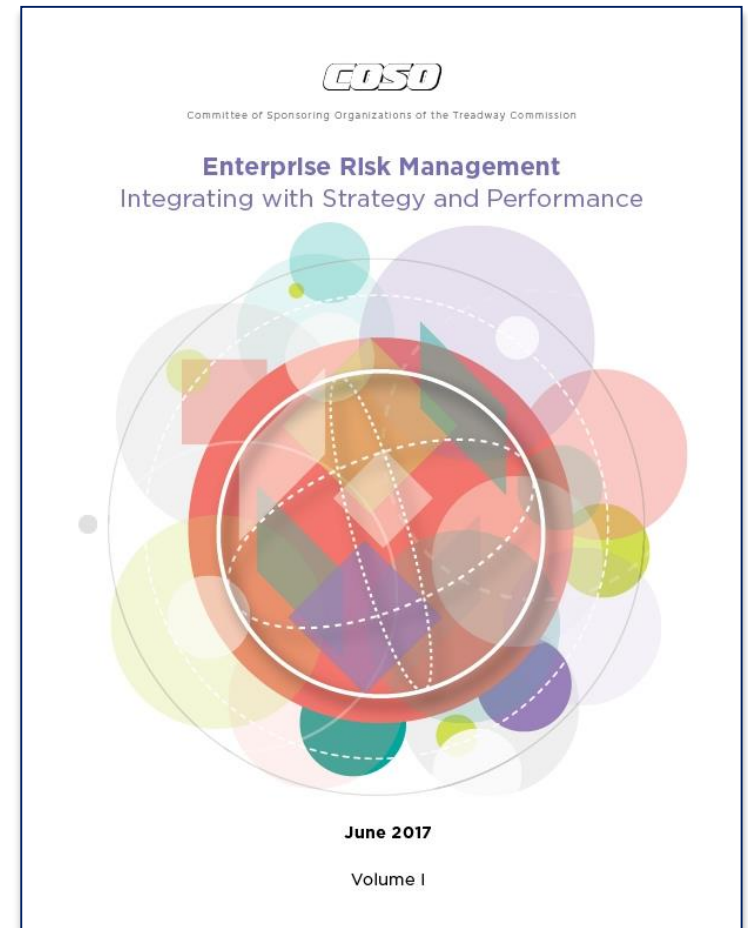




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Enterprise Risk Management Framework: Integrating with Strategy and Performance





Mission

- COSO's Mission is "To provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations."

COSO's Fundamental Principle

- Good risk management and internal control are necessary for long term success of all organizations



COSO Project to Update the Enterprise Risk Management Framework

- The COSO Board released in September 2017 an update to the 2004 Enterprise Risk Management–Integrated Framework
- That framework is widely used by management to enhance an organization's ability to manage uncertainty and to consider how much risk to accept as it strives to increase value
- This initiative enhanced the framework's content and relevance in an increasingly complex business environment so that organizations can attain better value from enterprise risk management

About COSO...



> 600,000
professionals

Originally formed in 1985, COSO is a joint initiative of five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management (ERM) internal control and fraud deterrence



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Thought Leadership to Improve Your Organization





