

# IOR Newsletter

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## From the Chairman Edward Sankey

It has been busy since the last Newsletter. I write this the day after the inaugural Annual Lecture, a stimulating presentation by Dr Philippa Malmgren and well attended. I'm very grateful to Philip Martin for arranging it.



In July we sent a submission to the Committee of European Banking Supervisors (CEBS) regarding its Consultation Paper on Operational Risk Management in Market Related Activities. CEBS has just published its Guidelines.

*Nevertheless it is good to see the profession recognised as providing an authoritative alternative to the views of firms.*

I am pleased that many of our recommendations have been adopted. It is disappointing though that CEBS has not always made changes where we proposed more specific description to forestall some frequent shortcomings in firms' practices.

Nevertheless it is good to see the profession recognised as providing an authoritative alternative to the views of firms.

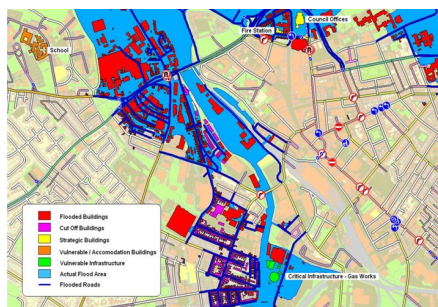
The Council has recently set the Institute's strategy. The essence is to provide practical services to Members and enable professional development, while showing Leadership in the Discipline and to the Profession. I'll be emailing members with more details than this space allows!

## The Power of Visualisation

At the IOR seminar held in London on October 1st 2010, Ordnance Survey presented how geographic data can provide added insight and aid communication for Operational Risk experts.

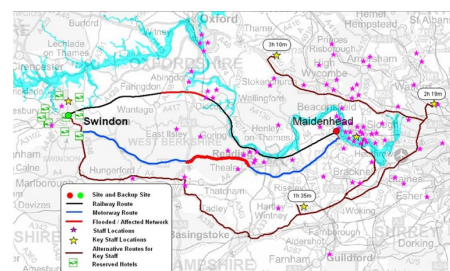
*Visualising real events and scenarios can aid Operational Risk Managers and their organisations.*

One of the key messages was the power of visualising data to identify a problem quickly and improve understanding of risk. Below is an example of the Carlisle floods and visualising where roads became rivers and strategic and vulnerable infrastructure cut off.



This type of risk analysis can be done pre and post event by Operational Risk Managers on their critical locations. Do you know all the access links to your sites, what happens to them in the event of a disaster? Where are all your key staff located? Where are your back up sites and communication centres?

The following example was shown to delegates at the seminar. It shows a large organisation whose operational centre is affected by flooding and access to its back-up site is also restricted by flooding. It is immediately clear that most of the key staff will struggle to commute daily to the back-up site so local hotel rooms will need to be reserved.



Visualising real events and scenarios can aid Operational Risk Managers and their organisations in deploying the right resources at the right time and help to ensure business continuity.

**Sarah Adams**  
Banking, Finance & Insurance Sector  
Manager, Ordnance Survey

## Obituary Nigel Brown FIOR

With great sadness we have to announce the passing away of Nigel Brown FIOR after a long illness. Nigel was one of the founding members of the Institute and was always an advocate of the discipline. More importantly Nigel was a fine man, willing to help people, and great company. He will be deeply missed and our thoughts will be with his family.

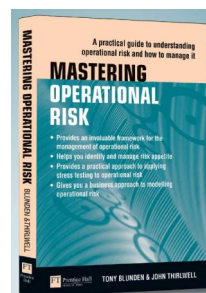
## Mastering Operational Risk

The book "Mastering Operational Risk" which is co-authored by Tony Blunden and John Thirwell has been published.

It is a practical guide to understanding operational risk and how to manage it.

The book takes you from the basic elements of operational risk through to its advanced applications.

It gives you everything you need to help you understand what operational risk is, how it affects you and your business, and provides a framework for managing it.



## IOR Publishes third sound practice guidance paper

The importance of governance as the cornerstone to good risk management is highlighted in the latest Operational Risk Sound Practice Guidance Paper published by the Institute of Operational Risk.

