Enterprise-Wide Risk Management

Enterprise-wide Risk Management (ERM) is an essential part of the business strategy of the Group. We maintain a risk management system to proactively manage risks at the strategic, tactical and operational level to support the achievement of our business objectives and corporate strategies. Through active risk management at all levels, the FPL management (the Management) creates and preserves value for the Group.

The Board of Directors (Board) is responsible for the governance of risks across the Group and ensuring that the Management maintains a sound system of risk management and internal controls to achieve the business objective. It is assisted by the Risk Management Committee (RMC) to oversee our ERM framework, determine the risk appetite and risk strategy, assess our risk profile, material risks, and mitigation plans, as well as to ensure the adequacy and effectiveness of risk management policies and procedures. The RMC comprises members of the Board who meet quarterly to review material risk issues and the mitigating strategies for such risks. All material risks and risk issues are reported to the RMC for review.

The RMC, on behalf of the Board, approves FPL’s risk tolerance statements, which set out the nature and extent of the significant risks that we are willing to take in achieving our business objectives. The risk tolerance statements are supported by the risk thresholds which have been developed by Management. These thresholds set the risk boundaries in various strategic and operational areas and serve as a guide for Management in their decision making. The risk tolerance status is reviewed and monitored closely by Management. Any risk that has escalated beyond its threshold will be highlighted and addressed and, together with its associated action plan, will be reported to the RMC.

Risk Management Process
To facilitate a consistent and cohesive approach to ERM, we have developed an ERM framework and process. We adopt a robust risk management framework to maintain a high level of corporate discipline and governance. The risk management process is implemented by Management for the identification and management of risks of the Group. The process consists of risk identification, risk assessment and evaluation, risk treatment, risk monitoring and reporting.

The ERM framework links FPL’s risk management process with the strategic, tactical objectives and operations. Risks are identified and assessed, and mitigating measures developed to address and manage those risks. The ERM framework and process are summarised in an ERM policy for employees.

The risk management process is integrated and coordinated across our businesses. The ERM framework and process applies to all our business units. The risk ownership lies with the heads of the respective business units who consistently review risks and ensure the control measures are effective. They are responsible for the development, implementation and practice of ERM within the business unit. Emerging risks that have a material impact on the business units are identified, assessed and monitored closely. The risk exposures and potential mitigating measures are tracked in risk registers maintained in a web-based corporate risk scorecard system. Where applicable, key risk indicators are established to provide an early warning signal to monitor risks. Key material risks and their associated mitigating measures are consolidated at the Group level and reported to the RMC quarterly.

We proactively manage risks at the operational level. Control self-assessment, which promotes accountability and risk ownership, is implemented for key business processes. We have put in place a comfort matrix framework, which provides an overview of the mitigating strategies, and assurance processes of key financial, operational, compliance and information technology risks.

An ERM validation is held at Management level annually. At this annual ERM validation, the heads of business units deliberate on key risks and the corresponding mitigating strategies for their business units in response to emerging risks and opportunities, provide assurance to the Group Chief Executive Officer and key management personnel that the business units’ key risks have been identified and monitored, and that the mitigating measures are effective and adequate. The results of the ERM validation for the financial year ended 30 September 2019 were reported and presented to the RMC and the Board.

We enhance our risk management culture through various risk management activities. Risk awareness briefings are conducted for all levels during staff orientation. Refresher sessions are organised for existing staff when required. Periodic discussions of risk and risk issues are held at the business unit level where emerging risks are identified and managed. Business continuity exercises are carried out at least annually at the business units and the Group level to prepare ourselves against unexpected crisis.

We seek to improve our risk management processes on an ongoing basis. Our risk management system is benchmarked against market practice. During the financial year, we improved our risk management capability by engaging an external professional consultant to conduct a high-level risk review exercise on the ERM framework and structure at the Corporate level. For this financial year, we also enhanced our business continuity management capability through rolling out a business continuity management (BCM) programme at the business unit level for the Frasers Hospitality Business Units. We will continue to roll out the BCM programme to other business units in the coming years. The business continuity effort is overseen by our Business Continuity Management Committee comprising the key heads of departments and business units.
Key Risks
The Management has been actively monitoring the key material risks that affect the Group. Some material risks include:

Country risks (economic, political and regulatory risks)
With diversified international operations and investments, we are exposed to developments in major economies and key financial and property markets. The risk of adverse changes in the global economy can reduce profits, result in revaluation losses, affect our ability to sell residential development stock and exit from operations and investments.

