

# The Means and Benefits of Tokenizing and Digitally Trading Risk Units

The next paradigm change in accounting and risk management



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## Executive Summary

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The Risk Accounting method, described in overview in the [appendix](#), quantifies residual non-financial risks and reports them using a standardized metric unique to the method called a Risk Unit or RU. In Risk Accounting, all forms of accepted non-financial risks are quantified and reported as residual RUs.

This white paper explains how residual RUs can be transformed into tokenized RUs (TRUs) for sale and trading in specialized blockchain exchanges (“TRU Exchanges”). The distribution of accepted risks in this way eliminates the threat of systemic risk caused by the failure of influential corporations and globally interconnected operating infrastructures. In the highly regulated banking sector, it removes the need for banks to hold eye-watering amounts of inert, unproductive and costly risk capital reserves to protect depositors and, by extension, the global banking system.

Importantly, in an RU tokenization paradigm, TRU Exchanges become the de facto underwriter of corporations’ accepted non-financial risks thereby providing assurance that never again will taxpayers’ funds be used to bail out systemically important corporations and industry sectors. It also liberates shareholders’ equity to be linked primarily to corporations’ strategic risk instead of acting as the buffer against losses associated with the mismanagement of non-financial risks.

RU tokenization is the ultimate risk management device... the next paradigm change in accounting and risk management.

## RU Tokenization

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### Main Components

1. The method – Risk Accounting
2. The technology – Blockchain
3. The marketplace – TRU Exchanges

In this section we describe each of the above main components and how Risk Accounting and blockchain technologies combine in interlocking flows within specialized TRU Exchanges.

### The Method - Risk Accounting

Risk Accounting is a standardized and integrated non-financial risk management and accounting framework that identifies, quantifies, aggregates, values and reports all forms of non-financial risk and accounts for the associated expected losses.

An overview of the Risk Accounting method is provided in the appendix.

The Risk Unit or RU is the new aggregating metric, unique to the Risk Accounting method, that is used to quantify and report exposures to non-financial risk using three core metrics:

- **Inherent Risk (IR):** The amount of non-financial risk in RUs before considering the effects of internal risk mitigation activities and processes (represents maximum exposure to non-financial risk).
- **Risk Mitigation Index (RMI):** A measure of the effectiveness of internal non-financial risk mitigating activities and processes on a scale of zero to 100.
- **Residual Risk (RR):** The amount of non-financial risk in RUs that remains after reducing Inherent Risk by the RMI (represents actual exposure to non-financial risk).

## Risk Accounting's Critical Features

### *Standardization:*

The tables, templates and algorithms that comprise Risk Accounting are fully standardized to ensure the direct comparability of outputs within industry sectors.

### *Data quality:*

A fundamental principle of Risk Accounting is that significant exposure to risk is created upon the transfer of products and services to external parties. Thus, Risk Accounting's starting point is the controlled and audited daily amount of sales by product registered in official accounting ledgers.

### *Implementation lite:*

Risk Accounting is an extension of management (cost) accounting and, consequently, leverages existing accounting infrastructure and the same accounting data aggregation paths that produce financial statements.

### *Enhanced Risk & Control Self-Assessment (E-RCSA)*

RCSAs that typically use a 'RAG' (red, amber, green) assessment metric are enhanced by replacing RAG with a numeric measurement metric thereby enabling the processing of E-RCSAs by Risk Accounting's algorithms. E-RCSA questionnaires are fully standardized for each industry sector and include questions whose responses can either be binary ('yes' or 'no' answer) or require selecting an applicable benchmark from a drop-down box. Each E-RCSA question and benchmark is assigned an expertly calibrated risk mitigation impact factor that is processed by Risk Accounting's algorithms dependent upon E-RCSA responses.

### *Aggregatable:*

Risk Accounting's algorithms produce risk analytics based on three sources of input: product risk factors; the volume/value of daily new business booked by product; and the results of E-RCSAs that interact with each product. Risk analytics are aggregated across the vertical and horizontal dimensions of the enterprise by multiple reporting categories such as group, business line, cost center, risk type, product, customer and geography.

### *Portfolio View:*

Risk Accounting provides a portfolio view of accepted risks making classic portfolio management techniques available for risk management and reporting. They include trending, ranking, limit-setting and monitoring, risk budgeting and monitoring, predictive modelling and benchmarking.

