

# Solutions for orm assignment



Organizing and managing oneself Submitting your completed assignment on and one's activities responsibly and or before the due date is an indication effectively that you have mastered this outcome Collecting. Analysis, organizing and critically evaluating information Searching for other sources, incorporating different views and forming a substantiated opinion is an indication that you have mastered this outcome Adhering to the technical requirements for an essay/case assignment is an indication that you have mastered this outcome Communicating effectively language presentation skills in writing more information Scoffs, please visit South African Qualifications Authority (SAA) website at <http://www. Saa. Org. ZA>. At this early stage of your learning experience we have to sound a warning. Simply memorizing and presenting the content of your prescribed books will definitely lead to poor results, It is our duty and privilege to give you the guidance and assistance necessary to make your learning experience at LANAIS worthwhile, However, as a postgraduate student you are responsible to ensure that you pass this module.

This means that you have to work on a regular basis throughout the year, We will give you all the support that we possibly can but, ultimately, it is up to you to decide how you are going to master the required skills, We strongly encourage you to either form study groups with fellow students in your area or to join an online study group via manias. 3. LECTURER AND CONTACT DETAILS 3. 1. Lecturers You are welcome to contact me via email or by telephone during office hours to discuss any problems you may encounter in your academic study material.

You may also want to discuss certain topics with one another using the discussion forum on manias ([HTTPS://my. NASA. AC. AZ](https://my.nasa.ac.az)). 4 Please make an appointment beforehand for personal visits to the lecturers. Also note that lecturers can only help you With academic matters. The lecturer responsible for this module is as follows: 3. 2 Department Mr. J van Hysteron van deer Walt 5-117 RISKIER-12. Y @anis. AC. AZ University Please provide your student number when contacting the University. 4. STUDENT SUPPORT SERVICES FOR THE MODULE Important information appears in your my Studies @ Janis brochure. S.

MODULE SPECIFIC STUDY PLAN Use the my Studies @ Anis brochure for general time management and loaning skills. 6. MODULE PRACTICAL WORK AND WORK INTEGRATED LEARNING There are no practical for this module. 7. EXAMINATIONS Else your mystified @ Anis brochure for general examination guidelines and examination preparation guidelines. The examination paper will consist of a case study and consequent questions. You will be required to analyses and interpret practical problems and to identify solutions, based on your theoretical and practical knowledge of the subject that you acquired during the year. It is a three. Our examination paper for a total of 100 marks. The purpose of the examination is not to test your ability to recall theoretical knowledge in parrot fashion and you will therefore not get any questions based on pure theory in the examination, Although previous examination papers and the assignments will give you a good idea what to expect in the examination, we are currently developing case studies per examination, and it is therefore catastrophic to naively believe that the examination will be a

simple repetition of the previous examination papers The calculation of exposures forms an integral part of risk management.

Although we do not intend to cover modeling in detail in this module, you can expect at least IS -? 30% of the examination to be based on calculations or the interpretation of model related diagrams and tables. 8. FREQUENTLY ASKED QUESTIONS The mystified @ Lisa brochure and Tutorial Letter 301 contain an A-Z guide Of the most relevant study information. ASSIGNMENT 01 unique assignment number: 393723 25 June 2012 An announcement with general feedback on Assignment 01 will be made during August. The purpose is to highlight general mistakes and guidelines and areas for improvement.

The assessment has been done by considering the questions as a whole. A mark has been be allocated on a rubric for every question. Please note that each question was rated in its totality and not by counting the different ticks. (One tick does not represent one mark). Your individual rubric with marks allocated has been attached to your assignment. RUCKSACK/201 Question I IS Marks Perform a gap analysis between the roles and responsibilities Of the Main Board of Benchmark Bank Ltd and its sub-committees and the requirements as stipulated in the King III Report for risk management and internal audit.

Suggested solution Students were requested to perform a gap analysis and using a table With three columns to (King III requirements, Benchmark Bank, Gap) prepare and present the answer in a structured format. Areas that should have been discussed are: ; The role that the board is suppose to play

and how this requirement was enacted by Benchmark's board and whether it was appropriate. ; The role that the Audit Committee fulfilled in Benchmark in the absence of a Board Risk Committee and whether that was appropriate and effective. Additional points to discuss were: Filtering of information to the main board

Allocating time to risk management issues understanding of the committee members of the governance and risk weaknesses and issues Correcting to audit (internal and external audit) findings and findings reported by the Regulators The role of the Board Risk Committee in terms of the King III report. Question 2 Evaluate Benchmark Bank's culture in terms of the King III report and the role Benchmark Bank's culture played on the loss event.

Suggested solution The comparison is again more structured When presented in a table format. Items that should have been included and discussed in the gap analysis are: ; ; ; Culture of secrecy

Filtering of information by the Audit Committee to the main board CSS attitude towards internal audit Cub's attitude towards the findings of the regulator Question 3 10 Marks Very briefly identify and compare similarities between Enron and Benchmark Bank as far as the tone set by the board and the support the risk management functions received from the board.

