

Enterprise Risk Management *Balancing Risks & Identifying Opportunities* WEBINAR



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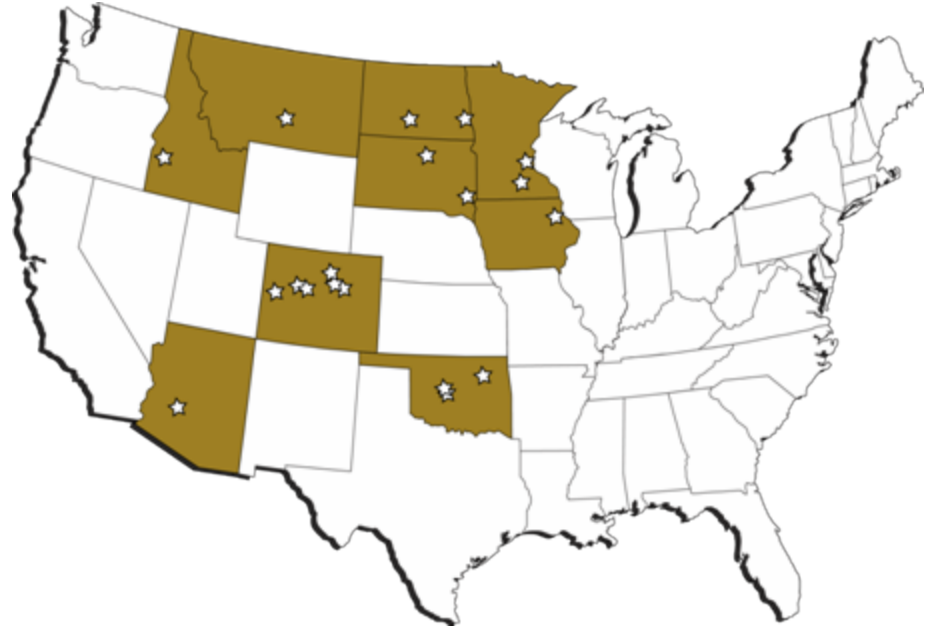
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Discussion Points

- Eide Bailly & the BioFuels Industry
- Definition of Risk
- Evolution of Enterprise Risk Management
- A View of Risk from the Top
- ERM Simplified Steps
- Benefits of ERM

Who We Are – Firm

- Among the top 25 CPA firms in the country
- 19 office locations in Midwest and Southwest
- 1,200 professionals
- In business since 1917



- How do we serve the BioFuel Industry?
 - Audit (private and public companies)
 - Tax (compliance and consulting)
 - Consulting (technology, business valuation, entity formation, Sarbanes-Oxley internal controls, employee benefits, fraud and forensic)
 - Currently serve 35 renewable energy clients
 - Industry associations: ACE, RFA, FEW

»» Risk Defined

- Risk - the variability in expected outcomes, usually in reference to the possibility of negative results –
 - Is there an upside of risk? –
 - Consider the opportunity that risk can bring!