### *Auditable:*

Risk Accounting's algorithms use relatively simple mathematical formulae that are standardized for each industry sector. Auditors can independently recalculate outputs with relative ease.

The three sources of input to Risk Accounting's algorithms are auditable:

- Product risk factors are assigned and documented during 'Product Review & Approval' processes and are available for audit inspection.
- The volume/value of daily new business booked by product can be validated against official accounting records.
- Questions in E-RCSA questionnaires are structured so there can only be one right answer for which an audit trail is provided.

#### *Actionable:*

Risk Accounting enables the analysis of accepted risks in the aggregate and drilling to the detail to determine causality. The successful implementation of risk mitigation improvements is reflected in revised E-RCSA inputs which, in turn, update risk analytics for the associated risk reduction impacts. In this way, Risk Accounting incentivizes and prioritizes risk mitigation improvements.

#### *Product pricing enabled:*

Risk accounting calculates accepted risks for each product. The opportunity cost of risk capital, calculated using an organization's hurdle rate (required rate of return on capital), is allocated to products in proportion to residual RUs. Thus, the opportunity cost of risk capital can be incorporated into each product's unit cost according to the risks actually accepted. This enhances the information available to support product pricing and the monitoring of profit margins.

#### *Tokenizable:*

The ultimate risk management device is RU tokenization that allows corporations to underwrite and distribute their accepted risks to investors. In accounting terms, the probable future financial impacts of accumulating risks determined by Risk Accounting are posted to the income (P&L) statement as an expected loss provision with offset to the Balance Sheet as an expected loss capital reserve. The exclusive purpose of the reserve is to finance risk mitigation improvements. This is achieved by converting the reserve into digitized, tradable RU tokens that can be sold and traded on TRU Exchanges.

### **The Technology - Blockchain**

Tokenization is achieved through leveraging existing blockchain infrastructures enabling:

- Registration of issued TRUs.
- Unique identification and certification of TRU issuers.
- Connection to smart contracts that define TRU repurchase values and terms thereby facilitating trading automation.

Thus, the TRU is a unit of exchange that can be traded in TRU Exchanges to provide liquidity ring-fenced for investment in risk mitigation.

### **The Market Place – TRU Exchanges**

The proposed trading and market mechanisms will:

- Provide an attractive profit incentive for potential investors.
- Provide a secure and reliable trading framework that inspires trust.
- Discourage over-issuance of TRUs for perceived higher profits.
- Underwrite and distribute organizations' accepted non-financial risks (residual RUs).
- Provide a framework that inspires and incentivizes corporations to Invest in risk mitigation.
- Enable real-time supervisory monitoring of TRU Exchange operations.

The TRU trading framework will remain sensitive to, and intuitively suppress the activities of misguided or fraudulent market players. This is achieved through TRU issuer certification and trading mechanisms that ensure profit incentives properly accrue to certified TRU issuers and investors.

As with every trading platform that is operated independently of issuers and investors, a premium must be paid for its use. In the proposed RU tokenization trading platform, such premiums will be payable upon the repurchase of an

organization's own TRUs. While the market will ultimately decide how such mechanisms will function, the following are suggestions that will be subject to rigorous testing prior to adoption.

### **Improving Trust**

Accounting standards and regulatory rules will ensure that the single motive for creating and selling TRUs into the marketplace is to provide liquidity to fund risk mitigation initiatives. Naturally, the more risk exposure a corporation tokenizes into TRUs, the less attractive they become for investors as the impression is created that the issuer's acceptance of risk may have been excessive and/or injudicious.

#### *Improving trust in the issuer*

Corporations will want to maintain their accepted risks within lower ranges resulting in its issued TRUs being sufficiently scarce to yield a higher premium thereby increasing their attractiveness for investors. This is the ultimate incentive for improved risk management.

TRUs are priced in the TRU Exchanges relative to the nominal or par monetary value of the RU derived for each industry sector through stochastic modelling techniques. The integrity of the RU valuation is dependent on the degree of universality of the method of its calculation and the operating losses and associated residual RUs included in its calculation. Consequently, it is recommended that nominal RU values should be calculated and published by an authoritative body that is independent of TRU issuers and investors. This will ultimately be a function of the Risk Accounting Standards Board (RASB).

