

DIGITAL FINANCIAL ASSET RISKS AND MANAGEMENT

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Vasily Kudrin (CIA, CFE)
«Risk Management – New
Challenges»
30.09.2020 – 01.10.2020
Moscow



VASILY KUDRIN

- Partner of advisory practice at HLB Vneshaudit (HLB Rus Group); management and business consulting and assurance (audit). Partner and Investment Director of **Lybrion** company, majoring in digital asset management.
- Professional in finance and business, with over 20 years of experience in real business, finance and consulting.
- More than 300 professional projects and educational events related to process organization, risk management, internal control, transformation of corporate systems.
- Vasily Kudrin has active professional international diplomas: CIA (internal audit, since 2004), CFE (investigation and fraud risk management, since 2007), CCSA (risk/control self-assessments, since 2004).
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EXPERIENCE

- Experience in internal audit, corporate governance and internal control in accordance with international and generally accepted standards and endorsed practices since 2002 (large oil company, investment firm, retail chain, international advisory).
- Participated in the boards and committees of a number of professional public organizations, such as Russian Institute of Internal Auditors, Association of Certified Fraud Examiners (ACFE), and international Institute of Internal Auditors (IIA).
- Participation in corporate governance and risk management area (Association of Corporate Directors (AND), Russian Institute of Directors (RID)) and digital investments (RACIB), constant participation in coordination committee of Debate Club, organizing discussions on innovations in corporate governance, risk management and control area.

CLASSIFICATION OF DIGITAL FINANCIAL ASSETS (DFA)

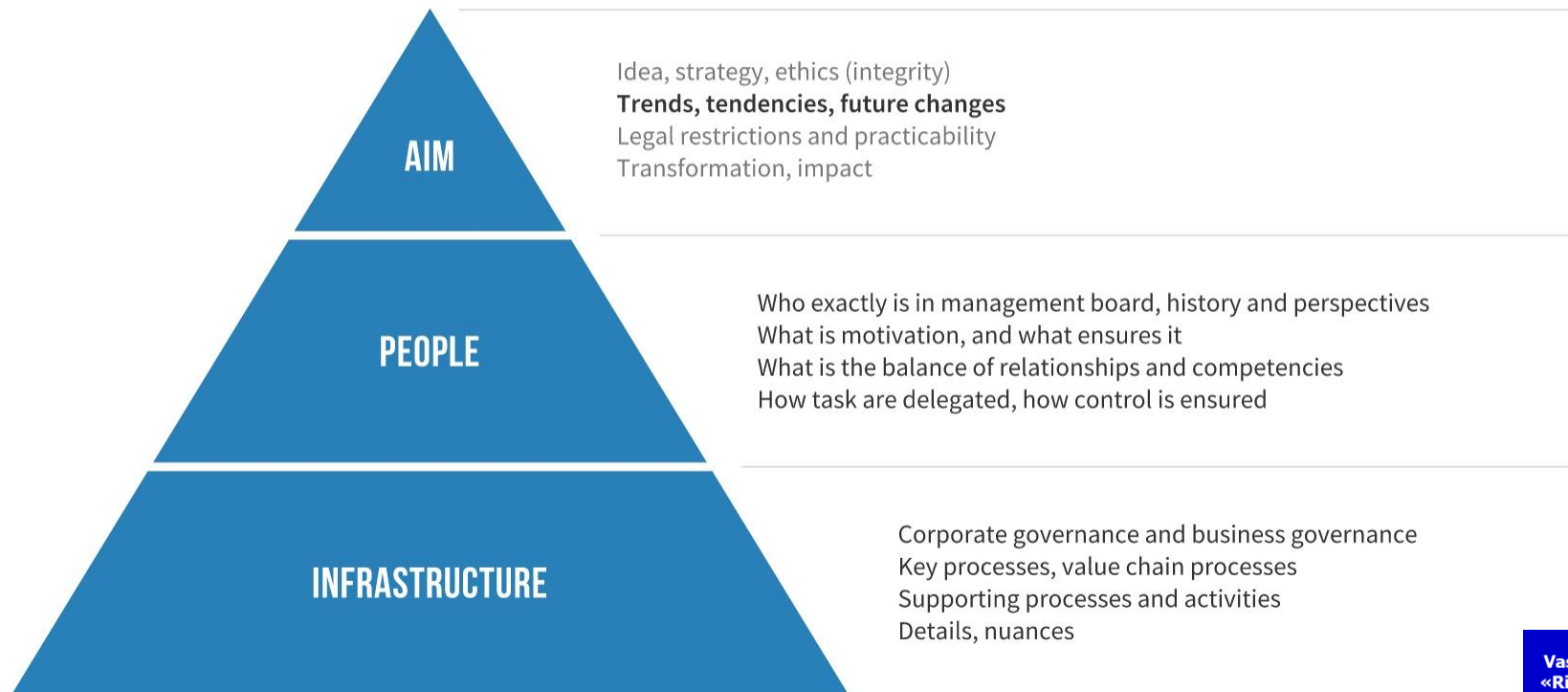


IMPACT OF DFA ON RISK MANAGEMENT PRACTICES



HOLISTIC APPROACH TO DFA RISK MANAGEMENT

Integrity of the approach (the possibility of application by both investors and organizers)



