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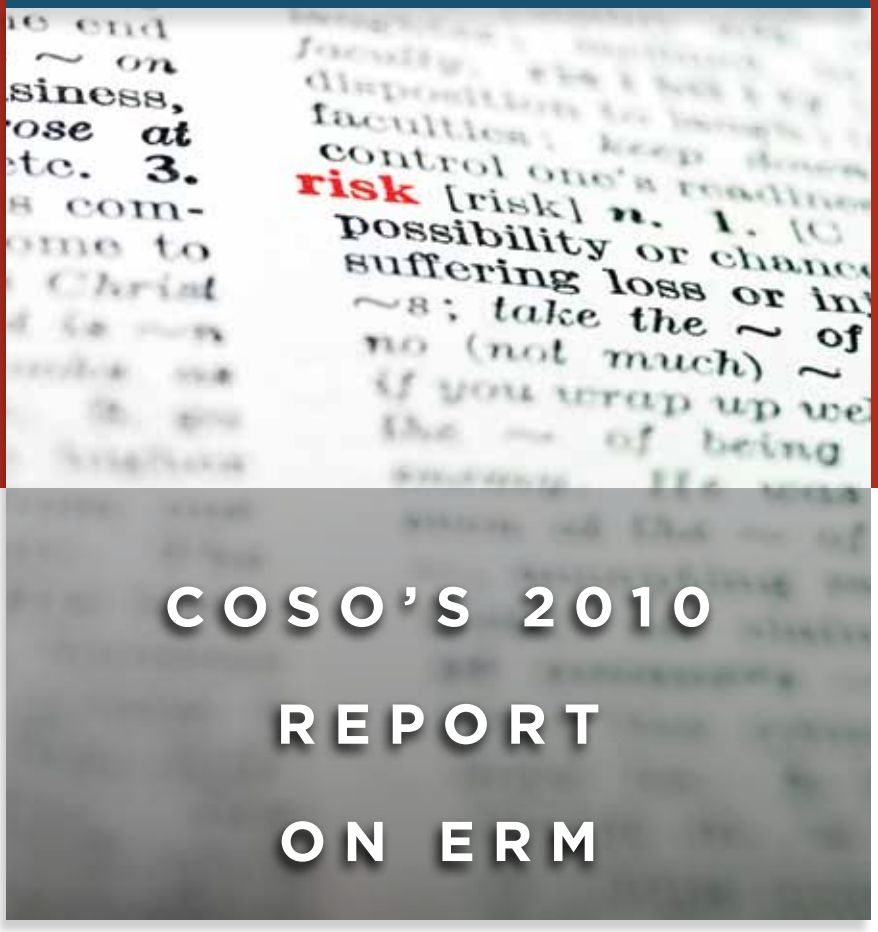
Thought Leadership in ERM



COSO'S 2010 REPORT ON ERM

Current State of Enterprise Risk Oversight and Market Perceptions of COSO's ERM Framework

By

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The ERM Initiative at North Carolina State University is pioneering thought-leadership about the emergent discipline of enterprise risk management, with a particular focus on the integration of ERM in strategy planning and governance. The ERM Initiative conducts outreach to business professionals through executive education and its internet portal (**www.erm.ncsu.edu**); research, advancing knowledge and understanding of ERM issues; and undergraduate and graduate business education for the next generation of business executives.

Preface

This project was commissioned by COSO, which is dedicated to providing thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control, and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations. COSO is a private sector initiative, jointly sponsored and funded by the following organizations:

American Accounting Association (AAA)

American Institute of Certified Public Accountants (AICPA)

Financial Executives International (FEI)

Institute of Management Accountants (IMA)

The Institute of Internal Auditors (IIA)

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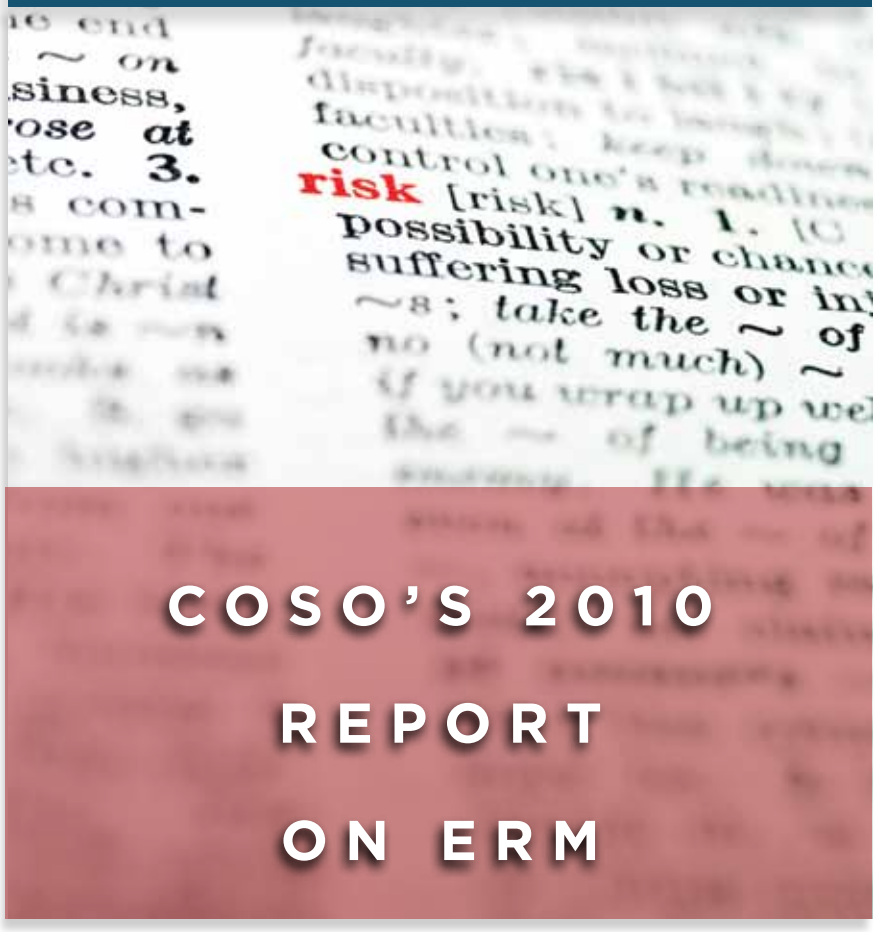

