



Proudly Presents...

The Evolving Role of ERM Governance

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Presenters:

Ingrid Robinson, CPA, CIA, Senior Manager, Enterprise Risk Services (MNP LLP)

Robert Okashimo, P.Eng., Manager, Strategy & ERM (Toronto Hydro)

Navin Maharaj, MBA, ERM Consultant, Strategy & ERM (Toronto Hydro)

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Speaker Introductions



MNP
LLP



Session Outline

Introduction

Global Financial Crisis: Risk Management Lessons

ERM Governance Landscape

ERM Governance: Leading Practices

Toronto Hydro: ERM Governance Model

Closing Remarks

Questions

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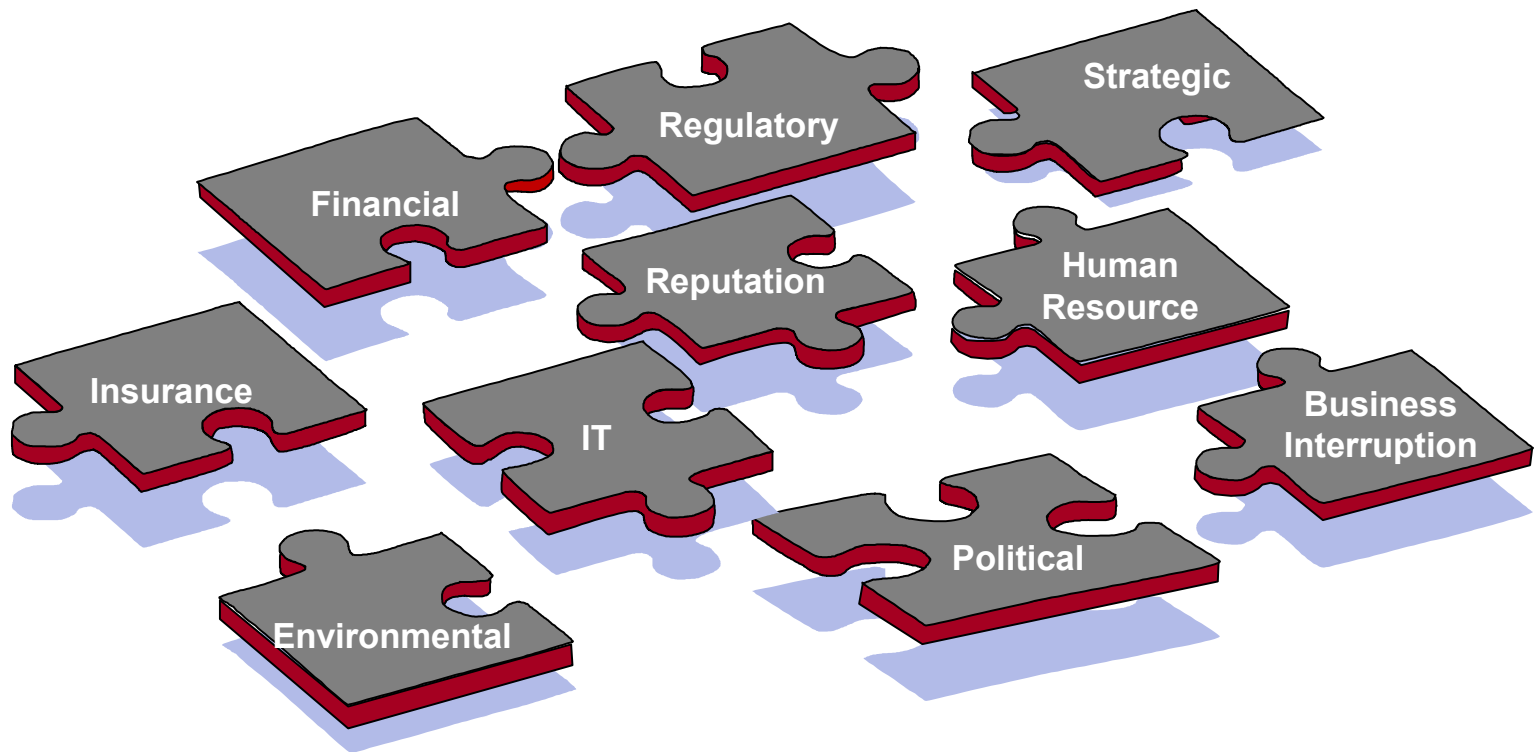
What is ERM?

