



RISK MANAGEMENT & BUSINESS INTEGRITY

OECD – Deloitte Seminar Series on Corporate Governance
and Business Integrity
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Outline

- Problems in risk management revealed by the financial crisis 2007-2008
- The view of the G20/OECD Principles of Corporate Governance
- Risk management in state-owned enterprises
- Challenges and examples of what has worked



Risk management failures - financial crisis 2007-2008

- Insufficient reporting to the board
- Role of the board not strong enough
- Insufficient company-wide implementation
- Lack in the alignment of remuneration policies and risk strategies
- Insufficient guidance by corporate governance standards and codes



G20/OECD Principles of Corporate Governance

- Oversight of risk management by the board
- Board's responsibilities:
 - Determining risk appetite
 - Establishing and overseeing reporting and monitoring systems
 - Allocating responsibilities



Risk management in state-owned enterprises (SOEs)

OECD Guidelines on Corporate Governance of State-Owned Enterprises:

- Clear reporting on risk matters by SOEs
- Adequate internal risk management systems
- Identification, management and reporting on financial and non-financial risks
- Oversight by the board of risk management frameworks

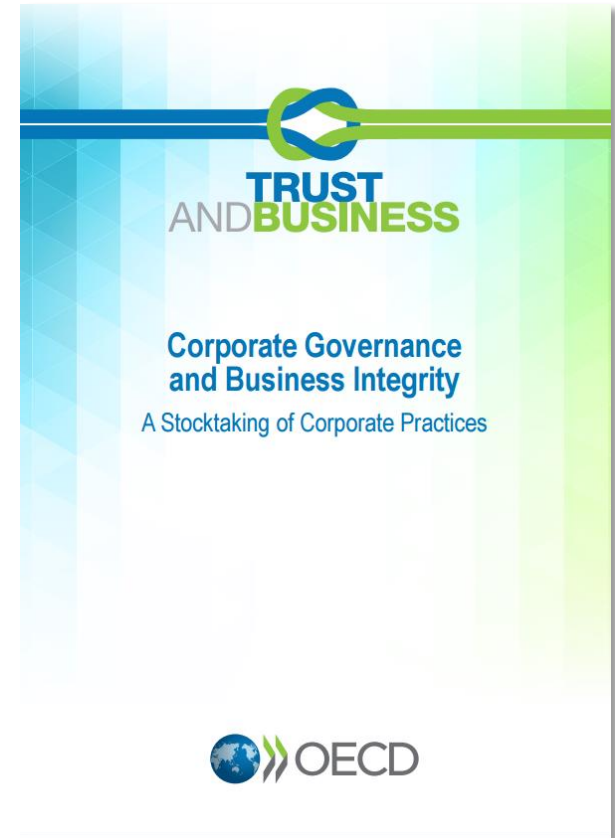
Risk Management by SOEs and their Ownership (OECD, 2016):

