



Managing Risk to Extract Value

Presentation at the Canadian Gaming Summit

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ADVISORY

Thought

As business leaders in gaming seek new ways to build shareholder value, they are discovering a connection between creation and risk management. Many are realizing that risks are no longer just hazards to be avoided.

Risks create opportunity, opportunity creates value and value ultimately creates shareholder wealth.

The critical question has become:

- How to better manage risks to extract the value?

Agenda

- **Defining Risk and GRC**
- Case For Change
- Current Environment
- Closing Remarks

Definitions

Risk:

- “Risk is the possibility that one or more individuals or organizations will experience adverse consequences from [making] choices. Opportunity is the mirror image of risk” (Canadian Institute Board (CoCo) 1995)
- “Something happening that may have an impact on the achievement of objectives” (UK National Audit Office, 2000)
- “The chance of something happening that will have an impact upon objectives” (Australian/New Zealand Standard 4360:1999)

Enterprise Risk Management (ERM):

- “The corporate-wide application of risk management, supported by a framework and tool-kit that delivers aggregated risk information to protect, release and create value” (KPMG 2001)
- “The culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects. (Australian/New Zealand Standard 4360:1999)

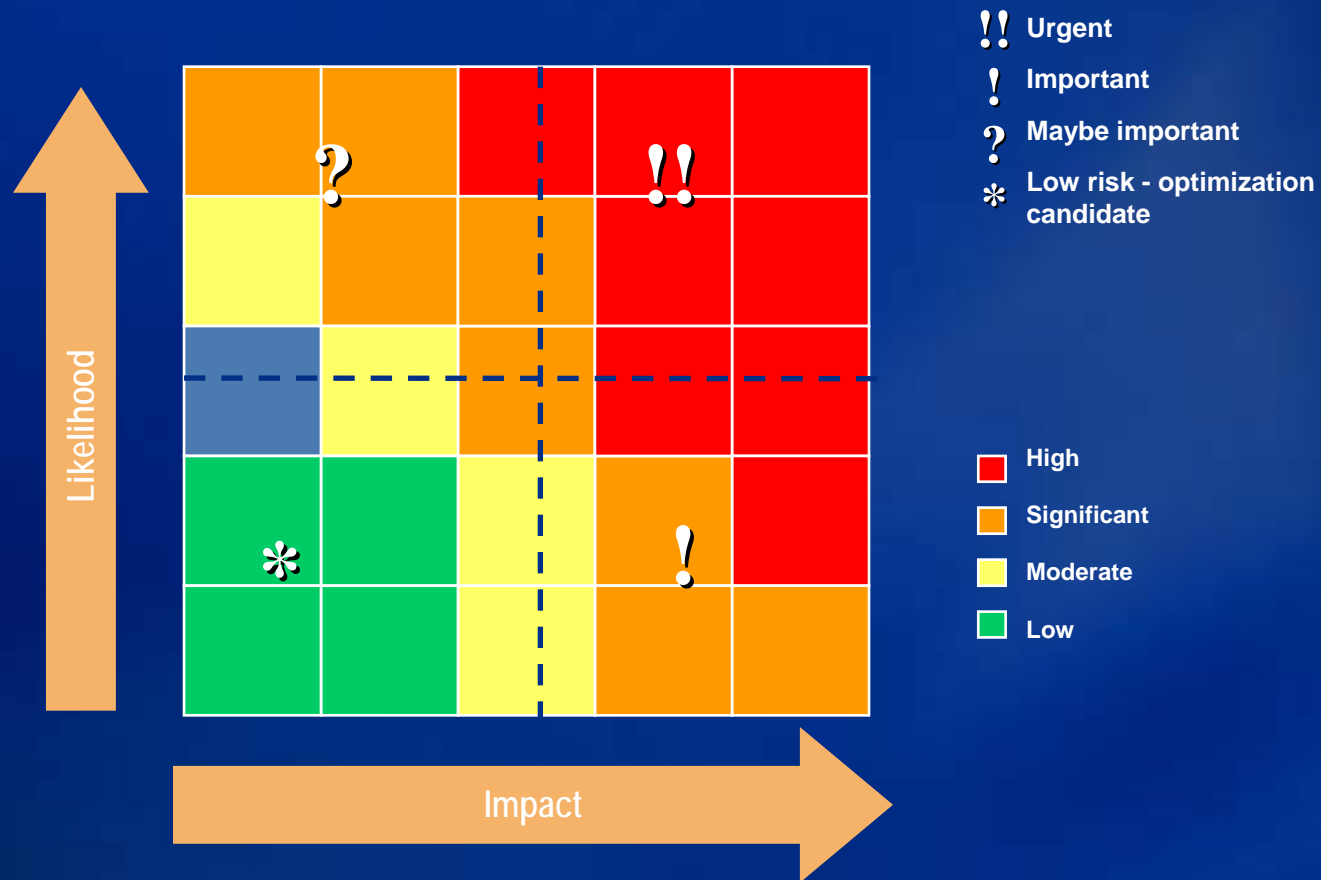
Gross and Net Inherent / Residual

To help determine the strength of the controls, it is important to assess the likelihood and impact of that risk before and after those controlling actions

