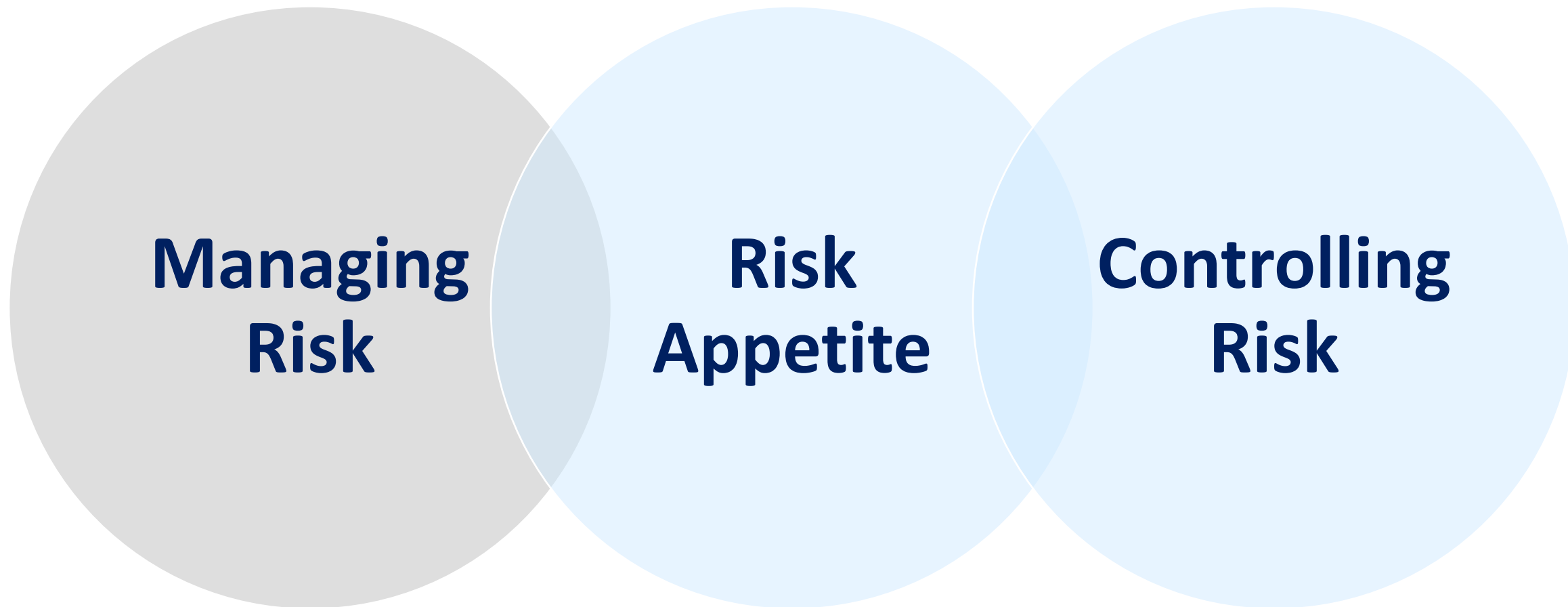




Risk Management & Control

CITI ICG Analyst Program





CONTENTS

So what is Risk?

- Dictionary Definition:

Risk is “the possibility of incurring misfortune or loss”

(Collins Dictionary)

