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CFO's Role in Enterprise Risk Management

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Role of the CFO in Enterprise Risk Management

Agenda

- **Historic view of ERM**
- **ERM Governance Role**
- **Critical evolving ERM realms: Cyber Risk Management**
- **CFO Role in ERM**



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ERM: "... a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."



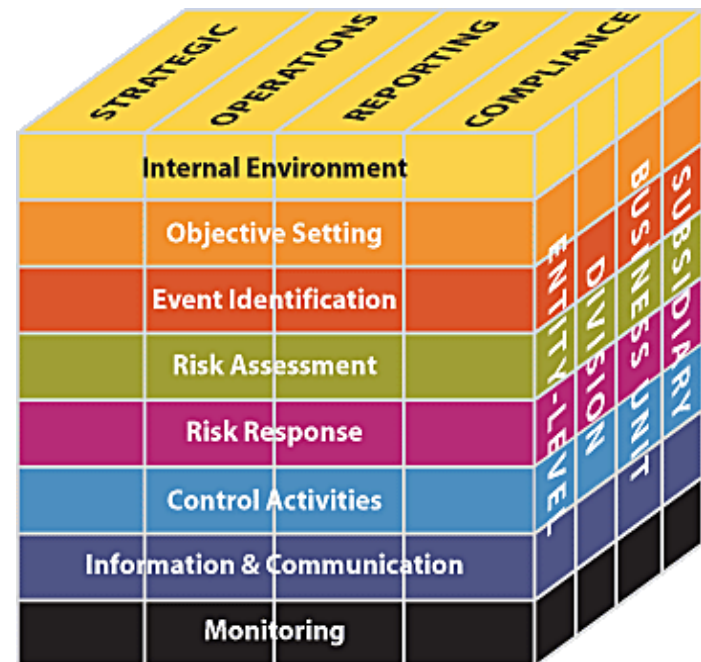
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Under COSO ERM objectives are viewed in the context of four categories:

- Strategic
- Operations
- Reporting
- Compliance



This has been a great initial roadmap but it is a static approach. In October 2014 COSO commissioned a rewrite of its ERM framework by PwC.



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The Structure & Focus of Community Bank ERM has been organized around a traditional banking risk profile:

- **Credit**
- **Liquidity / Capital / ALCO**
- **Operations**
- **Accounting & Reporting**
- **Legal / Regulatory Compliance**



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Many Board's take a traditional oversight role in Community Bank ERM:

- **Review of Bank-wide risk reports organized around the traditional risks**
- **Establish or approve bank-wide risk limits**
- **Assess risk management processes**
- **React & circle the wagons when breach of limits, or major threat occurs.**

Pro active governance is required for the necessary evolution of the ERM process



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The traditional approach has not evolved fast enough to keep ahead of new risks: Cyber Risk Management a good example:

- **Cyber risk management in the Financial Services industry is far ahead of some industries**
- **Material breaches have not been prevented**
- **A robust cyber controls framework should be implemented.**



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Basic components of cyber controls and governance framework in ERM

- **Vendor management:** Vendors WILL introduce threats into a Bank's systems and data bases.
- **Incident Response:** An incident response plan which charters a dedicated Cyber Security Incident Response Team to address all the possible attack vectors and take the legitimate concerns of third parties into account.
- **Training:** Define cybersecurity training needs and requirements from the BOD on down through the organization
- **Cyber Insurance:** Coverage is now offered by many major insurance underwriters. In most cases its necessary to have the cyber risk controls

Source: FINRA 2014 [Report on Cybersecurity Practices](#)



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Role of the CFO in Enterprise Risk Management



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CEO's want the CFO to assume a very active role in the ERM Process.

- 1. The most significant risks evaluated in ERM are managed by the CFO**
 - ALM
 - Internal Control
 - Accounting policies and elections
 - Valuation
 - Budget
- 2. A progressive ERM approach revolves around the CFO's knowledge and skill set**
 - Based on COSO, but pro active to meet new challenges
 - Requires a consistent approach to measurement and variance analysis
 - Uses an analytic discipline to review results and formulate action plans



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Role of the CFO in Enterprise Risk Management

- 3. The CFO is uniquely placed in the organization to look at the risk profile holistically.**
 - **Manages significant risks**
 - **Involved in new business and pricing**
 - **Leads Regulatory and Investor Relations**



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CFOs ask: How can we meet those needs and still do our day job?

