



The Risk Accounting Standards Board (RASB)

Constitution

Version Control

Version Reference	Date of Change	Sign-Off	Summary of Change(s)
v1	26/02/2023	Peter Hughes Steve Bailey	<ul style="list-style-type: none"> • Original document • Includes inaugural RASB Board special provisions
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Risk Accounting Standards Board (RASB)

Constitution

Note: Clauses highlighted in *italics* are proposals that can only be introduced when sufficient funding is available.

1) Background

- i. Serraq (HQ) Ltd¹ (“Serraq”) is formed as a company that operates as the **Risk Accounting Standards Board** (“RASB”). Serraq is a not-for-profit company limited by members’ guarantee.
- ii. In a research collaboration that commenced in 2017 between Serraq and the Durham University Business School (“DUBS”) a theoretical model was developed termed ‘Risk Accounting’ whose purpose is to identify, quantify, aggregate, value and account for all forms of non-financial risk. The theoretical model has been replicated in software (“RA Software”). RA Software may exist in various forms as it evolves including, for example, prototype, advanced prototype, industry strength production system (i.e. commercially available version) and a software developers kit (SDK).
- iii. At the core of the Risk Accounting method is a standardized unit of non-financial risk measurement, unique to the method, called a ‘Risk Unit’ or ‘RU’. The RU is a common, additive metric that enables the analysis of both granular and validly aggregated exposures to non-financial risks whose quantification is expressed in RUs.
- iv. RA Software is comprised of two basic components:
 - the RU Calculation Engine (“RASBOX”) is the computer programmes incorporated in the RA Software that performs the RU calculations and aggregations; and
 - RU Periphery includes interfaces, associated computer programmes and electronic devices that capture users’ variable inputs for processing by RASBOX to deliver non-financial risk analytics in RUs to parties authorised to receive them.
- v. RASBOX is a separately identifiable and marketable component that can be licensed to third parties independently of any RU Periphery. RASBOX incorporates security that prevents its source code being accessed, copied or modified by unauthorised parties.
- vi. Masterisk Ltd² (“Masterisk”), is formed as a company registered at Companies House, limited by shares. Masterisk’s primary purpose is the ownership of RASBOX and its distribution, primarily through licensing agreements. Over time, Masterisk may develop its own RU Periphery to enable the provision of data, consulting and training services. Masterisk may also

¹ Registered at Companies House in England, company number 10563404.

² Registered at Companies House in England, company number 11898329.

enter into data sharing agreements with RASBOX licensees to enhance the breadth of data services and enable the modelling of such data, for example, to derive the monetary value of an RU.

2) RASB Vision

RASB's vision is that Risk Accounting will become the generally accepted method of identifying, quantifying, aggregating, valuing and accounting for all forms of non-financial risk. The achievement of that vision requires RASBOX to be the single source of approved Risk Accounting standards to ensure the consistency and comparability of non-financial risk reporting across industry sectors.

3) RASB Membership

A RASB member can be either institutional or individual:

- i. Institutional members are either actual or prospective licensees of RASBOX and include, but not limited to business enterprises, academia, regulatory agencies, government agencies, trade associations and professional bodies. It also includes organizations that wish to contribute to the development and/or validation of Risk Accounting standards or wish to be kept informed of developments.
- ii. Individual members have either achieved or aspire to achieve the designation "Certified Risk Accountant". It also includes individuals who wish to contribute to the development and/or validation of Risk Accounting standards or wish to be kept informed of developments.

4) RASB Board Overview

The RASB Board is responsible for providing institutional members' boards and C-suite executives, investors, other users of financial statements and the public at large with confidence that the risk analytics produced by RA Software are,

- i. representative of the non-financial risks actually accepted by organizations in both quantitative and qualitative terms;
- ii. directly comparable within and between enterprises in the same industry sector; and
- iii. available in real- or near real-time.

The achievement of the foregoing requires the RASB Board to use all reasonable endeavours to ensure that,

- i. RASBOX continues to be developed using leading edge mainstream technologies;
- ii. the services provided to RASBOX licensees by Masterisk are secure and of high quality; and

- iii. algorithms incorporated into RASBOX, whose calculation is initially dependent on subjective inputs and assessments, are progressively displaced by artificial intelligence and machine learning (AI/ML) wherever it is feasible and safe to do so.

5) RASB Board Functions

The functions of the RASB Board are to:

- i. Sign off on the policies and procedures that must be complied with when developing new and modified Risk Accounting standards.
- ii. Sign-off on all new and modified Risk Accounting standards prior to their uploading to RASBOX.
- iii. Ensure that Serraq complies with all applicable legal and regulatory requirements.
- iv. Approve Serraq's annual financial plan ("Financial Plan") to include, at a minimum, budgeted expenses and revenues.
- v. Monitor periodic reports of actual and projected expenses and revenues vs. the Financial Plan and ensure that significant variances are appropriately addressed, explained and, where necessary, rectified.
- vi. Approve senior Serraq appointments that may include, but not limited to Chief Financial Officer and Chief Operating Officer³.
- vii. Monitor summary reports in RUs, aggregated by industry sector, to ensure that unusual or unexpected trends are appropriately addressed and explained.
- viii. Approve a Technical Services Agreement ("TSA") that designates Masterisk as the sole licensor of RASBOX to RASB members. In consideration of being granted global exclusivity, Masterisk pays Serraq a commission agreed by the parties to the TSA.
- ix. Review and approve RASBOX license terms and conditions, including pricing, proposed by Masterisk.
- x. Monitor the results of quality control processes implemented by Masterisk that may include, but not limited to periodic customer surveys, actual performance vs. service level agreements, and internal audits and risk reviews to ensure that high levels of operating quality and security are maintained and RASBOX licensees are consistently satisfied with the services they receive.

