

5 Getting Started with the Elements of an Independent Risk Assessment



Apply these elements to help your team effectively prepare for complex Risk Analysis



By developing an Independent Risk Assessment of a target acquisition, you are protecting your organization’s risk exposure and you are creating an important document that will serve as a credible arm’s length opinion of the target acquisition’s risk landscape.

Developing an independent assessment of the target requires focused and strategic due diligence. Your analysis will inform your organization of outstanding risks as they are discovered and documented.

The Independent Risk Assessment typically accompanies the financial assessment report and is presented to executive management and/or the board of directors prior to deal approval.

Common Elements

The size and complexity of the risk assessment will necessarily vary depending upon the size and complexity of the target company relative to the acquiring institution. Any version of the report will contain the following primary elements:

- 1) EXECUTIVE SUMMARY
- 2) CHIEF RISK OFFICER OPINION
- 3) RISK APPETITE AND FRAMEWORK ASSESSMENT
- 4) RISK TYPE ASSESSMENTS
- 5) DATA ROOM RISK REVIEW

ELEMENT ONE

Executive Summary

The Executive Summary provides a high level description of the deal with a focus on the strategic implications from a risk lens. Succinct in nature this section cuts directly to the core purpose of the transaction.

ELEMENT TWO

CRO Opinion

The CRO opinion section provides a prominent location in the report for the CRO to express any high level commentary on the pros and cons of the deal. The CRO may choose to point out any key risks or fatal flaws of the proposed target that should warrant immediate attention. Otherwise, this section serves as a summary of the accepted risks and an opinion if these risks can or should be mitigated. The CRO may also use this section to suggest divestiture of any lines of businesses or related business activities that are not congruent with the acquiring institution's risk appetite.

ELEMENT THREE

Risk Appetite and Risk Framework Assessment

This section addresses the target's current risk appetite and framework and comments on the appropriateness of these relative to the acquiring institution's appetite and framework. Typically a summary table of the key risks would be presented here along with mitigation concerns. For each risk, any fundamental concerns would be presented here as well.

ELEMENT FOUR

Risk Type Assessments

Individual Risk Type Assessments in detail are presented in the section. Each section contains similar elements where applicable. Elements include a description of the risk type from the perspective of the acquiring firm, a detailed list of potential concerns and mitigation plans where available, written description of the implications of the risks and a proforma of these risks when considered as a part of the acquiring firm.

Risk Type categories include the following: Market (including Banking and Trading Books), Liquidity, Credit, Operational, Compliance, Reputational, Strategic and Technology. Not all acquisitions will have all of the above risk types and thus the report is tailored as appropriate.

ELEMENT FIVE

Data Room Risk Review

When available, we will conduct a data room risk view looking at the documents loaded there from a risk perspective. Typically this review focuses from a high level--which policies are presented (or not), risk management structure, etc. and from a detailed level--volatility of financial performance and reasons. Additionally, this is a good way to look for the presence of other risks such as counterparty, concentration, and foreign exposure.

I'm Steve Buisson.

Simply put, I help risk leaders like you effectively integrate financial risk into organizational culture. By rethinking the traditional risk culture mindset, leaders are able to build new organizations based on cultural integrity up and down the risk spectrum.

For questions you may have, please call or email me.

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