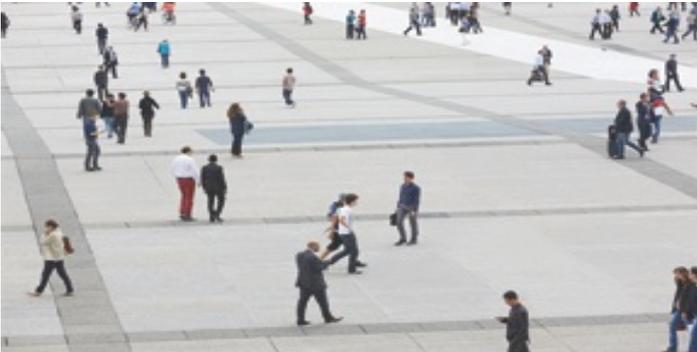


# COSO Enterprise Risk Management – Integrating with Strategy and Performance

AFERM Summit  
November, 2017

# Agenda

- 1 Introducing COSO**
  - 2 Why update the Framework now?**
  - 3 What has changed?**
  - 4 What does it mean for you?**
  - 5 More information**
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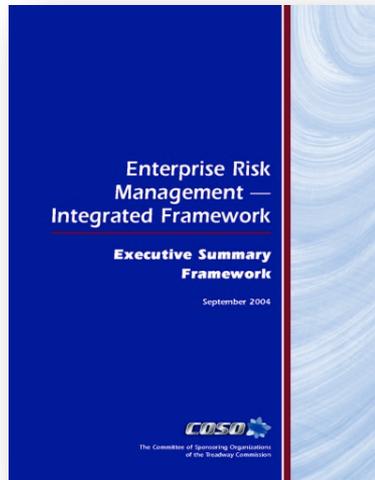


*COSO recognizes the growing expectation of organizations to manage, in an integrated and cohesive manner, risks emanating from across an enterprise.*