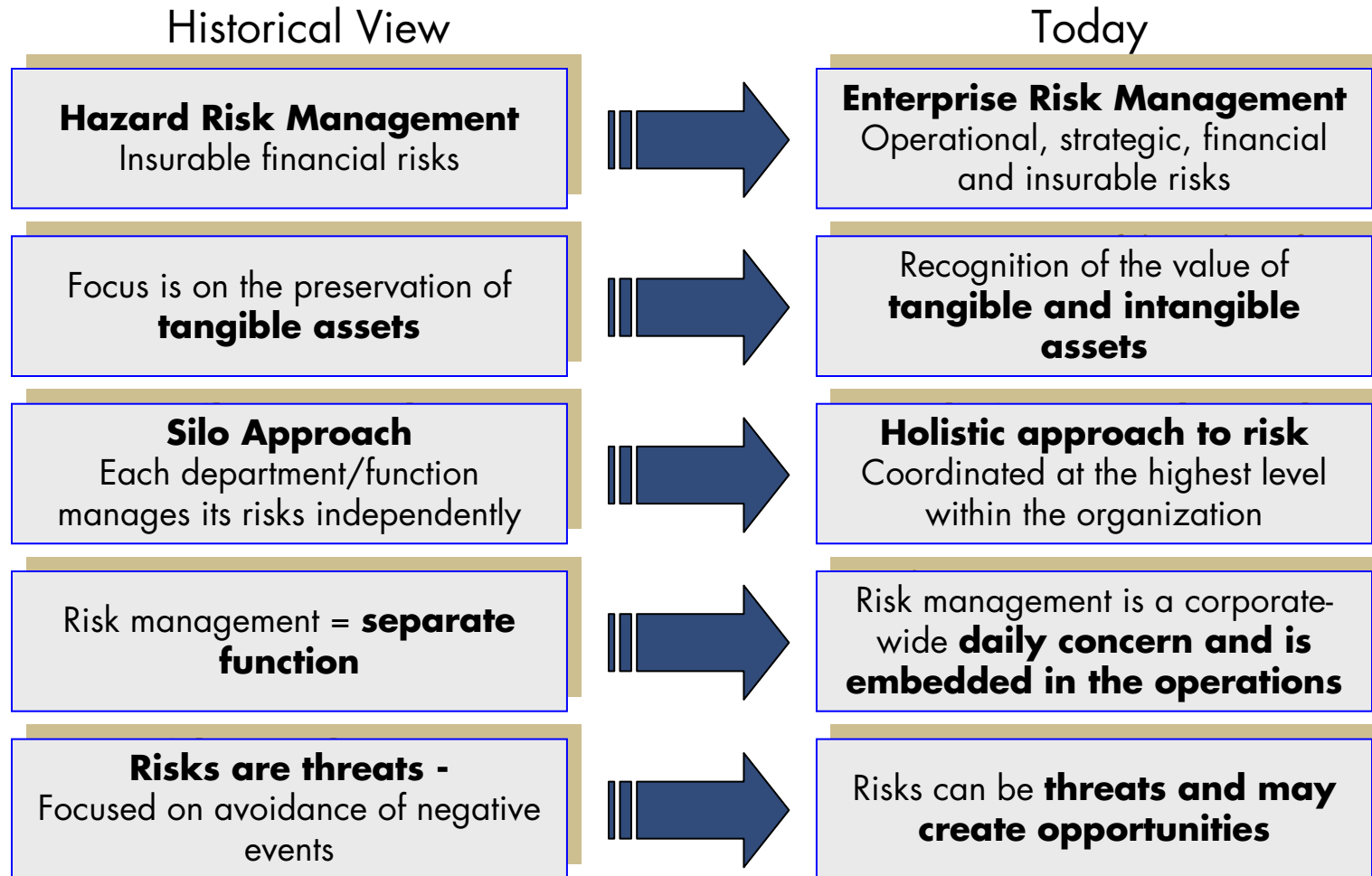
Environment of Risk – worldwide view

Over time, multiple factors have created an environment flooded with risk.



ERM has Evolved

The perception of managing risk has changed and adapted to be more comprehensive



Who is driving ERM?

- **Board of Directors/Stakeholders/Owners** Demand increased financial disclosure and transparency and evidence that management understands and manages risks
- **Regulators/Rating Agencies** Seek assurance around compliance and risk assessment process
- **Credit and Rating Analysts** - Asking organizations to report risks in a forward-looking context
 - ***S & P indicated they will look at ERM programs for all company rating assessments; not just financial institutions – other rating agencies will follow***
- **Peers** – Comparison with others drives industry-wide practice
- **Competitors** – Push innovation, drive leadership

»» Motivation to implement ERM

- Regulatory pressures
- Good business practice
- Competitive advantage
- Investment community pressure
- Rating agency pressure
- Recent catastrophe within the organization; or within their industry (recalls)

