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# Objective Centric Risk & Certainty Management (#OCRCM)

**Module 3: SVG Capital: A Case Study**

Tim Leech, Managing Director
**Risk Oversight Solutions Inc.**
timleech@riskoversightsolutions.com

www.riskoversightsolutions.com

# OCRCM: SVG Capital: A Case Study



## REQUIRED: A COMMITTED SPONSOR

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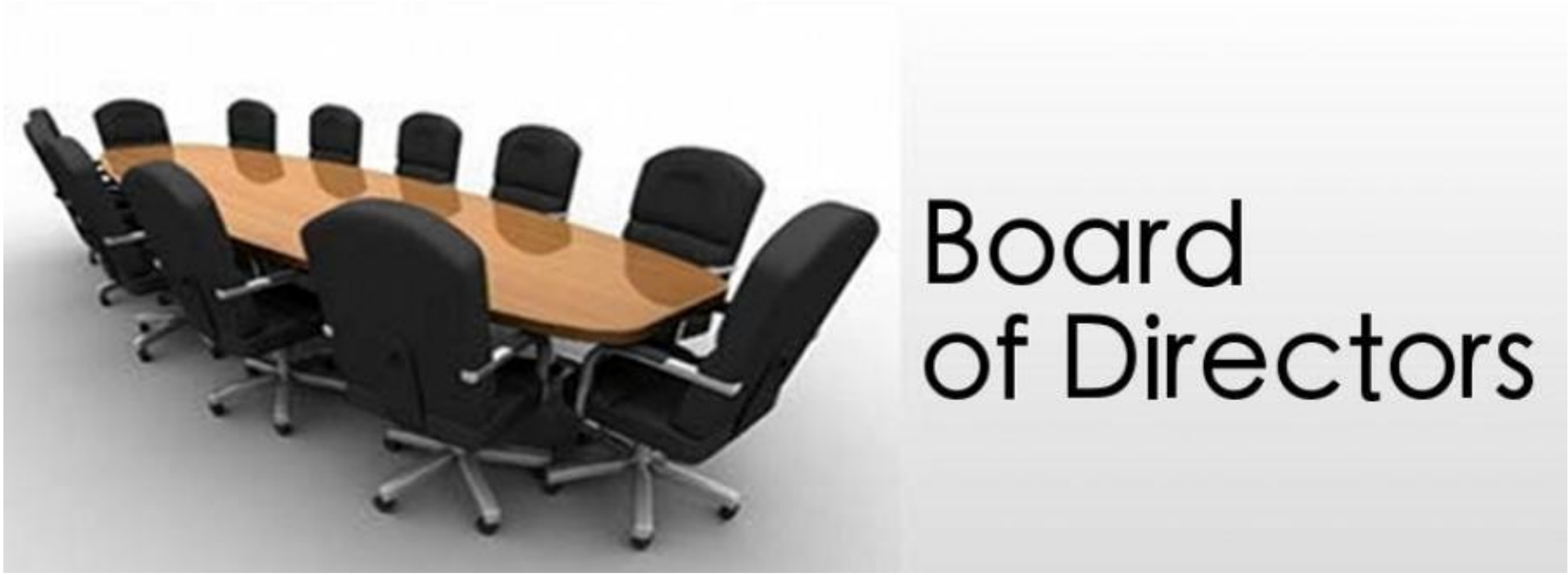
# Selling the business case

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# Risk Management & Risk Oversight:

## Why Change? What's SVGC's Change Strategy?

Presented by Tim Leech, Managing Director Global Services, Risk Oversight Inc.

February 12, 2013

# Risk Management & Risk Oversight: Why change? What's SVGC's Change Strategy?



- Traditional "Supply Driven" Assurance
- Why change?
- New board risk oversight expectations
- "Demand Driven" Assurance - Key elements
- SVGC's draft Group Risk Management Policy
- SVGC's draft rollout strategy
- SVGC risk assessment examples
- Questions/discussion

# Traditional “Supply Driven” Assurance



## Approach #1: Fund an Internal Audit function

**A scene that repeats hundreds of thousands of times around the world:**

The chairman of the audit committee extends the thanks of the board for the work done by Internal Audit in the previous year and asks two final questions that legal counsel has suggested he pose.  He inquires:

*"Are there any other concerns or control issues that I should be aware of?“ "Are controls adequate?“*

The chief internal auditor responds:

*"I have reported on the issues of significance noted in the year that I think you should be aware of. Management has, for the most part, been very cooperative and has indicated that they will take the steps they consider necessary to rectify the deficiencies noted during our audits.  Although we have noted some problems in the course of our audits, overall, controls appear to be adequate in the areas we have reviewed."*

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# Traditional “Supply Driven” Assurance



**Approach #2: Internal and external auditors form/report subjective opinions on whether they think controls are “effective” or “adequate”**

**Question:** If the objective is “Prevent/minimize injuries/deaths in the home due to fire”, how many “controls” must be present to conclude controls are “effective” or “adequate”?

Should there be a tested escape plan? Should there be a fire extinguisher in the kitchen? In other rooms? Should there be two kinds of smoke detectors, battery and wired? Should there be a fire blanket in the kitchen? Should the house have a sprinkler system? Should parents have burn prevention/treatment training? Should there be an annual inspection by the local fire department or a fire risk specialist? Should there be an annual documented risk assessment that cover statistically probable risks? What about insurance coverage, contractual indemnities with suppliers, etc?

**Answer: There is no such thing in real life as “effective controls”, only different levels of acceptable retained/residual risk. Auditors and regulators continue to pretend this isn’t a fundamental truth.**

# Traditional “Supply Driven” Assurance



**Approach #3: Senior management and boards don’t tell Internal Audit with any specificity what they want assurance on and how much**