A CFO can take a **simple and practical approach to ERM governance and meet the needs of Management and the BOD.**

- 1. Set up the controls for the ERM process and clearly communicate the expectations to the management team.**
 - Incorporate the controls into the ERM Policy, require them to be reviewed regularly as part the internal audit process**



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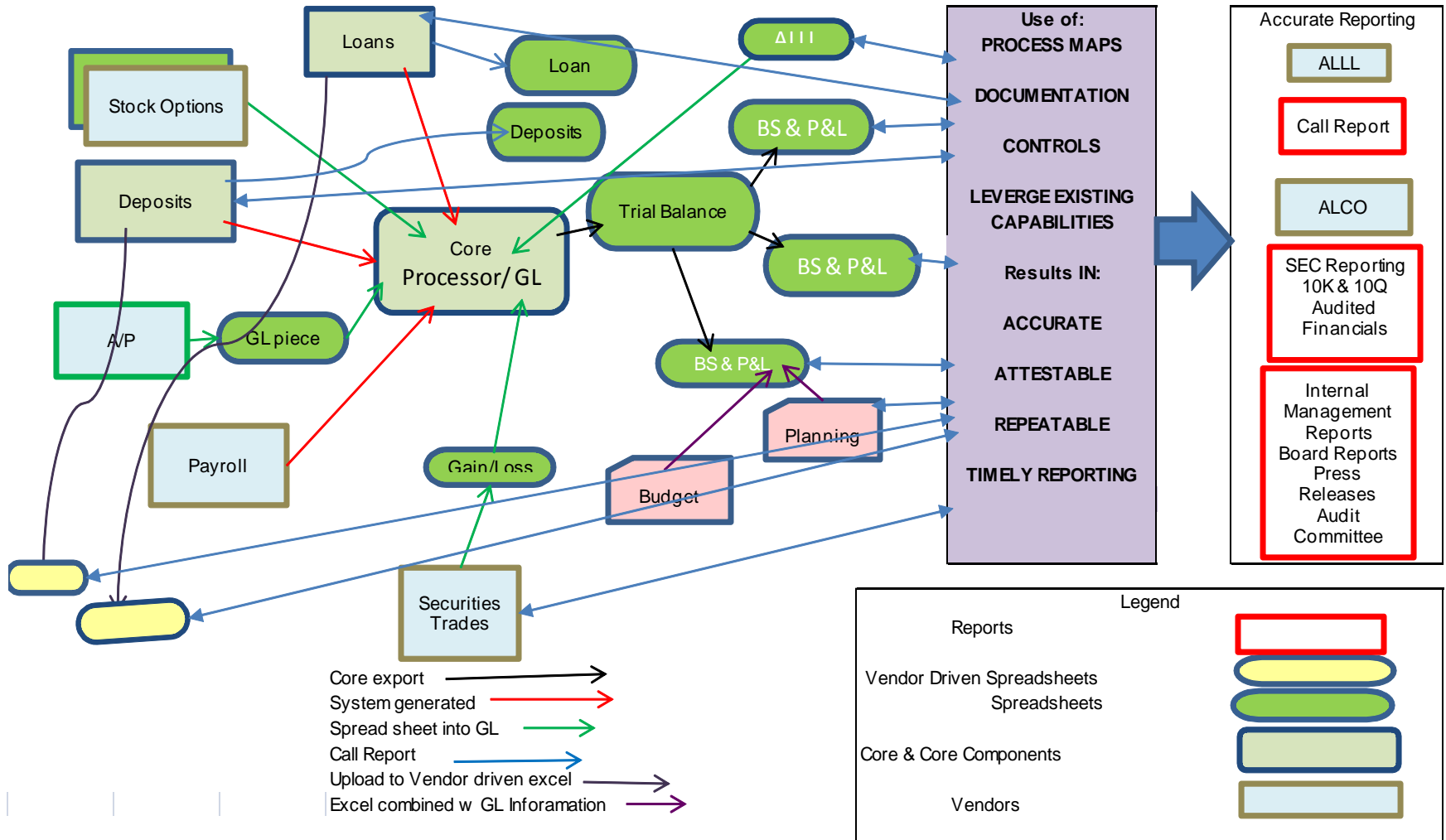
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A CFO can take a simple and practical approach to ERM and meet the needs of Management and the BOD.