» S&P's ERM Analysis

- **May, 2008** Standard & Poor's began asking about the strength of a company's ERM process in their rating analysis
- Preliminary findings released in **July, 2009**:
 - Not many companies provide clear examples of definitions of *risk tolerance* *risk appetite*
 - Most companies show an active management of risks with *ongoing risk reviews* *assessment of high impact/high probability risks*
 - *Siloed-based risk management*, focused only at the operational managers level is still prevalent
 - Apparent *link* between transparency and disclosure and a *company's confidence* about ERM
 - A true *enterprise-wide approach* to ERM appreciate the importance of going beyond only quantifiable or top 10 risks – to include emerging risks

»» S&P's ERM Analysis

- *Preliminary findings (released **July, 2009**) continued*
 - ERM is facilitated separately, with roles & responsibilities clearly defined; reporting to CFO or CEO, with a *direct line of communication to the board of directors* (audit committee). Others lack stature or influence.
 - Companies with quantifiable risks are comfortable discussing ERM, but *tend to focus on controls* of those specific risks
 - Companies in distressed categories focus on liquidity currently. Public companies with compliance attentiveness are *sensitive*
 - Not many companies have come to grip with ERM or the upside of risk. The stronger compliance-driven push toward ERM was cited as a *danger*

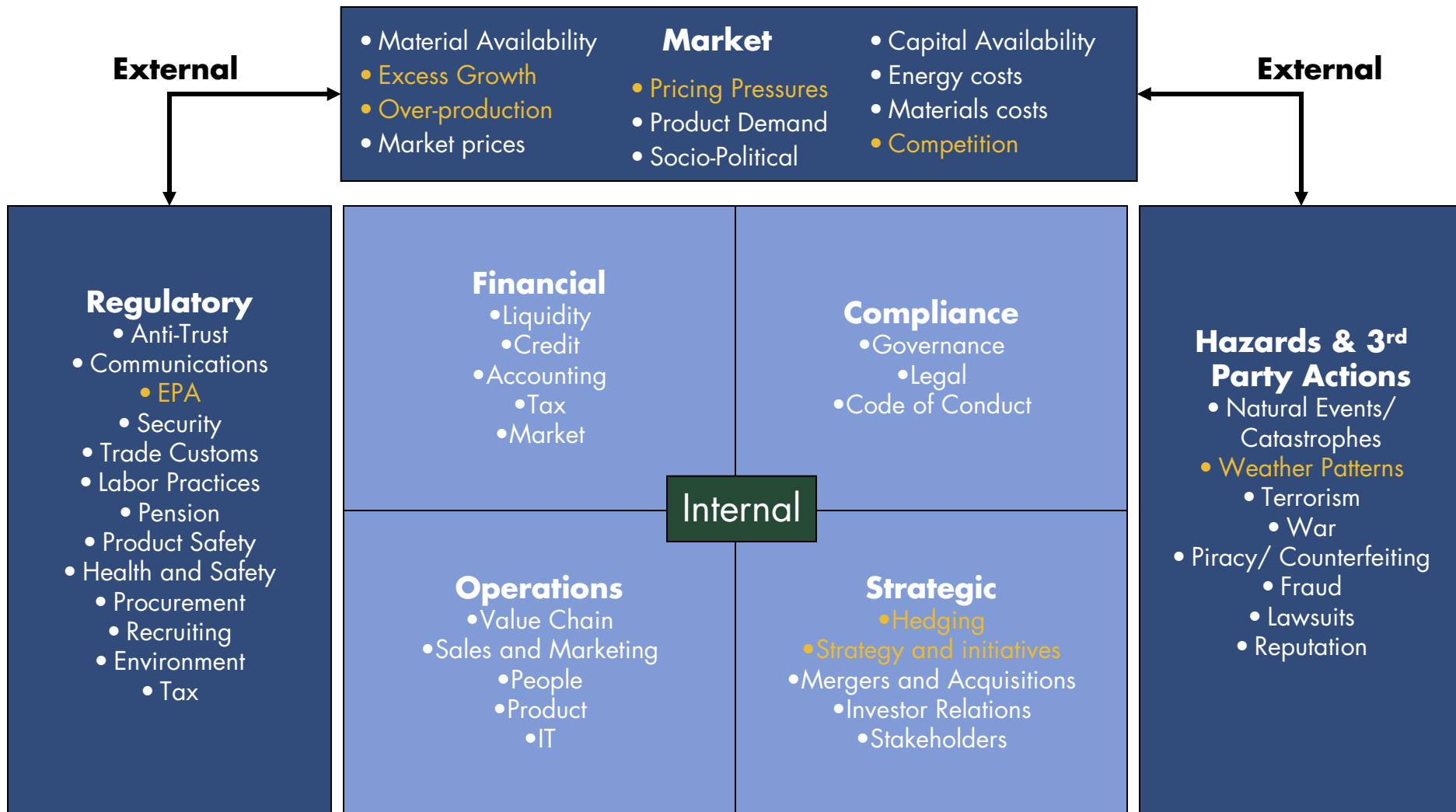
Used with Permission from S&P's "Progress Report: Integrating Enterprise Risk Management Analysis Into Corporate Credit Ratings, Standard & Poor's RatingsDirect, July 22, 2009.

