

**Ms. Deborah D. Seidel of T. Rowe Price Financial Services Vice President and Manager of Compliance and Risk Management is speaking to us tonight about achieving and maintaining the high levels of service and operational quality for which T. Rowe Price is well known. In addition to managing Compliance and Risk she is the anti-money laundering officer for T. Rowe Price Mutual Funds and the T. Rowe Price Brokerage. She earned a B.A. in economics/business from McDaniel College.**

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# Operational Risk Management

American Society for Quality

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T. Rowe Price Services

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# Agenda

- **COSO**
- **Enterprise Risk Management**
- **Operational Risk Management**
- **T. Rowe Price Operations Approach**

# COSO

## **Committee of Sponsoring Organizations of the Tread way Commission**

- Its focus is to assist businesses in assessing and enhancing internal controls systems

## **Enterprise Risk Management- Integrated Framework was developed to provide a common framework for risk management**

- Defines internal controls, describes its components and provides criteria against which control systems can be evaluated

<http://www.coso.org>

# COSO Core Elements

**Internal Control System consists of five inter-related components:**

1. Control environment
2. Risk assessment
3. Control activities
4. Information & communications
5. Monitoring

# COSO Core Elements (cont.)

## Control Environment

- Integrity & Ethical Values
- Commitment to Competence
- Board of Directors or Audit Committee
- Operating Style
- Organization Structure
- Assignment of Responsibility
- Human Resource Policies & Practices

# COSO Core Elements (cont.)

## Risk Assessment

- Objectives
- Risk Identification & Analysis
- Managing Change

## Control Activities

- Policies & Procedures
- Information System Controls
- Entity-Specific Controls

## Monitoring

- Ongoing Monitoring
- Separate Evaluations
- Reporting Deficiencies

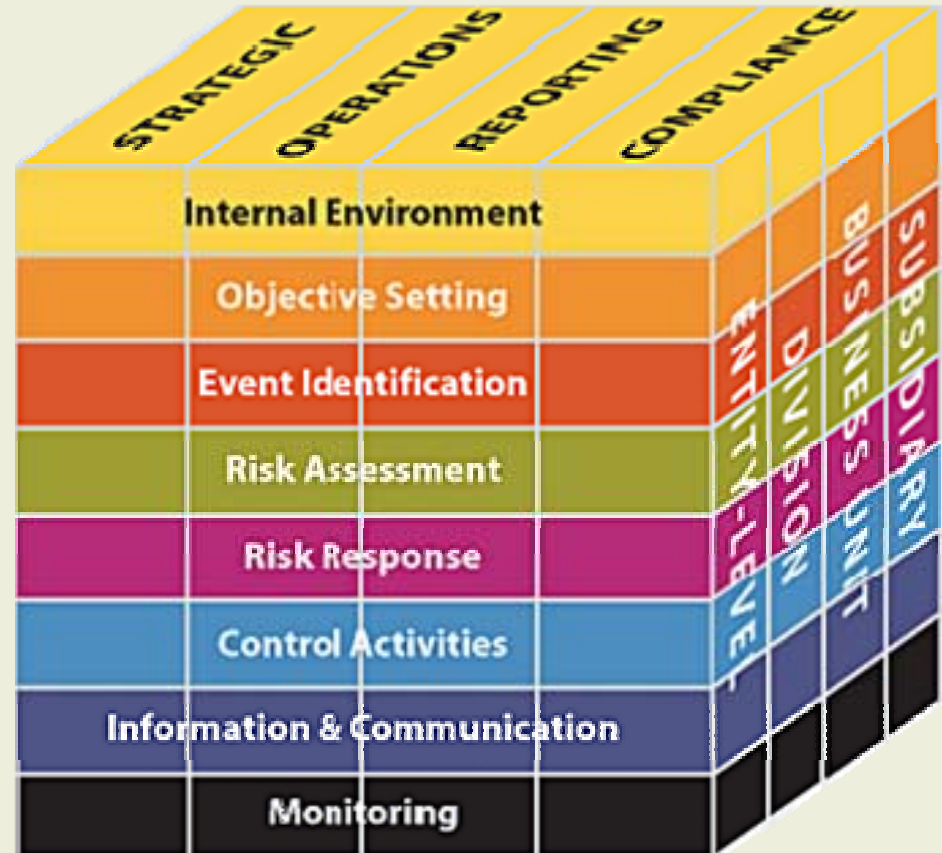
# What is Enterprise Risk Management?