Specific topics for discussion

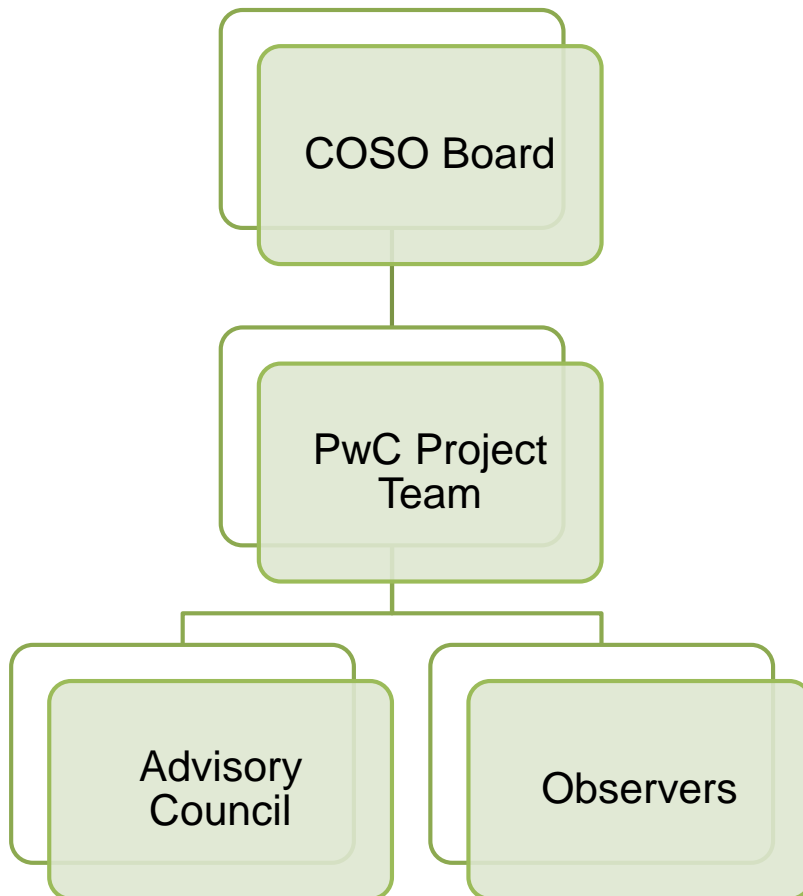
- Setting the Stage
- Path to Publication
- 10 Key Things to Know about the Framework
- Public Exposure Process
- Key Takeaways



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Setting the Stage

Project Structure



PwC Project Team:

- Served as the author and project leader
- Conducted research, interviews, surveys, Advisory Council meetings, and one-on-one and group forums to capture feedback on the update
- Captured feedback from across North America, Central America, Europe, Asia, and Australia

Advisory Council and Observers:

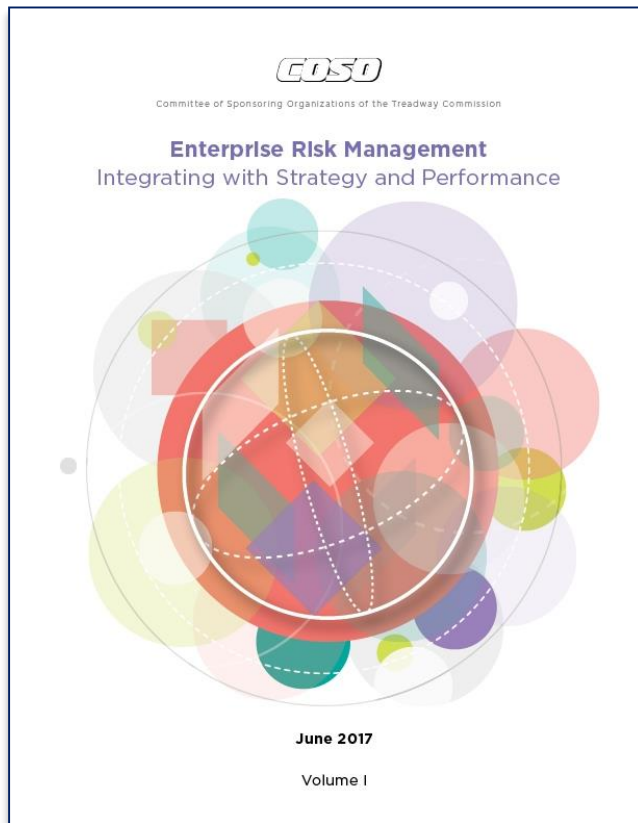
- Consisted of over 25 professionals
- Provided input, feedback, insight, and ideas throughout the update



A Key Introduction...

- Our understanding of the nature of risk, the art and science of choice lies at the core of our modern market economy
- Every choice we make in the pursuit of objectives has its risks. From day-to-day operational decisions to the fundamental trade-offs in the boardroom, dealing with uncertainty in these choices is a part of our organizational lives.