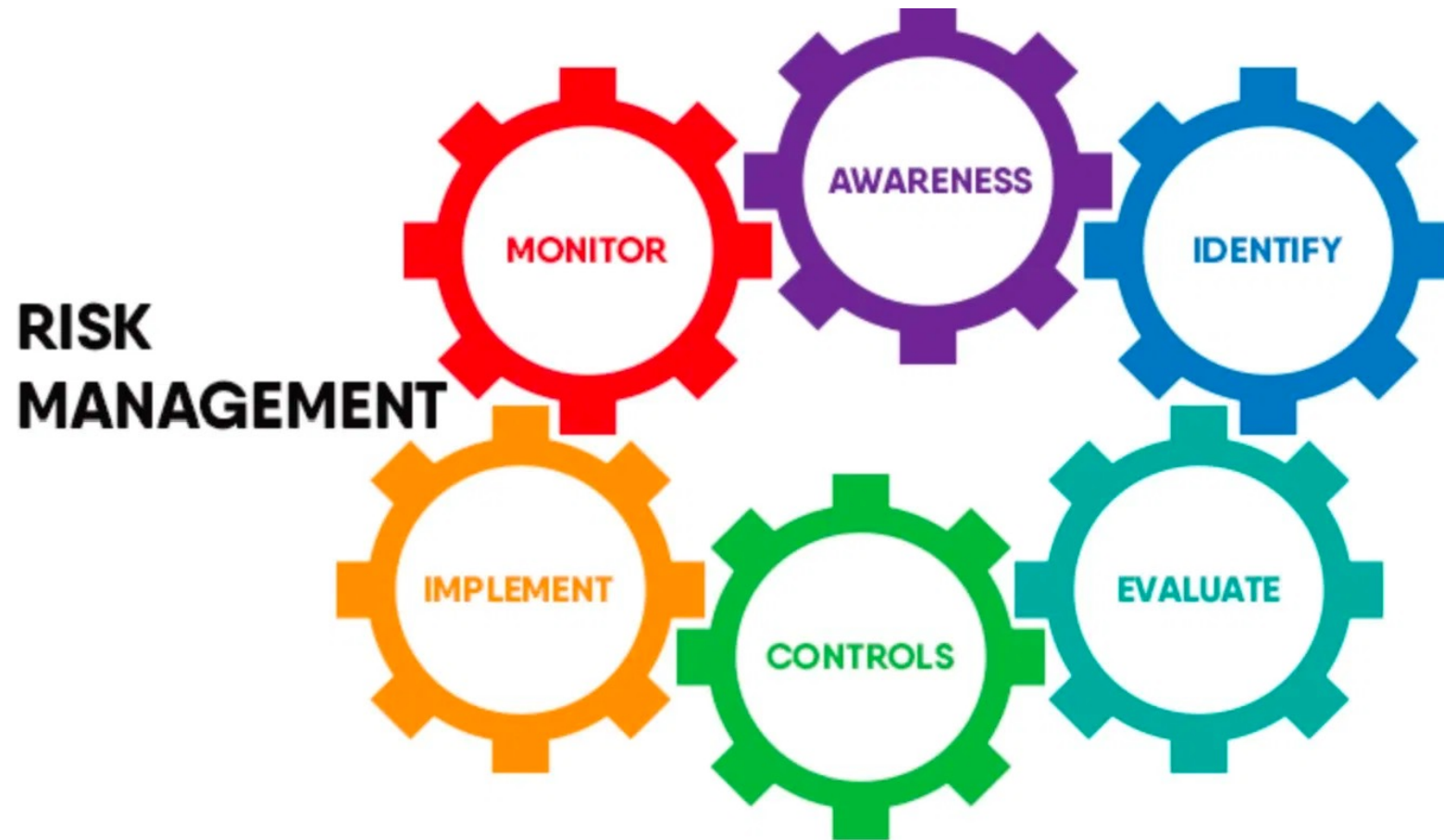


Risk Management

Whatever the definitions - **Risk** in business, banking and investing is inevitable