'Operational Risk Governance' is the third in a new series of papers from the Institute that are designed to provide practical guidance on the implementation of the techniques necessary to support a robust operational risk management framework.

It emphasises that operational risk is not just a set of processes, to be effective and capable of playing a part in business management it

*The paper outlines the importance of a governance structure to co-ordinate risk management across the organisation.*

needs clear and active leadership. Without good governance, the paper warns, operational risk management processes will operate in a vacuum.

Another valuable contribution this paper makes is to stress that the roles and responsibilities of people throughout the organisation should reflect the part they play in limiting risk exposures and losses. The paper outlines the importance of a governance structure to co-ordinate risk management across the organisation.

The board and its audit and risk committees play a key governance role and the paper describes the 'three lines of defence' - senior management (the risk takers in the business); those responsible for risk oversight and risk guidance; and providers of independent assurance to the board regarding the effectiveness of risk management processes. Detailed guidance on the roles of operational risk functions is also given along with governance responsibilities towards external stakeholders, such as regulators, investors, rating agencies and suppliers.

This is a comprehensive paper on Operational Risk Governance that shows the high standards that executives, as well as operational risk managers, must achieve in order to both reap valuable benefits and to meet ever increasing expectations of operational risk management.

**Richard Baker**

*Note: The guidance paper can be found on the IOR Internet site using the following link: <http://www.ior-institute.org/education/sound-practice-guidance/156-sound-practice-guidance-part-3>*

## The IOR Inaugural Annual Lecture

The inaugural Annual Lecture was held on 14th October 2010 at the Chicago Booth Business School in the City of London.

In this lecture, Dr Philippa Malmgren, a former economic advisor to the White House and member of the National Economic Council, shows how Operational Risk Management is not merely a process driven discipline, but a subject of quite breath-taking magnitude when looked at objectively.



L-R Phillip Martin, Dr Philippa Malmgren, Michael Faber

The fall-out from the collapse of the banks and subsequent global recession, the impact of mineral shortages and food shortages, the increase in food prices, the ability to freely move goods around the world, the potential for civil unrest and the impact of political pressures on financial services regulation are all issues covered in this Lecture and how they might affect the process of managing operational risks within organisations.

The Institute is extremely grateful to Dr Malmgren for delivering the inaugural Annual Lecture and to Arthur J Gallagher International for their generous support and sponsorship without which, the event would have not taken place

**Michael Faber**

## IOR LinkedIn Group

The Institute of Operational Risk has recently launched a new website. In line with this Internet presence the IOR has created a networking group on LinkedIn.

*The aim of the IOR LinkedIn group is to utilise the power of professional networking over the Internet to increase awareness of the Institute.*

LinkedIn is the world's largest professional network with over 80 million members and growing rapidly.

The aim of the IOR LinkedIn group is to utilise the power of professional networking over the Internet to increase awareness of the Institute.

This is an open group that introduces the LinkedIn community to the IOR, directing anyone that wishes to join to the main website for further information.

The new website provides information such as sound practice guidance, event details, membership, CPD and regional chapters.

The members' area provides a truly global opportunity for operational risk professionals to meet, share ideas and instantly contribute to discussions and forums.

In summary the new website provides the following key benefits within the members area:

- Member Profiles – get to know your IOR colleagues
- IOR Kudos Points – points are awarded for contributions to the IOR
- Member Blogs – each member has their own IOR restricted blog page
- Repository – operational risk documentation only available to members
- Library - exclusive videos, presentation slides and event related media
- Central Point - share expertise, discuss best practice and latest thinking
- Professional Network - make friends and network with other members

We recommend that you take advantage of the benefits associated with the member area and please feed back any comments or requests so we can look to improve further on the technology based facilities provided to you, as Institute members. (Suggestions can be sent via the 'Contact Us' option on the IOR website.)