A New Title



- Retitled as *Enterprise Risk Management—Integrating with Strategy and Performance*
- Recognizes the importance of strategy and entity performance
- Further delineates enterprise risk management from internal control



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Path to Publication



Key Efforts in Updating the Framework

- Extensive research, including survey
- Interaction with an Advisory Council and PwC Extended Team
- Meetings held around the world to help envision the update
- Public comment process
- Meetings held around the world to capture feedback on update

Summary of Public Comment Feedback: Survey

- Over 200 responses – double that of the internal control update
- Over 70% of responses from individuals
- Over 50% of participation outside of North America
- Almost 50% had affiliations beyond COSO memberships
- Almost 50% of respondents had 10 or more years of risk management experience
- Positive ratings outnumbered negative ratings by 4.5:1



Summary of Public Comment Feedback: Letters

- 48 letters received – many of which demonstrated considerable investment
- Comments on concepts (flawed missing, unnecessary) collectively represented less than 15% of the total number of comments received
- Greatest number of comments requested clarity of drafted content versus adding/deleting content





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10 Key Things to Know about the Framework

1) Provides a New Document Structure

- Framework focused on fewer components (five)



Governance
& Culture



Strategy &
Objective-Setting



Performance



Review
& Revision



Information,
Communication,
& Reporting

- Uses focused call-out examples to emphasize key points (> 30)
- Follows the business model versus an isolated risk management process

2) Introduces Principles

20 key principles within each of the five components



Governance & Culture

1. Exercises Board Risk Oversight
2. Establishes Operating Structures
3. Defines Desired Culture
4. Demonstrates Commitment to Core Values
5. Attracts, Develops, and Retains Capable Individuals



Strategy & Objective-Setting

6. Analyzes Business Context
7. Defines Risk Appetite
8. Evaluates Alternative Strategies
9. Formulates Business Objectives



Performance

10. Identifies Risk
11. Assesses Severity of Risk
12. Prioritizes Risks
13. Implements Risk Responses
14. Develops Portfolio View



Review & Revision

15. Assesses Substantial Change
16. Reviews Risk and Performance
17. Pursues improvement in Enterprise Risk Management



Information, Communication, & Reporting

18. Leverages Information and Technology
19. Communicates Risk Information
20. Reports on Risk, Culture, and Performance

3) Incorporates New Graphics

Graphic has stronger ties to the business model





4) Focuses on integration

- Integrating ERM with business practices results in
 - better information that supports improved
 - decision-making and leads to enhanced performance
 - It helps organizations to:
 - Anticipate risks earlier or more explicitly, opening up more options for managing the risks
 - Identify and pursue existing and new opportunities
 - Respond to deviations in performance more quickly and consistently
 - Develop and report a more comprehensive and consistent portfolio view of risk
 - Improve collaboration, trust, and information sharing



5) Emphasizes Value

- Enhances the focus on value – how entities
- create, preserve, and realize value
- Embeds value throughout the framework, as evidenced by its:
 - Prominence in the core definition of enterprise risk management
 - Extensive discussion in principles
 - Linkage to risk appetite
 - Focus on the ability to manage risk to acceptable levels

6) Links to Strategy

- Explores strategy from three different perspectives:
 - The possibility of strategy and business objectives not aligning with mission, vision and values
 - The implications from the strategy chosen
 - Risk to executing the strategy



