



Welcome to Risk Accounting

Integrating Risk Management & Risk Culture into
the Enterprise's Risk Management Ecosystem

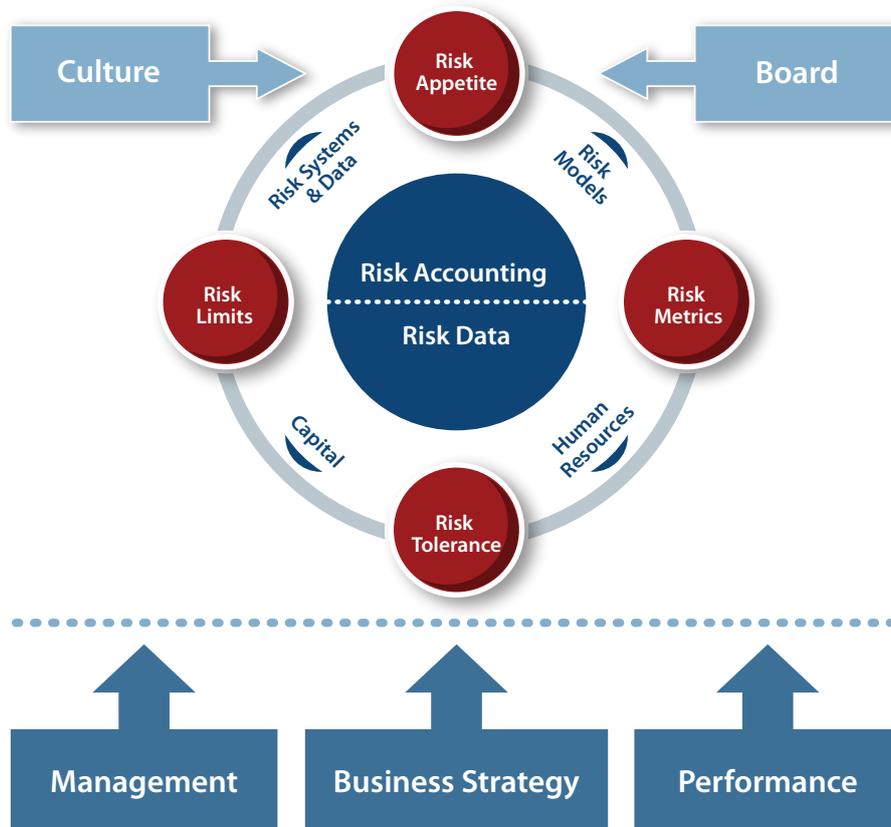


www.financialintergroup.com

The idea of capital-at-risk as a means of risk management, regardless of its calculation method, has falsely become synonymous with firm-at-risk measures.

To us the capital measure is simply the means by which a firm counts down to failure while a firm-at-risk measure monitors the buildup of risk exposures, providing a means to mitigate such exposures before they become losses.

The FIG Enterprise Risk Management ECO System™



The discipline of risk management still awaits an enterprise wide firm-at-risk management (ERM) solution... until now.

To develop an ERM solution one must accept the idea that a risk measurement system is needed that encapsulates all risk – credit, market, operational, liquidity, interest rate and conduct risk - into a common unit of risk measurement that is aggregatable across all horizontal and vertical dimensions of a firm. We call this universal risk metric the Risk Unit or RU. RUs were first deployed for operational risk measurement at Chase Manhattan Bank in 1999.

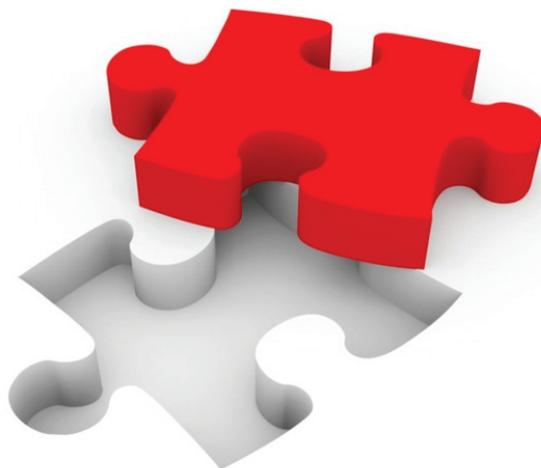
Financial InterGroup (FIG) has refined the technique, extended it to cover all risk types, built prototype software '**ADWEKO.ras**' with its SAP global technology partner 'Adweko'.

Click [here](#) to view a brief video that provides an overview of the Risk Accounting software.