- Enterprise Risk Management (ERM) is a rigorous and coordinated approach to assessing and responding to all the risks (*both upside and downside*) that affect the achievement of an organization's objectives



Siloed Risk Management

Organizations typically undertake some risk management activities but may lack an integrated and disciplined process



Leading ERM Methodology

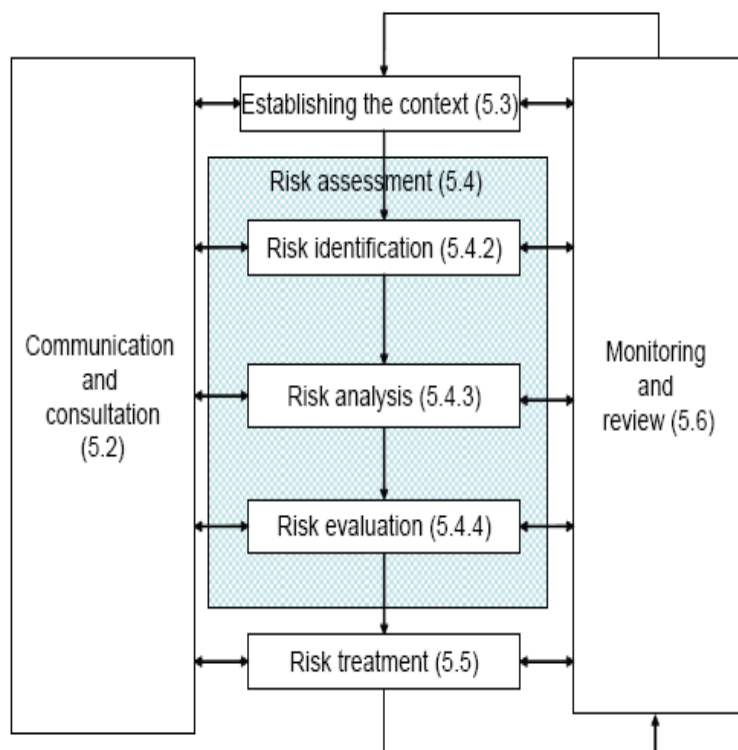
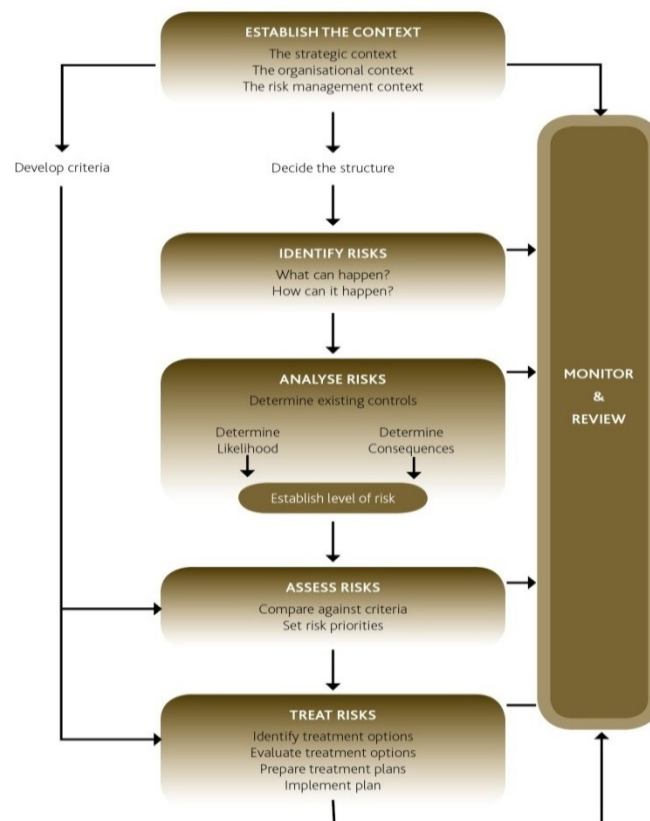