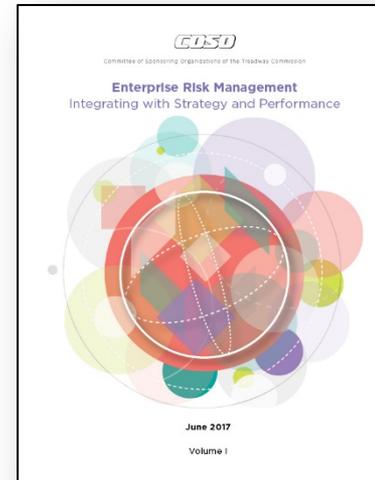
Robert B. Hirth Jr., COSO Chair

# *Introducing COSO*

# Updating one of the world's most widely used risk management frameworks

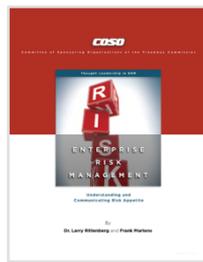


2004 Publication



2017 Publication

## Other COSO publications



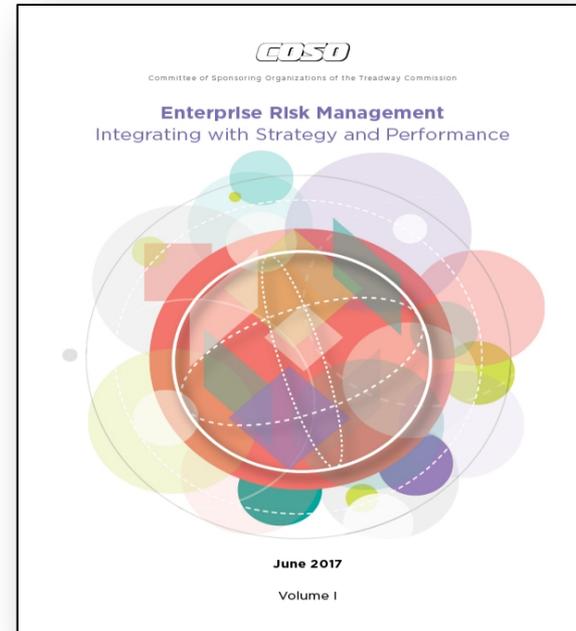
*What prompted the  
Framework update?*

# *What are risk and business professionals saying?*



# Why update the ERM framework now?

- **Boards are expecting more** from their organization's ERM practices and capabilities
- Stakeholders are seeking **greater transparency** and accountability
- Business **environments are increasingly complex**, technologically driven, and global
- There is a need to **incorporate lessons learned** from recent events and the bar is rising
- Risk professionals are looking for a **more up to date resource** describing ERM concepts
- The range of ERM **practices continues to evolve**



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**Since 2004, the market has continued to evolve and the COSO Framework is evolving with it.**

.....

*What's changed?*

# ***Introducing the 10 key changes to the 2017 Framework***



**A new framework structure**



**Explores the different benefits of ERM**



**A focus on integrating risk management**



**Suite of new graphics highlighting the relationship between risk and performance**



**Written from the perspective of the business**



**Deeper discussions on challenging topics**



**Explores management of risk at all altitudes of the organization**



**Addresses the evolving role of technology**



**Greater emphasis on culture**



***Coming soon: Compendium of Example***

# A new framework structure



The graphic symbolizes the dynamic, integrated nature of ERM that begins with the mission, vision and core values of the organization through to the creation of enhanced value.



5 Components that align to the business life cycle

20 Supporting principles that collectively describe the ERM Framework

# The new Framework adopts a components and principles structure



# Explores the benefits of ERM



- Enterprise risk management frameworks are as varied as the organizations they support.
- In their infancy, many frameworks focus on reducing negative surprises and identifying entity-wide risks.
- Boards, senior management and stakeholders are increasingly expecting ERM to go further to deliver greater benefits.



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# Question 1:

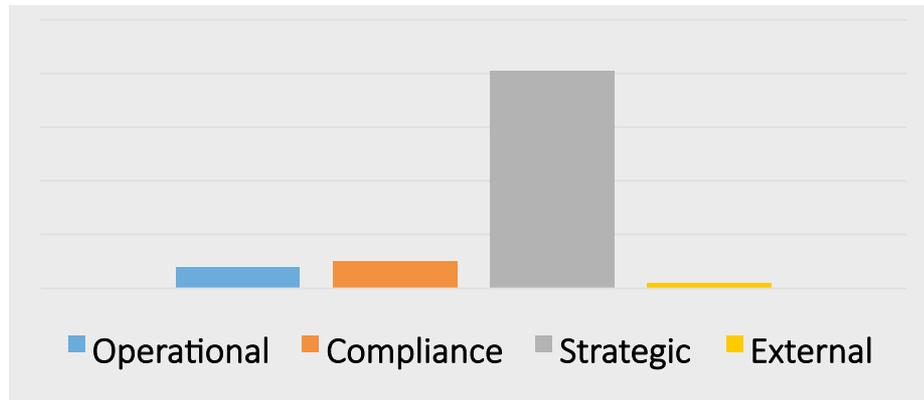
During the development of the ERM Framework, we heard repeated calls for a closer link with risk and strategy. Do you feel:

a) it is time to get risk at the strategic planning table

b) many are still trying to find their way in this conversation

c) this is a wasted effort and nothing will change at the strategy level

# Focusing on integrating risk and strategy



81% of the greatest losses in shareholder value since 2002 were attributable to ‘strategic blunders’

- **Strategic blunders account for a majority of the losses** in shareholder value compared to operational events, incidents or compliance failures
- Research suggests that organizations are looking to **strengthen the integration between strategy and enterprise risk management**

\*U.S. public companies around the world with at least US\$1 billion in enterprise value on January 1, 2002 (1,053 companies met these criteria). Dann, Le Merle and Pencavel, “The Lesson in Lost Value” Strategy+Business, November, 2012

# *Focusing on integrating risk and strategy*



**The updated Framework elevates the discussion of integrating strategy and risk through three different dimensions**

1. The possibility of strategy not aligning with mission, vision and core values
2. The implications from the strategy chosen
3. Risk to strategy and performance