TRENDS & CHANGES LEADING TO RISKS ON DFA MARKET

BIG PLAYERS & GOALS

- Bigtech and large industry companies
- Traditional financial institutions
- Entry and exit barriers
- Lobbying

POLITY

- Strengthening and tightening of norms (standards)
- Preventing and integrating norms
- Competition of jurisdictions
- Administrative means

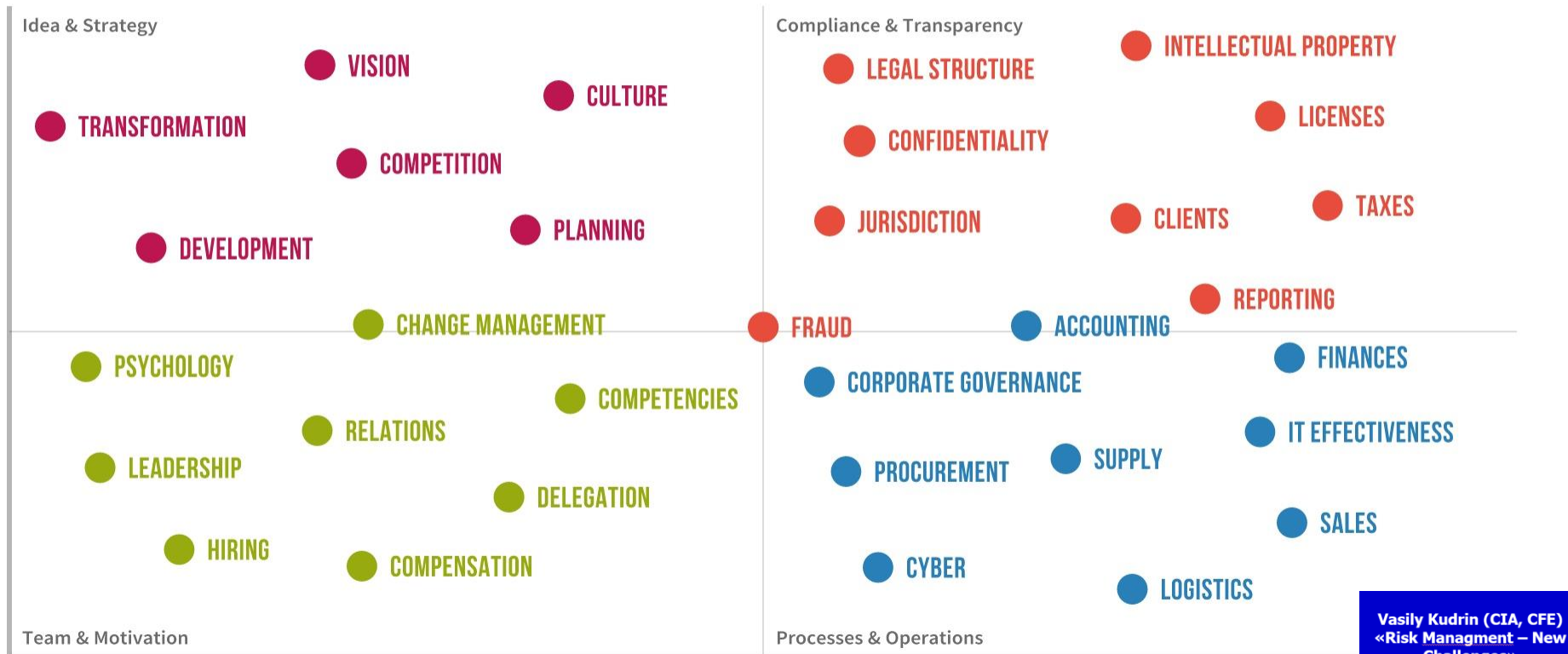
HUMAN DESIRES & FEARS

- Competency mismatch
- Greed, fears of missing out
- Loss of confidence
- Laziness, resistance to change