³ The Serraq Chief Executive Officer is appointed by the Masterisk Board (refer to clause 6 iii).

- xi. Define the various categories of RASB membership and approve the associated membership fees subject to review and reapproval every 2 years.
- xii. Approve accreditations granted to training, academic and other forms of educational establishment that wish to provide Risk Accounting courses incorporating Serraq and Masterisk owned intellectual property. Such courses may include, but not limited to executive training, undergraduate and postgraduate courses, and courses that lead to the 'Certified Risk Accountant' designation. The RASB Board reserves the right to request accredited educational establishments to submit their course materials for detailed examination and sign-off by RASB's subject matter experts.
- xiii. Issue certificates to individual members that successfully achieve the 'Certified Risk Accountant' designation.
- xiv. Ensure, to the greatest possible extent, that RASB standards complement, and do not conflict with the standards promulgated by other internationally recognised standard setting organisations.

6) RASB Board Composition and Meetings

Board Composition

- i. The Serraq Chief Executive Officer ("CEO") and a Masterisk director have permanent seats on the RASB Board. Other board members may be comprised of representatives from academia, professional risk associations, professional accountancy associations and subject matter experts who have deep accounting and/or risk management domain knowledge and expertise and/or have contacts with influential organizations and individuals that can positively contribute to the realization of RASB's vision.
- ii. There is no set limit on the number of RASB Board members but it should be proportionate to the volume and nature of business conducted.

Chair and Vice Chair

- iii. The role of the RASB Board's Chair alternates between the CEO (who ranks first for the role) and a Masterisk director (who ranks second for the role). The Chair's term of appointment has no fixed limit.⁴ For the avoidance of doubt, the appointment as Chair of the RASB Board commences upon the appointment of the respective CEO and a Masterisk director acts as Chair whenever the CEO position is unfilled.⁵

⁴ Note that under the terms of this constitution the Masterisk Board has powers to remove the CEO (refer to clause 6(x))

⁵ It is unlikely that a Masterisk director will occupy the Chair for a period exceeding (say) one year as it is not in the interests of the Masterisk and RASB Boards to have the Serraq CEO position unfilled for extended periods.

- iv. When the RASB Board Chair is occupied by the CEO, a Masterisk director is appointed Vice Chair. In the absence of the Chair, the Vice Chair will chair RASB Board meetings.

Board Meetings

- v. The Chair appoints a RASB Board secretary who prepares meeting agendas for circulation to board members at least fourteen days before each scheduled meeting and prepares minutes of meetings for circulation within fourteen days after the meeting. Minutes are circulated to board members and others at the direction of the Chair.
- vi. RASB Board meetings are quarterly or, at the Chair's discretion, additional meetings may be called if the volume and/or nature of outstanding business requires it.
- vii. RASB Board meetings can be attended either in person and/or via electronic (virtual) means.
- viii. *RASB Board members who are not salaried employees may be paid a fixed fee for attending meetings whether in person or virtually. The fee will be proposed by the Chair and voted by the RASB Board and will be valid for a period of two years after which time it will be reviewed and reapproved.*
- ix. *Out-of-pocket expenses reasonably incurred by board members who are not salaried employees to attend RASB Board meetings will be reimbursed.*

Board Members' Terms of Appointment

- x. The Masterisk Board selects, appoints and, if circumstances require, removes the CEO and agrees all terms and conditions in relation to his/her employment.
- xi. Except for the Chair and Vice Chair, RASB Board members are initially appointed for a term of three years which may be renewable for a further three years. The Chair proposes and RASB Board members vote for the renewal of a RASB Board member's term of appointment. Except for the Chair, the maximum term for an individual member of the RASB Board is six years. See also section 7 "Inaugural RASB Board – Special Provisions".
- xii. The Chair proposes and RASB Board members vote for the appointment of new members to the board.
- xiii. Removal of RASB Board members requires the agreement of the Chair and Vice Chair. Notice of removal of a board member requires 30 days' notice in writing.
- xiv. A RASB Board member may resign from the board by giving the Chair 30 days' notice in writing.

Voting

- xv. Each member of the RASB Board shall have one vote. Proposals are carried by a simple majority. Voting by proxy, abstentions and the appointment of alternates to attend and vote

at meetings are not permitted. In the event of a tied vote, the Chair has an additional casting vote.

- xvi. Voting may proceed provided a quorum, comprising the Chair and a minimum of five other RASB Board members, are in actual or virtual attendance.

Other

- xvii. The Masterisk Board monitors the CEO's performance through periodic appraisals and the ongoing monitoring of actual results vs. targets set by the Masterisk Board typically in the form of key performance indicators (KPIs) and key risk indicators (KRIs).
- xviii. *Serraq will enter into a Directors & Officers liability insurance policy for the benefit of RASB Board members.*

7) Inaugural RASB Board – Special Provisions

- i. The special provisions set out in this section will be valid for a period of three years from the date on which the inaugural RASB Board has been constituted (the "Inaugural Term") being the date on which six board members, including the Chair and Vice Chair, have been appointed.
- ii. In principle, the terms and conditions of the sections preceding this section will apply to the inaugural RASB Board unless specifically altered or affected by the provisions of this section.
- iii. The roles of RASB Board Chair and Vice Chair will be occupied by Masterisk directors.
- iv. The RASB Board Chair and Vice Chair will select and appoint RASB Board members. The term of appointment of RASB Board members who are appointed within three years of the date the inaugural RASB Board was constituted will be one year which may be renewable for a further one year. If an appointment is renewed that extends beyond the Inaugural Term, the provisions of the sections preceding this section will apply.

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