- Gross risk (inherent risk)
 - The assessment of likelihood and impact BEFORE controls are put in place to manage it
- Net risk (residual risk)
 - The assessment of likelihood and impact AFTER controls are established to manage it
- Control (treatments)
 - Any actions/activities that could reduce the likelihood of the risk arising, or the impact of the risk, should it happen

The control strength is determined by the movement from the gross assessment to the net assessment. The greater the movement, the stronger the control

Impact and Likelihood



GRC – A definition

Governance, risk and compliance (GRC) is a strategic discipline. GRC is a continuous process that is embedded into the culture of an organization and governance how management:

- Identifies and protects against relevant risks
- Monitors and evaluates effectiveness of internal controls
- Responds and improves operations based on learned insights

GRC can help:

- Create value by reducing costs
- Identifying operational inefficiencies
- Rationalizing controls
- Enabling the identification and management of risks

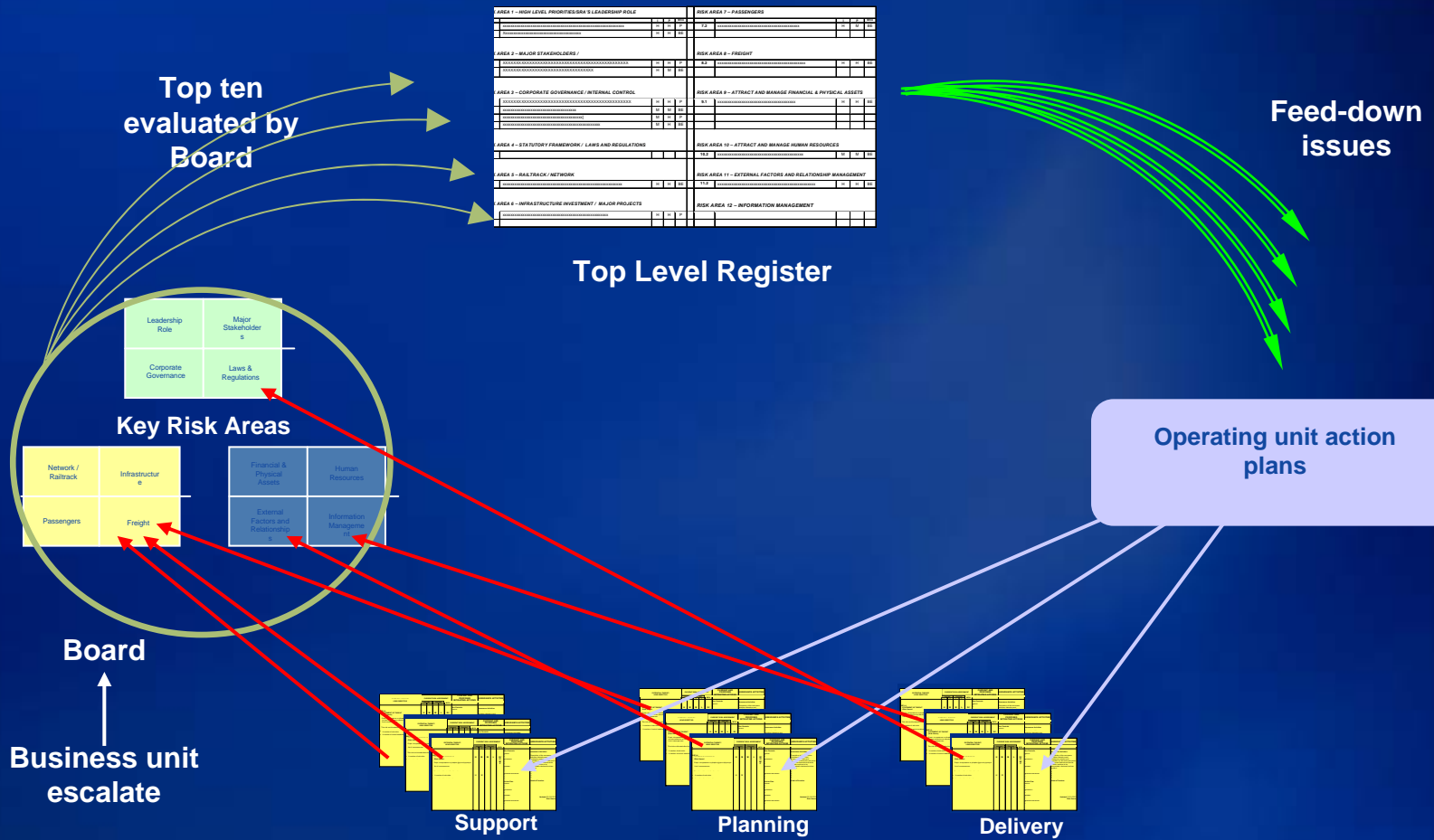
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Case for Change

