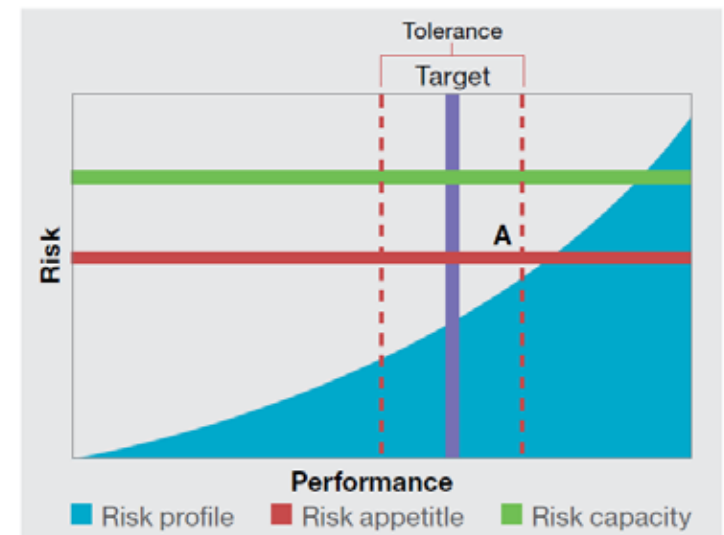


LINKS TO PERFORMANCE



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- Introduces a new depiction referred to as a risk profile
- Incorporates:
 - Risk
 - Performance
 - Risk appetite
 - Risk capacity
- Offers a comprehensive view of risk and enables more risk-aware decision making
- The framework provides a complete depiction of how to build a risk profile in an appendix

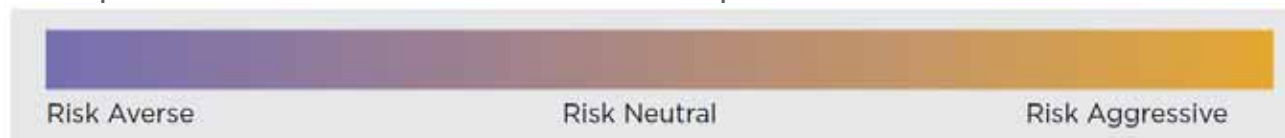


RECOGNIZES IMPORTANCE OF CULTURE



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- Addresses the growing focus, attention and Importance of culture within enterprise risk management
- Influences all aspects of enterprise risk management
- Explores culture within the broader context of overall core values
- Depicts culture behavior within a risk spectrum



- Explores the possible effects of culture on decision making
- Explores the alignment of culture between individual and entity behavior

FOCUSES ON DECISION-MAKING



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- Explores how enterprise risk management drives risk aware decision making
- Highlights how risk awareness optimizes and aligns decisions impacting performance
- Explores how risk aware decisions affect the risk profile



DECISION-MAKING UNCERTAINTY/CERTAINTY



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- Selecting SAP or Oracle
- Setting the quarterly revenue plan for \$20 million
- Hiring a new VP of _____
- Not developing a new product
- Making a new investment
- Opening a new office
- Closing an office



BUILDS LINKS TO INTERNAL CONTROL



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- The document does not replace the *Internal Control – Integrated Framework*
- The two frameworks are distinct and complementary
- Both use a components and principles structure
- Aspects of internal control common to enterprise risk management are not repeated
- Some aspects of internal control are developed further in this framework



KEY DEFINITIONS...



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Talking past each other is an English phrase meaning two or more people talking about different subjects, while they believe that they are talking about the same thing.



**Define
Your
Terms!**

PUTTING A STAKE IN THE GROUND...



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Risk

The possibility that events will occur and affect the achievement of strategy and business objectives (or will not occur)

Enterprise Risk Management

The culture, capabilities, and practices, integrated with strategy and execution, that organizations rely on to manage risk in creating, preserving, and realizing value



CULTURE, CAPACITY, APPETITE AND TOLERANCE...



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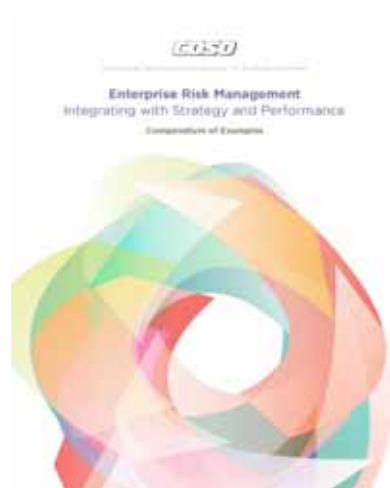
- **Culture**- *the attitudes, behaviors and understanding about risk (uncertainty), both positive and negative that influence the decisions of management and personnel and reflect the mission, vision and core values of the organization*
- **Capacity**- *The maximum amount of risk that an entity is able to absorb in the pursuit of strategy and business objectives*
- **Appetite**- *The types and amount of risk, on a broad level, an organization is willing to take in pursuit of value*
- **Tolerance**- *The boundaries of acceptable variation in performance related to achieving business objectives*

COMPENDIUM OF EXAMPLES



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*Coming
Soon....*



- A compendium of examples is also being developed, illustrating:
 - All principles
 - A variety of entity sizes from global through to national, regional, and local entities
 - A variety of industry types
 - Actual company practices and be augmented with expected practices in select areas, as needed
- Written from the perspective of the business

COSO Can Help ALL Organizations!