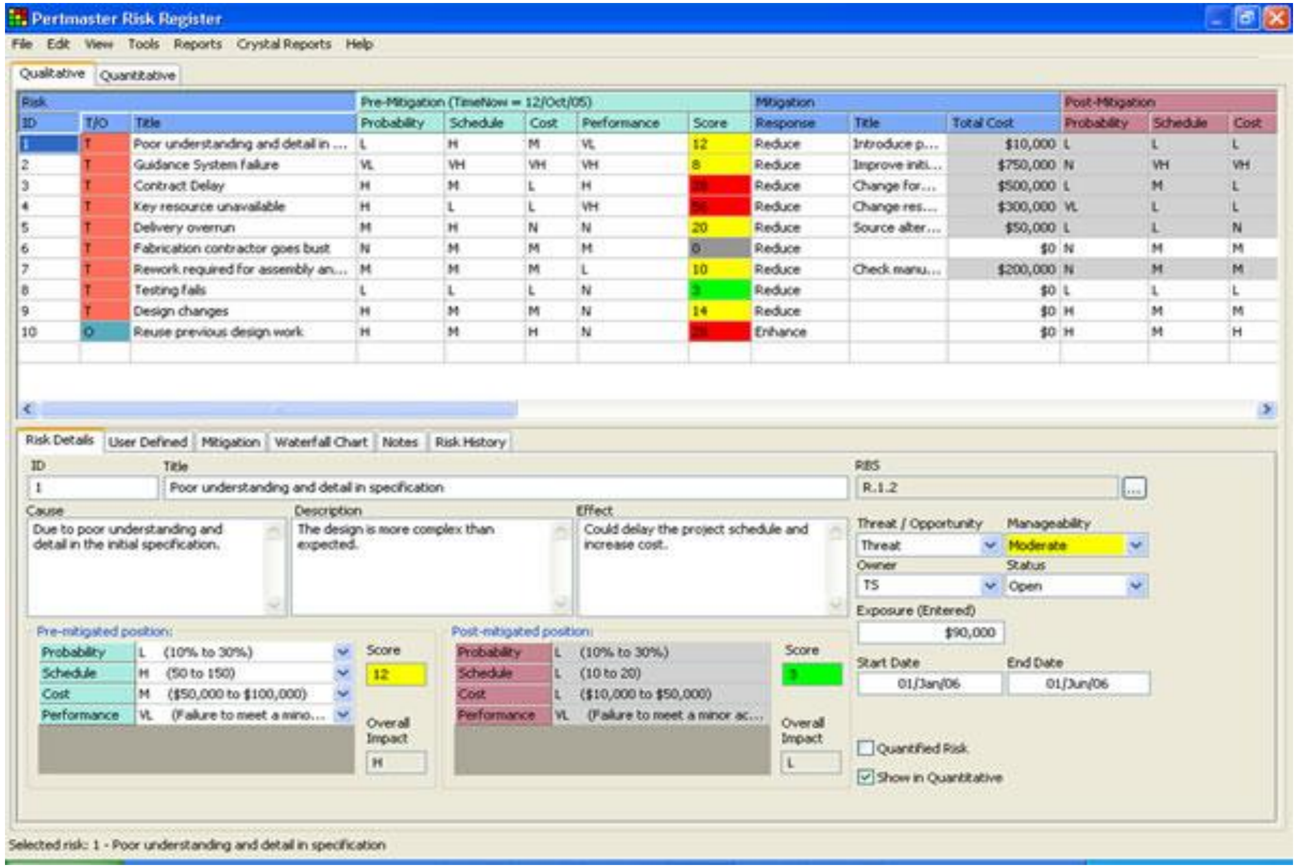
**Question:** How much should a company like SVGC spend on Internal Audit?

**Answer:** Without clarity on what senior management and the board want from internal audit, it is possible to propose and defend cost estimates ranging from £25,000 (tokenism) to a very high amount. All would allow SVGC to report there is an Internal audit function that does audits, reports audit “findings”, and complies with the IIA professional practice standards.

# Traditional “Supply Driven” Assurance



## Approach #4: Staff groups create/maintain a “Risk Register”/Assign “Risk Owners”/Create “risk heat maps”/Report top risks




| Risk | | | Pre-Mitigation (TimeNow = 12/Oct/05) | | | | | Mitigation | | | Post-Mitigation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ID | T/O | Title | Probability | Schedule | Cost | Performance | Score | Response | Title | Total Cost | Probability | Schedule | Cost |
| 1 | T | Poor understanding and detail in ... | L | H | M | VL | 12 | Reduce | Introduce p... | $10,000 | L | L | L |
| 2 | T | Guidance System failure | VL | VH | VH | VH | 8 | Reduce | Improve initi... | $750,000 | N | VH | VH |
| 3 | T | Contract Delay | H | M | L | H | [illegible] | Reduce | Change for... | $500,000 | L | M | L |
| 4 | T | Key resource unavailable | H | L | L | VH | [illegible] | Reduce | Change res... | $300,000 | VL | L | L |
| 5 | T | Delivery overrun | M | H | N | N | 20 | Reduce | Source alter... | $50,000 | L | L | N |
| 6 | T | Fabrication contractor goes bust | N | M | M | M | 0 | Reduce | | $0 | N | M | M |
| 7 | T | Rework required for assembly an... | M | M | M | L | 10 | Reduce | Check manu... | $200,000 | N | M | M |
| 8 | T | Testing fails | L | L | L | N | 3 | Reduce | | $0 | L | L | L |
| 9 | T | Design changes | H | M | M | N | 14 | Reduce | | $0 | H | M | M |
| 10 | O | Reuse previous design work | H | M | H | N | [illegible] | Enhance | | $0 | H | M | H |

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## Approach #5: Hire a Chief Compliance Officer but don't communicate with clarity the company's appetite/tolerance for violations, fines and jail sentences or scope of work.

**Questions:** Did Barclays/RBS/UBS/etc. boards know the bank was engaged in LIBOR manipulation? Should they have known?

Is the LIBOR scandal a failing of Internal Audit, Risk Management, Compliance, the bank boards, or just a bad risk call by management that went badly wrong?

Barclays forced to name executives on Libor list

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ICAP confirms regulatory probe over Libor setting
Thu, Jan 24 2013

Analysis & Opinion

Emerging policy-One cut, two steady

Hugo Dixon: When is it OK to avoid tax?

By Matt Scuffham

LONDON | Thu Jan 24, 2013 1:33pm EST

(Reuters) - Barclays was forced to name former heads Bob Diamond and John Varley, finance director Chris Lucas and other top executives and traders linked to a global rate-fixing probe, despite

## Approach #6: Directors' reports in the UK list "principal risks and uncertainties" facing the company but FRC is concerned there is a lack of real director engagement producing the disclosures

Following the 2008 global financial crisis regulators concluded public companies should report what they see as the biggest risks that could impact the company and describe how the board oversees risk. Most companies now do this in some form. Unfortunately it isn't clear at this point, even to risk experts, if regulators want the biggest inherent/gross risks before considering "risk treatments", or what the company considers the biggest retained/residual risk areas. Practices vary widely but it is unlikely many UK firms engage non-exec directors directly to agree the risks disclosed. The FRC in the UK has indicated that a key test from their perspective is whether the board has specifically discussed and agreed the risks that will be disclosed in the annual accounts as "principle risks and uncertainties" facing the company.