- Changes in:
 - Technologies
 - Gaming thought leadership
 - Evolving issues
- Financial pressures
- Increased demand for excellence in governance and transparent accountability
- Increased public expectations:
 - Confidence in gaming
 - Responsible gaming
- New and pending regulatory oversight
 - Overall increase in oversight
- Risk-based events being in the media

Model for Reporting and Acting on Risks



Why Define Risk Appetite?

- Need for a formal definition of risk that is acceptable in the pursuit of its business objectives (i.e., risk appetite):
 - Enables an improved consistency of decision-making at all levels through improving risk/return understanding
 - Provides a framework for knowingly taking risk within defined boundaries
 - Improves the ability of the Board to challenge recommendations of management by providing a benchmark of what level of risk is defined as acceptable
 - Derives real value from the assessment of risk over and above compliance purposes
- The risk appetite decided upon should be formally considered as part of the strategies and operational plans

Risk Treatment

Avoidance	Sharing
<ul style="list-style-type: none"> ● Disposing of a business unit, product line, geographical segment ● Deciding not to engage in new initiatives/activities that would give rise to the risks 	<ul style="list-style-type: none"> ● Insuring significant unexpected loss ● Entering into joint venture/partnership ● Entering into syndication agreements ● Hedging risks through capital market instruments ● Sharing risk through contractual agreements with customers, vendors, or other business partners
Reduction	Acceptance
<ul style="list-style-type: none"> ● Diversifying product offerings ● Establishing operational limits ● Establishing effective business processes ● Enhancing management involvement in decision-making, monitoring ● Rebalancing portfolio of assets to reduce exposure to certain types of losses 	<ul style="list-style-type: none"> ● “Self-insuring” against loss ● Relying on natural offsets within a portfolio ● Accepting risk as already conforming to risk tolerances



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Current Environment

- Costs of managing risk are rising
- Many risk management activities are “bolt-ons” and periodically separate from internal controls
- Often lack of embedded risk management within all business processes
- Risk management is often fractured programs that are:
 - Complicated to operate
 - Difficult to manage and assess
 - Expensive to implement
 - Not necessarily supportive of sound and timely business decisions
- Economic changes are placing increased focus on reducing costs and increasing net revenue

The Challenge

- How to:
 - Embed controls into day-to-day operations
 - Withdraw controls that are no longer effective or cost-ineffective
 - Create a single view of risk:
 - Definitions vary cross departments
 - Very few fully understand all the procedures, controls and multiple compliance programs (internal and external)

The Challenge

- Reversing behavioural patterns:
 - Practices become policies
 - Risk is over (under) stated at the inherent and residual levels
 - Treatment effectiveness
 - Overstated
 - Not tied back to the key risks
 - Makes us “feel good”

Converting Data Into Information

Where is the key information?

- Multiple databases often unconnected
- Multiple owners
- Limited linking and analysis

How to convert into real information for:

- Monitoring
- Process Improvement
- Risk Management

State of Maturity

Key questions:

- Is there an ERM program in place?
- Is there awareness of the various compliance programs and are they integrated?
- Are compliance programs handled by a single function or spread among impacted parties?
- Does compliance fit comfortably into all day-to-day activities?
- How automated is compliance and data collection from compliance processes?
- How mature are the treatment portfolios:
 - Preventative is usually cheaper
 - Automated more effective than manual detective?
- Is there a consolidated view of risk programs?

