

S&P Readiness Assessment

Background

Recent events such as the global financial crisis, corporate insolvencies and other incidents have highlighted the need for strong Enterprise Risk Management (ERM) programs. Supporting this point, Standard & Poor's (S&P) has announced its intent to assess ERM programs as part of the criteria for rating the creditworthiness of non-financial companies. S&P's assessment will initially focus on Risk Management Culture and Strategic Risk Management within an organization's ERM program. Based on the results, the S&P assessment could have a positive or negative impact on your debt rating and borrowing costs.

During the current phase, S&P is discussing and gathering data with rated clients on assumed risks and understanding how organizations assess their risk positions. These initial discussions are part of a phased deployment by S&P to gather data, establish benchmarks and publish evaluation criteria, including scoring assessment levels of "excellent," "strong," "adequate" and "weak." Following the data collection period, a more formal evaluation and scoring process is expected to be established in late 2009.

S&P Readiness Assessment

Many companies have not yet invested in ERM or are in the initial stages of formulating a strategy. Others have developed ERM programs but are uncertain as to how they will align with the S&P assessment criteria. By performing an assessment of your ERM program, you can quickly evaluate whether or not your program meets the expected standards and identify specific program deficiencies. The S&P Readiness Assessment should focus on your organization's Risk Management Culture and Strategic Risk Management practices. Specifically, the following elements should be evaluated:

- Tone at the top
- Role definition
- Budget and compensation influence
- Risk management policies
- The impact of key risks on credit positions
- Program sustainability
- How risk sensitivity is used in decision making

Typically, the evaluation of these elements is accomplished through leveraging a variety of techniques, including:

- Review of existing risk policies, prior assessments and other materials
- Risk interviews with key managers and executives
- Interactive risk workshop
- Development of a balanced risk scorecard highlighting the findings by category

By understanding where your organization stands relative to the S&P standard, you will be in a much better position to effectively manage your credit rating and the corresponding potential impact to your cash flow and lending capacity.