(http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2011/February/The-Financial-Reporting-Review-Panel-highlights-ch.aspx)

# Traditional “Supply Driven” Assurance



## Approach #7: Boards place heavy reliance on the company’s external auditors when their engagement letters severely limit scope and audit quality is variable

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows, changes in equity, and comprehensive income present fairly, in all material respects, the financial position of **MF Global Holdings Ltd**. and its subsidiaries (the “Company”) at March 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, **the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011**, based on criteria established in Internal Control— Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

PRICEWATERHOUSECOOPERS LLP

New York, New York May 19, 2011

**PROBLEM: Over 1.6 billion dollars of investor funds couldn’t be located shortly after this certification by PwC. This is not an isolated event nor is it meant to single out PwC. The current external audit paradigm has a fairly high error rate that isn’t likely to get better anytime soon in the absence of major changes in the auditing standards and methods used. UK directors are expected starting in fiscal 2013 to be able to demonstrate that they have evaluated the effectiveness of the firm’s internal and external auditor – not a small task in a changing world.**

## Approach #8: Boards rely heavily on management, using largely informal approaches without any form of independent assurance, to identify and report areas of high retained risk – how well this happens varies widely

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# Libor scandal: RBS fined £390m

**Royal Bank of Scotland (RBS) has been fined £390m ($610m) by UK and US authorities for its part in the Libor rate-fixing scandal.**

The UK's Financial Services Authority issued a fine of £87.5m, while about £300m will be paid to US regulators and the US Department of Justice.

The fines are £100m greater than those issued to banking rival Barclays last year for similar offences.

RBS chairman Sir Philip Hampton said it was a "sad day" for the bank.

RBS is the third major bank to admit attempting to manipulate the Libor rate

Related Stories

# Why change?



1. Intense regulatory pressure on boards post 2008 global crisis
2. Significantly heightened risk oversight disclosure requirements in UK
3. Competitive differentiator/escalating client/investor expectations
4. Cost of capital/credit rating agencies now consider risk governance
5. Institutional investors putting new focus  and importance on RO (e.g. ICGN)
6. Increased confidence key value creation objectives will be achieved
7. Current risk/assurance approaches simply don't work very well
8. Strong regulatory push for public disclosure of  "Risk appetite/risk framework statements"

# New Board Risk Oversight Expectations



While risk oversight objectives may vary from company to company, **every board should be certain that:**

1. the risk management system informs the board of the major risks facing the company

2. an appropriate culture of risk-awareness exists throughout the organization

3. there is recognition that management of risk is essential to the successful execution of the company's strategy

Source: National Association of Corporate Directors, REPORT OF THE NACD BLUE RIBBON COMMISSION, RISK GOVERNANCE: BALANCING RISK AND REWARD, October 2009

# New Board Risk Oversight Expectations



While risk oversight objectives may vary from company to company, **every board should be certain that**:

4. the risk appetite implicit in the company's business model, strategy, and execution is appropriate

5. the expected risks are commensurate with the expected rewards

6. management has implemented a system to manage, monitor, and mitigate risk, and that system is appropriate given the company's business model and strategy

Source: National Association of Corporate Directors, REPORT OF THE NACD BLUE RIBBON COMMISSION, RISK GOVERNANCE: BALANCING RISK AND REWARD, October 2009

# New Board Risk Oversight Expectations



## FRC U.K. Governance Code September 2012

The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems. (page 7)

The board should, at least annually, conduct a review of the company's risk management and internal control systems and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational, and compliance controls. (page 18)

# New Board Risk Oversight Expectations



**FRC U.K. Governance Code September 2012**

The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:….to review the company's internal financial controls and , unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems…. To monitor and review the effectiveness of the company's internal audit function. (page19)

# New Board Risk Oversight Expectations



**FRC U.K. Governance Code September 2012**

A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include:

….. an explanation of how it has assessed the effectiveness of the external audit process

(page 20)

# New Board Risk Oversight Expectations



## Financial service firms are increasingly expected to develop and publicly disclose “Risk appetite statements” and “Risk appetite frameworks”

**SAMPLE DISCLOSURE FOR A “RISK COMMITTEE” OF THE BOARD**

**5. Duties**

5.1 Overall

The Committee has oversight of the Risk Management Framework of the Group and specifically the effectiveness of risk management, governance and compliance activity within the Group. The Risk Committee will support the Board in its consideration of the business activities that expose the business to material risks with explicit and dedicated focus on current and forward-looking aspects of risk exposure. It advises the Board on considerations and process for setting the Risk Appetite and related tolerances, taking into account the Board’s overall degree of risk aversion and the Company’s current financial situation. The Board retains responsibility for approval of the Risk Appetite.

Source: LPEQ Site - Aberdeen Asset Management Plc

http://www.aberdeen-asset.com/aam.nsf/InvestorRelations/termsofreferenceriskcommittee

# New Board Risk Oversight Expectations



## Financial service firms are increasingly expected to develop and publicly disclose "Risk appetite statements" or "Risk appetite frameworks"

**SAMPLE DISCLOSURE FOR A "RISK COMMITTEE" OF THE BOARD**

5.2 Risk Appetite

The Group Management Board will define and set the proposed Risk Appetite for the business, with input from the Group Head of Risk. The Risk Appetite being the levels of risk acceptable to the Group in delivering its strategy and is ultimately approved by the Board. The Risk Committee shall on behalf of the Board, review and, if appropriate, challenge the process undertaken by the business in setting this Risk Appetite. The Risk Committee will provide oversight of the process to set and subsequent adhere to the approved risk appetite on a regular basis and at least annually and will make recommendations to the Board.

Source: LPEQ Site - Aberdeen  Asset Management Plc

http://www.aberdeen-asset.com/aam.nsf/InvestorRelations/termsofreferenceriskcommittee

# New Board Risk Oversight Expectations



## FSA sees major challenges improving risk management and risk oversight

*"Challenges identified include the following: i) The importance of tangible, clear and unambiguous board and senior management support and sponsorship for the operational risk management framework and function. ii) The importance of the board and senior management setting the right cultural tone towards the operational risk framework. iii) Persuading senior management to invest in improved operational risk frameworks and software. In many instances operational risk functions are required to focus valuable resources managing operational risk data rather than managing operational risk. iv) The importance of operational risk training and the challenges of ensuring that training is geared to the appropriate level of participant. v) Embedding the operational risk framework within and across business units, particularly where these cross countries "*

