



SOCIETY OF FINANCIAL EXAMINERS®

CFE 2

Enterprise Risk Management

Study Guide - Supplemental Background Material

The passing score for this test is 74%

Reference Guides:

Enterprise Risk Management Best Practices: From Assessment to Ongoing Compliance by Anne M. Marchetti, October 2011

Enterprise Risk Management edited by Michael W. Elliott, First Edition, Second Printing, January 2014

NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual, As of July 2014

(Downloadable PDF at http://www.sofe.org/pdfs/Study_Guides/CFE/NAIC_prod_serv_fin_recievership_ORSA-2014.pdf)

Please note that this study guide is a tool for learning the materials you need to effectively study for this examination. As new editions of the textbooks are published, the SOFE Examination Committee makes every effort to update the page references in this guide, but it is not always possible to keep it current. Therefore, it is the student's responsibility to see the topic listed in the study guide and find it in the required textbooks. But if it is not listed in the chapter indicated, then you need to go to the textbook's table of contents or index and locate the topic. If you are unable to locate the topic anywhere in the textbook you are using, please email SOFE headquarters at info@sofe.org and tell us the topic you cannot locate, where that topic is in the study guide and what version of the textbook you are using.

The study guide is in 3 sections, one section for each reference guide.

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CFE2 - ERM Section 1:

Text Required: *Enterprise Risk Management Best Practices: From Assessment to Ongoing Compliance* by Anne M. Marchetti, October 2011

Text Objectives: To introduce the examiner to the principles of Enterprise Risk Management, including best practices from assessments of risks and processes to ongoing compliance. This should include demystifying ERM and the risk management process and simplify the explanation of related concepts.

Chapter 1: Overview of Enterprise Risk Management

Chapter Objectives: Provides the examiner with a basic introduction and history of ERM. It also details the need to manage risk in today's environment, perceived barriers and the value to be gained from an ERM framework.

- ERM Introduction
- Guidance: History and Relationship
- Organization View
- ERM Today
- Increased Pressure to Manage Risk
- Additional Evidence
- Perceived Barriers to Risk Management
- Building the Business Case for ERM: Value and Benefits
- Keys to Success
- Summary
- Notes

Chapter 2: Corporate Governance and Roles and Responsibilities

Chapter Objectives: Provides the examiner with a discussion regarding board behavior and corporate culture, including general roles and responsibilities of the board, management and officers.

- **Board Behavior**
- **Corporate Culture**
- **Roles and Responsibilities**
- **Summary**

Chapter 3: ERM Defined

Chapter Objectives: Provides the examiner with a more in depth dive into ERM, including discussion regarding the COSO framework along with various definitions and risk categories crucial to ERM.

- **Definitions and Concepts**
- **Risk Categories**
- **Internal Environment**
- **Summary**
- **Note**

Chapter 4: The ERM Process: Step by Step

Chapter Objectives: Provides the examiner with the detailed steps involved in the ERM process and general oversight regarding such.

- **Step 1: Strategy and Objective Definition**
- **Step 2: Event Identification**
- **Step 3: Risk Assessment**
- **Step 4: Risk Response**
- **Step 5: Communication**
- **Step 6: Monitoring**
- **Oversight**
- **Summary**
- **Notes**

Chapter 5: COSO Framework and Financial Controls

Chapter Objectives: Provides the examiner with an understanding of financial controls as related to the COSO framework along with examples of conflict of interest, whistleblower programs, and approval policies & procedures.

- **Focus on Financial Controls**
- **Control Environment**
- **Integrity and Ethical Values**
- **Board of Directors**
- **Management's Philosophy and Operating Style**
- **Organizational Structure**
- **Financial Reporting Competencies**
- **Authority and Responsibility**
- **Human Resources**
- **Summary**
- **Notes**

Appendix 5A: Excerpt from a Code of Ethics Policy

- **Our Guiding Principles and Values**
- **Conflicts of Interest**
- **Confidential Information; Intellectual Property**

Appendix 5B: Whistleblower Program

- **Reports regarding Accounting Matters**
- **Investigation of Suspected Violations**
- **Discipline for Violations**

Appendix 5C: Approval Policy and Procedures

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- **Policy**
- **Purpose**
- **Scope**
- **Approvals/Documentation**

Chapter 6: Financial Controls and Risk Assessment

Chapter Objectives: Provides examiners with a discussion regarding risk assessment and financial controls involved in the ERM process along with detailed entity-level, accounts payable and fraud assessment procedures.