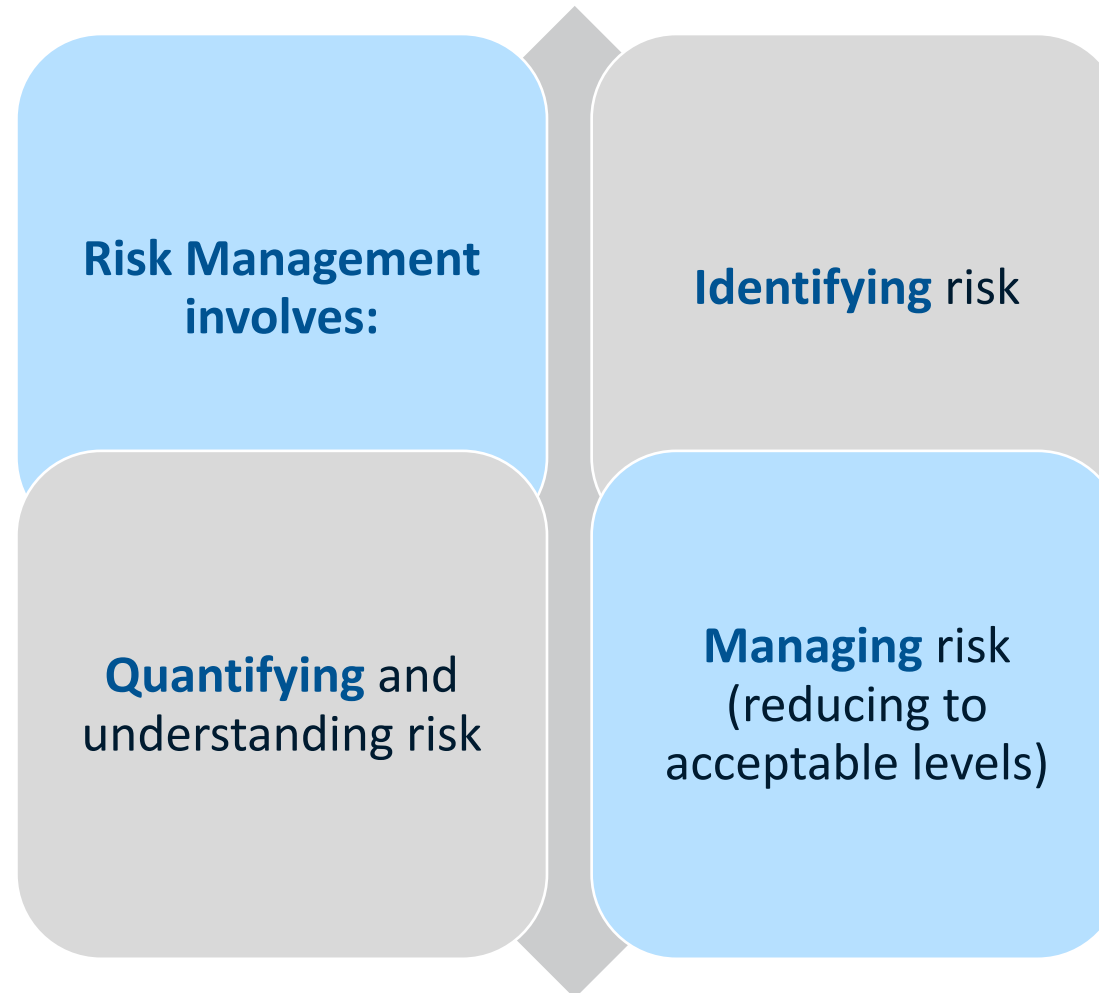
Measuring and Controlling Risk is crucial

Risk Management is the process of monitoring and addressing the potential for loss



- **MANAGE AND PREVENT**

Risk Management



Risk Management



**Success
Depends
Upon**

A positive
**corporate
culture**

Actively
observed
**policies and
procedures**

Effective use
of
technology

Independence
of **risk**
management
professionals

Measuring Risk



Study **random future events**, listing all the possibilities and assign a probability to each with the sum adding to one.

The expected value is the **probability-weighted sum** of all possible future outcomes.

Risk increases when the spread (or range) of **possible outcomes** widens but the expected value stays the same.

Measuring Risk

One measure of risk is the **standard deviation (SD)** of the possible payoffs.

A second measure of risk is **Value at Risk (VAR)**, the worst possible loss over a specific time horizon, at a given probability – e.g. 1 day at 95%



Assessing the Risk / Reward Equation



Business & Competition Risk

Poor market
conditions –
Excess supply /
Reduced Demand

Fall in transactions
due to increased
global volatility

Consumer /
Customer /
Investor
confidence dented

Political /
Economic / Social
events

New Entrants –
Disrupters

Risk Appetite

Risk Appetite is the amount of risk an organisation is willing to accept in pursuit of its strategic objectives