Source: http://www.fsa.gov.uk/pubs/guidance/guidance11.pdf

# New Board Risk Oversight Expectations



## FSA sees this area as a high priority

| Source | Rule/ guidance # | Text |
|---|---|---|
| **Prudential Sourcebook for Banks, Building Socieites and Investment Firms (BIPRU)** | 6.4.1R (2) | A *firm* must have a well-documented assessment and management system for *operational risk* with clear responsibilities for the system assigned within the *firm*. The system must identify the *firm's* exposures to *operational risk* and track relevant *operational risk* data, including material loss data. |
| | 6.4.1R (3) | A *firm's operational risk* assessment and management system must be subject to regular independent review. |
| | 6.4.1R (5) | A *firm* must implement a system of management reporting that provides *operational risk* reports to relevant functions within the *firm*. A *firm* must have procedures in place for taking appropriate action in response to the information contained in such reports. |
| | 6.4.2R | A *firm* must comply with the criteria in *BIPRU* 6.4.1R having regard to the size and scale of its activities and to the principle of proportionality. |
| **Senior Management Arrangements, Systems and Controls Sourcebook (SYSC)** | 4.1.1R | A *firm* must have robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms, including sound administrative and accounting |

Source: http://www.fsa.gov.uk/pubs/guidance/guidance11.pdf

# New Board Risk Oversight Expectations



## FSA is escalating its focus

*Ultimately, management are responsible for running firms and ultimately firms fail because of the decisions taken by their boards and their management. These decisions are made within a firm's corporate governance framework. The crisis exposed significant shortcomings in the governance and risk management of firms and the culture and ethics which underpin them. This is not principally a structural issue. It is a failure in behaviour, attitude and in some cases, competence.*

*(Source: Speech Hector Sants, Outgoing FSA Chair, April 24, 2012, http://www.fsa.gov.uk/library/communication/speeches/2012/0424-hs.shtml)*

**NOTE: The new UK bank scandals since the date of this speech re LIBOR and selling practices are likely to cause FSA to focus even more attention on the effectiveness of board risk oversight**

# Demand Driven Assurance: Key elements



- Clearly defined risk management and risk oversight accountabilities up to and including the board who "demand" reliable information on retained/residual risk status
- Board plays an active and visible role overseeing effectiveness of enterprise-wide risk management processes and management's risk appetite/tolerance
- CEO is responsible for providing the board with a consolidated report on all objectives significantly outside of risk appetite, and high residual risk acceptance decisions that have been rated by management as acceptable/within the company's risk appetite/tolerance
- Risk Oversight Committee plays a key role overseeing implementation of the company's risk management framework, quality of the reports on residual risk to the board, and risk acceptance decisions made by "OWNER/SPONSORS" on objectives included in the "OBJECTIVE REGISTER". The board can demand new/different objectives be included in the OBJECTIVE REGISTER. What is included in the OBJECTIVE REGISTER defines what the board will receive formal assurance on

# Demand Driven Assurance: Key elements



- Risk Oversight Committee has accountability for defining which objectives warrant formal assurance and determining if the level of risk assessment rigour applied by OWNER/SPONSORS is appropriate given cost/benefit trade-offs

- Compliance and Risk Department has responsibility for creating, maintaining, and quality assuring the risk assessment/risk status reporting processes

- Internal audit reports on reliability of risk management processes and risk assessments completed, as well as objectives that it believes should be included in the Objectives Register but were not, and where it believes higher/better risk assessment rigour is warranted

- An external specialist may be engaged periodically to report on reliability of the company's risk management/risk oversight framework

# SVG's Draft Group Risk Management Policy

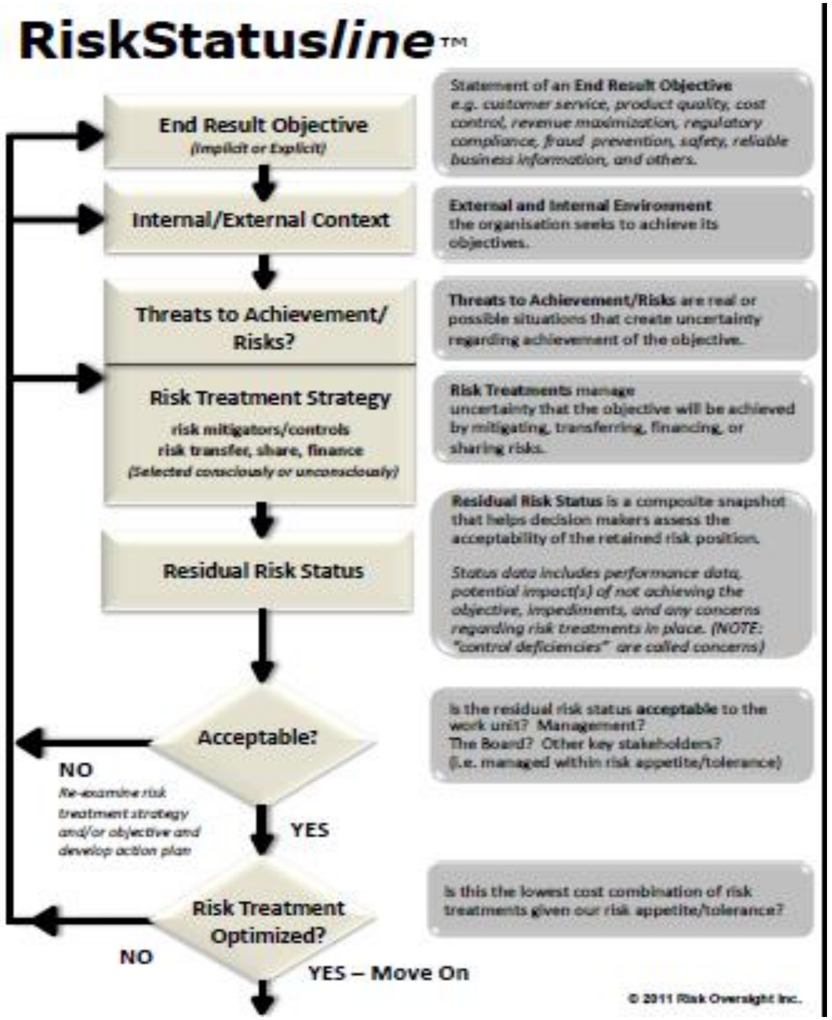


## Policy Overview

- PURPOSE
- SCOPE
- RISK MANAGEMENT PRINCIPLES
- CORPORATE RISK ASSESSMENT METHODOLOGY
- RISK MANAGEMENT ROLES AND RESPONSIBILITIES
  - Board of Directors/Audit Committee
  - CEO
  - Risk Oversight Committee
  - Heads of Departments
  - Compliance & Risk Department

# The assessment approach





# The assessment approach



When a decision is made to include an objective in the "OBJECTIVE REGISTER" the "OWNER/SPONSOR" must assign a "RESIDUAL RISK RATING ("RRR") to the objective and decide on the level of risk assessment rigour from very low (minutes) to very high rigour