Figure 3 — Risk management process

(ISO 31000)



(AS/NZS 4360)

ERM Value Proposition

**No Big
Surprises**

Early Warning Systems

- Systematically identify, assess and prioritize risks
- Avoid unrewarded risks
- Promote organizational learning among management
- Reduce chance of repeat problems

Operational Resilience

- Provide assurance that key risks are understood and mitigated
- Prevent and rapidly respond to potential catastrophic failures
- Secure and protect staff, processes, and technology
- Align organizational goals with stakeholder requirements

Enhance Organizational Value

- Seek growth, ensuring threats are understood and vulnerabilities are mitigated
- Accelerate ability to respond to change and opportunities
- Identify opportunities to improve performance and reduce costs

What is Risk Governance?

- **Risk Governance is about three things:**
 1. Understanding limits of acceptable risk
 2. Providing confidence and guidance to management
 3. Anticipating events to position firm for success

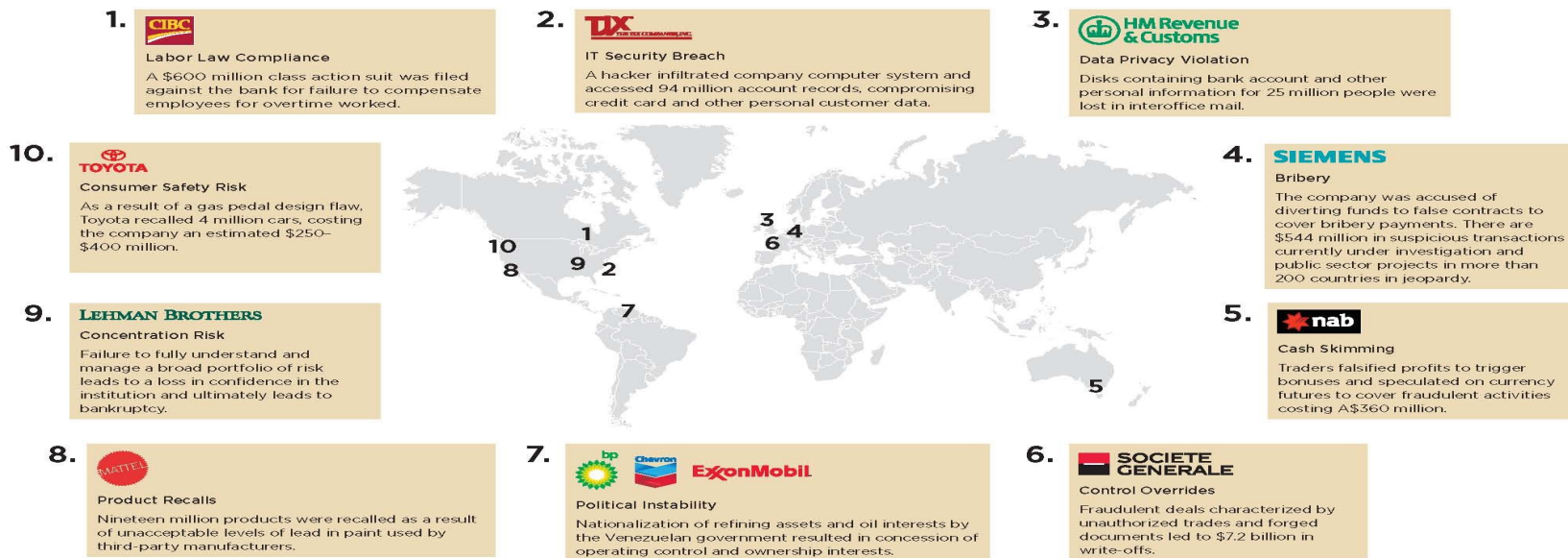


(National Association of Corporate Directors Blue Ribbon Commission on Risk Governance, 2009)

Why is Risk Governance Important?