Inconsistent and frequent changes in regulatory policies as well as security threats may also result in higher operating and investment costs, loss in productivity and disruptions to business operations.

We adopt a prudent approach in selecting locations for our investment to mitigate risks. We put measures in place to monitor the markets closely, such as through maintaining good working relationships and engaging with local authorities, business associations and local contacts, and reviewing expert opinions and market indicators, keeping abreast of economic, political and regulatory changes as well as stepping up the crisis preparedness of FPL’s properties. Emphasis is also placed on regulatory compliance in our operations.

Financial Risk
We have global operations and therefore exposed to financial risks such as foreign exchange risk, interest rate risk and liquidity risk. We use derivatives, a mix of fixed and floating rate debt with varying tenors as well as other financial instruments to hedge against foreign exchange and interest rate exposure. Policies and processes are in place to facilitate the monitoring and management of these risks.

To manage liquidity risk, we monitor cash flow and maintain sufficient cash or cash equivalents as well as secures funding through multiple sources, to ensure that financing, funding and repayment of debt obligation are fulfilled. Our financial risk management is discussed in more detail in Treasury Highlights on pages 94 to 95 and the Notes to the Financial Statements on pages 197 to 349.

Human Capital Risk
We view our human capital as a key factor for driving growth. As such, talent management, employee engagement, the retention of key personnel and maintenance of a conducive work environment are important to the Group. In view of these considerations, the human resources team has developed and implemented effective reward schemes, succession planning, corporate wellness programmes and staff development programmes. Details on the various programmes and initiatives can be found in the Sustainability Report on pages 96 to 136.

Fraud and Corruption Risk
We do not condone any acts of fraud, corruption or bribery by employees in the course of our business activities. We have put in place various policies and guidelines, including a Code of Business Conduct and an Anti-bribery policy to guide the employees on business practices, standards and conduct expected while in their employment with us. A Whistle-Blowing Policy has also been put in place to provide a clearly defined process and independent feedback channel for employees to report any suspected improprieties in confidence and in good faith, without fear of reprisal. The Audit Committee reviews and ensures that independent investigations and appropriate follow-up actions are carried out. More details can be found in the Corporate Governance Report on pages 143 to 173.

Technology Risk
Digital disruption and the future of work that are enabled by digital technology offer new opportunities and challenges. FPL continues to build digital capabilities and invest in new technologies to ensure our business is future-ready. To safeguard our Group, a management sub-committee, being the Information Technology & Cybersecurity Committee, has been formed to oversee the management of technology risks including cyber risks such as unauthorised access, data leakages, and cyber-attacks. We have put in place group-wide policies and procedures which set out the governance and controls to ensure the confidentiality, availability and integrity of our IT systems, as well as ensuring that cybersecurity threats are managed. Disaster recovery plans and incident management procedures have been developed and tested regularly. Periodic trainings are also conducted for new and existing employees to raise IT security awareness. External professional services are engaged to conduct independent vulnerability assessment and penetration tests to further strengthen our Group’s IT systems.

Environmental, Health & Safety (EHS) Risks
We place importance in managing EHS risks in our international operations. We have put in place an EHS policy and EHS management systems in key operation areas to manage the risks. We have achieved OHSAS 18001 (Occupational Health & Safety) and ISO 14001 (Environment) certification for our key operations. The Singapore Retail Mall Management has been certified OHSAS 18001, while the Singapore Office Building Management has achieved the ISO 14001, OHSAS 18001 and ISO 50001 (Energy) certification. Our hospitality business unit, Frasers Hospitality, is expanding its EHS management system in accordance to the ISO 14001 and ISO 45001 (updated standard on Occupational Health & Safety) to cover the enlarged Singapore managed properties. Frasers Property Australia’s key operations have also been certified ISO 14001 and AS/NZS 4801 (Australia and New Zealand Standard for Occupational Health & Safety). In Frasers Property Thailand, a Health & Safety policy has also been put in place this financial year. We will continue to extend the coverage of our EHS management systems to a wider scope of operations in the future.

We set targets in reducing greenhouse gas emission, energy usage and water consumption within our investment portfolio. More details can be found in the Sustainability Report on pages 96 to 136.