

Integration of ERM into S&P's Credit Rating Process for Non-Financial Companies

Charlotte Roundtable
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Why are We Adding ERM to Credit Ratings?

- Enhance Analytical Process & Focus
- Create More Forward-Looking Ratings
- Better Insights and Communication on Management
- Differentiate Better

ERM – What we are Looking For...

Having an approach to attend to key risks

Making conscious decisions about which risks to take

Knowing your risk tolerance

Knowing what can go wrong and
having a Plan B

Avoiding outsized risks

Being resilient

There are many different ways to demonstrate this!

ERM – What we are NOT Looking For...

Eliminating all risks

Cramming together disparate policies

Solely compliance/disclosure requirements

Replacement for internal controls

A shiny new software program

Naming a CRO and calling it a day

These mindsets can actually hinder effectiveness

How Will S&P Apply ERM to Ratings?

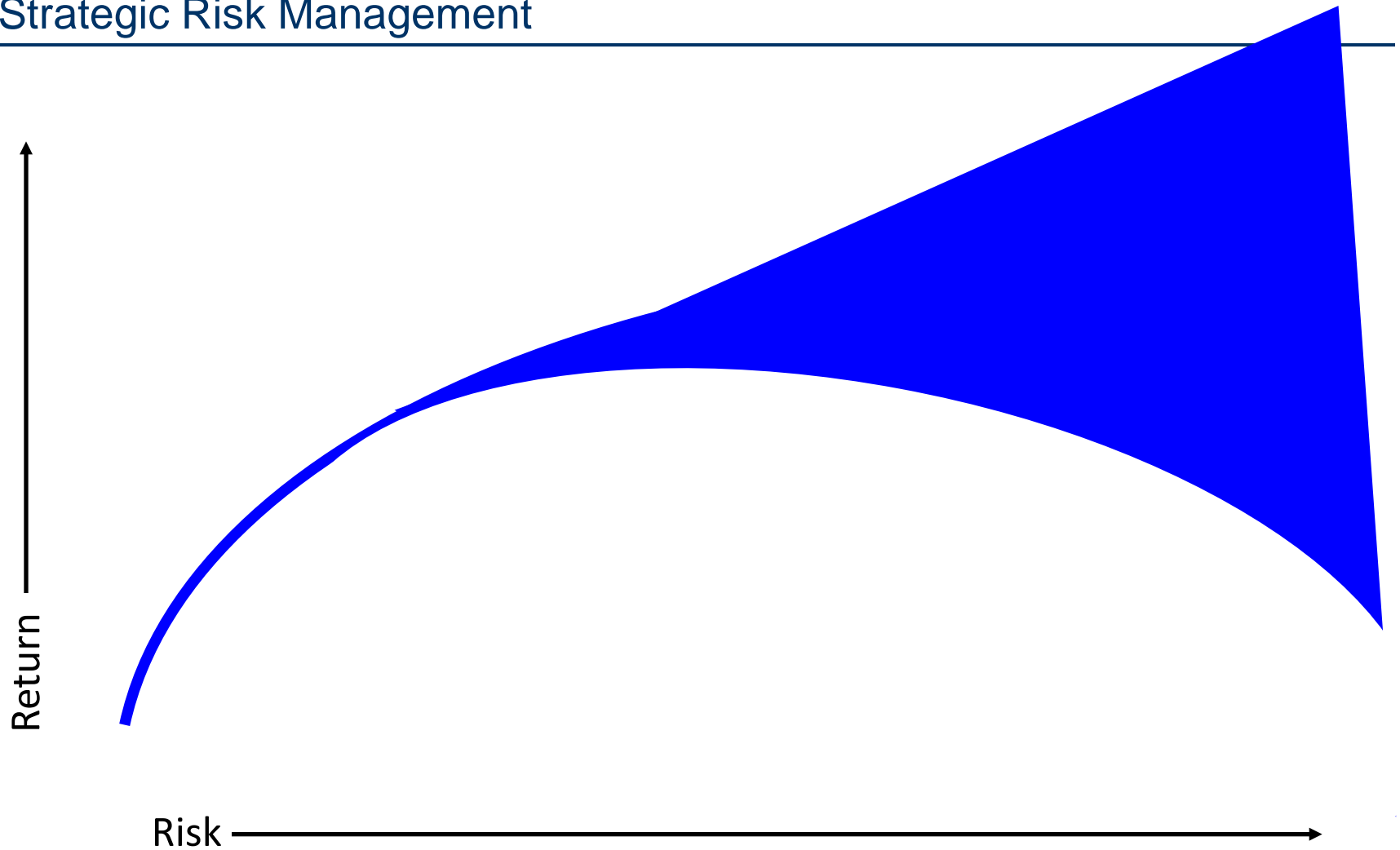
“The reviews will focus predominantly on risk-management **culture** and **strategic** risk management, two universally applicable aspects of ERM.”

