



RISK MANAGEMENT

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INTERNAL CONTROL

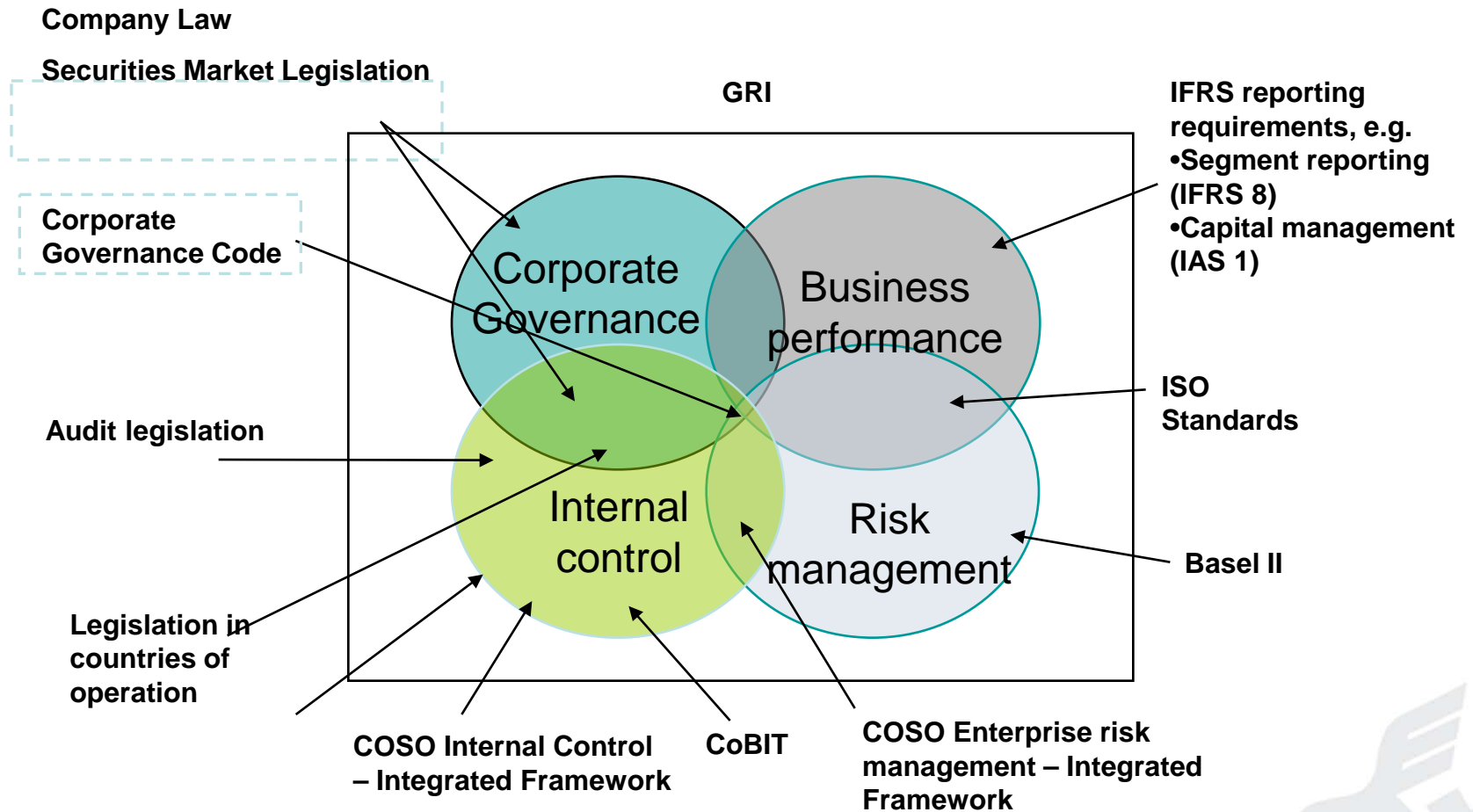


Internal control

- helping the organization accomplish goals or objectives
- a means by which an organization's resources are directed, monitored, and measured
- preventing and detecting fraud
- protecting the organization's resources
 - physical
 - e.g., machinery and property
 - intangible
 - e.g., reputation or intellectual property such as patents and trademarks