The method of assigning a monetary value to the RU is discussed in the section '[The Monetary Value of an RU](#)' below.

While the price at which TRU's are priced will be lower in relative terms where high volumes are in circulation, the perception of a riskier investment may not help the sale and would only be attractive to a few large investors with higher levels of risk appetite.

Thus, the main focus of a corporation that intends to tokenize its residual RUs should be on increasing its risk mitigation index (RMI) to reduce the amount of accepted risk in the form of residual RUs. This is where the Risk Accounting method blooms as it provides a structured and auditable framework that reports risk mitigation effectiveness (expressed as its RMI) that reduces its tokenizable residual RUs. The resulting scarcity of tokenized RUs in relative terms, will increase the traded price of its TRUs in response to the perception of an organization that meets higher standards of risk management.

Thus, a virtuous risk management cycle is the outcome where a corporation raises capital through selling TRUs that is applied in risk mitigation improvements. The resulting enhanced RMI achieved over time creates the opportunity for the issuer to repurchase its TRUs at a premium which, in turn, rewards investors for their trust and support.

The higher the audited RMI of the organization, the more compelling the message to the TRU market that the respective corporation's risk management is sound enhancing the value and resilience of its TRUs.

#### *Restoring confidence in the banking sector*

The global financial crisis of 2007/8 resulted in a loss of confidence of investors and regulators in banks' ability to effectively manage and report accepted risks. Through post-crisis legislation and regulatory mandates such as the Dodd Frank Act (USA) and

Basel III, a significant portion of the risk management agenda migrated from boardrooms to regulatory supervisors. RU tokenization has the potential to restore the risk management agenda to banks' boardrooms.

The realization of a global system of RU tokenization is predicated on the quantification and audit of residual RUs. Through Risk Accounting, banks' non-financial risk ecosystems become transparent for regulators who will have the means to monitor and supervise in real- or near real-time accumulating residual RUs across the sector. They will also have oversight of banks' compliance with Risk Accounting standards ensuring proper accountability for accepted risks is attributed and the probability of misrepresentation or fraud in banks' TRU trading is minimized.

## The Case for Tokenization

Whereas facilities exist for the transformation of RUs into tradable titles (such as bonds), tokenization enables the latest available technologies to be deployed. These are summarized below:

### Firm Attribution

Digitized TRUs are directly attributable to the issuer through registration in distributed ledgers (blockchain) which virtually eliminates opportunities for fraud in this space.

### Smart Contracts

Terms and conditions governing the trading of TRUs are programmed into smart contracts thus facilitating the automation of market operations such as:

- **Repurchase dates, terms and prices:** Setting repurchase prices and rules as well as reference systems for pricing (such as linking the reference TRU price to the issuer's RMI score or residual RUs). This potentially motivates issuers to set RMI improvement targets that reduce their residual RUs as this facilitates raising the liquidity required to repurchase TRUs and/or benefit from better repurchase prices (see '[Sample Scenario](#)' below).
- **Discoverability in the market:** TRUs can be set to 'available' or 'unavailable' for sale based on settings under the control of the current holder.
- **Price management:** For example, the repurchase price for a TRU could be set to increase in stages over time, thereby providing an incentive for investors to purchase them at lower prices than the next repurchase price, thus discouraging speculation and abnormal price hikes.
- **Automation:** Setting automatic repurchase transaction dates and prices by the issuer, when certain thresholds are reached in terms of dates, RMI or residual RU targets.

## Sample Scenario

The TRU trading scenario presented in this section is a simplified illustration how price discovery and profit-taking will operate.

Let's assume Company A has total capital and non-financial risk-related losses shown below:

	Total Capital (EUR)	Total Losses (EUR)
Company A	€ 100,000,000	€ 10,000,000

Let's further assume that Risk Accounting has produced the following results at the group level:



	Inherent Risk (RUs)	Risk Mitigation Index (RMI)	Residual Risk (RUs)
Company A	10,000,000	75	2,500,000

An RMI of 75 results in 2,500,000 RUs that represents the actual risk (probability and likely severity) of future (expected) losses. Therefore, in a simplified calculation, the nominal value of each RU in terms of expected losses is €4.00.