***“Enterprise Risk Management is 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 risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”***

From COSO’s Enterprise Risk Management- Integrated Framework

# COSO ERM Cube

- Vertical columns are objectives the entity is striving to achieve (Strategic, Operational...)
- Horizontal rows are ERM components (Internal environment, Objective setting....)
- Third dimension is the entity and its units



# Risk “Heat Map”

<i>Likelihood of Occurrence</i>	<i>Probable</i>	L	H	H
	<i>Remote</i>	L	M or H	M or H
		L	L or M	M
		<i>Inconsequential</i>		<i>Potentially Material</i>
<i>Significance of Impact</i>				

# Types of Enterprise Risks

- **Strategic**
- **Organizational**
- **Financial**
- **Tax**
- **Currency / Treasury**
- **Pricing**
- **Legal & Regulatory Compliance**
- **Technology & Security**
- **Operational**
- **Reputational**
- **Governmental, Laws or Regulations**
- **Business Interruption**
- **Fraud**
- **Competitive**

# What is Operational Risk?

**The risk of loss resulting from failed processes; external, natural or societal events; fraud or other infractions. Potential subcategories:**

- People
- Process
- Events
- Regulatory Change

# T. Rowe Price Operations Risk Assessment Process Flow

## Determine priorities with business managers

- Identify critical processes in business units which would benefit from assessment
  - Large dollar transactions
  - Legal obligations: compliance, contractual
  - Hot topics: recent issues/losses, either internally or within financial industry

# T. Rowe Price Operations Risk Assessment Process Flow

## Assessment would incorporate

- Review of written policies & procedures
- Interview of associates and management team
- Observation of process

## Outcomes

- Determine risk rating (Heat map) through:
  - Identifying events which could hinder/impact process
  - Understanding the risk responses to events
  - Assessment of control effectiveness
  - Reviewing information/ communication flows and monitoring mechanisms by managers
- Recommendations for process improvements

# Risk Assessment Results: *Two Examples*

## Assessment for two example processes:

- Handling of incoming wire transfers
- Tax reporting compliance

**Any written recommendations would accompany the results**

# Risk Assessment: *Example 1*

Process	Risk Event (What could go wrong?)	Inherent Risk (Likelihood and Impact)	Significant Business Risk (How would this impact firm?)	Key Control Activities	Effectiveness of controls	Residual Risk (Likelihood and Impact)
<ul style="list-style-type: none"> <li>• Handling of incoming wire transfers</li> </ul>	<ul style="list-style-type: none"> <li>• Untimely processing</li> <li>• Inaccurate processing</li> </ul>	<ul style="list-style-type: none"> <li>• Likelihood-moderate</li> <li>• Impact-Moderate to High</li> </ul>	<ul style="list-style-type: none"> <li>• Moderate (individual error) to High (system-wide issue)</li> <li>• Financial loss/market risk</li> <li>• Customer impact</li> </ul>	<ul style="list-style-type: none"> <li>• Training</li> <li>• Policies and procedures on tax reporting</li> <li>• Quality review (100% of large wires)</li> <li>• Daily Reconciliation</li> </ul>	<ul style="list-style-type: none"> <li>• Strong</li> </ul>	<ul style="list-style-type: none"> <li>• Likelihood-Low</li> <li>• Impact-Moderate (large dollar wires)</li> </ul>

# Risk Assessment: *Example 2*

Process	Risk Event (What could go wrong?)	Inherent Risk (Likelihood and Impact)	Significant Business Risk (How would this impact firm?)	Key Control Activities	Effectiveness of controls	Residual Risk (Likelihood and Impact)
<ul style="list-style-type: none"> <li>• Tax reporting compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Untimely or inaccurate information to customer</li> <li>• Untimely or inaccurate reporting to IRS</li> </ul>	<ul style="list-style-type: none"> <li>• Likelihood-Low</li> <li>• Impact- Moderate to High</li> </ul>	<ul style="list-style-type: none"> <li>• Moderate (individual error) to High (system-wide issue)</li> <li>• IRS Fines and penalties</li> <li>• Customer impact-financial and reputational</li> </ul>	<ul style="list-style-type: none"> <li>• Training on compliance</li> <li>• Policies and procedures on tax reporting</li> <li>• Periodic balancing of files</li> <li>• Management review of reporting</li> <li>• Auditing of printed forms</li> </ul>	<ul style="list-style-type: none"> <li>• Strong</li> </ul>	<ul style="list-style-type: none"> <li>• Likelihood-Low</li> <li>• Impact-High if system-wide</li> </ul>