**Pravinder Arora**  
**IOR Technology Team**

## Fraud Survey

The Annual Global Fraud Survey, commissioned by Kroll and carried out by the Economist Intelligence Unit which polled more than 800 senior executives worldwide from a broad range of industries and functions in July and August 2010 has now been published and is available at [http://www.kroll.com/library/fraud/FraudReport\\_English-US\\_Oct10.pdf](http://www.kroll.com/library/fraud/FraudReport_English-US_Oct10.pdf)

## IOR Strategy, Implementation and the Executive Committee

At the Executive Committee the Chairman Edward Sankey set out the new strategy of the Council for the IOR.

The main points made were:

- Providing leadership in the discipline of Operational Risk Management, and raising our profile with prominent people working in and around risk management.
- Assisting our members and the profession with qualifications and professional development
- Providing assistance and services to the members, who are increasingly international.

It is the first of these which is the most significant development since our strategy was last determined.

The Committee looked at an implementation plan for taking forward the strategy

*It is intended the Executive Committee will function more as a management group*

Whilst preserving the existing streams (some change around Communications) the Executive Committee will be slimmed down; at the same time as ensuring that the people on it are fully aware of the activities in the key streams that depend on each other, for example between Events and Communications, or Membership and IT.

It is intended the Executive Committee will function more as a management group ensuring the implementation of the strategy through the streams, and taking inter-stream decisions in a collective way.

The aim is that there will be more empowerment all round to take decisions for the Institute, and encourage decision making through email and telephone rather than waiting for the next Executive Committee meeting. Thus the Executive Committee meetings can be used more effectively.

One consequence is that some heads of streams, which are relatively self-contained, will not need to attend the Executive Committee meetings. They will still be

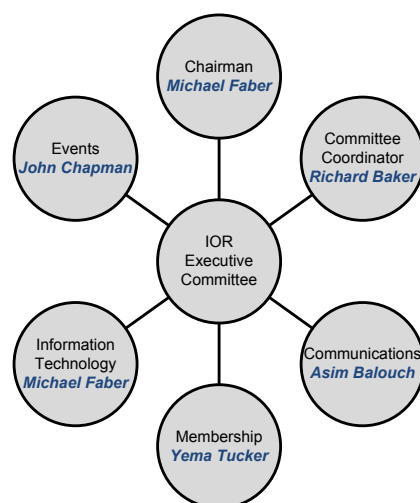
asked to provide written reports. This should save time for them and will help with the stream work.

It is important that the Committee is effective as a management group, so one member will plan Committee meetings and work with all streams to facilitate good follow through.

This will not necessarily be the Chairman and in the short term this is not a role that Michael Faber can undertake. In the meantime It is envisaged that this function will be performed by a person nominated by the Executive Committee and as such Richard Baker will perform it for the next meeting.

*The Communication stream is being expanded in order to bring together the preparation and discussion of information through all channels*

Other members of the Executive Committee will be Yema Tucker, Asim Balouch, John Chapman. Streams heads will be as before, including those streams which will not be personally represented at the Executive Committee.



The Communication stream is being expanded in order to bring together the preparation and discussion of information through all channels, Newsletter, Website and Email-shots, and with involvement in press releases etc.

We hope you like the sound of this!

**Edward Sankey Chairman & Executive Committee**

## Rogue Trader Jerome Kerviel

The sentencing and findings of the French court in the Societe Generale rogue trader Jerome Kerviel case sparked some lively debate on the IOR LinkedIn group.

Whilst it was agreed that he should be punished many found it amazing that the bank was not called into account and held more responsible for lack of governance and controls.



If this case was held in the UK or USA one would expect more emphasis and investigation into corporate responsibility.

**Ron Cox**

## New Role for Andrew Sheen at the FSA

Andrew Sheen stalwart of the FSA and long suffering Aston Villa supporter starts his new role on Monday 1st November 2010. It is in the FSA's Prudential Risk Review Division's Operational Risk Management Department..

He will be leading the Risk Frameworks and Governance Team and will be taking over from Frances Allen who has retired.



*The IOR wishes Andrew well in his new role*

The new role involves looking at firms' practices with respect to governance, the effectiveness of the audit, compliance and risk management functions and that of the Board, Pillar 1 and Pillar 2 operational risk capital submissions and general systems and controls.

The IOR wishes Andrew well in his new role and looks forward to continuing to work with him.