After pilots of early versions, we are now seeking a core group of banks to pilot the completed system. A single product, department and/or process will be chosen to provide comparability across the pilot group of banks to realize immediate benefits, and to stage further implementations.

Risk Accounting is a proactive risk measurement, monitoring and mitigation system that provides the means to identify and prioritize risk mitigation activities and quantify their benefits in both risk reduction and cost reduction terms. Importantly, Risk Accounting provides the means to assure that risk data is adapted to the same control framework applied to financial accounting data as required in the BCBS 239 Risk Data Aggregation mandate.

Click [here](#) to view a video that presents a tutorial on Risk Accounting and how it can help resolve the key challenges of implementing BCBS 239. A Table of Contents is shown on the following pages:



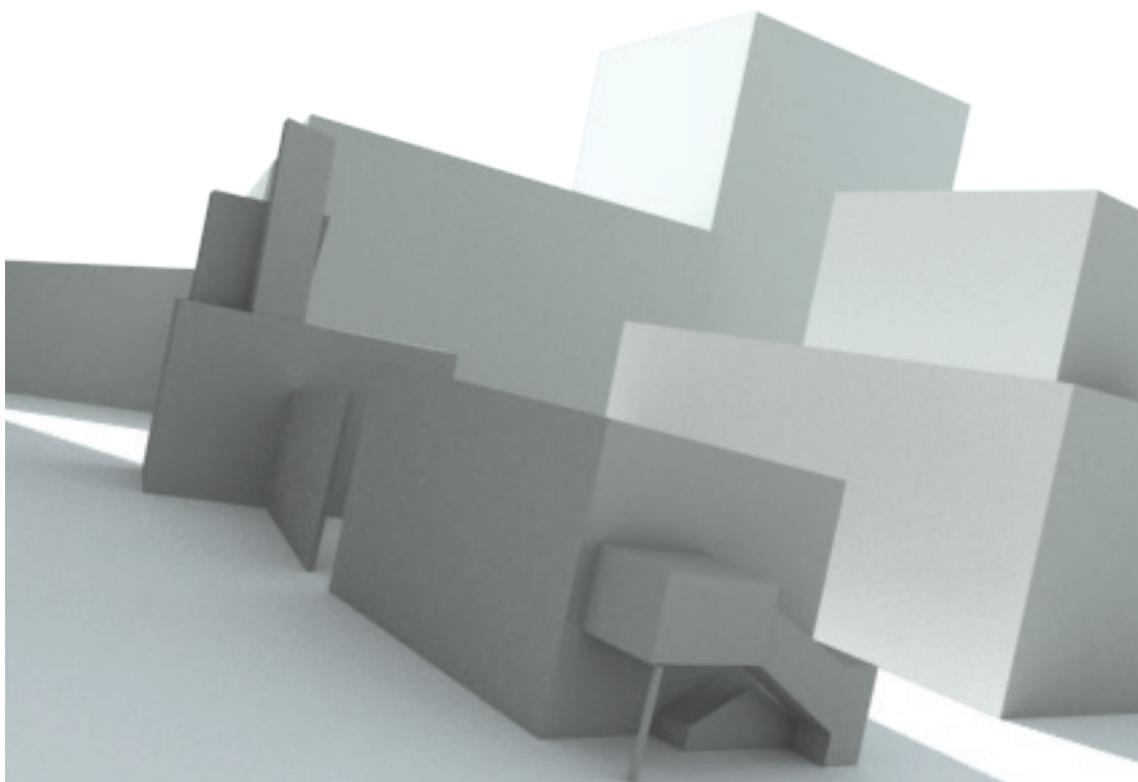
Video: Risk Accounting and BCBS 239

Table of Contents

From (Mins : Secs)	Topic	Description (RA = Risk Accounting)
0:00	Introduction	Overview of the tutorial <ul style="list-style-type: none"> Welcome Introduction to the RA software 'ADWEKO.ras' Summary of the BCBS 239 principles addressed by the tutorial
1:16	Risk Data Aggregation	The requirements for effective risk data aggregation <ul style="list-style-type: none"> Standardised identification codes that predefine data aggregation paths Standardised risk exposure quantification method
2:28	Challenges	The multiplicity of quantitative and assessment based approaches used to identify and quantify risk that inhibit effective aggregation <ul style="list-style-type: none"> Basel advanced and standardised approaches used for regulatory capital Bank internal quantitative models and assessments used to manage risk at the granular level
3:58	The Accounting Perspective	An overview of the accounting process and its adaptation for risk data <ul style="list-style-type: none"> Accounting systems, transaction recording, accounting standards (IFRS/GAAP) and accounting controls The codes tagged onto transactions that predefine data aggregation paths: business line, customer, product, legal entity, geography etc. Financial reporting and transaction values as population controls to ensure completeness and accuracy The 'monovalent' concept in accounting and its application to risk data RA's concept of tagging transactions with risk information used in a calculation of exposure to risk as a basis for risk data aggregation and reporting
7:20	A New Risk Metric	Introducing RA's new standardised additive risk metric, the Risk Unit or RU <ul style="list-style-type: none"> What the RU represents and its application in risk data controls and reporting RA's three core metrics: <ul style="list-style-type: none"> Inherent Risk in RUs: maximum potential for loss Risk Mitigation Index (RMI): effectiveness of risk management and mitigation Residual Risk in RUs: probability of loss