- Risk tolerance determined case by case by the state
- Reliance on the board



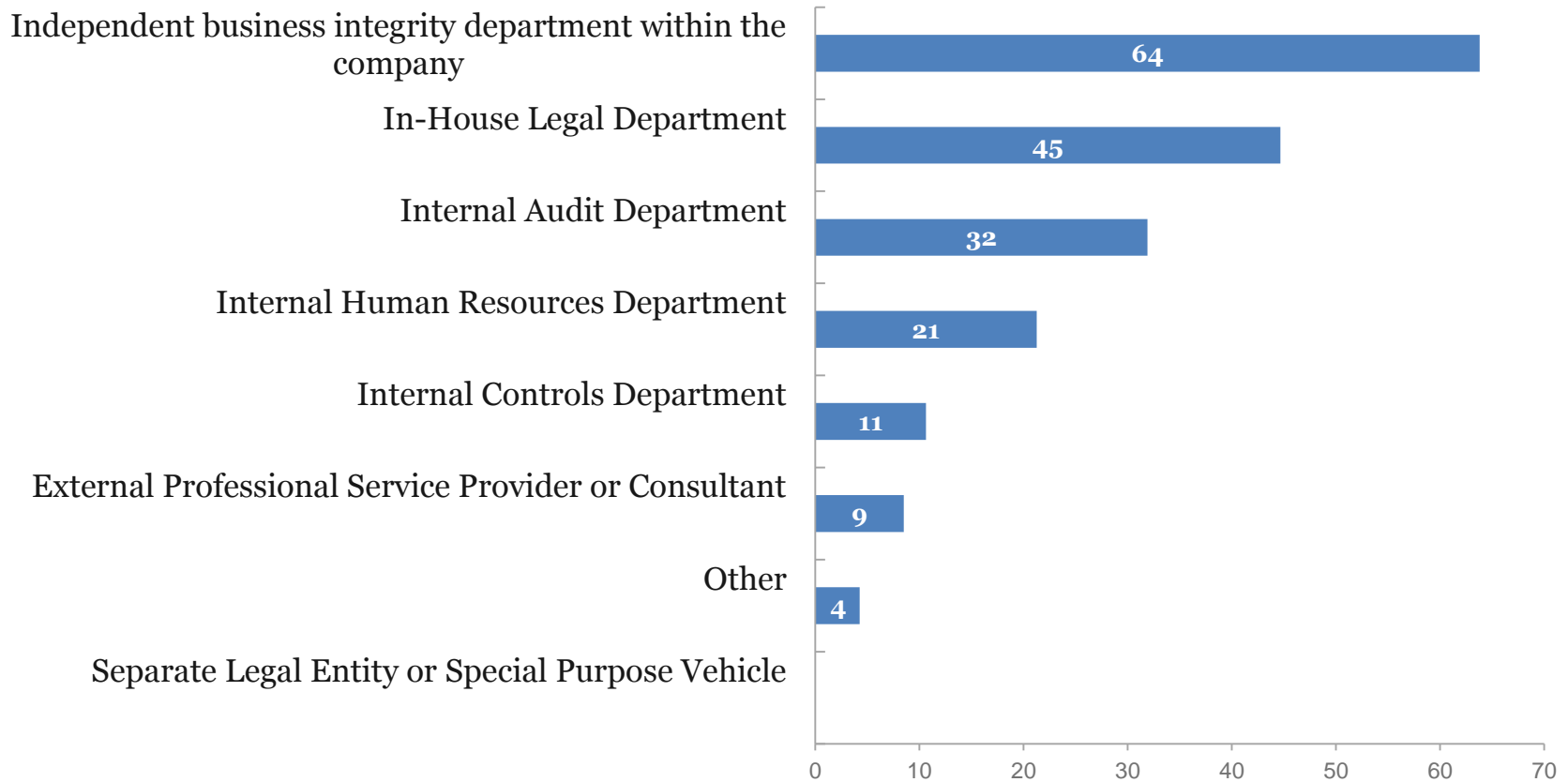
Corporate Governance and Business Integrity (2015)

- OECD Survey on Business Integrity and Corporate Governance: 88 responses, 40 in-depth interviews with private sector representatives
- Results show that companies are:
 - increasingly recognising the importance of preventing misconduct through effective corporate governance;
 - developing an integrity policy;
 - creating a business integrity function.





Organisation of the integrity function

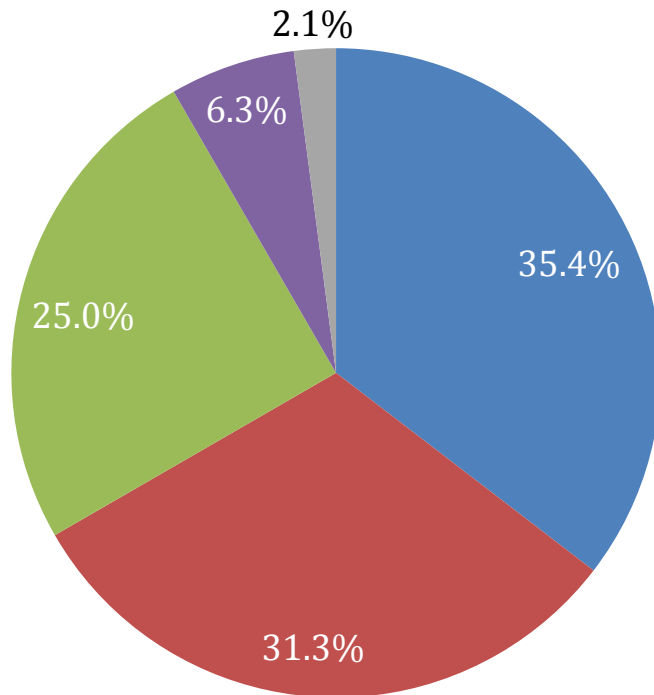


% of Respondents who selected one or more options from this question

Source: TNB Survey 2015 (47 respondents)