A WAKE UP CALL

Select Risk Events
2007-2010



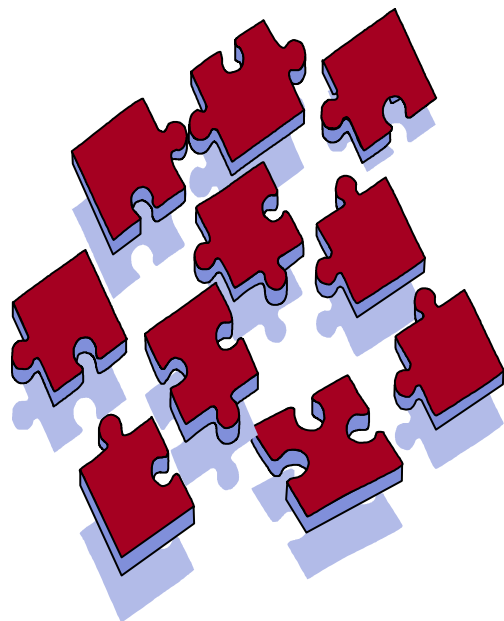
Source: Herald Sun; Financial Times; The Wall Street Journal; Economist

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Evolving Role of ERM Governance

"Past"



Siloed ERM



Siloed Governance



Business Failure

Evolving Role of ERM Governance

“Present”



Integrated ERM



Integrated Governance



Business Success

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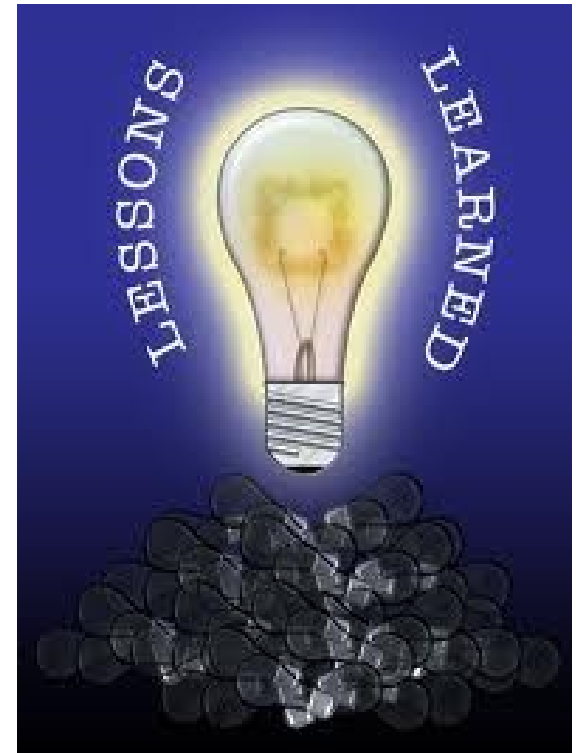
Questions

Global Financial Crisis

- Conditions **triggered economic downward spiral**:
 - Sub-prime meltdown
 - Liquidity crisis
 - Extreme market volatility
- **Repercussions spread to broader economy**:
 - Global credit market constriction
 - Reduced consumer demand
 - Volatile commodity prices, currencies and stock prices

Lessons Learned

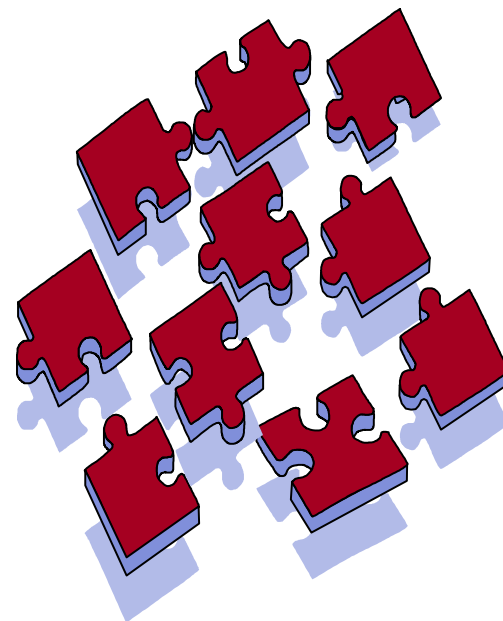
- **Compensation programs** conflicted with the objectives of the firm
- **Undue risk taking** led to financial instability
- **Fragmented technology infrastructures** hindered effective risk identification/measurement
- Ineffective **risk reporting**
- **Inadequate Board oversight of risk**



What Went Wrong?