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## Question 2:

We've been getting lots of input about the need to bring risk considerations into decision-making. Would you say that is:

a) a widely held view

b) necessary but far from reality

c) a voice from the louder minority

# *New graphics depict the alignment between risk and performance*



## Questions for your organization

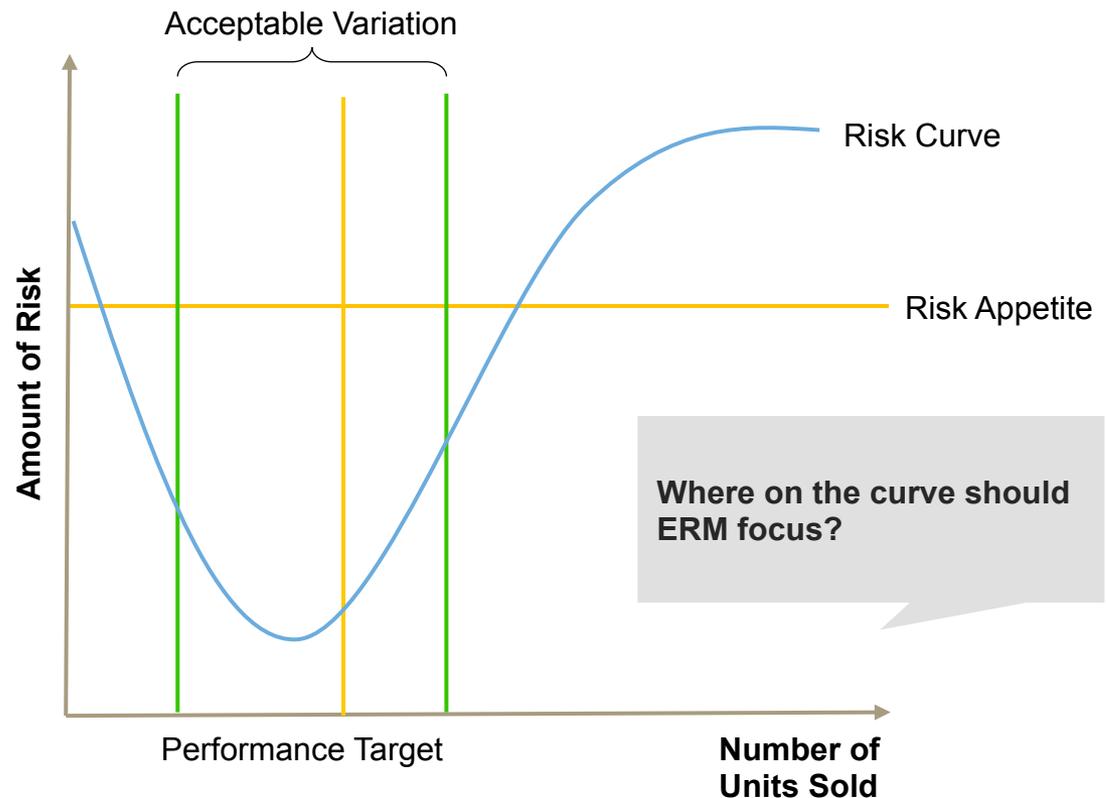
Is the risk assumed by the entity, when setting performance targets, understood?

What assumptions inform the shape of the risk curve?

Do existing key indicators demonstrate movement along the curve?

What level of performance is assumed when assessing impact and likelihood?

