

Financial Reporting Council

Review of the effectiveness of the Combined Code

Joint response by AIRMIC and the Institute of Risk Management (IRM) to the Financial Reporting Council review of the effectiveness of the combined code – Progress Report and Second Consultation

AIRMIC and IRM Membership

AIRMIC has a membership of over 800 and represents the risk managers for about 75% of the FTSE 100, as well as very substantial representation in the mid 250 and other smaller companies. AIRMIC members facilitate risk management activities within their employer organisations and many AIRMIC members are also responsible for the purchase of insurance.

The Institute of Risk Management (IRM) has a global membership of over 2,500 representing a broad spectrum of risk professionals from commercial, industrial and public organisations. Established as a not-for-profit body and governed by its members, IRM is the leading provider of enterprise-wide integrated risk management qualifications and training in the World. IRM also has strong links with leading universities, business schools and other professional organisations, is active in the development of guidance and standards in risk management and is a widely-consulted source of opinions and knowledge on most aspects of risk.

AIRMIC and the IRM wish to comment further on the bullet points set out on pages 19 and 20 of the Progress Report and Second Consultation dated July 2009. Although these comments are made on behalf of AIRMIC and the IRM, they are based in part on a roundtable discussion at the AIRMIC offices on 28 September 2009 that involved a number of senior AIRMIC members and also involved senior representatives from the Institute of Internal Auditors, the Institute of Chartered Secretaries and Administrators and representatives from a number of large insurance companies and insurance brokers.

AIRMIC and IRM Opinion

The following comments are offered in relation to the specific issues listed in the second consultation:

- Turnbull Guidance and the Combined Code – It is the opinion of AIRMIC and the IRM that explicit requirements should be included in the Combined Code with regard to risk management. The responsibility of the Board with respect to risk management should specifically extend to strategic risk, project risk (including business tactics, as well as mergers and disposals) and operational risk. It is important to achieve and maintain an integrated approach to risk management, regardless of the nature of the risks or the timescale of potential impact. Specifically, AIRMIC and the IRM would argue strongly that it is not true (as set out in paragraph 3 on page 18 of the FRC report) that arrangements for the management of operational risks can be considered to be satisfactory in all cases – the ability of operational risks to destroy substantial shareholder value should not be ignored.

- Review of Turnbull Guidance – the contribution made by the Turnbull Guidance to enhanced control of significant risks since it was first published in 1999 should not be underestimated. However, the emphasis in the guidance on internal control should be supplemented by guidance related to the forward-looking executive responsibility of managing risks that threaten the achievement of corporate objectives. Accordingly, it is the strongly held opinion of AIRMIC and the IRM that the Turnbull Guidance should be reviewed and updated so that it addresses the wider enterprise risk management agenda.
- Walker Recommendations – it is the view of AIRMIC and the IRM that one of the basis requirements of the risk management framework or architecture of an organisation is that it is proportionate to the level of risk faced by the organisation. The extent to which the Walker recommendations will be appropriate for an organisation will depend on the size, nature and complexity of the organisation. Therefore, AIRMIC and the IRM do not believe that the Walker recommendations are appropriate for other listed companies unless the level of risk faced by a particular company makes them appropriate.
- Risk Reporting – it is the opinion of AIRMIC and the IRM that risk reporting needs to be improved. Risks should be reported in the context of the strategy, projects (or tactics) and operations of the organisation. This will be achieved by including risk reporting requirements in the business review section of the report and accounts, so that the risks to the strategy, projects and operations of the organisation are clearly identified.

AIRMIC and IRM Suggestion

The Turnbull Guidance should be reviewed and expanded to provide detailed guidance on risk management, in addition to the existing guidance on internal control. This enhanced Turnbull Guidance should be developed to support the anticipated additional requirements of the Combined Code related to risk management and internal control.

As mentioned in the previous submission, AIRMIC and the IRM would be delighted to contribute to the development of the revised and enhanced Turnbull Guidance.

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