– *Standard & Poor’s To Apply Enterprise Risk Analysis To Corporate Ratings, May 7, 2008*

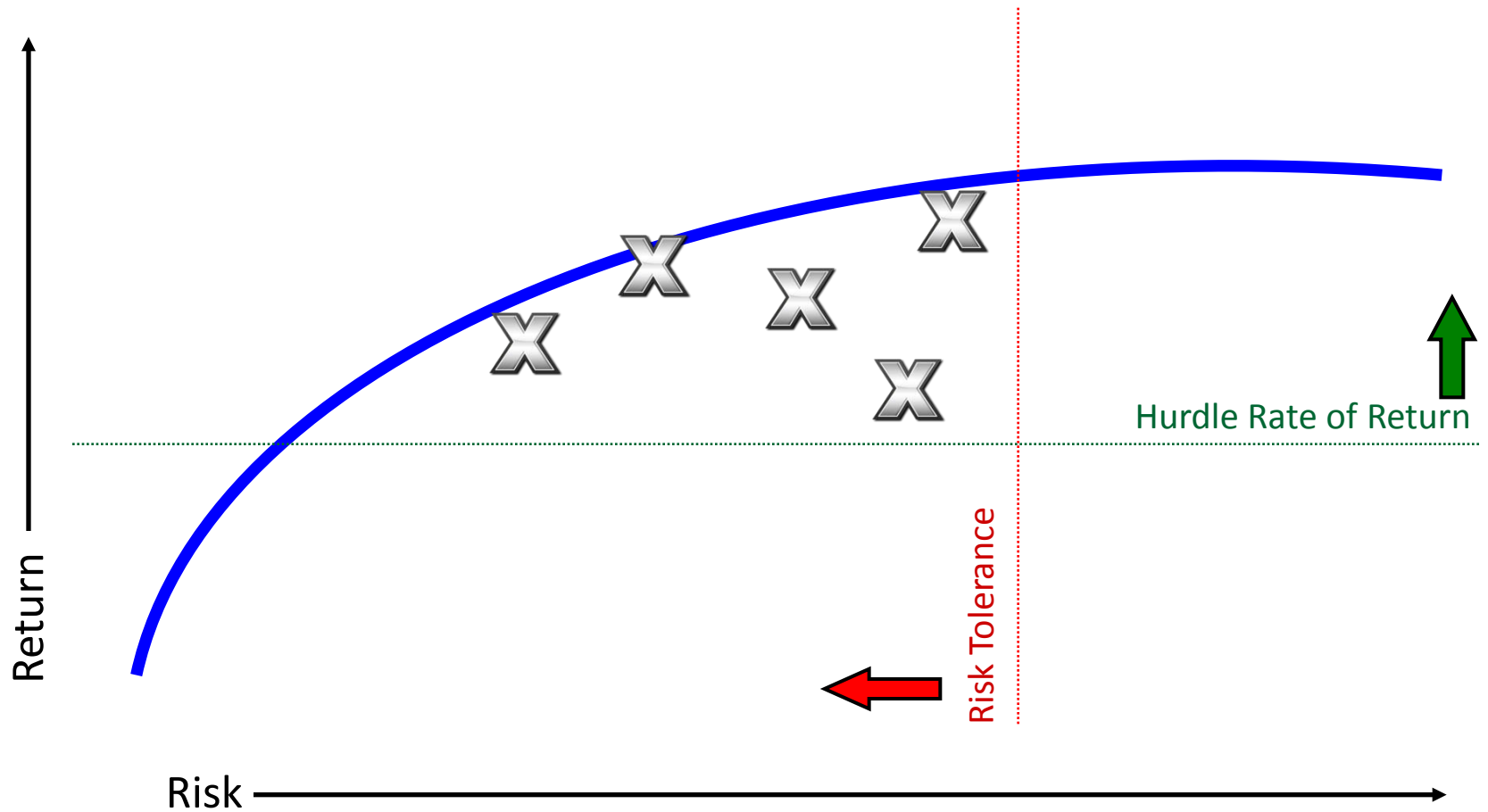
Culture = Communications, Frameworks, Roles, Policies, Metrics, Influence

Strategic = Identification and Updating Process, Impact on Key Decisions

Strategic Risk Management



Strategic Risk Management



ERM Discussion Topics

- ✎ How are key risks identified, updated, and dealt with?
- ✎ How is risk tolerance defined and communicated?
- ✎ Who “owns” risk in the organization and how is success measured?
- ✎ What is the board’s involvement in risk management?
- ✎ How did your company respond to _____ ?

*Ultimately, we are looking for evidence of **effectiveness***

Rollout Plan for ERM in Non-Financial Corporate Ratings

← JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC →

Discuss at Management Meetings, Collect Information

Benchmarking

Comparative Text

Criteria

Opinions

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