From (Mins : Secs)	Topic	Description (RA = Risk Accounting)
9:30	Inherent Risk	<p>How the transaction-by-transaction Inherent Risk RUs are calculated</p> <ul style="list-style-type: none"> • The Value Table and Value Band Weightings (VBWs) • The EUF Tables and Exposure Uncertainty Factors (EUFs) • The risk types and their associated EUF Tables: processing, credit, market, liquidity, interest rate and conduct risks • The calculation method
16:38	Risk Mitigation Index	<p>How the Risk Mitigation Index (RMI) is calculated</p> <ul style="list-style-type: none"> • Deconstructing enterprise architectures and business components: an RMI is calculated for each business component • The categorisation of business components: (1) Transaction Processing, (2) Risk Management, (3) Core Applications Management and (4) Data Management • End-to-end processing cycles and the product processing profile • Best Practice Scoring Templates (BPSTs) and how they are used to calculate the RMI • The calculation method
22:51	Residual Risk	<p>How Residual Risk RUs are calculated</p> <ul style="list-style-type: none"> • Combining the Inherent Risk RUs and RMIs • The calculation method
23:44	Reporting	<p>Enterprise level (aggregated) reports in RUs and RMIs</p> <ul style="list-style-type: none"> • Risk reporting accuracy and completeness controls • An analysis of sample RA risk reports: (1) Best practice categories, and (2) Products • Deriving the monetary value of an RU through statistical correlation (Residual Risk RUs vs. actual loss history) and its application in extended risk reporting: • Capital Asset Pricing Model (CAPM) • Risk Adjusted Return on Capital (RAROC) • Capital provisioning
26:57	BCBS 239 Compliance	<p>How RA ensures compliance with BCBS 239</p> <ul style="list-style-type: none"> • Risk data controls • Reconciling risk data to accounting data • Creating a single authoritative source for risk data
28:05	Management Controls	<p>How RA provides a management control framework for risk</p> <ul style="list-style-type: none"> • Capital adequacy, regulatory capital and capital ratios • A single enterprise risk management (ERM) framework that encompasses all risk types: processing, credit, market, liquidity, interest rate and conduct • Stress testing • Risk appetite setting and monitoring
30:26	Key Features	<p>RA's key features</p> <ul style="list-style-type: none"> • RA provides an enterprise risk management (ERM) framework with outputs that are: simple, timely, representative, aggregatable, comparable and auditable • Positive risk cultures are actively promoted: the RMI represents a de facto measurement of risk culture as it blends risk attributes from across the enterprise into a single metric

From (Mins : Secs)	Topic	Description (RA = Risk Accounting)
31:51	Software	<p>An overview of RA software</p> <ul style="list-style-type: none"> RA software 'ADWEKO.ras' runs on SAP technology (SAP Bank Analyzer and SAP HANA) <p>There is an open source version for non-SAP users</p> <ul style="list-style-type: none"> Ongoing research and development in collaboration with academic and industry partners The software is fully customisable: RA's tables, templates and weightings can be configured by users A global financial institution consortium is being formed to oversee standards
33:06	End	<p>Closing message</p> <ul style="list-style-type: none"> RA training courses Websites and contact details



Contact Us

For more information on Risk Accounting please contact:

▲ **Allan D. Grody**
Financial InterGroup - USA

169 East 69th Street - 18th floor
New York,
New York 10021
USA

Tele +1 212 585 0409
Cell +1 917 414 3608
Email agrody@financialintergroup.com

▲ **Peter J. Hughes**
Financial InterGroup - UK

Lambs Green Lane
Wimborne,
BH21 3DN
UK

Tele +44 (0) 1202 842087
Mobile +44 (0) 7766 916541
Email peter.hughes@financialintergroup.com



www.financialintergroup.com