

Risk Categorization and Definition (RCD) Tool - Summarized Version

| CATEGORY | Sub-Category | Definition |
|------------------|--------------|---|
| FINANCIAL | | A category of risks related to unexpected changes in external markets, prices, rates, and liquidity supply and demand. See also market risk, credit risk, and liquidity risk. |
| FINANCIAL | MARKET | Unexpected changes in external markets (such as stock markets), prices (such as commodity prices), or rates (such as interest rates), related to (a) general market movements (although the source for this is often economic risk) or (b) a specific asset on the company's balance sheet. Some examples include equity market risk, interest rate risk, and currency risk. |
| FINANCIAL | CREDIT | Unexpected changes in credit markets (availability), prices (credit spreads), or credit-worthiness of issuers, related to (a) general credit market movements (although the source for this is often economic risk) or (b) a specific issuer of a fixed-income security on the company's balance sheet or (c) a counterparty to whom the company has extended credit. |
| FINANCIAL | LIQUIDITY | Unexpected changes in liquidity supply or demand, related to three different levels of impact on the company: (a) untimely asset sales; (b) inability to meet contractual demands; or (c) default. A change in liquidity supply involves an unexpected change in the ability to sell assets as expected in the market, in terms of price, volume, or timeliness. A change in liquidity demand involves an unexpected change in demand for liquidity by option holders, such as bondholders exercising early put options or "run-on-the-bank" situations for financial services companies, where account holders suddenly request the withdrawal of funds from their accounts, en masse. |
| FINANCIAL | ECONOMIC | Unexpected changes in the economy. This is often the source of risk that triggers multiple simultaneous unexpected changes in other items, such as consumer disposable income (impacting demand for the company's products or services), employment markets (impacting the company's fixed expenses), inflation/deflation (impacting the company's variable costs), items related to market risk, and items related to credit risk. |
| STRATEGIC | | A category of risks related to unexpected changes in key elements of strategy formulation or execution. This is highly variable by company and must be customized. |
| STRATEGIC | STRATEGY | Viability of strategy—such as choice of products, distribution channels, markets, or value proposition— does not match expectations. This is highly variable by company and must be customized. |
| STRATEGIC | EXECUTION | Strategy is not implemented as expected. Note: Execution risk is highly variable by company and must be customized. |
| STRATEGIC | GOVERNANCE | Governance is not functioning as expected |

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| STRATEGIC | STRATEGIC RELATIONSHIPS | Unexpected change in strategic relationships (e.g., parent company or joint venture partner) |
| STRATEGIC | COMPETITOR | Unexpected change in competitive landscape, such as new entrants, aggressive competitor actions against the company, price wars, and so forth. |
| STRATEGIC | SUPPLIER | Unexpected changes in supplier environment, such as supplier capacity, supplier failure, or change in the cost of goods or services. |
| STRATEGIC | EXTERNAL RELATIONS | Unexpected changes in the company's relationship with external stakeholders with public voices, such as the media, consumer advocates, equity analysts, rating agencies, regulators, and politicians. |
| STRATEGIC | LEGISLATIVE/REGULATORY | Unexpected changes in laws or regulations |
| STRATEGIC | INTERNATIONAL | Unexpected changes in the business environment of foreign countries in which the company operates, such as unexpected changes in the government's stability, attitude toward foreign companies, and tariffs. |
| OPERATIONAL | | A category of risks related to unexpected changes in elements related to operations, such as human resources, technology, processes, and disasters. |
| OPERATIONAL | HUMAN RESOURCES | Human resources (i.e., people) are not performing as expected, such as unexpected changes in talent management, performance, productivity, and conduct. |
| OPERATIONAL | TECHNOLOGY | Technology not performing as expected. Some examples include data security, data privacy, data integrity, capacity, and reliability |
| OPERATIONAL | LITIGATION | Unexpected civil suits or judgments against company |
| OPERATIONAL | COMPLIANCE | Level of compliance not matching expectations (e.g., fines for noncompliance are higher than expected) |
| OPERATIONAL | EXTERNAL FRAUD | Unexpected change in the amount of fraud by external parties. |
| OPERATIONAL | DISASTERS | Unexpected natural or man-made disasters, such as weather-related (such as hurricane, flood, tornado, earthquake, and drought), health-related (such as pandemic), accidental (such as fire), general acts of destruction (such as war, terrorism, and rioting), and specific acts of destruction against the company (such as product tampering, attack on employees, and sabotage). This also includes unexpected man-made disasters caused by company employees or agents, such as environment damage. |
| OPERATIONAL | PROCESSES | Processes are not functioning as expected (e.g., processes are too convoluted) |