· Ineffective Board Risk Governance

- Fragmented risk oversight responsibilities
- Inconsistent governance structures (Board and management)
- Lack of integration between strategy and risk management
- Insufficient risk experience among Board members



What Went Wrong?

- **Ineffective Risk Policies**

- Absence of explicit tolerance levels for key risks
- Lack of standards across different policies for ERM, operational risk, etc.
- Insufficient reporting and monitoring of policy exceptions and resolutions



What Went Wrong?

- **Ineffective Risk Managers:**
 - Relying on historical data
 - Focusing on narrow measures
 - Overlooking knowable risks
 - ~~Over~~ overlooking concealed risks
 - Failing to communicate
 - Not managing in real time



What Went Wrong?

- **Ineffective Assurance Processes**

- Ineffective Board communication and reporting
- Lack of independent assessments of the ERM program
- Use of subjective indicators to gauge ERM effectiveness



Key Lesson?



“While risk management is the responsibility of Executives, it is incumbent on the Board to put in place the governance controls that ensure that risk management processes are adequate and effective.” (Alles and Friedland, 2010)

ERM Outcome

- Balancing risk/reward more challenging
- Risk is more complex, interconnected and potentially devastating than ever before
- Companies are re-assessing strategies for responding to challenges and pressures
- **Board risk oversight function has taken centre stage!**



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ERM Governance Landscape

- Public and political perception that undue risk-taking was central to the financial crisis triggered extensive legislative, regulatory, and judicial focus on risk management and risk prevention



Regulatory Landscape

- In Canada and abroad, corporate governance rules and codes have undergone significant change in recent years as an outcome of the global financial crisis and corporate collapses



“NP 58-201”
(2005)



“303A.09”
(2010)



***“UK Corporate
Governance Code”***
(2010)



ERM Regulatory Landscape

Canada: National Policy 58-201 (2005)

• Board

should



adopt

ERM Regulatory Landscape

US: New York Stock Exchange 303A.09 (2010)

- Audit committee required to discuss guidelines and policies to govern the process by which risk assessment and management is undertaken
- Large financial institutions required to constitute independent Risk Committees



ERM Regulatory Landscape

UK: Corporate Governance Code, Section 3 (2010)

• Board
responsibil



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Risk Oversight: High Board Priority

July 2010 Dodd-Frank signed into law...requires that a Board risk committee be established by all public bank holding companies (and non-bank financial institutions supervised by the Federal Reserve) with over \$10 billion in assets.

COSO surveyed 200 corporate directors on the current and desired future state of risk oversight applied by Boards. 53% rated risk oversight as effective or highly effective. 70% indicated their Boards are NOT formally executing mature/robust risk oversight” (The Pak Banker. Lahore: Dec,2010)