Suggested solution Benchmark Bank Among the lessons identified from the other banks' failings, the report noted that alarm bells should ring when the following occur: ; ; ; Weaknesses identified by Audit or

Regulators are not quickly and permanently resolved; breaches of limits are not quickly and independently investigated; and there is a culture that allows

undue influence or bullying to prevail over due process. The governance structure was also initially inadequate as Benchmark did not have a risk committee. Although the BACK took the responsibility, the BACK was also ineffective in reporting weaknesses to the board and exploring weaknesses in the control environment as pointed out by the auditors and the regulators. Enron The Enron board of directors was malfunctioning as governance in its true sense did not exist.

Little responsibility was being taken by the members of the board. Enron claimed to have fostered integrity in their reports, among others with an explicit example of introducing the 15 external directors with excellent resumes with law, business and industry backgrounds. Enron also seemed to participate actively in promoting corporate social responsibility and exposing its participations in environmental and community initiatives. Integrity was violated with reasons similar to the failure or unwillingness to reveal complicated financial transactions with Esp.. Accountability has been elated by Enron's board members.

There were no sense of responsibility provided to the public shareholders whose investments market value was significantly erased once the scandal was unveiled The failure to disclose the 'rotten' transactions with ESP. was not an accident. It was more deliberate action to continue hiding the potential. The transactions which Enron structured its ESP. were not for efficiency purposes. In many transactions, Enron transferred assets and debt Off its balance sheets to ESP. to recognize a gain from the transfer, at the cost of providing almost whole capital needed for the set-up Of such Esp..

Business model. Enron promotes efficiency by escalating the economies of scale through aggressive business expansions (even though few real assets were in hand), and continuing to strive to be the biggest natural gas merchant in the USA and the ELK. When the transactions with its ESP. went bust, things were clear that there was no advocating for efficiency. Lack of transparency. Investors were not made aware of what was going on in Enron. The complication of the transactions which involved with its Esp., as such exposing itself with a great deal of loss, was not communicated.

Enron regularly claimed to have advocated transparency in business dealings, particularly when it comes to quarterly reporting of earnings, Enron's claim on transparency was a disguise for its reports, particularly tort earnings which were exaggerated to induce the share price. Enron was well aware of the need in presenting the prevailing framework of accountability, integrity, efficiency and transparency as critical factors for sustainability, but failed to comply, and as such violating these factors, Question 4 5 Marks Argue the exclusion of strategic and reputation risk from the Basel definition Of Operational risk.

Suggested solution The Basel definition for operational risk specifically excludes reputation and strategic risk. The reason being that both risks are difficult to quantify. Reputation risk is also regarded as the risk of risks, as it is quite often the result of other risks that materialized. Questions 5, 6 and 7 are based on the information below. Question 5 10 Marks You have been appointed since the beginning Of January as the Operational Risk Manager tort EX. Bank.

In your first discussion with the Chief Risk Officer (CRO), she raised a concern that the risks are not properly classified by the business units, which impacts the accuracy of the loss reporting and risk control strategies. The CRO specifically requested you to analyse the reported losses and where necessary, correct the information to reflect the losses more accurately for the annual report. You obtained the current Loss Register and noticed that it is in a bad state.

You have decided to correct the Loss Register by: ; ; ; ; Classifying the losses according to the main risk types Classifying operational risk losses according to the operational risk sub-types Converting the foreign currency into South African Rand Adding the number of incidents and amounts to determine the frequency and total loss per risk category Suggested solution The purpose of the question was to give students the opportunity to classify risks in terms of the risk definitions and to demonstrate how difficult it sometimes is to classify risks, as the consequence of the event can be caused by a number of different factors.

In practice, this is known as the boundary effect. Although it may appear to be trivial, the impact on the profitability of a department or division can be impacted significantly due to loss events. Banks also have to calculate regulatory capital and for operational risk capital, loss experience is one of the factors considered to calculate the capital. The incorrect classification of risk can therefore have a significant impact on a department or division, both from a profitability and regulatory capital aspect.



Below is the suggested solution for the classification of the events, We added an explanation where there is a boundary effect. Work through the examples and ensure that you understand the reasoning for the classification.

Riskier/201/0/2012 DESCRIPTION PEOPLE operational risk, People EXTERNAL CREDIT MARKET OPERATIONAL RISK PROCESS SYSTEMS EXPLANATION Finger trouble by a trader Trader on the FAX desk processed the transaction as buy instead to sell ML function wrong directional view on interest rates, Loss on swap curve.

Market risk The bank took a wrong view on interest rates and positioned the book of the bank accordingly and the lost was caused by the change in interest rates. Operational risk, People Bond options trader captured expiry date wrong SAFES penalty for late margin calls. Clearing House official did not contact broker for payment. Operational risk, People The Official was negligent by not contacting the broker for payment.