

Financial Reporting Council

Review of the effectiveness of the Combined Code

Joint response by AIRMIC and the Institute of Risk Management (IRM) to the Financial Reporting Council review of the effectiveness of the combined code - Call for Evidence

AIRMIC and IRM Membership

AIRMIC has a membership of nearly 1,000 and represents the risk managers for about 75% of the FTSE 100, as well as very substantial representation in the mid 250 and other smaller companies. AIRMIC members facilitate risk management activities within their employer organisations and many AIRMIC members are also responsible for the purchase of insurance.

The Institute of Risk Management (IRM) has a global membership of over 2500 representing a broad spectrum of risk professionals from commercial, industrial and public organisations. Established as a not-for-profit body and governed by its members, IRM is the leading provider of enterprise-wide integrated risk management qualifications and training in the World. IRM also has strong links with leading universities, business schools and other professional organisations, is active in the development of guidance and standards in risk management and is a widely-consulted source of opinions and knowledge on most aspects of risk.

AIRMIC and the IRM do not wish to comment on the overall impact of the Combined Code on corporate governance standards in the UK. However, AIRMIC and the IRM do wish to comment on the role of the Board in relation to risk management and the need for further guidance in this regard.

AIRMIC and IRM Opinion

It is clear that there has been a failure on the part of financial institutions and many other listed companies in recent times to correctly apply suitable and sufficient risk management standards. In cases where effective risk management processes were in place, the outputs were often ignored by senior management.

It is worth reflecting on the difference between risk management and internal control. Risk management is the forward looking executive role that anticipates and evaluates risks and ensures that efficient and effective controls are developed and implemented. It is often the case that risk management activities are led in a company by a committee that is chaired by an executive member of the Board. Internal control is primarily concerned with the monitoring of controls with oversight from the non-executive Audit Committee.

The existing Turnbull requirements focus on internal control and the need to ensure adequate control of the significant risks facing an organisation. Although risk management is mentioned in paragraph C.2.1, the requirements of the Turnbull report are not sufficiently detailed in relation to pro-active and forward looking risk management activities. It is not possible to have full confidence in the relevance of control activities unless the identification of those controls has been validated by a sound risk management process.

AIRMIC and IRM Suggestion

Accordingly, AIRMIC and the IRM suggest that it is appropriate for the Combined Code to contain further information, guidance and advice on the need to establish risk management systems and procedures within an organisation. This additional guidance could be provided in the format of a specific report, like the Turnbull report, on risk management or the Turnbull report could be a revised and developed into combined risk management and internal control guidance.

Whether it is combined with the Turnbull report or provided as separate guidance on risk management, requirements should be placed on organisations to introduce appropriate risk management measures that assist in achieving corporate strategic objectives. Risk management activities also assist companies by providing information to ensure appropriate business and strategic decisions.

Scope of Guidance

The scope of the proposed guidance should be aligned with the requirements of the newly published British Standard BS 31100 and the soon-to-be published ISO 31000. In outline, the proposed enhanced guidance on risk management should set out requirements for the board of an organisation to:

- Promote a risk aware culture
- Embed risk management in all aspects of the company
- Establish the risk appetite of the company
- Determine the principal risks faced by the company
- Ensure that adequate risk communication exists
- Develop overall policies for risk management and internal control
- Establish delegation of authority for risk management
- Receive reports on a timely and regular basis
- Integrate risk management into strategic decision-making

Like the Turnbull report, this additional guidance on risk management should be specific, relevant and well structured, yet brief and helpful. The guide should not set out requirements in the way that occurs in a standard, nor should the guidance be an implementation guide to effective enterprise risk management. Rather, the guidance should be a set of requirements that represent an effective model for the implementation of satisfactory standards of risk management.

Needless to say, AIRMIC and the IRM would be it pleased to be involved in the development of these guidelines.

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