- 2. Verify the information flow is correct. Existing systems can produce confusing results**

INFORMATION RISK MANAGEMENT CONTINUES TO SUPPORT OVERLY COMPLEX DATA STRUCTURES





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A CFO can take a simple and practical approach to ERM and meet the needs of Management and the BOD.

- 2. Verify the information flow is correct. Existing systems can produce confusing results**
 - Manage the information – not the systems – to deliver accurate and auditable information on a consistent and timely basis**



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A CFO can take a simple and practical approach to ERM and meet the needs of Management and the BOD.

3. Communicate and Coordinate

- **ERM discussions and decisions are happening regularly throughout the organization.**
- **Formalize these discussions under the ERM policy, participate in them occasionally, and create BOD dashboard reporting to summarize**



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Critical takeaways:

- **The current ERM framework has worked well. Basic control cultures, procedures and controls should remain in place**
- **ERM cannot be static, as technology, information management and more complex business strategies require best execution**
- **The CFO is at the cross currents of this rapid change and can easily be a leader in ERM evolution**



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Eric Segal, Managing Director, CFO Consulting Partners

Eric Segal, a partner of the firm, heads the firm's Banking and Financial Institutions practice. His work with CFO Consulting Partners has included serving as the Interim CFO for a \$1 billion public community bank, providing clients with regulatory guidance, conducting M&A sell-side due diligence, managing SEC reporting (including 10-Q restatements), developing business plans, developing mortgage bank accounting policies, securitization analysis, and other services.

Eric has more than twenty-five years experience in senior financial management positions with companies ranging from the Fortune 500 to community banks. He was Senior Vice President and Chief Financial Officer of Spencer Savings Bank, a \$2 billion community bank in New Jersey, and is a 17 year veteran of American Express and Ameriprise Financial. He was Vice President and CFO of Ameriprise Bank, FSB, and he was the head of finance for the American Express consumer banking business before Ameriprise was spun off from American Express. Eric also had six years at American Express Bank, Ltd., as CFO of the Financial Institutions, Corporate Banking, and Global Investment Products divisions. Also at American Express, Eric served as Vice President & CFO during the incubation and start-up phases of the company's on-line brokerage business, and as Director of Risk Management within that firm's Treasury function. Eric joined American Express in 1989 from Moody's Investors Service, where he was trained in credit analysis and worked as an Analyst in the financial institutions group.

Eric holds a BA degree from Carnegie-Mellon University and an MBA in Finance from Pace University.



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Tom Van Lenten, CPA, Series 27 (FINRA FinOP) Director, CFO Consulting Partners

Tom has over twenty five years of experience in senior financial roles in leading financial services companies, including six years in providing consulting services to the financial services industry. Tom's work with CFO Consulting Partners includes extended engagements as Interim CFO and Chief Accounting Officer, primarily with Community Banks. As Interim CFO and Chief Accounting Officer, Tom provided clients with regulatory guidance (including Call Report restatements), management of SEC reporting (including 10-Q restatements), development of business plans, bank accounting, development of operational policies, analyses of securities impairment, valuation analyses, and other services.

Tom spent over 25 years in senior financial roles at Bear Stearns, Citigroup, and The Bank of New York Mellon. At Citigroup, Tom was CFO of a Broker / Dealer and the CFO of the North American Derivatives business. At Citibank, he headed the Emerging Markets Accounting Policy function. At Bear Stearns, Tom headed its global Sarbanes Oxley efforts.

A CPA, Tom also holds a BS in Business & Economics from Lehigh University and is a graduate of the University of Michigan Executive Program.