## Business objective: Increase sales

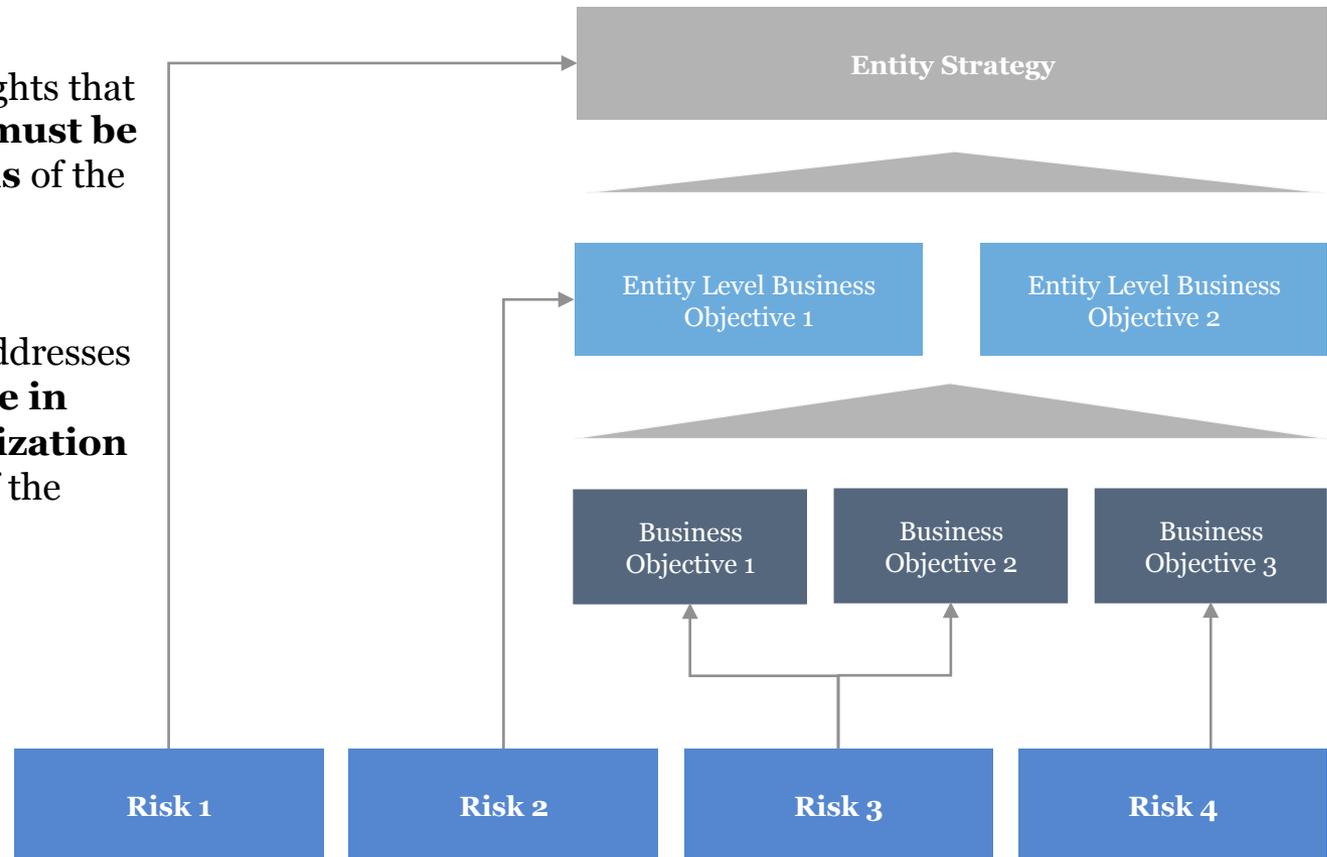


# Explores managing risk at all altitudes of the organization



The Framework highlights that **risks emanate and must be managed at all levels** of the organization.