**Note:** The calculation for the purpose of this illustration has been simplified. The preferred method of RU valuation is through independent stochastic modelling of anonymized historic loss data and applicable context data (RMIs and residual RUs) collected and modelled centrally (see [‘The Monetary Value of an RU’](#) below).

Company A could decide to reduce its residual RUs by:

- i. reducing the daily new business booked in riskier, more complex products and/or
- ii. improving its RMI through successfully implementing risk mitigation initiatives,

and calculating the potential reduction in residual RUs as well as the time and cost of implementation.

A portion of the residual RUs could then be tokenized and sold into TRU Exchanges to raise the required capital to fund future risk mitigation initiatives.

A prospectus offering TRUs for sale could contain trended and other analytics relating to the status of residual RUs and RMIs and future risk reduction plans and projections. A detailed discussion of TRU pricing, associated terms and conditions and arguments in support of the offering could also be included.

Company A may decide to tokenize half the available residual RUs at a premium relative to the nominal value of an RU (say) €4.50.

RU Nominal Value (EUR)	No. of TRUs	TRU Sale Price (EUR)	Total TRU Projected Sale Value
€ 4.00	2,500,000	€ 4.50	€ 11,250,000

### The Profit Incentive

The profit incentive stems from the terms and conditions contained in the respective smart contracts, as well as from the trading algorithms incorporated into the trading platform.

Therefore, the issuing organization could offer a certain number of predetermined repurchases with annual maturities. For example, maturities could be yearly over 3 years with premiums set at 5% for each additional year the investor holds the TRUs in portfolio.

Thus, over a 3-year period, the premium could be:

- 1<sup>st</sup> year – € 0.225/TRU
- 2<sup>nd</sup> year – € 0.450/TRU
- 3<sup>rd</sup> year – € 0.675/TRU



Investors have the option to buy a number of TRUs and hold them in portfolio for the entire 3-year period to receive the maximum financial return or sell them in the intervening period at a discount set by the trading platform's algorithms.

This can be done by the investors themselves by marking the respective TRUs as available for sale prior to the respective maturity dates so that the sale is executed automatically. If investors hold TRUs to the end of the 1<sup>st</sup> year, they would be automatically repurchased upon expiry of the 1<sup>st</sup> year's term.

During the 3-year term, investors could trade the TRUs in TRU Exchanges selling them at a discount relative to the respective target repurchase price, by marking the TRUs available for sale and adding a margin between 5% and 15%. Thus, investors interested in buying and holding TRUs for less than the full 3-year term, could buy the TRUs priced under the repurchase price applicable for the respective term as follows:

- Held for less than 1 year – € 4.50 + <5% premium.
- Held for less than 2 years – € 4.50 + <10% premium.
- Held for up to 3 years – € 4.50 + <15% premium.

This allows investors to liquidate their positions at any time earning a return either by trading the TRUs or cashing them in on the annual maturity dates. Traders will trade TRUs more frequently if attractive bid / offer prices are available between fixed maturity dates.

The method of tokenization is designed to provide a positive profit margin while avoiding abnormal or extreme price fluctuations. This is reasonably assured given the highest possible price is the final automatic repurchase price determined by the issuer. This should provide for a balanced and predictable market dynamic that stimulates responsible behaviors from market participants.

### Options for the Issuer

By selling TRUs, the issuer:

- Underwrites its accepted residual RUs in TRU Exchanges.
- Raises capital for investment in risk mitigation initiatives thereby further reducing residual RUs.
- Creates a source of liquidity to repurchase TRUs at the respective maturity dates.
- Provides transparency to investors and regulators concerning accepted residual RUs and risk mitigation effectiveness.

The Risk Accounting method provides Company A with a structured framework to dynamically monitor, manage and report accepted non-financial risk exposures, thus allowing it to continuously optimize its operations in TRU Exchanges.

Company A can also trade TRUs of other issuers to meet its own capital needs and generate a return. As long as there is a price differential in the market between bid and offer prices, no matter how small, it can be used in favor of Company A to offset its own residual RUs obviating the need to issue its own TRUs.

## The Ecosystem Set Up

From the simplified TRU trading illustration above, it is self-evident that setting up such a system requires the involvement of multiple stakeholders including issuers, investors, brokers, technology platform hosts and operators, governments and regulators.

## Ecosystem Components

In this section we address the major components that will comprise a digitized TRU blockchain-based trading ecosystem that incorporates the highest standards of security, reliability and service quality.