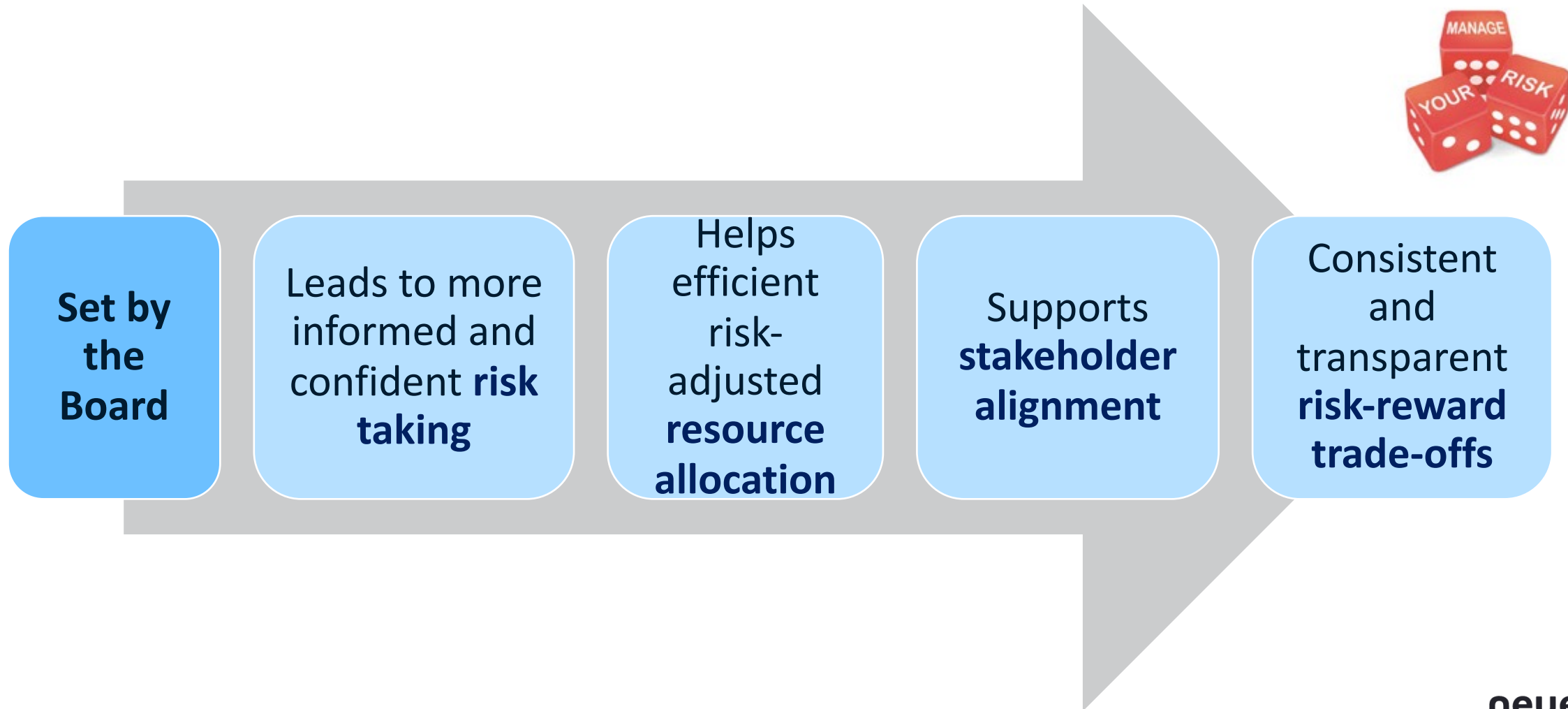
At a broad and universal level



Reflects the risk management philosophy that a board wants an organisation to adopt

Influences the risk culture, operating style and decision-making

Risk Appetite - Positives



Asset Classes & Activities – Risk Profiles

High-Risk vs Low Risk

Equities

Commercial Paper

Money Market
Instruments

Bonds

Real Estate

Derivatives

Commodities

Leverage

Short Positioning

Risk – Investor Targets

Income
Maximisation

Capital
Appreciation

Balanced
Returns

High Yield

Geographical
markets

Speciality
Funds

Short-Term v
Long-Term

Leverage

Disclosing Risk – Asset Managers. & Investment Funds

Fund Prospectus

Investors rely on the Offering Document or Prospectus to outline the risks involved