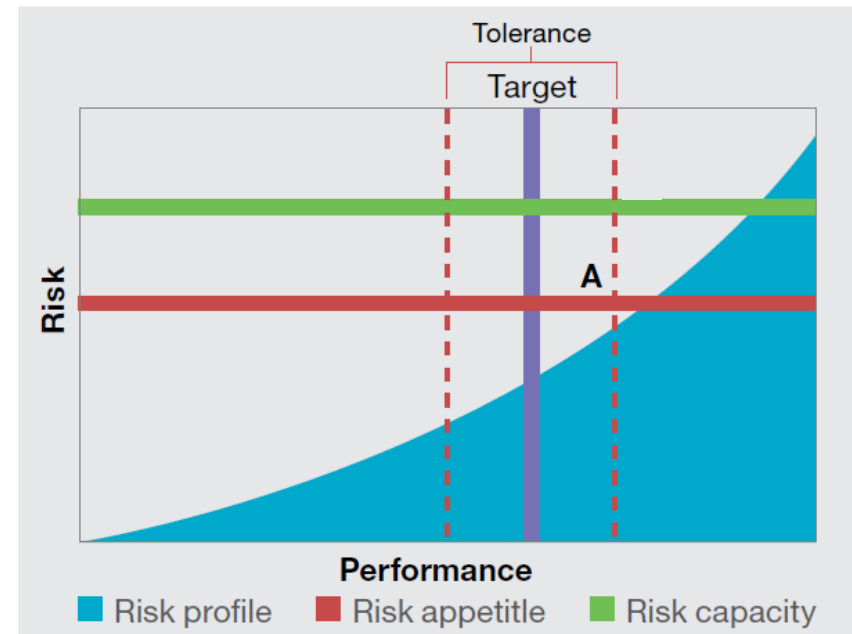


7) Links to Performance

- Enables the achievement of strategy by actively managing risk and performance
- Focuses on how risk is integral to performance by:
 - Exploring how enterprise risk management practices support the identification and assessment of risks that impact performance
 - Discussing tolerance for variations in performance
- Manages risk in the context of achieving strategy and business objectives – not as individual risks

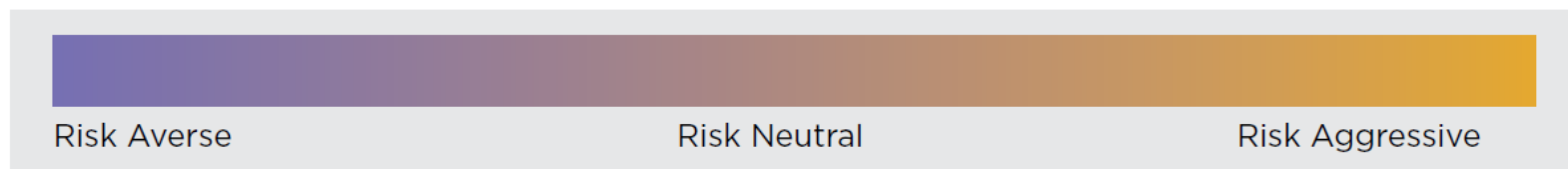
7) Links to Performance

- Introduces a new depiction referred to as a risk profile
- Incorporates:
 - Risk
 - Performance
 - Risk appetite
 - Risk capacity
- Offers a comprehensive view of risk and enables more risk-aware decision making
- The framework provides a complete depiction of how to build a risk profile in an appendix



8) Recognizes Importance of Culture

- Addresses the growing focus, attention and Importance of culture within enterprise risk management
- Influences all aspects of enterprise risk management
- Explores culture within the broader context of overall core
- Depicts culture behavior within a risk spectrum



- Explores the possible effects of culture on decision making
- Explores the alignment of culture between individual and entity behavior

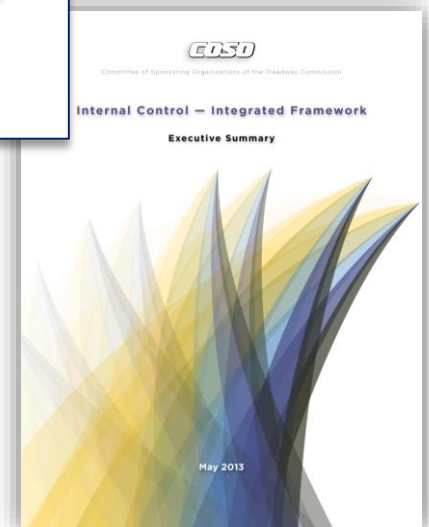
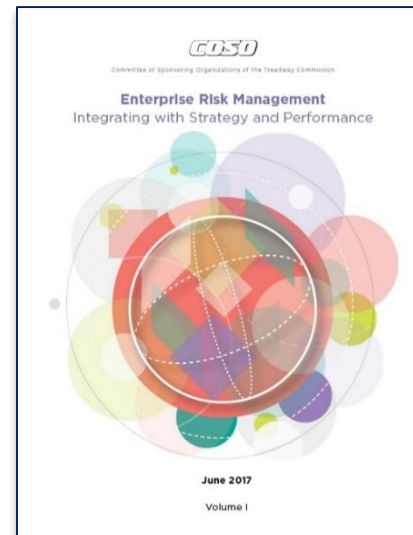
9) Focuses on Decision-making