The Framework also addresses how **risks can change in severity and prioritization at different levels** of the organization



# *Written from the perspective of the business*

The framework was written from the perspective of the business to facilitate the integration of ERM

- Research has confirmed that there is often a **‘siload’ or incremental approach to risk management** that is separate from the day to day management of an organization
- The lack of integration can contribute **to difficulties engaging with the business**, the ability to gain and offer insight and ultimately **curbs the value that ERM can offer**
- The Framework endeavors to **remove risk ‘jargon’** and adopts the language of business to discuss concepts and practices



# How the Framework addresses culture



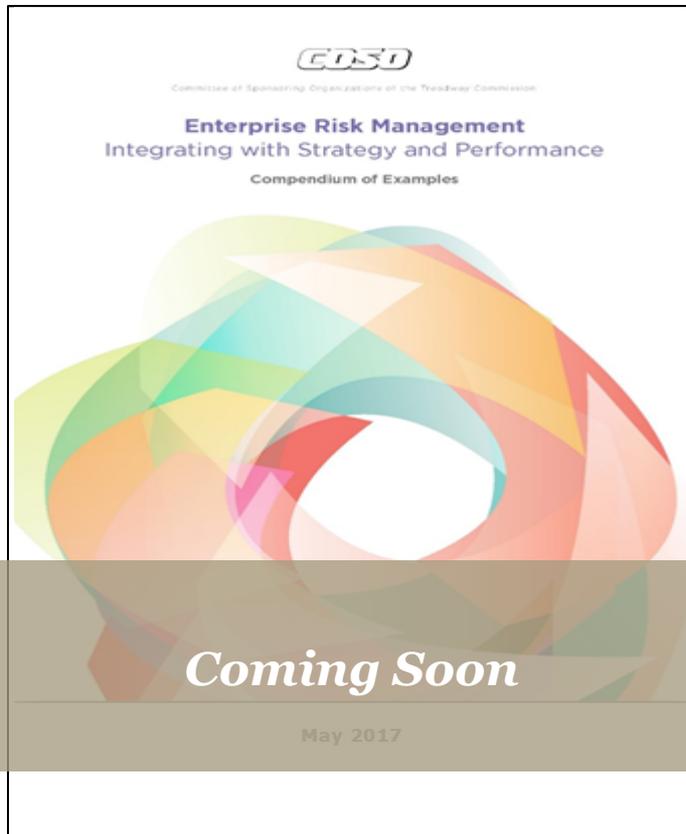
Culture now features in the definition of ERM and is part of the Framework's Governance and Culture Component

Principles on culture are now **more focused on decision-making** and the alignment to expected behaviors in line with the core values of the organization

The importance of **aligning the core values and risk appetite** of the organization to promote consistent and risk-based decision making

Discussions on the importance and commitment to integrity and ethics have been retained in the COSO Internal Control Integrated Framework

# Compendium of Examples



**A compendium of examples is also being developed. The proposed compendium will illustrate:**

- 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

*What does this mean for  
you and your  
organization?*

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## Question 3:

Where do you see yourself choosing to focus with regards to the Framework's adoption?

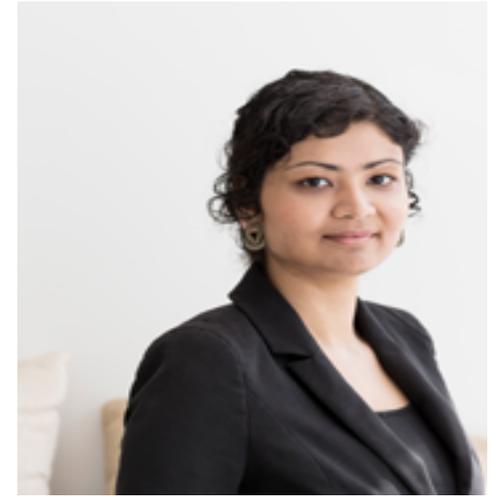
a) risk's relevance to strategy

b) risks relationship to performance

c) culture's consideration of risk

d) I have no idea or don't plan to do anything with my program

# *Where to next?*



## **Encourage your risk professionals to:**

- Sync with the language of business in your organization
- Understand how organization creates, realizes and preserves value and the supporting assumptions
- Develop a clear understanding of where ERM is integrated

## **Challenge your organization to not:**

- View ERM simply as a function, team or department
- Consider ERM to be a stand alone, periodic risk assessment or heat map
- View GRC technology as the entire approach for implementing ERM

*More information*

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# *Staying involved*



Access the Framework at [www.coso.org](http://www.coso.org)

***Thank you***