## IOR UK Chapter Events

**IOR's Inaugural Annual Lecture Politics, Policy and Geopolitics as Operational Risk** held at University of Chicago Booth School of Business.— See earlier report

**Crisis Management - Fighting Complacency**  
Hosted by Bank of America, London.



The sessions were provided by:

- Ordnance Survey—Ken Gibson and Sarah Adams
- Vocal—Daren Rapley
- Aegis—Dominic Armstrong
- 6Alpha—Simon Cooke
- City of London Police—Ian Manfield
- INONI—John Robinson



There were followed by a Q&A session and break out discussions. The event was concluded by Edward Sankey

## Scottish Chapter Update

The Scottish Chapter (SC) has continued with a run of events during the summer months of this year having now hosted 5 to date since its inception in January 2010.

During May, the Chartered Institute of Bankers of Scotland (CIOBS) offered its facilities to the Scottish Chapter to enable us to host a breakfast seminar. This was a well attended event and took the format of an interactive discussion focussing on Risk Appetite and RCSA.

Two further events took place at end August / early September held in both Edinburgh and Glasgow which allowed more delegates to attend overall given the choice

of location. Our hosts for these events were Lloyds TSB and Glasgow Caledonian University respectively. The topics focussed on KRIs and Embedding Risk and our thanks go to Dr Simon Ashby who presented at both events on the topic of KRIs and also to Dr Jeremy Quick for his input and support at the Glasgow event..

## Asia Chapter Update

Since the official inauguration of IOR Asia on 21 Jun 2010, the following activities have taken place:



- internal networking event with the IOR members and other interested parties
- participated in the Annual Conference organized by the Hong Kong Institute of Bankers by delivering a panel discussion session on operational risk management framework
- seminar by Mr Fred Au on "Understanding the role and the future development of the Operational Risk Manager"



- seminar on "Practical Aspects of Implementing the Operational Risk Appetite Framework"
- started discussion with the Hong Kong Institute of Bankers on education programs and accreditation
- Supported the OpRisk Training and OpRisk Asia Conference organised by Incisive Media

*there are now around 20 members in Hong Kong and Singapore*

IOR Asia has received a number of enquires on membership during the past 3 months and there are now around 20 members in Hong Kong and Singapore. The launch of IOR Asia has been shared with the ORM practitioners in Bangalore, India.

**William Tang**

## CEBS Guidelines

The Committee of European Banking Supervisors (CEBS) has published its guidelines on the management of operational risk in market-related activities.

Following the publication of CEBS's high level principles on Internal Governance (CEBS Guidelines on the Application of the Supervisory Review and Evaluation Process - Section 2), its high level principles on risk management and its high level principles on remuneration policies,

CEBS now introduces more specific principles and implementation measures for the identification, assessment, control and monitoring of operational risk in market-related activities..

The guidelines can be found at [http://www.c-ebbs.org/documents/Publications/Standards---Guidelines/2010/Management-of-op-risk/CEBS-2010-216-\(Guidelines-on-the-management-of-op-.aspx](http://www.c-ebbs.org/documents/Publications/Standards---Guidelines/2010/Management-of-op-risk/CEBS-2010-216-(Guidelines-on-the-management-of-op-.aspx)

## Enhancing Frameworks in the Standardised Approach (TSA) to Operational Risk

FSA have now published the compendium "Enhancing frameworks in the standardised approach (TSA) to operational risk". The paper can be found at:

[http://www.fsa.gov.uk/pages/Library/Policy/guidance\\_consultations/2010/10\\_03.shtml](http://www.fsa.gov.uk/pages/Library/Policy/guidance_consultations/2010/10_03.shtml)

The paper has been published for consultation as part of a new FSA process for issuing general guidance that relates to FSA rules but is initially published outside of the FSA Handbook.

If you wish to comment on the paper send your responses to Louis Ebune at the FSA by 22 November 2010.

**Email:**

Louis Ebune [Louis.Ebune@fsa.gov.uk](mailto:Louis.Ebune@fsa.gov.uk)

## Disclaimer

*The articles in this newsletter are written by a variety of authors. The opinions expressed in these articles are the views of the author of the articles and not necessarily the views of the Institute of Operational Risk*