DTCC

Securing Today. Shaping Tomorrow.®

BUILDING AN INTERCONNECTEDNESS RISK MANAGEMENT PROGRAM

In today's highly connected financial marketplace, risk managers can no longer view financial companies as standalone distinct entities due to their diverse set of interconnected components that transmit risk, often in ways that are not transparent or expected.

The failure of one highly interconnected entity can quickly and broadly propagate risk across the global financial system and have a devastating impact on financial stability, due to the fact that financial institutions are linked through global intermediation chains, which create an elaborate web of mutual interdependencies.

Constructing an interconnectedness risk management program can be a difficult task for financial companies given the level of complexity associated with identifying and mapping the vast number of interconnections.

For more information about DTCC's Risk Management program, go to http://www.dtcc.com/about/managing-risk

1 Identify Interconnection Risks

Risk identification involves carefully mapping the ecosystem of interconnected entities with which companies interact.

2 Quantify Each Critical Connection

Provide management with an objective assessment of the specific exposure relative to others.

3 Prioritize the Identified Risks

The severity of the impact of an interconnected entity's failure depends primarily on the importance of the services it provides.

4 Mitigate Interconnectedness Risks

The most important but challenging stage due to the multi-dimensional nature and unpredictability of these risks.

Mitigation Strategy Pillars

Companies should choose the most robust interconnected entities and diversify their exposure across these entities.

Companies should put in place measures to monitor and control the performance of interconnected entities as well as the associated risks.

Companies should aim to build resilience by developing strategies that minimize the impact of an interconnected entity's failure on their core functions.