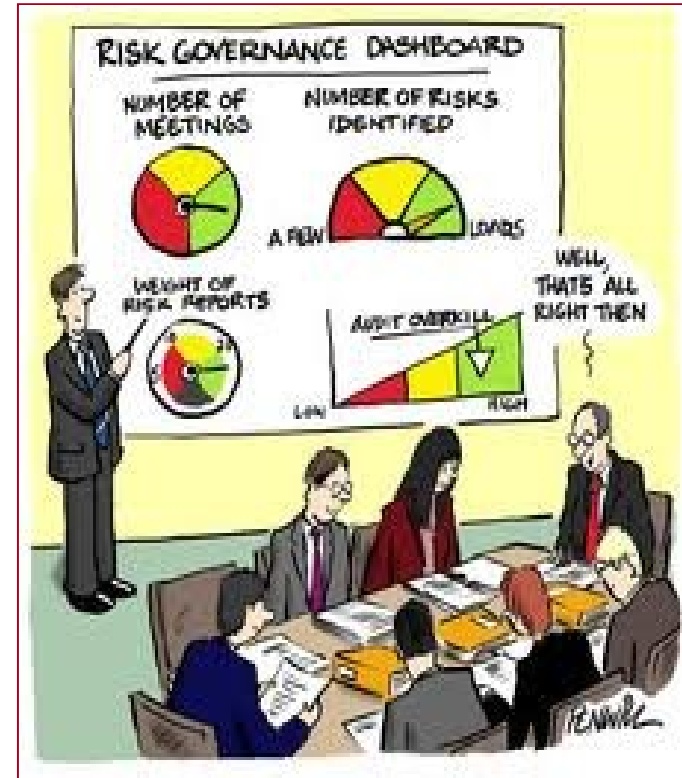
Boards are “re-examining governance structure and roles, risk policies and limits, and assurance and reporting processes”.

(J. Lam. Apr 2011. The RMA Journal, Vol 93, Iss. 7:51)

Effective ERM Oversight

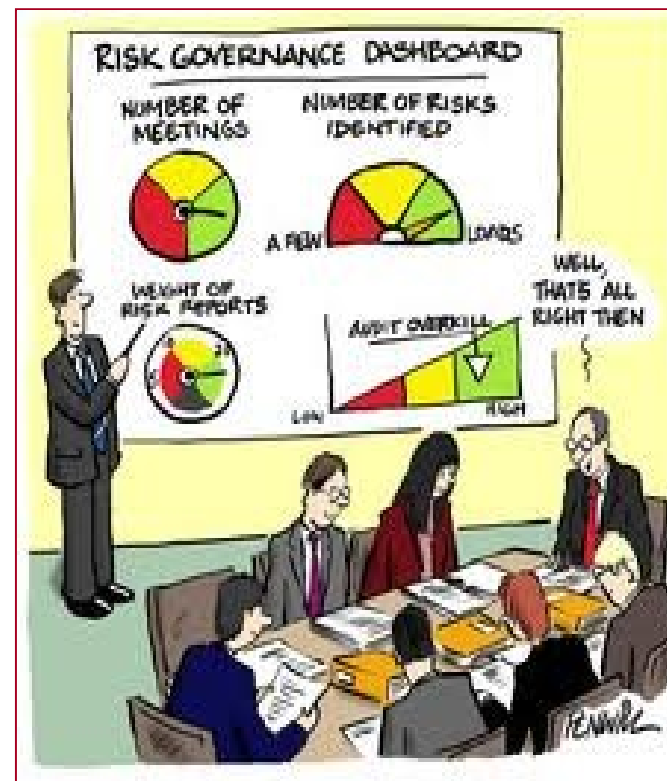
Effective Governance

- **Clearly define risk oversight roles** (Board and sub-committees; appoint Board members/advisors with deep risk management expertise; provide risk education)
- **Align Board and management structures** (charters, reporting lines, approval/decision structures, information flows)



Effective Governance (cont'd)

- **Risk management independence** (formalize reporting relationship between Chief Risk Officer and the Board/Board Risk Committee)
- **Integrate strategy and risk** (ensure compensation risk considered)



Effective Policy

- **Board expectations and standards communicated, including:**
 - Statement of risk philosophy
 - Governance structure
 - Risk tolerance levels (Board concurrence required)



Effective Policy (cont'd)

- **Board expectations and standards communicated, including:**
 - Risk framework and processes (define how parts of the organization work together)
 - Risk policy standards
 - Risk categories and definitions



Effective Assurance

- Board reports should provide:
 - **Concise executive summary of business/risk performance**
(including external performance drivers)
 - **Key Board discussion/decision points**
 - **Integrated view** of the organization
(not functional or silo views)
 - **Independent ERM assessment**



Effective Assurance (cont'd)

- Board reports should provide:
 - **Forward-looking analysis** (less historical data/trends)
 - **Key performance and risk indicators** (compared to targets/limits)
 - **Actual performance of previous business/risk decisions** (including rationale for management recommendations)