### The Risk Accounting Standards Board (RASB)

RASB is the global standards setter for the Risk Accounting method including all related technologies. The RASB constitution can be downloaded by clicking [here](#).

RASB is a not-for-profit company limited by members' guarantee. A RASB member can be either institutional or individual:

**Institutional members** are either actual or prospective licensees of Risk Accounting's RU calculation engine 'RASBOX' (see below) and include, but not limited to corporations, 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.

**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.

### RASBOX

Risk Accounting software is comprised of two basic components:

1. The RU Calculation Engine ("RASBOX") is the computer programs incorporated in the Risk Accounting software that performs the RU calculations and aggregations.
2. The RU Periphery includes interfaces, associated computer programs and electronic devices that capture users' variable inputs for processing by RASBOX to deliver non-financial risk analytics in RUs to parties authorized to receive them.

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 unauthorized parties.

### The Tokenization Platform (TP)

The TP will be linked to RASBOX and provide tokenization services for RASB's institutional members. The TP will use blockchain-based technology for added reliability, traceability, transparency and auditability and provide the infrastructure to store all the required information, smart contract terms and conditions, confidentiality and security capabilities.

### The Specialized Marketplace (SM)

The SM is the TRU Exchanges where TRUs will be traded between issuers and investors. The SM will initially be a closed market for specialized TRU issuers and investors but, over time it could extend its operations to additional types of investors including individuals.

### Additional Components

Other components may interact with issuers and investors that operate on the TP to provide additional services and perform oversight functions including regulators, academia, standards setting bodies, law enforcement agencies, consultants, auditors, trade associations, technology companies etc.

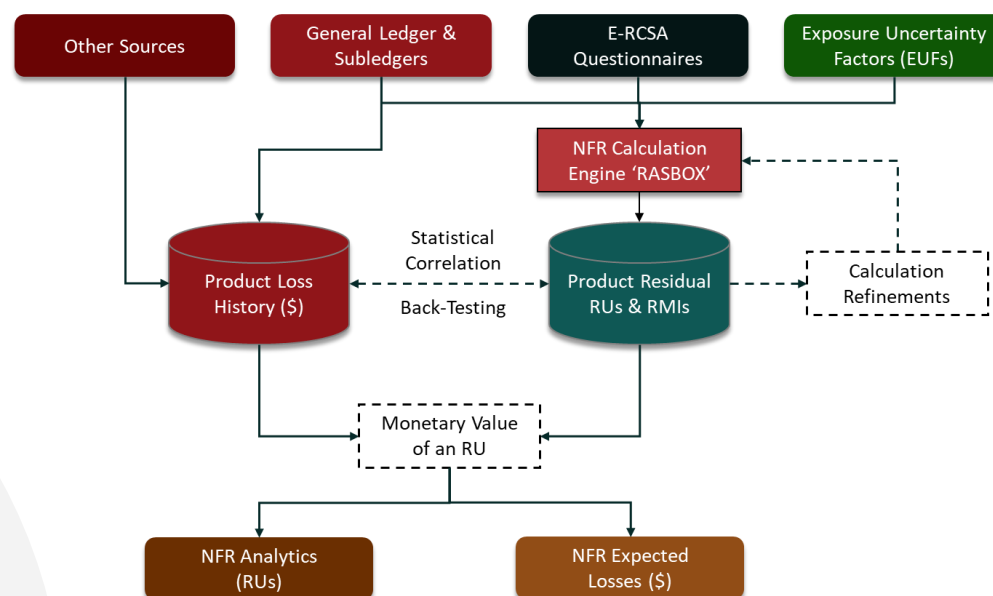
## The Monetary Value of an RU

The proposed method of RU valuation for all industry sectors is based on the mature and high precision stochastic models that have evolved over many years in financial institutions.

The predictive modeling of expected losses inherent in a portfolio of exposures requires the creation of a repository of historic loss events with three elements permanently appended to each loss: (1) the size of the loss in monetary terms; (2) the size of the exposure associated with the loss at the time of loss occurrence; and (3) the structured probability rating of loss at the time of loss occurrence. In credit risk models these are termed loss given default (LGD), exposure at default (EAD) and probability of default (PD) respectively.