Definitions of each of the RRR ratings are found on the laminate provided . This RRRs must be revisited periodically and adjusted by the OWNER/SPONSOR as formal risk assessments are done and/or new information emerges

| Risk*Status* Rating Escalation Requirements | |
|---|---|
| 0 | Owner/Sponsor |
| 1 | |
| 2 | Senior Management |
| 3 | |
| 4 | Risk Oversight Committee |
| 5 | |
| 6 | |
| 7 | Full Board |
| 8 | |
| 9 | |
| 10 | |

# The assessment approach



RiskStatus*line*™ Approach Differentiators:

1. Starting point is specific end result business objectives. Accountability for reporting on residual risk status is clear

2. The methodology is intended to support and integrate with an organization's strategic planning process as well as Internal Audit, Compliance, and Risk

3. "Residual Risk Status" – a composite set of information specifically designed to help decision makers' assess the acceptability of the residual risk status related to the business objective being assessed – i.e. - Is the current status within the organization's risk appetite/tolerance?

4. Supports and allows different levels of risk assessment rigour

# Proposed SVGC rollout steps



1. SVGC Audit Committee approval of the group’s new risk management policy. (Feb 12)

2. Development of new risk governance implementation plan with detailed responsibility assignments and due dates. (Feb 28)

3. Refine SVGC’s “business objectives register”. A first draft of the Register has been prepared and will be reviewed by SVGC’s Risk Oversight Committee. Objectives included in the first pass are linked to SVGC’s strategic objectives, key targets and priorities and what is called “foundation objectives”. Objectives included were drawn from public disclosures, job descriptions, compensation agreements etc. Candidates have been proposed to be OWNER/SPONSORS of the draft objectives. (March 31)

4. OWNER/SPONSOR acceptance of the wording of draft objective statements and OWNER/SPONSOR responsibilities.(April 30)

# Proposed SVGC rollout steps



5. Rollout of risk assessment skills training for all business objective owner/sponsors, including training on how to decide on an appropriate level of risk assessment rigour and how to complete reliable "fit for purpose" risk assessments. (June 30)

6. Owner/sponsors assign an initial "residual risk rating" (see laminate for definitions for the 10 levels) for each objective assigned based on what they know at that date. (Aug 31)

7. Owner/sponsor decides on the level of risk assessment rigour warranted, whether they require additional training and/or facilitator support and when any formal risk assessment work warranted will be completed. (Aug 31)

8. Risk Oversight Committee reviews draft risk assessment strategies proposed by owner/sponsors and makes a decision on appropriateness and whether any risk assessments should be done by, or quality assured by, outside specialists, Compliance and Risk staff, or Internal Audit/Deloitte. (Sept 30)

# Proposed SVGC rollout steps



9. Risk assessment reports and related Residual Risk Ratings (“RRRs”) due from all assigned OWNER/SPONSORS (Nov 30)
10. First consolidated report on residual risk status and progress implementing the company’s new risk governance framework prepared for senior management and the board for Y/E 2013 (Dec 31)

NOTE: Dates shown are subject to adjustment. They will be reviewed in detail by the Risk Oversight Committee once input from the Audit Committee is received

# Real life SVGC risk assessments



Business objective:

**Deliver returns for SVGC of 5% p.a. net outperformance over public markets over a ten year period.**

**(Source: 2012 Interim report)**

Threats to Achievement/Risks:

Risk Treatments:

Residual Risk Status:

(indicator data, concerns/viable risk treatments not selected, impact information, impediments)

Action Items:

Residual Risk Rating:

# Real life SVGC risk assessments



Business objective:

**Deliver a level of annual returns for SVGC reflecting the returns that top quartile private equity funds will generate in the long terms**

**(Source: 2012 SVG Interim report)**

Threats to Achievement/Risks:

Risk Treatments:

Residual Risk Status:

(indicator data, concerns, viable risk treatments not selected, impact information, impediments)

Action Items:

Residual Risk Rating:

# Real life SVGC risk assessments



Business objective:

**Ensure for SVGC that no investment in any company or group exceeds 15% by value of its overall investments**

**(Source: 2011 Annual report p. 12)**

Threats to Achievement/Risks:

Risk Treatments:

Residual Risk Status:

(indicator data, concerns, viable risk treatments not selected, impact information, impediments)

Action Items:

Residual Risk Index:

# Real life SVGC risk assessments



Business objective:

**Ensure SVGC financial statements are reliable and in accordance with IAS and UK rules**

**(Source: 2012 Individual targets S. Cunningham)**

Threats to Achievement/Risks:

Risk Treatments:

Residual Risk Status:

(indicator data, concerns, viable risk treatments not selected, impact information, impediments)

Action Items:

Residual Risk Index:

# Real life SVGC risk assessments



Business objective:

**Ensure compliance with section 118 of the Financial Services and Markets Act 2000 and the Market Abuse Directive**

**(Source: Bob Pamment/Ed Williamson's view of high value erosion potential)**

Threats to Achievement/Risks:

Risk Treatments:

Residual Risk Status:

(indicator data, concerns, viable risk treatments not selected, impact information, impediments)

Action Items:

Residual Risk Index:

# Real life SVGC risk assessments



Business objective:

**Ensure waterfall payments made by and received by SVG funds are accurately calculated in accordance with contract terms**

**(Source: Job description Mark Blencoe)**

Threats to Achievement/Risks:

Risk Treatments:

Residual Risk Status:

(indicator data, concerns, viable risk treatments not selected, impact information, impediments)

Action Items:

Residual Risk Index:

# Questions/Discussion

# OCRCM: SVG Capital: A Case Study



**Step 1**
Populate 'Objectives Register ' with top value creation and value preservation objectives.

**Step 2**
Assign objective 'Owner/Sponsors' and identify 'Risk Assessment Rigor' ('RAR') and 'Independent Assurance Level ' ('IAL') targets.

**Step 3**
Confirm decisions made in Step 1&2 on Objectives Register, Risk Assessment Rigor and Independent Assurance Levels with the Board.

**Step 4**
Owner/Sponsors complete RiskStatuslines™ and Internal Audit/other assurance groups complete independent assurance work.