- **Risk Assessment**
- **Financial Reporting Objectives**
- **Financial Reporting Risks**
- **Fraud Risk**
- **Entity-Level Controls**
- **Example: Risk Assessment and Financial Controls**
- **Evaluating Deficiencies**
- **Summary**
- **Notes**

Appendix 6A: Entity-Level Control Assessment

- **Control Assessment Overview**
- **Control Environment**
- **Overall Evaluation of Control Environment**
- **Risk Assessment**
- **Overall Evaluation of Risk Assessment**
- **Control Activities**
- **Overall Evaluation of Control Activities**
- **Information and Communication**
- **Overall Evaluation of Information and Communication**

- **Monitoring**
- **Overall Evaluation of Monitoring**
- **Summary Assessment**
- **Overall Assessment of Internal Controls**

Appendix 6B: Accounts Payable: Preliminary Controls Assessment Questionnaire

- **Purchasing Controls Questionnaire**
- **Internal Control Assessment**

Appendix 6C: Fraud Risk Factors: AU Section 316

- **Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting**

Chapter 7: Ongoing Compliance Overview

Chapter Objectives: Provides examiners with an understanding of the ongoing compliance required by entities from SOX to detailed internal compliance programs.

- **Origin of the Sarbanes-Oxley Act**
- **Generating Value from Compliance**
- **Moving Beyond Initial Compliance**
- **Reevaluating the Compliance Program**
- **Summary**

Chapter 8: Ongoing Compliance Challenges

Chapter Objectives: Provides examiners with a discussion of other ongoing compliance challenges evolving currently and in the future.

- **Future State Opportunity: Compliance Optimization**
- **Issues to Consider When Optimizing Compliance**

- **Ongoing Compliance Plan**
- **Role of Internal Audit: Balancing the Compliance and Audit Functions**
- **Evolving Role of the Audit Committee**
- **Summary**

Chapter 9: Addressing Compliance and Risk Management Challenges through Automation

Chapter Objectives: Provides examiners with an understanding of how the compliance process can be handled through software solutions involving automation of the compliance monitoring.

- **Software Can Add Value Beyond Compliance**
- **Monitoring Software**
- **Utilization of Continuous Monitoring: Control Testing and Control Automation**
- **Benefits of Continuous Monitoring**
- **Continuous Monitoring Tool Considerations**
- **Continuous Monitoring Process**
- **Risk Management Software**
- **Unifying Financial Statements, Close Tasks, and SOX Controls**
- **Determining the Right Solution**
- **Summary**
- **Note**

Chapter 10: Ongoing Compliance and IFRS

Chapter Objectives: Provides examiners with a discussion of ongoing compliance and the future of IFRS.

- **International Financial Reporting Standards**
- **Communicating the Impact**
- **Preparing for IFRS**
- **Comprehensive IFRS Transition Approach**

- **Key Elements of an Effective IFRS Implementation**
- **Summary**

CFE2 - ERM Section 2:

Text Required: *Enterprise Risk Management* edited by Michael W. Elliott, First Edition, Second Printing, January 2014

Text Objectives: To provide examiners with a broad understanding of ERM and its application to various sizes and types of organizations, including a global perspective of ERM and providing examples of how ERM is practiced. The assignments lead the examiner through the ERM process and various aspects.

Assignment 1: Introduction to Enterprise Risk Management

Assignment Objectives: Provide examiners with the concepts of ERM, classifications of risk management and what drivers influenced the development of ERM and its perceived value to organizations.

- Enterprise Risk Management
- Risk Classifications
- ERM Drivers
- ERM Value Proposition
- Summary

Assignment 2: Enterprise Risk Management in an Organization

Assignment Objectives: Provides examiners with an understanding of how organizations can implement ERM along with a discussion of risk maturity models and organizational functions in ERM.

- Top-Down and Bottom-Up Approaches to ERM
- Risk Maturity Model
- Key Organizational Functions Related to ERM
- Summary

Assignment 3: Enterprise Risk Management Framework and Process

Assignment Objectives: Provides examiners with the purpose and component parts of an ERM framework and process. Also details designing and implementing ERM and a discussion on ISO 3100 and the COSO ERM Risk management integrated framework.

- **Modeling and Enterprise Risk Management Framework and Process**
- **Designing and Implementing an Enterprise Risk Management Framework and Process**
- **ISO 31000 Risk Management - Principles and Guidelines**
- **COSO Enterprise Risk Management - Integrated Framework**
- **Applying the Enterprise Risk Management Framework and Process**
- **Summary**

Assignment 4: Risk Oversight

Assignment Objectives: Provides examiners with a general understanding of corporate governance. Also provides structures, roles and risk oversight along with functioning of risk committees.

- **Understanding Corporate Governance**
- **Structure and Role of the Board**
- **Corporate Governance and Risk Oversight**
- **Risk Leadership and Risk Committees**
- **Summary**

Assignment 5: Strategic Planning and Enterprise Risk Management

Assignment Objectives: Provides examiners with an understanding of strategic management and how it relates to ERM, including such tools as SWOT analysis.