- Explores how enterprise risk management drives risk aware decision making
- Highlights how risk awareness optimizes and aligns decisions impacting performance
- Explores how risk aware decisions affect the risk profile



10) Builds links to internal control

- The document does not replace the *Internal Control – Integrated Framework*
- The two frameworks are distinct and complementary
- Both use a components and principles structure
- Aspects of internal control common to enterprise risk management are not repeated
- Some aspects of internal control are developed further in this framework



Recap...

Document
Structure

Principles

Graphics

Integration

Value

Strategy

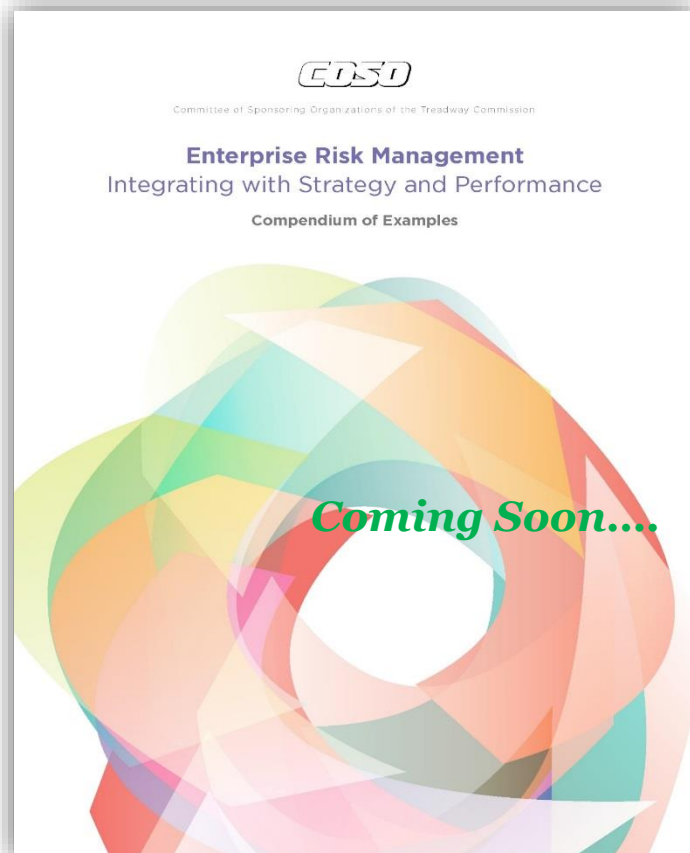
Performance

Culture

Decision-
making

Internal
control

Compendium of Examples



- A compendium of examples is also being developed, illustrating:
 - 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



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Key Takeaways

A Suitable Model Everywhere...





How to attain the Framework

- Order on-line through either the IIA or AICPA
- IIA – offer print versions for sale
- AICPA offers both print and eBook versions for sale
- Both can be accessed from the COSO.ORG website

The screenshot shows the COSO website homepage. At the top is the COSO logo and the full name of the organization. Below this is a navigation menu with links for HOME, ABOUT US, GUIDANCE, NEWSROOM, and BOARD. The main content area is divided into two columns. The left column features a prominent announcement for the 'ERM Integrated Framework Update' with a 'Learn More' button. Below this, a section titled 'SPONSORING ORGANIZATIONS:' lists five member organizations with their respective logos: American Accounting Association (Thought Leaders in Accounting), AICPA (American Institute of Certified Public Accountants), fei (Financial Executives International), ima (The Association of Accountants and Financial Professionals in Business), and The Institute of Internal Auditors. The right column contains a 'Welcome to COSO' message, a 'University Professor/Student Discounts' section with contact information for Joanna Dabrowska, and a 'What's New' section dated April 7, 2017, which includes a news release about a Memorandum of Understanding between COSO and WBCSD.



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Thank You