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Research Commissioned by

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www.coso.org

COSO ERM Framework Survey

Since its release in 2004, COSO's *Enterprise Risk Management – Integrated Framework* (COSO's ERM Framework) has been widely recognized as a respected authority on the topic of Enterprise Risk Management (ERM). However, other than anecdotal observations, COSO lacked any concrete information on the extent of its adoption within organizations or market perceptions about its usability.

To gain a sense for the extent of use, consideration, or reliance on COSO's ERM Framework, COSO commissioned the Enterprise Risk Management Initiative at North Carolina State University to conduct a survey in summer 2010 working through the COSO sponsoring organizations. This survey was targeted to individuals who are involved in leading ERM related processes or knowledgeable about those efforts within their organization.

We received responses from 460 individuals who answered over 24 questions in the online survey that addressed both the risk management practices of the entity for which the individual is a member of management, as well as that individual's perceptions about the strengths and weaknesses of COSO's ERM Framework. Key findings are summarized below:

Key Findings

- The state of ERM appears to be relatively immature. Only 28 percent of respondents describe their current stage of ERM implementation as "systematic, robust and repeatable" with regular reporting to the board. Almost 60 percent of respondents say their risk tracking is mostly informal and ad hoc or only tracked within individual silos or categories as opposed to enterprise-wide.

- There appears to be a notable level of dissatisfaction with how organizations are currently overseeing enterprise-wide risks. Almost half (42.4 percent) described their organization's level of functioning ERM processes as "very immature" or "somewhat mature." About a third (35 percent) admit that they are "Not at All Satisfied" or are "Minimally" satisfied with the nature and extent of reporting to senior executives of key risk indicators.

- While in about half of the organizations management has formally assigned responsibility for risk oversight to a member of management, in over half of the organizations the board of directors has not formally assigned risk oversight responsibilities to one of its subcommittees.

- Almost two-thirds of respondents note that management formally reports the entity's top risk exposures to the board on a regularly scheduled basis; however, the form of risk oversight appears to be casual and unstructured. Just under half (44 percent) note there was either no or only minimal processes for identifying and tracking risks.

- Boards of directors, especially those on the audit committee, are placing greater expectations on management to strengthen risk oversight in the majority of organizations. That in turn is perhaps encouraging CEOs to assign more responsibility within management to strengthen risk oversight.

- Almost 65 percent of respondents were fairly familiar or very familiar with COSO's ERM Framework. Very low levels of familiarity were reported with the Joint Australia/New Zealand AS/NZ 4360-2004, the Turnbull Guidance, and the ISO standards for risk management. COSO's ERM Framework was also the overwhelming choice as the basis for implementing ERM within the respondent's organizations. Very few respondents indicated that they used other frameworks as the basis for designing and implementing ERM processes.

- Most believe that the COSO ERM Framework is theoretically sound, provides a common language for ERM that is widely accepted by organizations, and clearly describes key elements of a robust ERM process. There was some criticism that COSO's ERM Framework is overly theoretical. About a quarter (26.5 percent) responded significantly or "a great deal" to the perception that the COSO ERM Framework contains overly vague guidance.

- While 41 percent of respondents believe the cube depiction of the COSO ERM Framework is a very effective portrayal of the inter-relationships of the elements of ERM, an additional 26.4 percent believe the cube is unnecessarily complicated and causes negative reaction to the COSO ERM Framework.

- The majority of respondents do not appear to be familiar with Volume 2 of the COSO ERM Framework, which contains Application Techniques. For those with some familiarity, there are strong indications that there is a need for more templates and tools to help with the implementation of ERM.

We separately analyzed results for public companies only and found the results to be mostly similar to results for the full sample.

The remainder of this report provides more in-depth analysis of the responses.

Content Outline

Page

Description

Overview of Research Approach

This study was conducted by research faculty who lead the Enterprise Risk Management Initiative (the ERM Initiative) in the College of Management at North Carolina State University (for more information about the ERM Initiative please see http://www.erm.ncsu.edu). The research was conducted in conjunction with the member organizations of the Committee of Sponsoring Organizations (COSO). Data was collected during the months of June and July 2010 through an online survey instrument electronically sent to members of each of COSO's member organizations. In total, we received 460 partially or fully completed surveys.[1]

Because the completion of the survey was voluntary, there is some potential for bias if those choosing to respond differ significantly from those who did not respond. Our study's results may be limited to the extent that such a possibility exists. Also, some respondents provided an answer to selected questions while they omitted others. Furthermore, just over one-third of respondents represent individuals in internal audit roles. Possibly there are others leading the risk management effort within their organizations whose views are not captured in the responses we received. Despite these limitations, the results reported herein provide needed insight about the current level of risk oversight maturity and sophistication and highlight the strengths and limitations of the COSO ERM Framework as a tool for improving an organization's risk oversight processes.