Explains the risk the IM expects to take and their materiality – risk rating

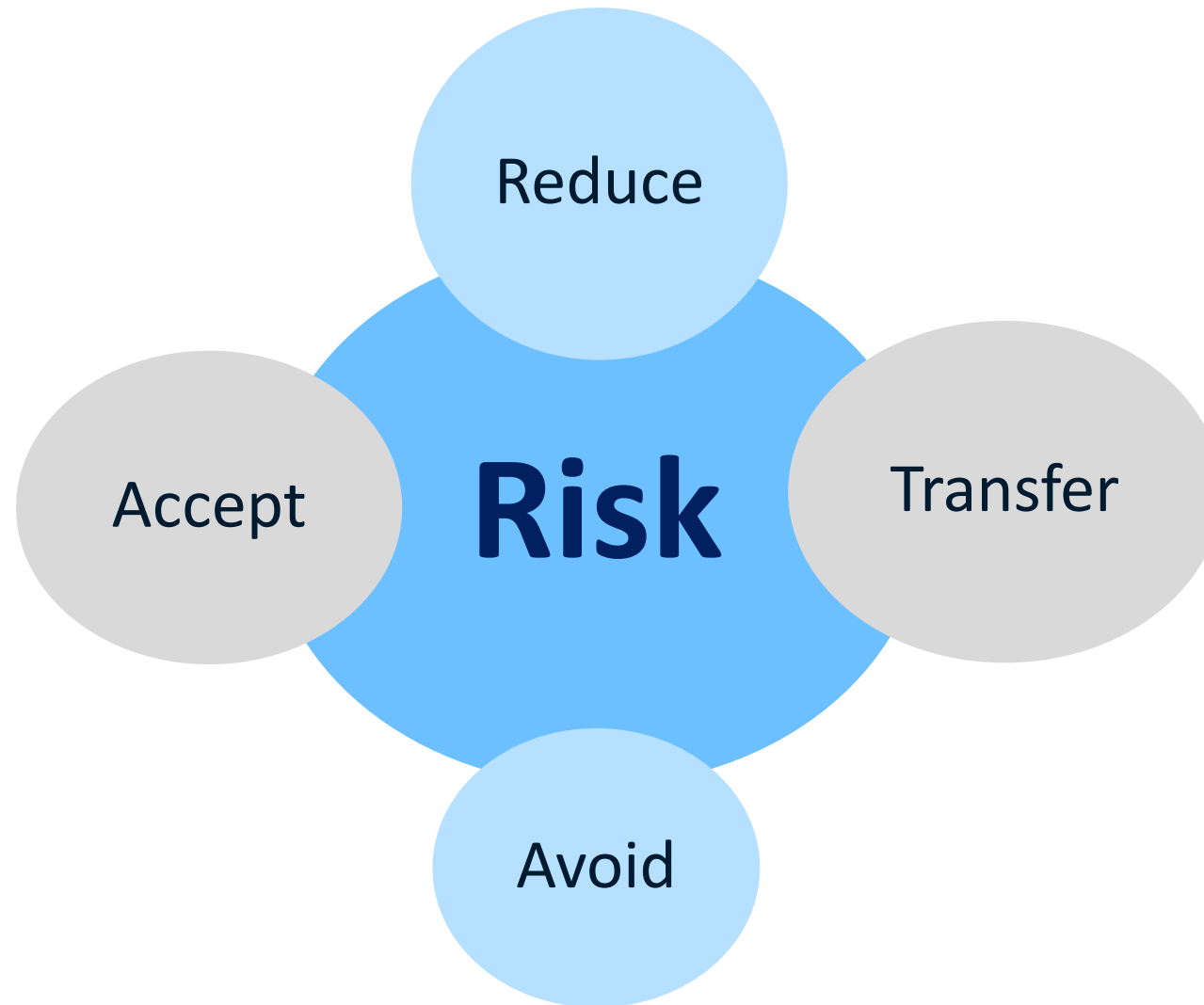
Defines the roles of the parties to the fund – Administrator, Custodian, TA, Trustee, Board of Directors etc

Transparency on potential risks and protection against false or misleading performance or ROI claims

Risk Controls & Risk Appetite



Risk Controls – Mitigating Risk



The effects of poor risk management



What is Financial Risk?

**NASDAQ defines
Financial Risk:**



*'The risk that the cash flow of an issuer will not be adequate to meet its **financial obligations**.'*

'Also referred to as the additional risk that a firm's stockholder bears when the firm uses debt and equity.'

<https://www.nasdaq.com/investing/glossary/f/financial-risk>

Types of Risk



Enterprise Risk Management (ERM) – How much is attributable to clients?

Enterprise Risk – All Encompassing



Enterprise Risk Management

The goal of Enterprise Risk Management is to create a ***unified view of risk*** across the business and manage **all risks** effectively.

Any Questions?