**Step 5**
Consolidated report including 'Composite Residual Risk Ratings' prepared for senior management and the Board.

# OCRCM: SVG Capital: A Case Study



## Creating the Objectives Register

| | Draft objective statement | Owner/Sponsor Candidate | Target Risk Assessment Rigour | Target Independent Assurance Level | Composite Residual Risk Rating | CRRR Update Date | |
|---|---|---|---|---|---|---|---|
| 2 | | | | | | | |
| 3 | Ensure risks related to the ABC's business model of outsourcing management and advisory services have been identified, assessed and reported on to key shareholders | ABC Board | Medium | Medium | TBD | 19/01/2015 | **Completed** |
| 4 | Provide a liquid, balanced, single-point liquid access to private equity and private equity related assets | ABC Board | Medium | Medium | TBD | 19/01/2015 | **Completed** |
| 5 | Ensure the company maintains sufficient critical mass/ size/ scope of operations to maintain share liquidity/ capital market visibility whilst maximising short and long-term value for shareholders and aiming to optimise the shareholder base | Joan Smith | Medium | Medium | TBD | 19/01/2015 | **Completed** |
| 6 | Deliver returns of 5% p.a. net outperformance over public markets over a 10 year period | Joan Smith | Medium | Medium | TBD | 20/01/2015 | **Completed** |
| 7 | Ensure senior management and the board meet or exceed in-force governance requirements for Toronto listed public | ABC Board | Medium | Medium | 0 | 30/01/2015 | **Completed** |
| 8 | Safeguard ABC against fraud | John Miller | Low (target medium) | TBD | TBD | 09/02/2015 | **Further work required** |
| 9 | Ensure the risk/ reward trade-offs relating to appropriate contractual provisions and insurance are understood and | John Miller | Low (target medium) | TBD | 0 | 31/10/2014 | **Completed, subject to** |
| 10 | | | | | | | |
| 11 | Ensure all financial obligations and covenants are met whilst optimising the cost of capital and balancing risk and reward | John Miller | Medium | Medium | TBD | 04/02/2015 | **Completed** |
| 12 | | | | | | | |
| 13 | Optimise investment portfolio to produce target returns whilst complying with investment guidelines | M Frederick | Medium | Medium | TBD | 04/02/2015 | **Completed** |
| 14 | Ensure that investment funds comply with the partnership agreement and disclose all actual and potential conflicts of | John Miller | Low (target medium) | TBD | TBD | 07/08/2014 | **Further work required** |
| 15 | | | | | | | |
| 16 | Ensure the company complies with all applicable laws and regulations | John Miller | Low (target medium) | TBD | TBD | 06/08/2014 | **Further work required** |
| 17 | Protect the company's interests regarding existing and potential judicial, administrative and regulatory legal proceedings | John Miller | Low | TBD | TBD | 31/07/2014 | **Recommendation to delete** |
| 18 | | | | | | | |
| 19 | Maintain the ability to operate in the event of a termination of the outsourced IT services provider | Chuck Clark | Low (target medium) | TBD | TBD | 16/09/2014 | **New, incomplete** |
| 20 | Ensure financial statements are reliable and in accordance with IAS and Canadian rules and that investments are included at fair | John Miller | Low (target medium) | TBD | TBD | 15/07/2014 | **Completed, subject to** |
| 21 | | | | | | | |
| 22 | Safeguard and enhance the company's reputation | Ann Peabody | Low (target medium) | TBD | TBD | 28/01/2014 | **Completed, subject to** |
| 23 | | | | | | | |
| 24 | | | | | | | |

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## TRAINING OWNER/SPONSORS

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# OCRCM: SVG Capital: A Case Study



## Sample RiskStatusline

# RiskStatus*line*™ Assessment

**Objective: Ensure the company maintains sufficient critical mass/size/scope of operations to maintain share liquidity/capital market visibility whilst maximising short and long-term value for shareholders and aiming to optimise the shareholder base**

(Context: as of Oct 2 2015 the company ranked 287 on the All Share ranking or in 187th slot in the FTSE 250 with a market cap of £870 million)

| | | | | |
|---|---|---|---|---|
| 273 | PLI | Perpetual Income & Growth Investment Trust | FTSE 250 | 404.20 |
| 274 | ALD | Aldermore Group | FTSE 250 | 277.00 |
| 275 | JLIF | John Laing Infrastructure Fund Ltd | FTSE 250 | 115.60 |
| 276 | TRY | TR Property Investment Trust | FTSE 250 | 295.10 |
| 277 | VSVS | Vesuvius | FTSE 250 | 345.00 |
| 278 | CCC | Computacenter | FTSE 250 | 760.00 |
| 279 | BPTY | Bwin.Party Digital Entertainment | FTSE 250 | 113.00 |

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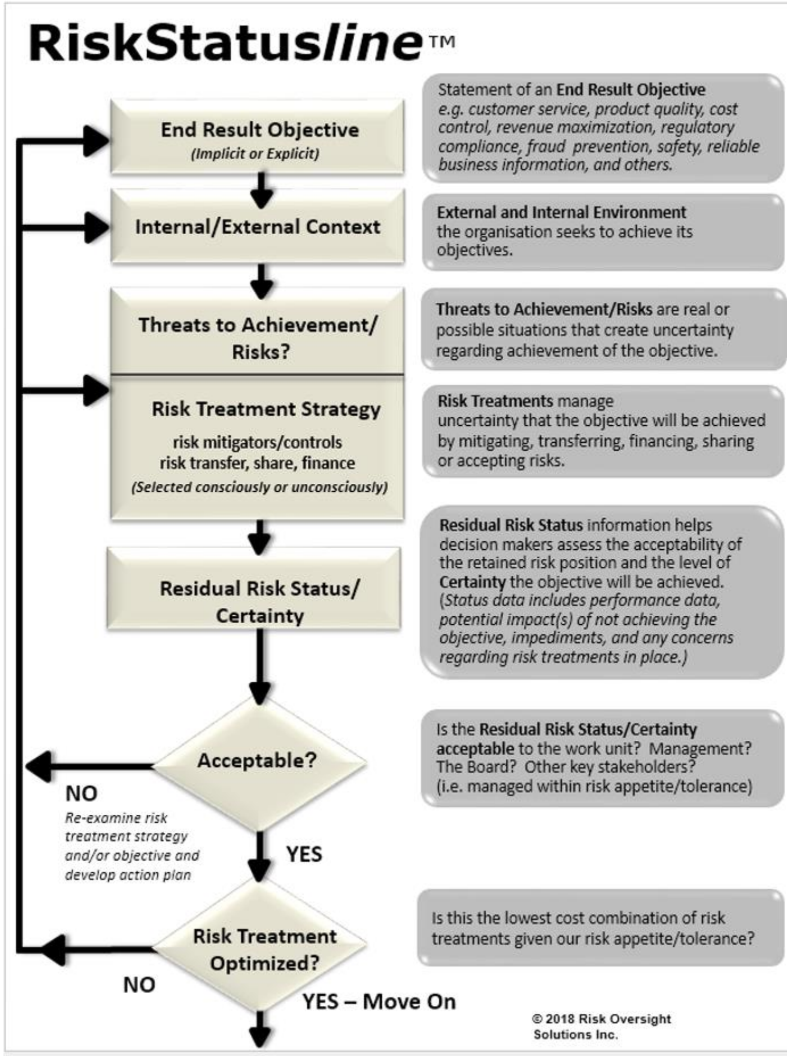
## Completing RiskStatuslines

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# BOARD UPDATE: ERM RESTART

Presented by Tim Leech, Managing Director Global Services, Risk Oversight Inc.