All regulated banks that have adopted capital adequacy standards promulgated by the Basel Committee on Banking Supervision are required to register operational losses in a loss event database. The RU tokenization proposition is that non-financial risk modeling will replicate mature and high precision credit risk modeling whereby: the LGD equivalent is the operational losses registered in loss event databases categorized by product; the EAD equivalent is the respective product's residual RUs at the time of loss; and the PD equivalent is the respective product's RMI at the time of loss.

Through portfolio management techniques such as backtesting and statistical correlation, the stochastic modeling of non-financial risks, thus enabled, will produce, over time, a monetary value of an RU and estimates of non-financial risk related expected losses whose precision will increase as datapoints accumulate and RU / RMI calculations are progressively refined, as shown in the diagram below.



**Note:** NFR = non-financial risk.

## Governance

RASB is responsible for ensuring that effective governance is exercised over all interactions between its members, the TRU trading platform and TRU Exchanges. This will include liaising with the additional components referred to above that engage with members on TRU trading matters or directly with the TRU trading

platform and require authoritative information or assurances concerning Risk Accounting and TRU operating standards.

RASB is committed to ensuring that members and additional components contribute positively to making the TRU trading ecosystem a secure and reliable operating environment that complies with all applicable laws and regulatory mandates.

## Conclusion

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The scale of the challenge associated with the implementation of Risk Accounting and RU tokenization is immense, but so are the expected benefits.

The proposal set out in this white paper is designed to minimize disruption through leveraging, across all industry sectors, existing:

- Management (cost) accounting infrastructures.
- Risk & control self-assessments (RCSAs).
- Blockchain technologies and trading platforms.
- From the banking sector, loss event databases.
- Stochastic modeling techniques widely deployed in financial institutions.

The proposed approach for RU tokenization and trading is to link Risk Accounting software (RASBOX) with an existing trading platform that uses blockchain technology and smart contracts. This will also include engaging with expert and influential organizations to understand the proposal's potential and gauge the viability of implementing TRU trading at scale and in the shortest possible timeframe.

Notwithstanding the foregoing, the benefits of combining Risk Accounting and RU tokenization within a common risk management and accounting framework are immense. It will:

- Create a portfolio view of non-financial risks that will restore confidence in corporations' financial reporting and risk management, particularly in the banking sector.
- Liberate shareholders' equity to be linked primarily to corporations' strategic risk instead of acting as the all-purpose buffer against losses associated with the mismanagement of non-financial risks.
- In the banking sector, provide a new foundation on which regulators can be lobbied to replace equity as the preferred depositor protection mechanism with internal risk management and accounting systems thereby enabling banks' boardrooms to take back control of the risk agenda.
- Reduce the incidence of material unexpected losses across all industries through enhanced non-financial risk analytics available in real- or near real-time.
- Minimize or eliminate the threat of systemic risk from the failure of influential corporations and globalized operating infrastructures and interdependencies.
- Refine and enhance existing risk management devices and services that rely on risk proxies and estimates rather than explicit risk quantification including insurances, rating agencies, certain derivatives and risk pricing models.
- Introduce new services, technologies and professional qualifications for risk management and accounting thereby creating new profit opportunities.

We welcome expressions of interest at [info@rasb.org](mailto:info@rasb.org).

## Appendix

### Risk Accounting Method Overview

Exposures to non-financial risk are reported using a new, additive non-financial risk metric, the Risk Unit or RU. Three core reporting metrics are used in Risk Accounting:

- **Inherent RUs (IRUs)** – represent the maximum probability and severity of losses inherent in transactions accepted for processing.
- **Risk Mitigation Index (RMI)** – is a measure on a scale of 0 to 100 of the effectiveness of an organization’s risk mitigating activities and processes whereby 0 denotes complete ineffectiveness and 100 denotes complete effectiveness.
- **Residual RUs (RRUs)** – represent the actual probability and severity of losses inherent in transactions accepted for processing being the Inherent RUs reduced by the RMI.