Mandate of the integrity function

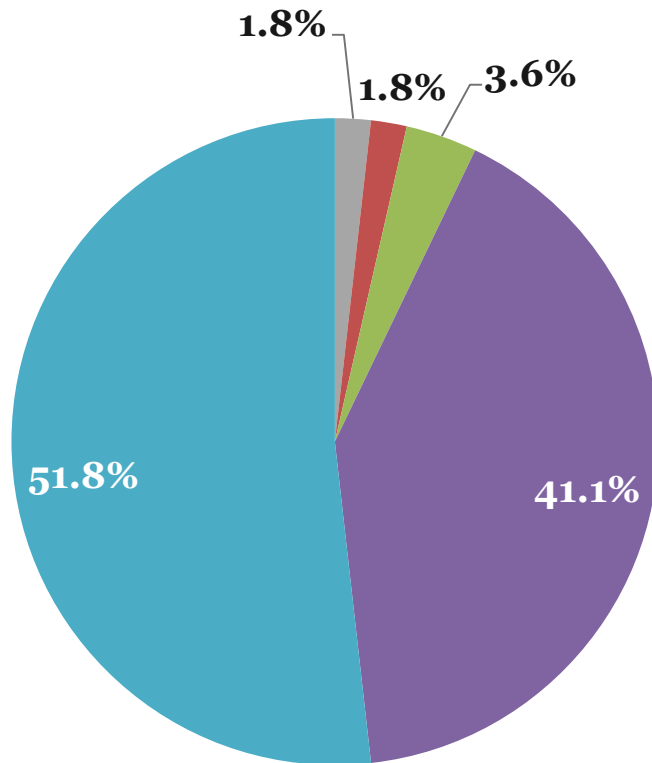


- The business integrity function(s) has veto power in relation to certain decisions
- The business integrity function(s) makes recommendations
- The business integrity function(s) is integrated across corporate operations (e.g. administrative, commercial, financial)
- The business integrity function(s) does not play any role in the company's decision-making process
- Don't know

Source: TNB Survey 2015 (48 respondents)



Scope of business integrity policy



- Separated by level of business (e.g. government relations, supplier relations, customer level (KYC))
- Separated by line of business (e.g. sales, distribution)
- Separated by region (e.g. Europe, MENA, Latin America)
- Separated by risk category (e.g. bribery, anti-trust, sanctions)
- It is integrated across business and regional operations

Source: TNB Survey 2015 (56 respondents)



Challenges

- Silos approach towards risk management
- Insufficient support for risk management (e.g. TEPCO)
- Excessive focus on compliance
- Lack of alignment of remuneration policies with risk strategies



Examples of ways to address the challenges

- Commitment of board and senior management
- Risk management training
- Incentives for effective implementation of integrity policies
- Company-wide approach towards risk management

Example

Japanese telecommunications company: improvement of reporting and whistleblower protection, application of anti-corruption policies to business partners, company wide approach towards managing integrity risks.



OECD instruments and publications on corporate governance addressing risk management

- G20/OECD Principles of Corporate Governance
- OECD Guidelines on Corporate Governance of State-Owned Enterprises
- OECD Guidelines for Multinational Enterprises
- Risk Management by SOEs and their Ownership (2016)
- Risk Management and Corporate Governance (2014)



Useful links

- OECD work on corporate governance: www.oecd.org/corporate/ca
- OECD Russia Corporate Governance Roundtable: www.oecd.org/russia/corporategovernanceinrussia
- Seminars on corporate governance and business integrity in Russia: www.oecd.org/corporate/ca/corporategovernanceandbusinessintegrityinrussia

Thank you!