Results are based on responses from 460 executives representing a variety of industries and firm sizes.

Description of Respondents

Respondents completed an online survey with questions that address many of the factors and conditions related to the entity for which the individual is a member of management. They were asked over 24 questions in online surveys that addressed both the risk management practices of the entity for which the individual is a member of management, as well as that individual's perceptions about the strengths and weaknesses of COSO's ERM Framework.

The largest category of respondents (37 percent) held the position of head of internal audit, followed by those with the title of chief financial officer (CFO) at 23% of respondents. Other respondents included the head of risk management or chief risk officer (12%), controller (10%), and member of the board of directors (6%), with the remainder representing numerous other executive positions. The respondents claim to be familiar with their organization's approach to enterprise level risk management. Using 5 point scale where 1 = not at all familiar and 5 = very familiar, over 64 percent selected "5 = very familiar" and an additional 23 percent selected a value = 4. Thus, almost all survey participants appear to be knowledgeable about the state of ERM within their organizations.

Over three-fourths of respondents represent for-profit enterprises. Forty-one percent of respondents represented publicly traded companies with an additional 35 percent representing privately-held, for profit companies. Almost all respondents represented U.S. based organizations, with 52 percent (not shown in table) representing organizations headquartered in the U.S. with operations only in the U.S. and an additional 39 percent representing organizations in the U.S. with operations in and outside the U.S.

Type of Organization Represented	Percentages
Publicly traded, for-profit company	41%
Privately-held, for-profit company	35%

[1] Not all questions were completed by all 460 respondents. In some cases, the questions were not applicable based on their responses to other questions. In other cases, the respondents chose to skip a particular question.

A range of industries is represented, with no industry comprising more than 25 percent of respondents. The most common industry was manufacturing (24%), followed by finance, insurance, and real estate and services, each of which represented 20%. See the table below.

Industry Descriptions	Percentages
Manufacturing (SIC 20-39)	24%
Finance, Insurance, Real Estate (SIC 60-67)	20%
Services (SIC 70-89)	20%
Not-for-Profit (SIC N/A)	11%
State or Local Government	7%
Wholesale/Distribution (SIC 50-51)	5%
Retail (SIC 52-59)	4%
Construction (SIC 70-89)	3%
All Other Combined (none greater than 2%)	6%

State of Risk Management Practices

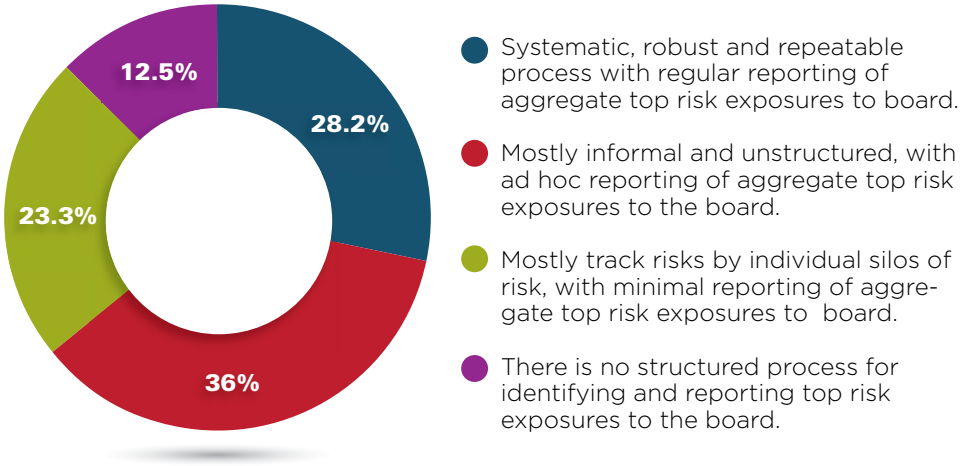
Despite growing complexities in the risk environments for most organizations, the level of risk management sophistication still remains fairly immature for most responding to our survey. When asked to describe the level of maturity of their organization's enterprise risk management process, on a 5 point scale where a value of 1 = very immature to a value of 5 = very mature, we found that 14.5% described their organization's level of functioning ERM processes as "very immature" and an additional 27.9% described their processes as "somewhat immature." So, on a combined basis 42.4% self-describe the sophistication of their risk oversight as immature to minimally mature. Only 3.4% responded that their organization's ERM process was "very mature."

	Very Immature	Somewhat Immature	Between Mature and Immature	Somewhat Mature	Very Mature
What is the level of maturity of your organization's ERM process?	14.5%	27.9%	36.8%	17.4%	3.4%

Given that our respondents represent a variety of types of organizations, including not-for-profit and government entities, we separately analyzed results for publicly-traded companies only (187 of the 460 respondents represent publicly-traded companies). While only 4.7 percent of publicly traded companies rated their ERM maturity as "very mature" similar to the full sample, fewer (7.1 percent) rated their ERM as "very immature." Public companies tended to rate their ERM processes in the middle category of somewhere between mature and immature (47.3 percent).