A SUITABLE MODEL EVERYWHERE...



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REMEMBER 4 BIG CONCEPTS



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- Strategy
- Performance
- Culture
- Decision Making



- yes
- no
- maybe



YOU MAY ALREADY BE “DOING ERM”...



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- Strong, Articulated Mission, Clear Vision and Values
- Commitment to the concept of ERM activities and integration
- Strategy as the best alternative, Risk vs. Reward, linked to objectives
- Understand uncertainty of our world and decisions we make
- Big focus on Change, so what, what do we do
- Focus and measurement on Objectives
- Going through the “WHAT IF” process
- Knowing what you won’t do and why
- Evaluating if ERM is adding value



ERM MYTH BUSTING AND MOTIVATIONS



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- It's not a function or software application
- It's not a long list, too long to try and conquer
- CRO's don't own risks, they facilitate ERM activities
- Everyone is a risk manager, kind of
- Its' not an "add-on"- put it in a blender, build it in
- Risk isn't all bad – uncertainty can be great!
- COSO can't make you do anything
- Make better decisions
- #*&% still happens
- It's gotta make you better!



WHY ERM?



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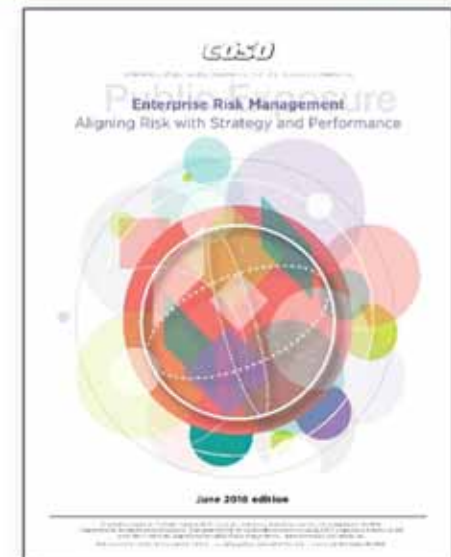
“How would you like to meet more of your objectives more often in the time?”



IT'S ALL (ONLY) ABOUT PERFORMANCE ...



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HOW TO OBTAIN THE FRAMEWORK



- Order on-line through either the IIA or AICPA
- IIA – offer print versions for sale
- AICPA offers both print and eBook versions for sale
- Both can be accessed from the COSO.ORG website



OH, AND ONE MORE THING...



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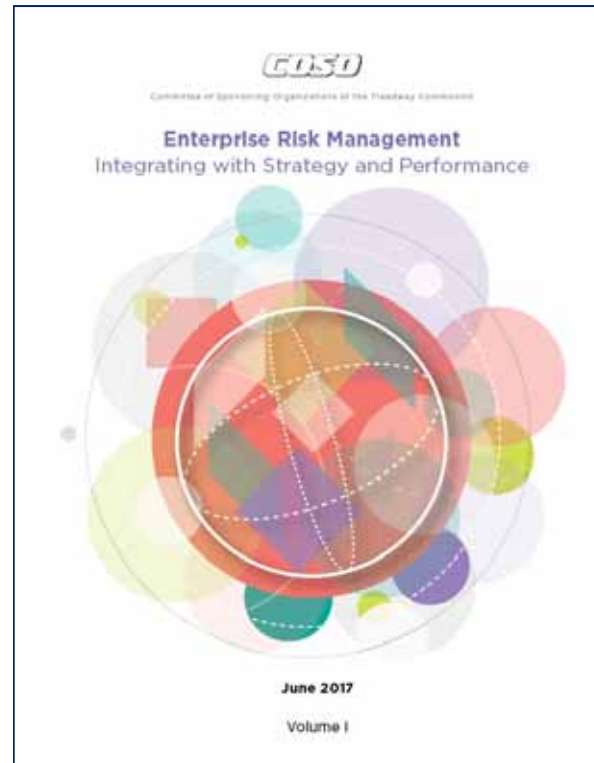
Already Here



Coming Soon



THANK YOU !



QUESTIONS AND ANSWERS?

ERM PANEL DISCUSSION

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THANK YOU FOR YOUR TIME AND ATTENTION!

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