



Standard & Poor's: Assessment of Risk Management

Ernst & Young's Point of View

7 November 2008

Introduction

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 - ▶ **Experience:** Over 13 years in Risk Management Field (Operational Risk & Strategic Risk)
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Agenda

- ▶ Introduction & Overview
 - ▶ Standard & Poor's Approach
 - ▶ Assessing Risk Management
 - ▶ Impact of Ratings
 - ▶ Timelines
 - ▶ Preparing for an ERM review
 - ▶ Questions
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Overview

- ▶ What is a credit rating?
 - ▶ An opinion of obligator's ability to & willingness to pay a financial obligation on time and in full
 - ▶ Corporate ratings based on borrowing, repayment, availability of assets, extent of liabilities
 - ▶ Who are Standard & Poor's?
 - ▶ A credit rating agency (covering 31 markets & 70% of global market capital)
 - ▶ Provides corporate ratings based from AAA to D
 - ▶ What are ratings used for?
 - ▶ Provide investors with an opinion on credit
 - ▶ Provide an 'independent' view on Managements ability to manage company debt
 - ▶ Why is this important?
 - ▶ Enterprise Risk Management (ERM) is on Board Agenda
 - ▶ Current economic climate: need for planning & management
 - ▶ Influence of external party opinions (Rating Agencies, Shareholders, Regulators)
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Standard & Poor's Approach

- ▶ S&P's ERM assessment will build upon their existing analysis of:
 - ▶ Management's operating & financial record
 - ▶ Credibility of Strategies, projections & execution
 - ▶ Response to competitive threats
 - ▶ Risk governance bodies and structures
 - ▶ S&P's stated objectives for focusing upon ERM are to:
 - ▶ Enhance transparency
 - ▶ Credit rating be more 'forward looking'
 - ▶ Achieve finer differentiation among ratings
 - ▶ Industry sector focus in order to benchmark
 - ▶ Other Agencies (Fitch & Moody's) are **not** planning to focus upon ERM (existing Management reviews incorporate Risk Management)
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S&P's Assessment of Risk Management

- ▶ S&P focus will be upon 2 analytical components:
 1. Risk Management Culture
 2. Strategic Risk Management

Fitness check for your company		😊	😐	😞
Risk management culture (S&P's evaluation criteria)	What are the risk management frameworks / program and structures (tone at the top) currently in place?			
	What are the roles of staff responsible for risk management and the related reporting lines?			
	What are the internal and external risk management communications channels?			
	What reports do the CEO / audit committee / board see?			
	How do you measure the success of the risk management program?			
Strategic risk management (S&P's evaluation criteria)	What is the influence of risk management on management compensation?			
	Are strategies and objectives tied to the risk management process?			
	Is there a statement of risk appetite / tolerance and are targets set?			
	What are the top five risks? How much revenue is tied to each and how often are they updated and related measures defined?			
	What is the role of risk management in strategic decision making (planning, forecasting)?			
Emerging risk preparation (possible future criteria)	Are scenario analyses and stress testing performed?			
	Are an environmental scanning and trend analysis in place?			
	Are business continuity and disaster recovery plans defined and regularly updated?			
	How is crisis management handled?			
	Are post mortem analyses performed?			

Potential Impact of ERM Ratings

▶ S&P's ERM evaluation has the potential to result in company's credit ratings being:

▶ Downgraded

- ▶ affect company's ability to borrow or
- ▶ increase its interest rate

Increased cost of capital, lower earnings and negative impact on share price performance

▶ Upgraded

- ▶ improve company's access to debt
- ▶ reduce its interest rate

Reduction in cost of capital, higher earnings and potential positive impact on share price performance

▶ S&P ratings will range from

Weak

Companies with limited capabilities to consistently identify, measure and comprehensively manage risk exposures and thus, limit losses

Strong

Companies that can demonstrate an enterprise-wide view of risks and can demonstrate capabilities to consistently identify, measure and manage risk exposures and losses in-line with predetermined risk tolerance guidelines

Adequate

Companies with baseline capabilities to consistently identify, measure and comprehensively manage risk exposures, yet continue to manage in separate silos

Excellent

Companies that can demonstrate all characteristics of those scored "strong", have well developed capabilities and can also demonstrate risk / reward optimisation

Timelines

Background:

- ▶ **November 2005:**
S&P began including ERM in rating evaluations for financial institutions and insurance companies
- ▶ **April 2006:**
S&P launched a pilot project to supplement analysis of energy companies' trading risk with ERM concepts
- ▶ **November 2007:**
S&P submitted *Request For Comment* on proposal to introduce ERM analysis into the credit rating process of non-financial companies
- ▶ **May 2008:**
Release of *Standard & Poor's To Apply Enterprise Risk Analysis To Corporate Ratings (copy available)*