In a similar question, respondents were asked to pick a statement which best described their organization's current stage of ERM implementation. In this case only 28.2% of all respondents describe their current stage of ERM implementation as "systematic, robust and repeatable" with regular reporting to the board, while almost 60% of respondents say their risk tracking is mostly informal and ad hoc or only tracked within individual silos or categories as opposed to enterprise-wide. Another 12.5% indicated that their organization had no structured process for identifying and reporting top risk exposures to the board.

Current Stage of ERM



The results for publicly-traded companies only mostly mirror the results reported in the pie chart above for the full sample. Sixty-one percent of publicly traded companies say their risk tracking is mostly informal or ad hoc or only tracked within individual silos or categories. Slightly more publicly-traded companies (36.1 percent) relative to the full sample (28.2 percent) indicate their current state of ERM implementation is "systematic, robust, and repeatable."

Governance, Strategy and Enterprise Risk Oversight

To shed some insight into current practices, we asked respondents to provide more specifics concerning risk reporting to their organization's board of directors and the delegation of risk oversight to board level committees. We found that only 33.6% of all respondents (and 43.2 percent of publicly-traded companies) indicated that the extent to which their boards have formally assigned risk oversight responsibility to a board committee is "significant" or "a great deal." Over half (52.2%) of all respondents indicated that this had not been done at all or only minimally. When it comes to formally assigning a member of management with the responsibility for risk oversight, the results are higher. Almost half (48.8%) of respondents indicated that the extent to which this had been done was "significant" or "a great deal." For the subset of publicly traded companies, 63.4 percent had noted the assignment of responsibility to a member of management was "significant" or "a great deal."

What is the extent to which each of the following exists?	Not at All 1	2	3	4	A Great Deal 5
The board has a subcommittee(s) with primary responsibility for oversight of risk and reporting back to the full board.	38.5%	13.7%	14.2%	16.2%	17.4%
A member of senior management has formally been assigned responsibility for enterprise-wide risk oversight.	24.3%	11.5%	15.4%	21.6%	27.2%

It is possible that some boards have not assigned primary responsibility for risk oversight to one of its committees because the full board has retained that enterprise-wide risk oversight role. To gain a sense for the level of board engagement in risk oversight activities, we asked a series of questions.

We prompted respondents to describe the extent to which management formally reports its top risk exposures to the board on a scheduled, regular basis. In this case, almost two-thirds (62.7%) responded that the extent to which this was done was either "Moderate," "Significant," or "A Great Deal" (a score of 3, 4, or 5 selected on the 5-point scale). Results for public companies were even stronger with 79.4 percent responding in that manner.

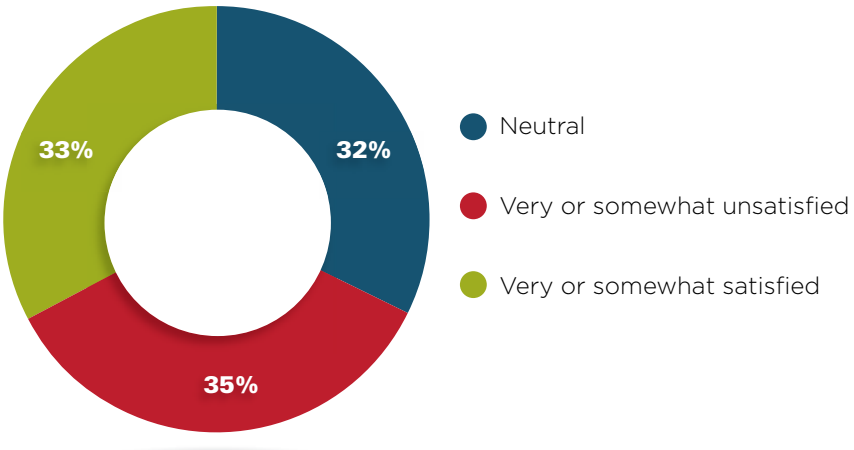
In a related question regarding the existence of processes for the identification and monitoring of emerging strategic risks, the results declined somewhat, indicating room for improvement. In 44.4% of all responses received (and 30.1 percent of public companies) there was either no process or only minimal processes for identifying and tracking emerging risks. When we asked about management and board monitoring of a robust set of key risk indicators tracking emerging risks, the results declined even further indicating a more specific need for the development of key risk indicators. In this case, slightly over half (50.3%) of all respondents (and over 40 percent of public companies only) indicated that this was either not done at all or done only minimally. On a collective basis, responses to these questions suggests that reporting of top risk exposures by management to the board is occurring; however, the underlying process of reporting risk information and related focus on emerging risks and key risk indicators may be casual and less structured or robust.

What is the extent to which each of the following exists?	Not at All 1	2	3	4	A Great Deal 5
Management formally reports the entity's top risk exposures to the board on a scheduled, regular basis (e.g., annually).	20.3%	17.0%	17.9%	24.5%	20.3%
There are structured processes for identifying and monitoring emerging strategic risk exposures.	21.1%	23.3%	25.5%	18.1%	12.0%
Management and the board regularly monitor a robust set of key risk indicators tracking emerging risks.	26.0%	24.3%	24.8%	16.9%	8.0%

The survey also revealed that many organizations have not formally articulated their appetite for risk taking in the context of their stated objectives. Only 27.5% of all respondents indicated that the extent to which they had articulated their risk appetite was "significant" or "a great deal," and over half (51.7%) have not done this at all or only minimally. Although results for public companies leaned slightly towards a few more with a formal articulation of risk appetite, the results reported above are mostly similar to those related only to public companies.