- **Strategic Management**
- **Conducting a SWOT Analysis**

- **Types of Business Strategies**
- **Strategic Risk Management**
- **Applying Strategic Risk Management**
- **Summary**

Assignment 6: Risk-Based Performance and Process Management

Assignment Objectives: Provides examiners with knowledge regarding risk-based performance indicators and business process management.

- **Key Performance Indicators**
- **Key Risk Indicators**
- **Business Process Management**
- **Summary**

Assignment 7: Internal Audit and Control

Assignment Objectives: Provides examiners with an introduction to internal control frameworks and standards and how a risk-based auditing approach affects the role and focus of the internal audit function.

- **Introduction to Internal Control**
- **Internal Control Frameworks and Standards**
- **Risk-Based Auditing**
- **Risk Assurance to Evaluate Risk Management Performance**
- **Collaboration Between Risk Management and Internal Audit**
- **Summary**

Assignment 8: Regulation and Compliance

Assignment Objectives: Provides examiners with an understanding of the role of compliance in the ERM program. Also includes a discussion on Solvency III and Basel standards. Provides a summary of the NAIC ORSA process and how it supports ERM.

- **The Nature of Compliance**
- **Bases of Regulatory Compliance**
- **Solvency II and Basel II and III Regulatory Standards**
- **NAIC Own Risk and Solvency Assessment (ORSA)**
- **Developing a Compliance Program**
- **Summary**

Assignment 9: Risk Assessment and Treatment

Assignment Objectives: Provides examiners with an introduction to the risk identification process and various tools that can be used.

- **Introduction to Risk Identification**
- **Team Approaches to Risk Identification**
- **Risk Registers**
- **Risk Maps**
- **Risk Treatment**
- **Project Risk Management**
- **Summary**

Assignment 10: Risk Modeling

Assignment Objectives: Provides examiners with an informative introduction of risk modeling aspects and techniques.

- **Methods and Limitations of Risk Modeling**
- **Analyzing Event Consequences**
- **Influence Diagrams**
- **Applying Influence Diagrams and Probabilities**
- **Correlation and Covariance**
- **Portfolio Theory**

- **Value at Risk and Earnings at Risk**
- **Summary**

Assignment 11: Risk-Based Capital Allocation

Assignment Objectives: Provides examiners with how an organization can determine its cost of capital, the importance of capital management and a discussion of various techniques.

- **Cost of Capital**
- **Calculating the Cost of Capital**
- **Economic Capital Versus Book Capital**
- **Risk-Based Capital Allocation**
- **Summary**

Assignment 12: Risk Management Environment and Culture

Assignment Objectives: Provides examiners with an understanding of how an organization's internal and external environments relate to its risk management program. Also includes a discussion of attitudes towards risk and the need for method of communicating with stakeholders.

- **Relationship of an Organization's Internal and External Environments to Risk Management**
- **Risk Centers and Risk Owners**
- **The Influence of Organizational Culture on Risk Attitude**
- **Communicating with Stakeholders**
- **Ethical and Social Responsibilities in Enterprise Risk Management**
- **Summary**

CFE2 - ERM Section 3:

Text Required: *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual, As of July 2014*

Text Objectives: To provide examiners with the guidance to an insurer and/or insurance group with regard to reporting on its Own Risk and Solvency Assessment (ORSA) as required by the domestic state's version of the Risk Management and ORSA Model Act (#505).

I. Introduction

Section Objectives: To provide examiners with an understanding of the goals of ORSA, which insurers must file, and generally what they must file.

- A. Exemption
- B. Application for Waiver
- C. General Guidance

II. Section 1 - Description of the Insurer's Risk Management Framework

Section Objectives: To provide examiners with an understanding of the key principles to be included in the insurer's description of their risk management framework.

III. Section 2 - Insurer's Assessment of Risk Exposures

Section Objectives: To provide examiners with an understanding of the high-level summary insurers should convey in regards to their quantitative and/or qualitative assessments of risk exposures in both normal and stressed environments for each material risk category in Section 1 of the ORSA Summary Report.

IV. Section 3 - Group Assessment of Risk Capital and Prospective Solvency Assessment

Section Objectives: To provide examiners with an understanding of how insurers should comply with Section 3 of the ORSA Summary Report in regards to group assessment of risk capital and prospective solvency assessment.

- **A. Group Assessment of Risk Capital**
- **B. Prospective Solvency Assessment**

V. Appendix - Glossary

Section Objectives: To provide examiners with understanding of definitions regarding ERM and ORSA terms.