June 19, 2013

# Agenda



- SVGC's ERM restart progress report@ June 19, 2013
- SVGC's Objectives Register – sample objectives
- SVGC OWNER/SPONSOR RiskStatus*line*™ GUIDE
- Sample risk assessments in progress
- Next steps/decisions – Lynn Fordham

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## Risks

### Principal Risks, Risk Management and Risk Oversight

The Board is responsible for managing and overseeing risk. A Board-driven, objective centric approach to risk management and internal audit has been adopted that focuses on identifying the most critical value creation objectives and potential value erosion risks if an objective is not met; recording these objectives in a corporate objectives register; assigning specific management personnel in ASVG to objectives to regularly assess and report to the Board on the state of retained/residual risk, including whether the current residual risk status is consistent with the Company's risk appetite; and direct, senior ASVG management and Board input and involvement in deciding which end-result objectives warrant formal risk assessments; and the appropriate level of risk assessment rigour and independent assurance to be applied in light of cost/benefit considerations. The Board believes this approach better positions the Company to meet the emerging risk governance expectations proposed by the Financial Stability Board (FSB) globally, and the Financial Reporting Council (FRC).

SVG Capital plc
London Stock Exchange
Jan 2015 Annual Report
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The Companies Act and FRC require companies to disclose the principal risks and uncertainties the Company faces. The Company believes this process is best done by considering the Company's most important value creation objectives and objectives that have the potential, if not achieved, to significantly erode shareholder value. Independent expert advice has been obtained to ensure that the processes used to populate and maintain the Company's objectives register and the related residual risk status information are robust, effective, and 'fit for purpose'.

'Principal risks and uncertainties' are defined by the Board as risks with the highest overall potential to affect the achievement of the Company's business objectives. These objectives include: ensuring the ability to meet liabilities as they fall due and meet liabilities in full; and achieving target returns. Principal risks relating to delivery of these objectives are described on page 30, along with other principal risks identified in relation to other key objectives. Further information on risk factors is set out in note 29 to the Accounts.

### Internal control/risk treatment

The Code requires the Board to at least annually conduct a review of the adequacy of the Company's

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2016 Annual Report



## Risk and audit oversight

With the growing sophistication of the UK Corporate Governance Code and significantly heightened investor and regulator risk governance expectations, the SVG Capital Board has adopted a revised approach to risk governance with the following objectives:

- → Increase certainty/reduce uncertainty that the Company's objectives will be achieved while operating within management and the Board's risk appetite and tolerance.
- → Ensure risk assessments clearly link the Company key strategic objectives, risks, risk treatments, and Key Performance Indicators (KPIs).
- → Ensure the Company's risk culture continues to be appropriate.
- → Increase the direct, visible involvement of the Company's Board and management in assessing and managing risks of all types to the Company's top objectives.
- → Meet and exceed the governance requirements in the UK Corporate Governance Code.
- → Seek to improve our external risk governance communications.

**Board**

Determines risk appetite and risk framework

- → Responsible for ensuring appropriate risk management framework is in place
- → Considers principal risks and uncertainties in detail
- → Oversees operation of risk management framework and acceptability of residual risk linked to business objectives
- → Detailed review of risk matters at annual strategy Board meeting and periodic reviews at other meetings

**Independent risk oversight provider**

**Chief Executive**

Overall responsibility for building and maintaining robust risk management processes and delivering reliable and timely information on the current residual risk status linked to objectives to the Board. This includes ensuring objectives are assigned owners and sponsors who have primary responsibility to report on the risks.

**Risk Management Committee**

- → Delegated responsibility for risk management
- → Ensures appropriate risk management arrangements, processes and techniques in place
- → Monitors adherence to risk appetite and risk management framework
- → Liaises with independent risk oversight provider
- → Meets at least quarterly

**Managers and Other Employees**

Key managers and employees are assigned owner or sponsor responsibility for reporting on objectives not assigned to Chief Executive or Board.

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## SVG Capital's risk governance approach and framework

The risk governance approach the Company has implemented is based on a customised "Five Lines of Assurance" process. The diagram on page 22 provides an overview of the roles played by each of the five lines. The Company opted for the Five Lines of Assurance approach to elevate the key roles played by SVG Capital's Board and senior management and better achieve the risk governance objectives listed above.

In accordance with AIFMD requirements, the Company has put in place a risk framework that is reviewed by the Board on a periodic basis. This framework includes limits to mitigate various risks including, for example, financing risk which is assessed through cash flow modelling and stress testing. The Risk Management Committee reviews reports prepared to ensure compliance with the risk limits set out in the framework. The Group's Chief Risk Officer has oversight responsibility for this process.

## How the approach links strategy to risks and KPIs

Investors and regulators are increasingly interested in how companies assess risks to their key strategic objectives and core social responsibility objectives. The approach used by SVG Capital starts with the Company's strategic objectives. Full risk assessments are completed on the objectives in the Company's "Objective Register" using a rigorous and consistent approach that identifies threats to the objective and treatments of those risks. A residual risk status is created for each objective and these residual risk status reports are ultimately reviewed by the Board at least once a year. The approach draws on the core elements of the ISO 2009 international risk management standard 31000, but goes beyond the ISO standard to focus the attention of decision makers on current performance and the acceptability of the current residual risk status.

All significant risks to objectives are considered in combination. This approach ensures senior management and the Board have current information to continuously assess whether the current risk treatments are resulting in a level of retained risk that is within the Company's and the Board's risk appetite and tolerance.

The Board agrees the level of risk that it is prepared to take in achieving the Company's strategic goals on an annual basis. As a private equity investor, the Company accepts some level of investment risk in order to achieve its targeted returns, but stipulates that a disciplined approach to asset allocation is taken. There is very low tolerance for financing risk with the aim to ensure that even under the most severe stress scenario, the Company is likely to meet its financial obligations as they fall due. Similarly, there is low risk tolerance with respect to legal and regulatory risk, but the Company accepts a certain degree of operational risk, for example in areas such as staff retention.