When asked about their level of satisfaction with their organization's approach to managing its most significant risks, respondents were fairly evenly divided between being very or somewhat unsatisfied (35%), neutral (32%), and very or somewhat satisfied (33%). Overall, this would seem to indicate that a majority of respondents may like to see an improvement in the management of their key risks. Results for only public companies were only slightly more satisfied (24.8 percent were very unsatisfied or somewhat unsatisfied while 42.0 percent were very or somewhat satisfied).

Satisfaction with Risk Oversight Process



Emerging Calls for Strengthening Enterprise-Wide Risk Oversight

The survey results indicate that expectations for improving risk oversight in these organizations are coming from a number of sources. Respondents noted that for 9.8% of the organizations surveyed, the board of directors is asking senior executives to strengthen their risk oversight "A Great Deal" and another 25% are asking for increased oversight significantly. Another 24.3% indicated "Moderate" board interest in increasing senior executive risk oversight.

These expectations are possibly being prompted by increasing external pressures now being placed on boards. In general, boards and audit committees are now beginning to challenge senior executives about existing approaches to risk oversight and they are demanding more information about the organization's top risk exposures.

Much of the board's interest in strengthening risk oversight appears to be driven by the audit committee. For respondents in organizations that have an audit committee function in place, 17.4% of the audit committees are asking executives to increase their risk oversight "A Great Deal" and an additional 25% are making significant requests for increased oversight. Another 20.6% of respondents at organizations with existing audit committees are experiencing moderate levels of requests from their audit committees for increases in senior management oversight of risks.

Collectively, these results suggest that 59.1% of the full boards and 63% of audit committees are making "Moderate" to "Significant" to "A Great Deal" of requests for more senior management involvement in risk oversight. In addition, and perhaps due to the board and audit committee's interest in strengthened risk oversight, the chief executive officer (CEO) is also calling for increased senior executive involvement in risk oversight. Over 65% of the respondents indicated that the CEO is making "Moderate" to "Significant" to "A Great Deal" of requests for increased management involvement in risk oversight. Results related to board, audit committee, and CEO requests for improvements in risk oversight for the sub-sample of public companies are very similar to the full sample.

Internal audit also appears to be placing additional expectations on executives regarding risk oversight. For those entities with an internal audit function, 65.4% of the respondents indicated that internal audit is making "Moderate" to "Significant" to "A Great Deal" of requests for more senior management involvement in risk oversight. Interestingly, respondents do not appear to be experiencing significant pressure from external parties to strengthen risk oversight. Sixty-five percent indicated that regulators are "Not at All" or "Minimally" asking for greater risk oversight, 73 percent indicated that key stakeholders are either asking "Not at All" or "Minimally" and 69 percent noted the same extent of pressure coming from others such as credit rating agencies, stock exchanges, or other governance reform advocates.

Extent of Requests for Increased Senior Executive Involvement in Risk Oversight Coming from:	Percentages		
	"Moderate"	"Significant"	"A Great Deal"
Boards of Directors	24.3%	25.0%	9.8%
Audit Committee	20.6%	25.0%	17.4%
Chief Executive Officer	26.7%	23.3%	15.2%
Internal Audit	21.6%	25.7%	18.1%

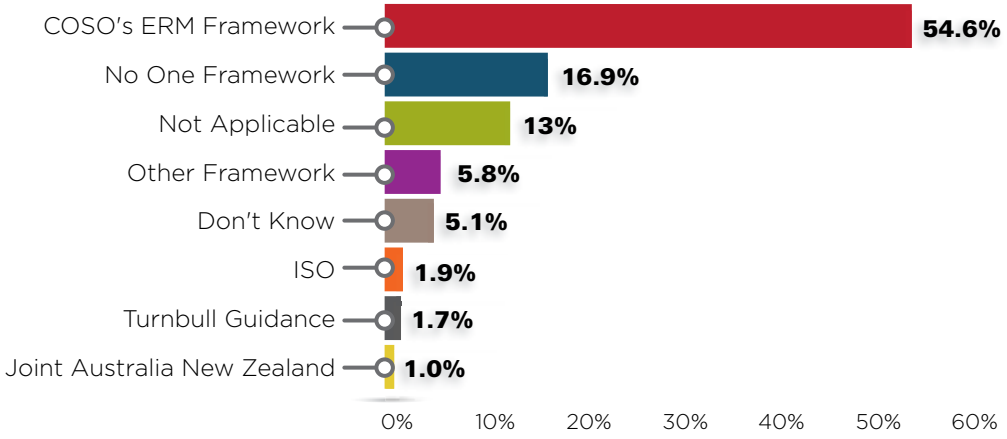
ERM Frameworks

To determine respondents' awareness of various published frameworks for enterprise-wide risk management, we asked respondents to indicate the extent of their familiarity with 4 different frameworks. COSO's ERM Framework was overwhelmingly the most well-known of the frameworks with 36.7% of respondents reporting they were very familiar with the framework and only 7.9% of respondents indicating they were not at all familiar with the framework. The other three frameworks listed, Joint Australia/New Zealand 4360-2004 Standards, ISO 31000-2009, and the Turnbull Guidance, were not very well known at all, with respondents having no familiarity at 72.6%, 46.4% and 51.3% respectively. Responses from the subsample of only public companies are very similar.

