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

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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

Risk

Return

Hurdle Rate of Return

Risk Tolerance

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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

Discuss at Management Meetings, Collect Information

Benchmarking

Comparative Text

Criteria

Opinions
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