Monitoring Risk Program

Monitoring is a challenge:

- How does one simplify the risk management program?
- Coordinate disparate systems, documentation and processes?
- Identify opportunities for change:
 - No findings
 - Many near misses
 - Low incidence but no one understands the potential consequences

Monitoring Risk Program

Good monitoring can lead to:

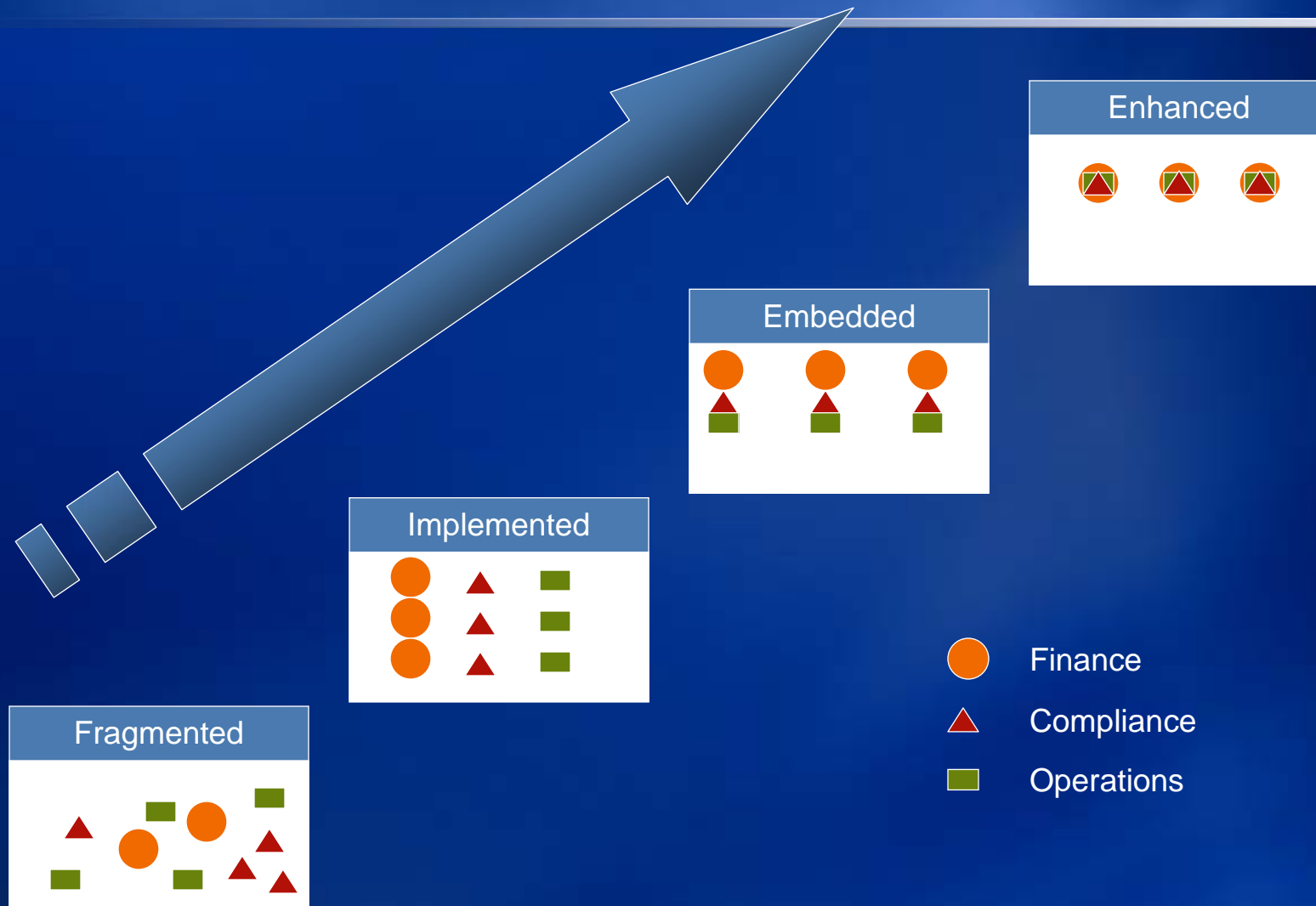
- Enhanced decision-making
- Reduced costs
- Exception follow-up
- Root-cause analysis
- Embedded workflow controls within regular processes
- Progress and decision-making dashboards

Change Management is Critical

Need to change the culture:

- From the belief that monitoring is means of assigning blame for poor performance
- To create sustainable processes for monitoring the real risk issues so the business improvements can be made at the group/unit level

Maturity Assessment



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Conclusions

- Implementing controls monitoring can assist organizations:
 - To improve the accuracy and timeliness of information to make better decisions
 - Achieve a single view of risk
 - Reduce the cost of controls and compliance testing
- Reducing the pain of compliance and leveraging investments in processes can create value



Parting Question for Consideration

What is the maturity of your organization's GRC?



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