It follows that when organizations look for guidance in implementing ERM they typically (54.6%) look to COSO's ERM framework (even higher—65 percent—for public companies only). The next most frequent response to this question at 16.9% was "our organization has not looked to any one

particular framework more than others…" To the extent that an organization looked to another framework as their primary source of guidance, the two reasons cited most often were that the concepts were simpler to understand or that the alternative guidance was simpler, more concise and easier to implement.

Framework Used for ERM Guidance



Perceptions of COSO's ERM Framework

Respondents were very positive about a number of characteristics of COSO's ERM Framework. The most positive characteristic, the theoretical soundness of the framework, was rated high with almost two-thirds of all respondents (66.6%) and 68.8 percent of only those representing public companies agreeing with that perception as "Significant" or "A Great Deal." The framework also had very positive perceptions that it provides a common language for ERM and that it clearly describes the key elements of ERM. Other positive perceptions include moderate to significant beliefs that the COSO ERM Framework demonstrates effectively how ERM can add value, enables management to better assess how much risk the organization accepts relative to stated objectives and provides clear and practical guidance for the implementation of ERM. Overall responses and responses for the sub-sample of public companies were almost identical on these dimensions. See table below reflecting the full sample results.

Perceptions about COSO's ERM Framework Positive Statements	Percentages		
	"Not at All or Minimal"	"Moderate"	"Significant or A Great Deal"
Provides theoretically sound principles and guidance for ERM	8.4%	25.0%	66.6%
Provides a common language for ERM that is widely accepted by organizations and their stakeholders	20.2%	33.4%	46.4%
Clearly describes the key elements of a robust ERM process	17.8%	36.4%	45.8%
Demonstrates that ERM can add value to an organization	29.5%	32.5%	38.0%
Enables management to better assess how much risk the organization accepts relative to stated objectives	26.8%	37.0%	36.2%
Provides clear and practical direction and guidance for the implementation of ERM	35.8%	39.5%	24.7%

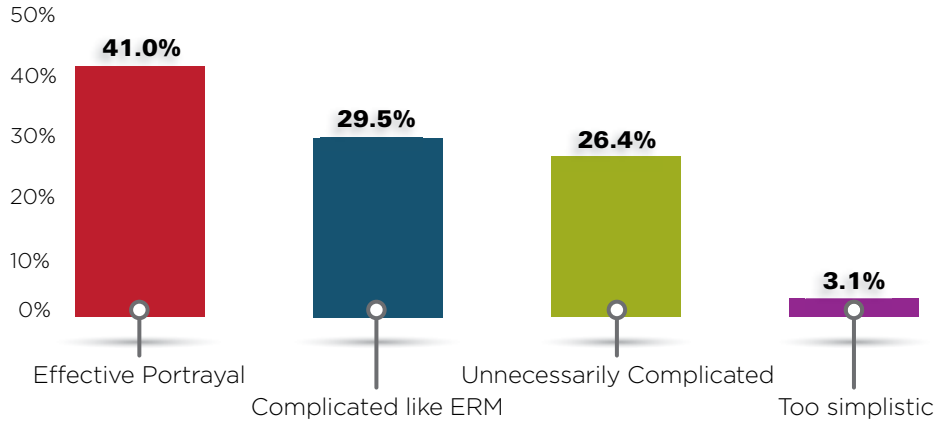
When it came to perceptions regarding statements that were critical of COSO's ERM Framework, there is some cause for concern over respondents' views on whether the framework was overly theoretical, with 44.6% of all respondents and 45.1 percent of respondents at public companies only indicating this perception was "significant" or "a great deal." As shown in the table below, results for the full sample were somewhat mixed on whether the framework might be perceived as

overly prescriptive, with about one-third saying "Not at All" or "Minimal" in contrast to 27.4 percent perceiving that concern to be "Significant" or "A Great Deal." There was clearly a great deal of disagreement with the statements asserting the framework might be overly vague or not widely accepted. See table below reflecting the full results:

Perceptions Related to Potential Criticisms of COSO's ERM Framework	Percentages		
	"Not at All or Minimal"	"Moderate"	"Significant or A Great Deal"
Provides an overly theoretical approach to ERM	23.5%	31.9%	44.6%
Provides an overly prescriptive framework for ERM	38.6%	34.0%	27.4%
Contains overly vague guidance	43.1%	30.4%	26.5%
Describes ERM in a way that is not widely accepted	58.7%	25.0%	16.3%

Reactions to the cube depiction of COSO's ERM Framework were mixed. The largest percentage of respondents (41% for the full sample and 39.9 percent of the sub-sample of public companies) believed the cube depiction was a very effective portrayal of the inter-relationship of the elements of ERM. However, 29.5% of all respondents said the cube depiction was complicated just as ERM is complicated, and another 26.4% felt the cube depiction was unnecessarily complicated and causes negative reactions to COSO's ERM Framework. Most of the open-ended comments on the strengths and weaknesses of the cube depiction echoed the categories indicated above. Many wrote that it was too complicated and particularly it was difficult to explain to members of the board of directors or other individuals who do not deal with ERM on a regular basis.