»»» How will ERM impact credit ratings?

- S&P says **they expect that, over time, companies will recognize and articulate competitive advantages that arise as a result of superior risk management”**.
- S&P, Moody's and Fitch are all currently considering the strength of a company's ERM process in their rating analysis in one way or another.
- S&P is expected to release their ERM evaluation criteria in late 2009.

Corporate Risk Universe - BioFuels

A company that is aware of their risk universe is more adaptable and responsive



»»» Enterprise Risk Management (ERM) Defined

- An **integrated approach** to addressing all forms of risk to an organization
- A **top-down assessment** of risk and opportunity for the organization as a whole
- A process to **align risk strategies** growth and protect existing assets
- A proactive approach to the **increased visibility of how risk is managed** in an organization.
- ERM leads to _____ and helps preserve and enhance value

It is different to every company and industry



Simplified ERM Approach – Six steps

Step 1: Establish the ERM Foundation

- Align your risk appetite with your strategic plan.
- Develop long term objectives and short term milestones.

Step 2: Identify Risks

- Determine where, when and how events could prevent, degrade or delay the success of your organization.
- Utilize interviews, surveys, documentation review and facilitated workshops.

Step 3: Assess Risks

- Review the residual risk that remains.
- Consider interdependencies of risks.

Step 4: Evaluate Risks

- Maximize the opportunity of well-managed risks to create value for your organization.
- Amend risk response to better manage or mitigate risks and prioritize.
- Create a risk response strategy.

Step 5: Execute Risk Response Plans

- Define risk owners and consider a practical risk/reward approach.
- Finalize a communication plan and customize reporting.

Step 6: Monitor ERM

- Review the ERM program at regular intervals.
- Keep communication alive with a customized communication plan.

➤➤➤ Risk Response Strategies



»» Successful ERM programs have

- ERM initiative **driven** by top management
- Common understanding of a company's **culture**
- Longer **ERM goals objectives**
- Short term, attainable embedded in the process
- Appropriate **cross-functional ERM team** chosen with defined roles, responsibilities and communication protocols
- Organizational **Risk Appetite & Risk Tolerance** defined
- Common **Risk Language**

Benefits of ERM

The benefits of ERM are both external and internal to the organization

More Effective Strategic Planning

- More accurate financial forecasts and projections
- More informed and accurate budgetary planning
- More accurate resource planning

Increased Understanding of Exposure to Risk

- Reduced exposure to controllable events
- Increased response time performance when risks are realized
- Reduced disruptions to on-going operations

Improved Decision Making

- More informed and fact based decision making
- Improved future resource requirements planning
- Reduced wasteful spending on unnecessary expenditures

Enhanced Market Perception

- Improved credit agency ratings
- Enhanced perception of shareholder value by minimizing losses and maximizing opportunities
- Reduced earnings "surprises"

Enhanced Internal Culture and Operations

- Improved productivity with awareness of risk exposure
- Increase strength of culture with adoption across the organization
- Increased awareness of business operations for management

 For more information....

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