Control systems framework



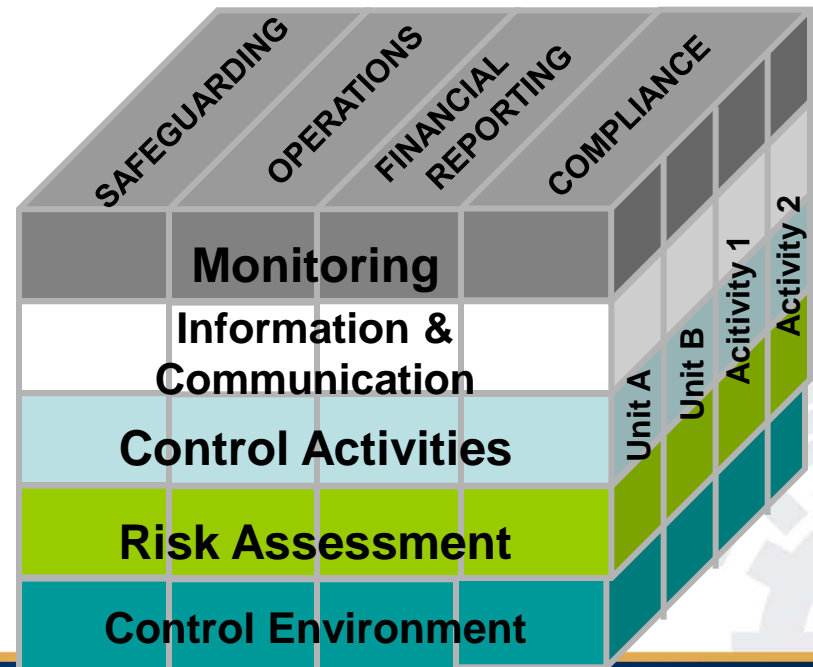
Objectives for internal control

- Safeguarding the company's profitability, assets, brand and reputation
- Effectiveness, efficiency and transparency of operations on all levels
- Reliability of financial reporting
- Compliance with applicable laws and regulations and Company Code of Conduct



Objectives for internal control: COSO

- Large companies: objectives for internal control are based on COSOs definition for internal control.
 - Committee of Sponsoring Organizations (COSO) is a US voluntary private-sector organization, *de facto standard on issuing guidance on internal control.*



COSO: internal control - five components



– Control Environment

- sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.

– Risk Assessment

- the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed

– Information and Communication

- systems or processes that support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities

– Control Activities

- the policies and procedures that help ensure management directives are carried out.

– Monitoring-processes used to assess the quality of internal control performance over time



COSO Framework: responsibilities

- everyone in an organization has responsibility for internal control to some extent
 - produce information
 - communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions.
- each major entity in corporate governance has a particular role to play
 - Management – CEO, senior managers (e.g.CFO, legal)
 - Board of Directors
 - Auditors – internal and external auditors



Control activities

- Segregation of duties – no “dangerous combinations”
- Authorization of transactions
- Retention of records - documentation
- Supervision or monitoring of operations
- Physical safeguards
 - usage of cameras, locks, physical barriers, etc. to protect property
- Analysis of results, operational reviews
- IT Security
 - usage of passwords etc. to ensure access restricted to authorized personnel



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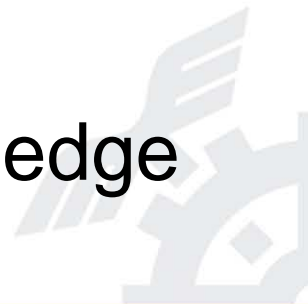


Risks

- Operational risks
- Financial risks
- Strategic risks
- Hazard risks



Operational risks

- Manufacturing / functioning risk
 - Supplier and subcontractor risk
 - Contractual risks
 - Liability risks
 - Energy price risk
 - Commodity price risk
 - Risk of losing key personnel
 - Risk of losing personnel with tacit knowledge
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Financial risks

- Foreign exchange risk
- Interest rate risk
- Liquidity and refinancing risk
- Credit risk



Strategic risks

- Business environment risk
- Market and customer risk
- Competition
- Reputation risk
- Price risk
- Political risk
- Legislative risk
- Climate change and sustainability risks



Hazard risks

- Occupational health and safety
- Personnel security
- Natural catastrophes
- Fire, cargo and other accidents
- Fraud and theft



Risk profile

- Identify the risks of your company
- Assess their probability and impact
- Identify possible measures to reduce risks
- Choose risk reduction measures
 - **Avoidance**
 - **Reduction**
 - **Transfer** (outsource or insure)
 - **Retention** (accept and budget)



Enterprise Risk Management ERM

- COSO "Enterprise Risk Management-Integrated Framework"
 - "...process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."



ERM: 8 components

- Internal Environment
- Objective Setting
- Event Identification
- Risk Assessment
- Risk Response
- Control Activities
- Information and Communication
- Monitoring



ERM – 4 objectives

- **Strategy** - high-level goals, aligned with and supporting the organization's mission
- **Operations** - effective and efficient use of resources
- **Financial Reporting** - reliability of operational and financial reporting
- **Compliance** - compliance with applicable laws and regulations



ERM frameworks

- Management selects a *risk response strategy*
 - Avoidance: exiting the activities giving rise to risk
 - Reduction: taking action to reduce the likelihood or impact related to the risk
 - Share or insure: transferring or sharing a portion of the risk, to reduce it
 - Accept: no action is taken, due to a cost/benefit decision



Deposit guarantee schemes

- Confidence and proper functioning of the financial sector
- Directive on Deposit Guarantee Schemes 94/19/EC
 - Amendments: Directive 2009/14/EC
 - Minimum coverage level increased to EUR 50 000
 - By 31 December 2010 EUR 100 000, unless the Commission concludes that this is inappropriate and not financially viable
 - Banks finance the schemes



Investors compensation schemes

- Investment compensation scheme directive 97/9/EC
 - Call for evidence (deadline 8 April 2009)
 - confidence of investors through a harmonised set of minimum protective measures
 - Protects investors, to a certain extent, against the risk of losses in the event of an investment firm's inability to repay money or return assets held on behalf of their clients
 - DOES NOT COVER BAD ADVICE
- minimum level of compensation: 9/10 of the claim, € 20.000