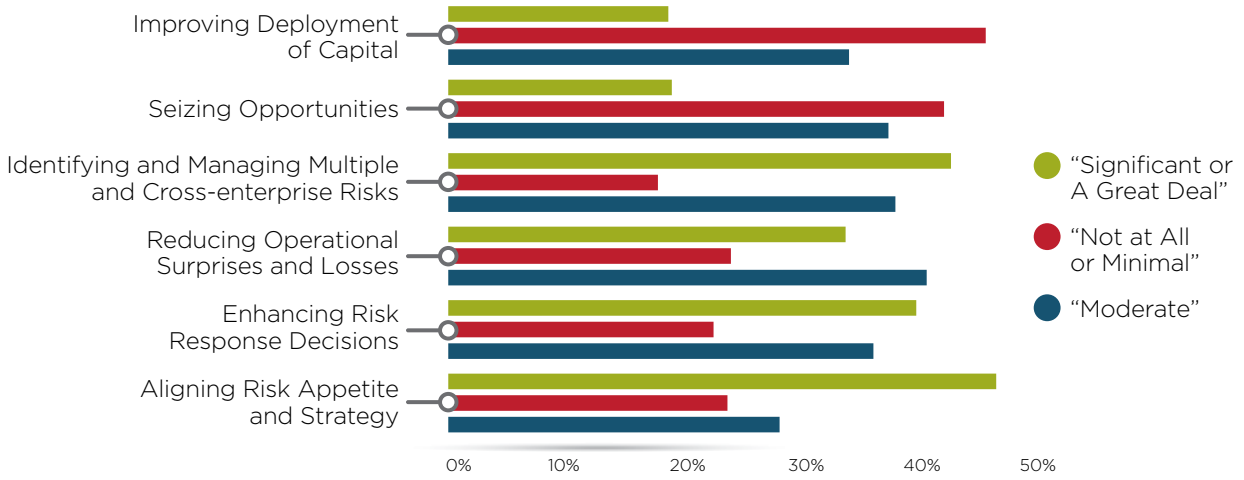
COSO Cube Depiction



When asked about the extent to which COSO's ERM Framework provided useful guidance to various individuals, it was not surprising to find that survey respondents believed that the framework provided the most guidance to internal audit executive leaders, senior risk executives, and compliance or risk management leaders. Views of its usefulness to more senior executives and the board of directors or audit committees were fairly positive as well. Respondents felt it was least useful to business unit leaders, managers and staff. These findings held true for the subset of public companies only.

Another important dimension upon which to evaluate COSO's ERM Framework is the extent to which it provides guidance which can help organizations to achieve various benefits associated with having a robust ERM process. Respondents indicated that COSO's guidance was most helpful in aligning risk appetite and strategy and in identifying and managing multiple, cross-enterprise risks. There appears to be some opportunities for COSO to provide more guidance to help organizations use their ERM efforts to improve deployment of capital and to seize opportunities. See chart on the next page:

Extent COSO ERM Framework Assists in Achieving Benefits



When asked specifically about the application techniques found in Volume 2 of the COSO ERM Framework, a majority of all respondents (56.6%) and public company respondents (55.6 percent) indicated that they were not familiar with Volume 2. Responses regarding the usefulness of Volume 2 were mostly neutral to positive (excluding those who were not familiar with Volume 2), but there were strong indications that there was a need for more templates and examples and more up-to-date ERM implementation examples. See table below:

Perceptions about Volume 2 of COSO's ERM Framework	Percentages			
	"Not at All or Minimal"	"Moderate"	"Significant or A Great Deal"	"Not Familiar"
Volume contains useful templates and tools	8.1%	16.9%	18.4%	56.6%
Need for more templates and examples	8.7%	10.5%	24.4%	56.4%
Need for more up-to-date examples	6.3%	9.3%	28.0%	56.4%

Finally, at the conclusion of the survey, respondents were given the opportunity to give feedback on the top 3-5 most important actions COSO could take to improve the effectiveness of the framework and related guidance, and we received 119 comments and suggestions. We attempted to group these comments according to various themes. The most prevalent theme, expressed in 43 separate responses, was that more practical guidance with either case studies or examples was needed. Respondents asked for more practical, actionable ideas versus theoretical guidance, specifically indicating that comprehensive examples and case studies, road maps for implementation, and other tools would be useful. The next most common theme was that of simplification which was expressed in 20 responses. There were also a number of comments regarding industry specific guidance (10) and additional guidance on developing a risk appetite (10), as well as some calls for COSO to provide training and continuing education (8).

Summary Observations

Overall, the results of the survey indicate that the state of ERM in most organizations is still relatively immature and underdeveloped, with most respondents indicating dissatisfaction with current risk oversight processes. While a majority indicates that management and their board of directors are discussing the organization's top risk exposures, there appears to be a lack of formal process or structure, including the presentation of key risk indicators, to provide the underlying basis or foundation for that discussion. There appears to be room for improvement in underlying processes and procedures to strengthen an organization's identification, assessment, and reporting of key risk exposures arising across all aspects of the enterprise. Results do not significantly differ if only considering responses from public companies.

The relatively immature state of risk oversight processes in organizations surveyed may be attributable to several potential factors. Many may question the value proposition for investing further in their organization's risk management infrastructure. Some may view risk management as mainly serving a compliance function or merely adding levels of unnecessary bureaucracy to the organization, failing to see any value in enhancing risk oversight.

In some instances, organizational leaders may fail to see the interconnectivity of risk oversight and strategy execution as evidenced by almost half (44.4%) of the organizations having no or only minimal processes for identifying and monitoring emerging strategic risks. A reminder of the fundamental relationship between risk and reward may help some organizations realize the strategic benefits of strengthening risk oversight so that strategic objectives are more likely to be achieved. A refocus on the reality that risks must be taken to achieve specific return objectives may help organizational leaders realize that more intelligent and focused management of risks will serve to increase the odds that strategic goals and objectives will actually be achieved. COSO's thought paper ***Strengthening Enterprise Risk Oversight for Strategic Advantage*** (see **www.coso.org**) may be a helpful resource for articulating the strategic value of effective ERM.