The following are the nine steps of the Risk Accounting method relative to the banking sector:

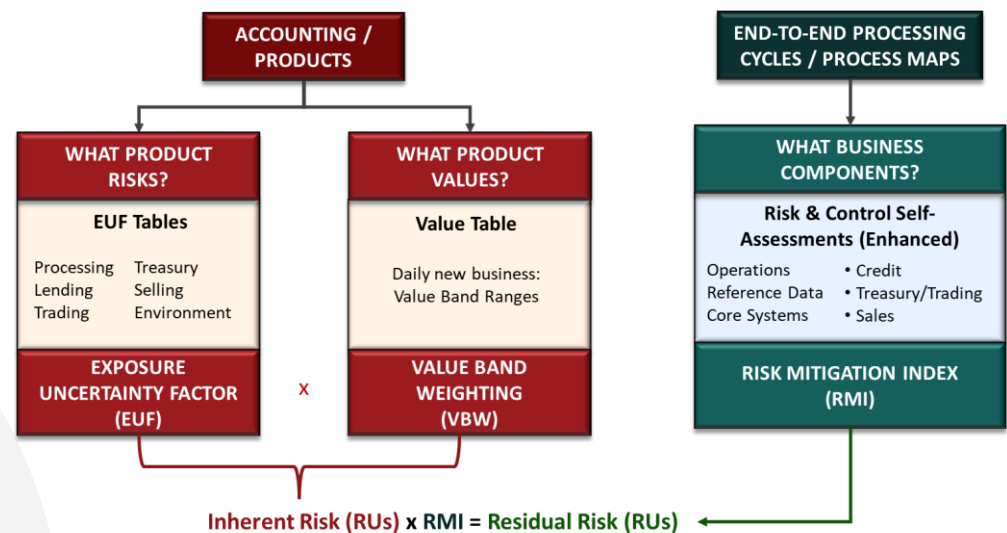
Step	Action	Description
1	Set up business components table	The organizational units (cost centers) that interact with products on their end-to-end processing cycle through the operating environment. They comprise operations departments, reference data sources, core systems, trading desks, credit administration, treasury (funding and interest rate management) and sales and customer relationship management.
2	Set up products table	The products approved for sale or trade by the organization’s product review and approval process.
3	Set up principal non-financial risk types table	For the banking sector these are: processing risk (includes accounting), trading risk, lending risk, selling risk, environmental risk, funding risk and interest rate risk.
4	Set up enhanced risk & control self-assessment (E-RCSA) categories table	For example: control, people, execution, business continuity, risk control, data quality management, policies & procedures, credit administration, vendor management, logical access management etc.
5	Set up product exposure uncertainty factor (EUF) tables and assign EUFs to products	The risk characteristics of each product with an expertly calibrated weighting assigned to each risk characteristic being the relative impact on operational complexity and consequent degree of challenge for risk management and mitigation. EUFs represent the <b>probability</b> of future loss.
6	Set up value band weighting (VBW) table and assign VBWs to products	Ascending bands of daily \$ operational throughput with expertly calibrated value band weightings (VBWs) assigned to each band. The table reflects the fact that as operational throughput increases, the rate of change in risk decreases due to enhanced operational sophistication that naturally occurs primarily due to automation. VBWs represent the likely <b>severity</b> of future losses.

7	Map business components to products	Documents the predetermined end-to-end processing cycle of each product through the operating environment.
8	Map E-RCSA categories to business components and assign category weightings	Determines the industry consensus best practice questionnaires (step 9) that must be completed by each business component. The category weighting is the expertly calibrated degree of reliance operating management places on each E-RCSA category when operating in stress conditions.
9	Complete industry consensus best practice questionnaires	Expertly determined industry consensus best practices grouped by E-RCSA category (step 4). Best practices can either be compliance based ('yes' or 'no' answer required) or benchmark based (select the benchmark from a drop-down box that is closest to actual operating status). Each best practice has an expertly calibrated impact weighting assigned that represents relative risk mitigation effectiveness.

The factors obtained from steps 5 & 6 are used in an algorithm that calculates daily Inherent RUs for each product representing the daily risk-loading on the enterprise. The factors from step 9 are used in an algorithm to calculate RMIs that, when applied to Inherent RUs, computes the Residual RUs for each product.

The tables, templates and associated risk weightings and factors referenced in the above table are standardized for each industry sector thereby ensuring the direct comparability of Risk Accounting's outputs within and between organizations.

Below is a diagrammatic overview of the Risk Accounting process.



## Useful Links

[The Risk Accounting Standards Board \(RASB\)](#)

[The Joint Initiative on Accounting Reform](#)

[The Risk Accounting Website](#)