Implementation timeline:

- ▶ **3Q 2008:**
ERM discussions will be incorporated into regularly scheduled management discussions
- ▶ **4Q 2008:**
ERM analysis will start to be included in reports for selected companies
- ▶ **2009:**
Formal scoring will be deferred until a sufficient number of reviews have been conducted to establish benchmarking.
Scoring is not anticipated to occur before the start of 2Q 2009

In US, reviews have commenced but scorings have yet to be finalised

How Ernst & Young Can Help

- ▶ Not a 'compliance check'
- ▶ We aim to help to improve competencies and capabilities in managing risk through:

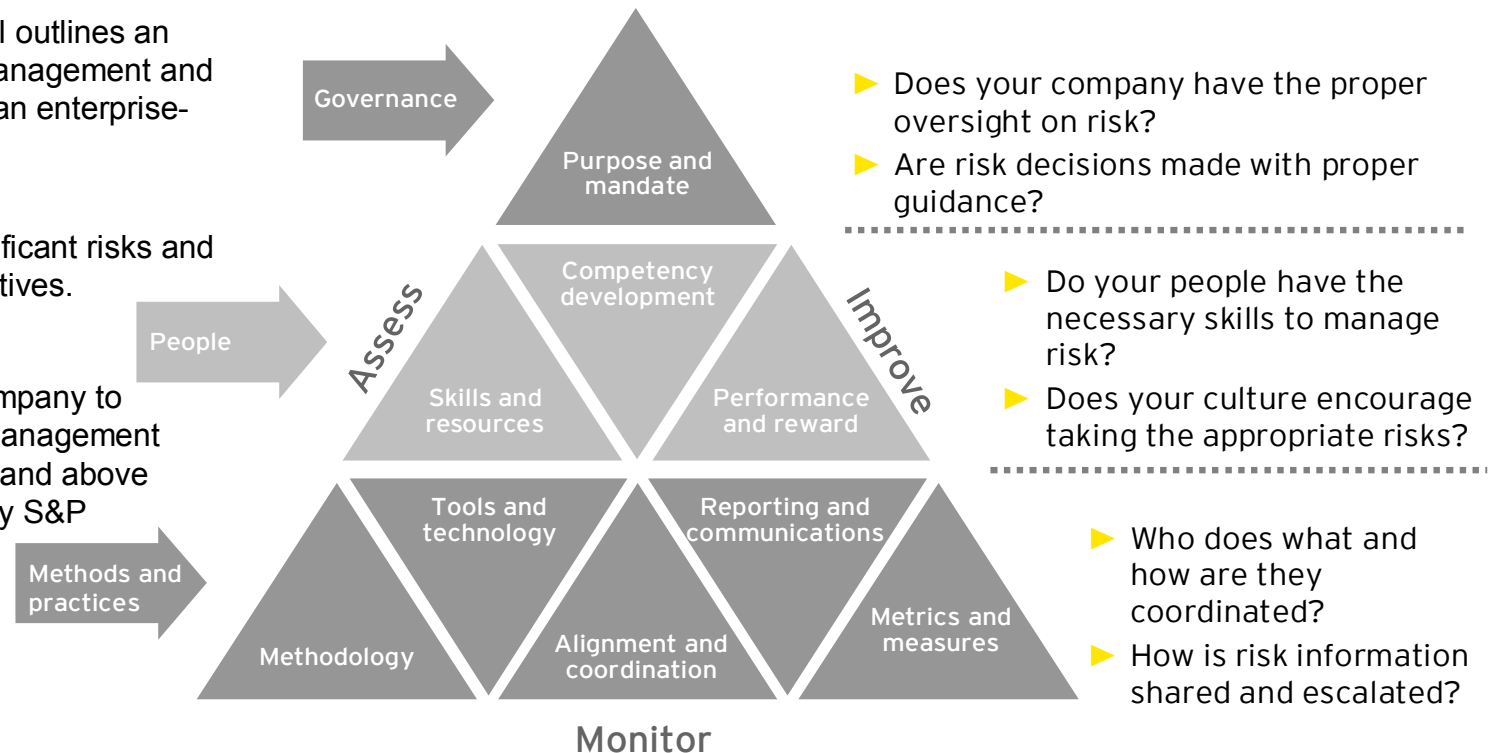
Benefits

Our practical model outlines an approach to risk management and internal control on an enterprise-wide basis.

It is aligned to significant risks and key business objectives.

It will allow your company to handle many risk management requirements, over and above those put forward by S&P

E&Y's Risk & Control Framework Review





Thank you

Any Questions?

7 November 2008

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