In other organizations, the lack of risk oversight maturity is attributable to overconfidence on the part of management and the board of directors in how they currently approach risk oversight. In many situations, organizational leaders believe their ad hoc and informal approaches to risk oversight are adequate and appropriate. In those instances, it may be difficult for progress to be made until greater external pressures are placed on management and the board or until a significant risk occurs creating a crisis management event for organizational leaders to address reactively. Perhaps greater training for management and the board about effective risk oversight processes or the engagement of external evaluators who can provide objective analysis or benchmarking of existing risk oversight processes against best practices may help highlight weaknesses before an actual value-destroying risk event occurs. COSO's thought paper, ***Effective Enterprise Risk Management: The Role of the Board of Directors***, lays out four core responsibilities of boards in the oversight of management's risk processes and top risk exposures arising out of those processes.

Just under half of the organizations surveyed either have no process or only minimal processes for identifying and tracking emerging risks, while over half of the organizations do no tracking of key risk indicators at the board or senior management level. These findings, in combination with the overall levels of dissatisfaction with existing risk oversight, suggest that organizational leaders may desire more robust enterprise-wide risk oversight but are struggling to determine what specifically they should do beyond already existing risk management functions within the entity (e.g., internal audit, legal, insurance, treasury, etc.). While they are convinced conceptually about the benefits of ERM, they may be struggling to translate concepts into practical application and in pinpointing ways to implement fundamental principles of ERM into already existing processes and functions. The observation that few of the respondents were aware of Volume 2 of COSO's ***Enterprise Risk Management – Integrated Framework: Applications Techniques***, which contains numerous application examples, suggests that they may need to be reminded about Volume 2 and may be in need of case studies and other implementation techniques and tools known to be helpful to organizations further along in the evolution of their risk oversight processes.

It appears that change is on the horizon for many of the organizations represented by the respondents to the survey. Just under two-thirds of respondents indicated that the board of directors is asking management for moderate to a great deal of increased risk oversight. That, in turn, is resulting in similar calls for strengthened risk oversight coming from the CEO of the organization. In about half of the organizations surveyed, a member of management has been formally assigned the responsibility for risk oversight. Thus, as these individuals continue to focus on the need for more effective risk oversight, the level of robustness in risk oversight processes is likely to increase over time. It will be interesting to observe the state of risk oversight in five to ten years.

In regards to the usefulness of COSO's ERM Framework, the analyses indicate that COSO's ERM Framework is a well-known, highly regarded source for guidance on ERM. The noted improvement opportunities for COSO likely reflect the difficulty organizations have in actually implementing an ERM program that is tailored to their organization. Few indicate there are any concerns with the theoretical soundness of COSO ERM and most have relied on that framework as the basis to design risk oversight in their organization. Clearly, the respondents in this survey would welcome more guidance in the form of implementation guides, case studies, and implementation examples. Thus, there may be opportunities for COSO to provide continued implementation guidance in the form of thought papers and other materials.

COSO is currently in the process of developing a series of thought papers designed to provide such guidance. Readers should monitor COSO's web site (**www.coso.org**) for resources and materials to help in the management of enterprise-wide risks.

About COSO

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a voluntary private-sector organization comprised of the following organizations dedicated to guiding executive management and governance participants towards the establishment of more effective, efficient, and ethical business operations on a global basis. It sponsors and disseminates frameworks and guidance based on in-depth research, analysis, and best practices.

COSO, 2010

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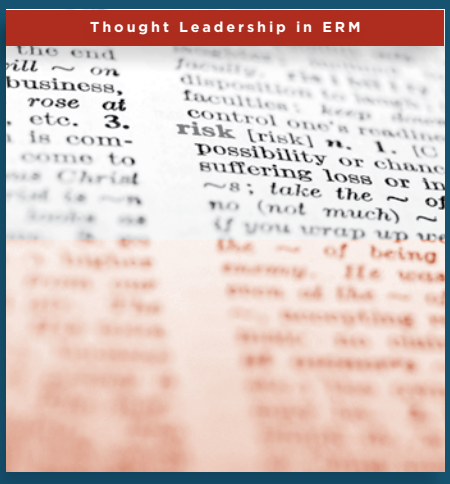

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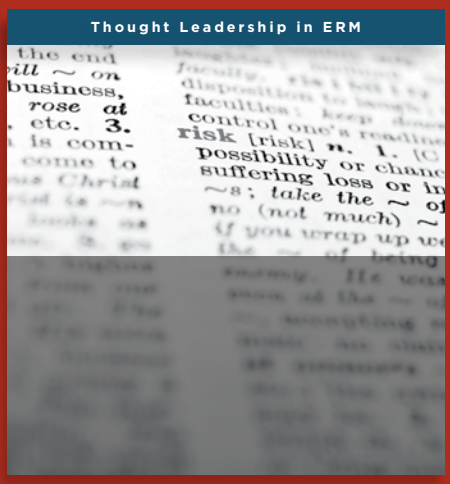

COSO'S 2010 REPORT ON ERM

Current State of Enterprise Risk Oversight and Market Perceptions of COSO's ERM Framework

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