## Board oversight of risk culture

A key objective of the new risk governance framework is to build and maintain a robust and supportive risk culture that fosters sound decision making. In 2015, SVG Capital's Board commissioned an independent assessment of SVG Capital's risk culture. The assessment was completed using criteria developed by the Financial Stability Board in its April 2014 guidance to national regulators (extracted below).

The overall conclusion of the independent audit presented to the Board in late 2015 was that SVG Capital's risk culture was appropriate for the Company. Following the assessment, it was recommended that each Group employee sign a Group code of conduct which has now been done. The audit confirmed that the Board was receiving materially reliable consolidated reports on the true risk status linked to the Company's strategic objectives.

**Tone from the top:** The board and senior management are the starting point for setting the financial institution's core values and expectations for the risk culture of the institution, and their behaviour must reflect the values being espoused. A key value that should be espoused is the expectation that staff act with integrity and promptly escalate observed non-compliance within or outside the organisation. The leadership of the institution promotes, monitors, and assesses the risk culture of the financial institution; considers the impact of culture on safety and soundness; and makes changes where necessary.

**Accountability:** Relevant employees at all levels understand the core values of the institution and its approach to risk, are capable of performing their prescribed roles, and are aware that they are held accountable for their actions in relation to the institution's risk-taking behaviour. Staff acceptance of risk-related goals and related values is essential.

**Effective communication and challenge:** A sound risk culture promotes an environment of open communication and effective challenge in which decision-making processes encourage a range of views; allow for testing of current practices; stimulate a positive, critical attitude among employees; and promote an environment of open and constructive engagement.

**Incentives:** Performance and talent management encourage and reinforce maintenance of the financial institution's desired risk management behaviour. Financial and non-financial incentives support the core values and risk culture at all levels of the institution.

Source: Financial Stability Board, 'Guidance on Supervisory Interaction with Financial Institutions on Risk Culture: A Framework for Assessing Risk Culture,' 7 April 2014, page 3.

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### Board oversight of risk management, internal audit and external audit

The September 2014 revisions to the UK Corporate Governance Code significantly elevated expectations related to Board oversight of risk management processes and internal and external audit. The Board has contracted the services of an independent risk adviser to provide regular reports to the Board on the effectiveness and maturity of the Company's risk management framework and its overall governance framework. These reviews are done using guidance developed by the Global Institute of Internal Audit linked to International Professional Practices Framework (IPPF) standards 2110 and 2120.

The Board also has heightened responsibility under the provisions of the September 2014 revision to the UK Corporate Governance Code to oversee the effectiveness of the Company's external auditor Ernst & Young. The SVG Capital Board was provided with training on board oversight of the external audit processes in November 2015 at its annual offsite board meeting. Meetings were held by the chair of the Company's Audit Committee, Stephen Duckett, with Ernst & Young to assess the likely effectiveness of its annual SVG Capital audit process in March 2016. The SVG Capital Board is satisfied that the process used by Ernst & Young meets existing external audit standards. In conducting its review the SVG Capital Board has referred to the oversight of the FRC of Ernst & Young and representations made to them by the Ernst & Young audit partner they met with.

### Adequacy of risk and audit oversight

The Board, at least, annually, conducts a review of the adequacy of the Company's systems of risk management and internal control processes and is responsible for those systems and for reviewing their effectiveness. Due to its size and nature, it has not recently been considered necessary for the Company to have an internal audit function. Regular dialogue has been maintained with the external auditor and the independent risk management services provider and the Board takes into account the assurance derived from their work. The Board annually reviews the benefits of an internal audit function and how it might best be provided.

The Board has conducted a review in accordance with the UK Corporate Governance Code and believes that the combination of the Company's risk management and governance framework described in the Company's risk management policy and summarised above, risk assessment training provided to key management personnel, reviews and feedback provided by the Company's independent adviser combined with the work done by Ernst & Young, the Company's external auditor, are appropriate to the Company's business as an investment company and adequate. This review was carried out as part of the Board evaluation process, details of which can be found on page 31.

The Board is satisfied that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company; the systems have been in place for the year under review and up to the date of approval of the Annual Report and Accounts; the systems are regularly reviewed by the Board; and the systems accord with FRC guidance on this area.

The Board considers that adequate risk mitigation risk treatments/controls exist over the financial reporting process. An experienced team is responsible for preparing the financial reporting for the Company and ensuring that financial information is accurate, complete, reconciled and reviewed by senior members of staff, and that transactions and balances are recognised and measured on a consistent basis and in accordance with accounting policies and financial reporting standards. Management personnel responsible for the integrity and reliability of the Company's financial statements have completed formal risk assessments on the objective of publishing financial disclosures that are fair, balanced and understandable. These risk assessments have been reviewed by the Company's risk adviser and the Board. Although the Board believes that it has a robust framework of risk management and internal control over financial reporting in place, this can only provide reasonable and not absolute assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

Further details of the Company's approach to risk management is available on the Company's website at www.svgcapital.com.

### Principal risks and uncertainties

The Companies Act and FRC require companies to disclose the principal risks and uncertainties the Company faces.

'Principal risks and uncertainties' are defined by the Board as risks with the highest overall potential to affect the achievement of the Company's business objectives. These objectives include: ensuring the ability to meet liabilities as they fall due and meet liabilities in full; and achieving target returns. Principal risks relating to delivery of these objectives are described on page 25, along with other principal risks identified in relation to other key objectives. Further information on risk factors is set out in note 27 to the Accounts.

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What's the single biggest benefit?

It makes it crystal clear that management is responsible for managing and assessing risk and reporting to the board on the certainty of achieving the most important objectives

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DEALS OCTOBER 18, 2016 / 10:10 AM / 3 YEARS AGO

## PE firm SVG Capital to sell investment portfolio to HarbourVest

2 MIN READ

(Reuters) - Britain's SVG Capital Plc SVG.L agreed to sell its investment portfolio to HarbourVest for about 807 million pounds ($991 million) after the private equity firm elbowed out Goldman Sachs Group Inc-led consortium with a sweetened offer.

SVG said HarbourVest's (HVPEa.L) offer of 715 pence per share represents a 0.6 percent premium to the value of its investment portfolio at the end of July.

The company had previously accepted an offer of 680 pence per share, or 748 million pounds, from Goldman (GS.N) and the Canada Pension Plan Investment Board for the portfolio.

SVG said the portfolio sale and a wind down of the company would generate superior value, compared with HarbourVest's $1.35 billion bid for the entire company and Goldman's offer.

SVG said on Tuesday that its expected to return about 1.12 billion pounds to shareholders through a series of tender offers.

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# END OF MODULE 3



QUESTIONS???

timleech@riskoversightsolutions.com