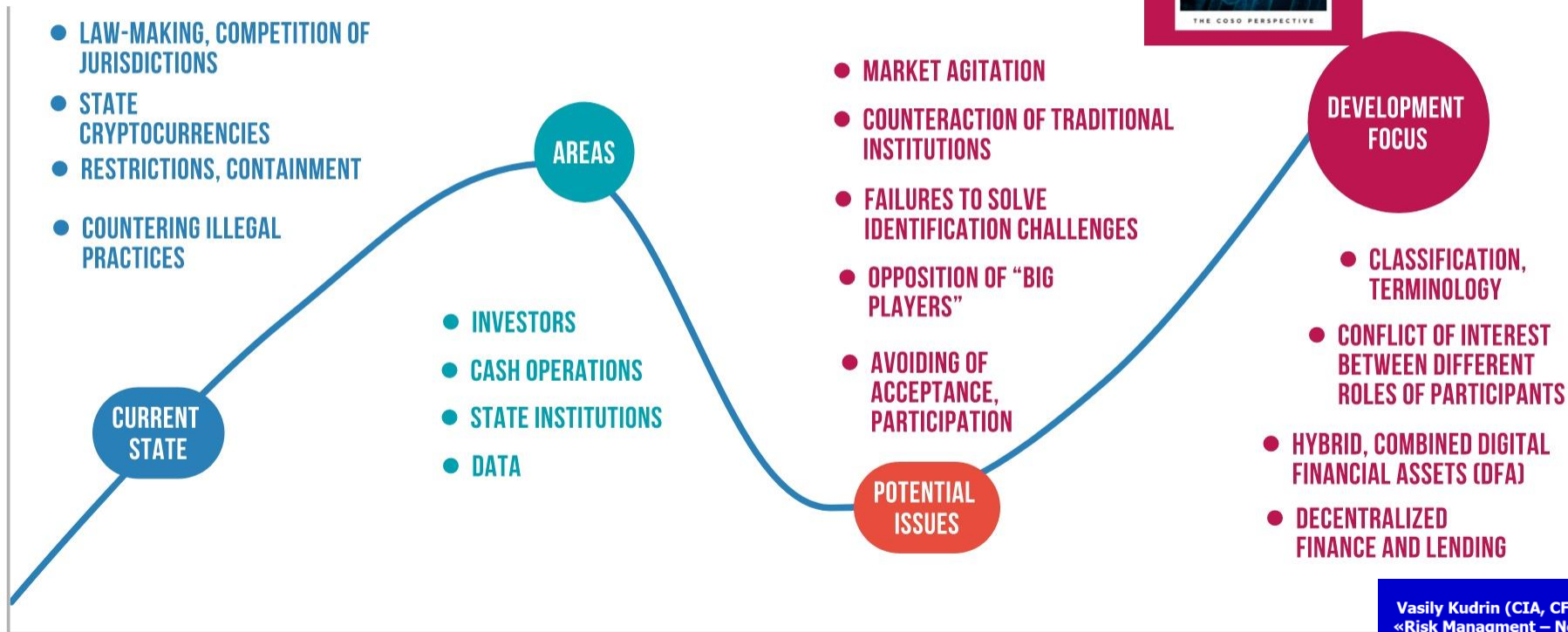
TECHNOLOGIES AND EFFICIENCY

- New models and work approaches
- Advanced, transformation technologies
- Cyber risks
- Quality

DFA RISK ASSESSMENT

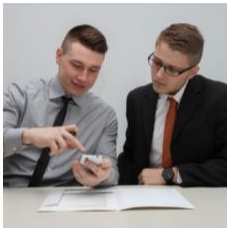


DEVELOPMENT OF LEGISLATION



COMPLIANCE RISKS

Check list sections



INVESTORS

- Investor classification
- Conflict of interest (different roles of participants in financial markets; financial organizations)
- Asset qualifications
- Intellectual property



DATA

- Data leak
- Damage associated with incorrect processing of personal data
- Cyber risks
- Identification problems
- Quality of decentralization



CASH OPERATIONS

- Money surrogates
- Money Laundering (commercial, financial)
- Convergence (hybridization) of asset types (payments, commodity)
- Reducing role of fiat



STATE INSTITUTIONS

- Tax compliance
- Decision making systems
- Feedback
- Corruption risks
- Countering extremism

HUMAN FACTOR

Risks and management methods



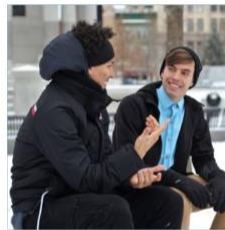
GENERAL DISCIPLINE AND DELEGATION FAILURES; TEAM PSYCHOLOGY, RELATIONSHIPS

- Leaders' behavior analysis
- Systematic discussion of goals and values inside the team
- Team environment evaluation



RECRUITMENT AND RETENTION PROBLEMS; LOSS AND DEFICIT OF COMPETENCIES

- Competency matrices
- Labor market and regulatory model analysis
- Assessment of motivational schemes
- Competency balance analysis



INTERNAL COMMUNICATION ISSUES

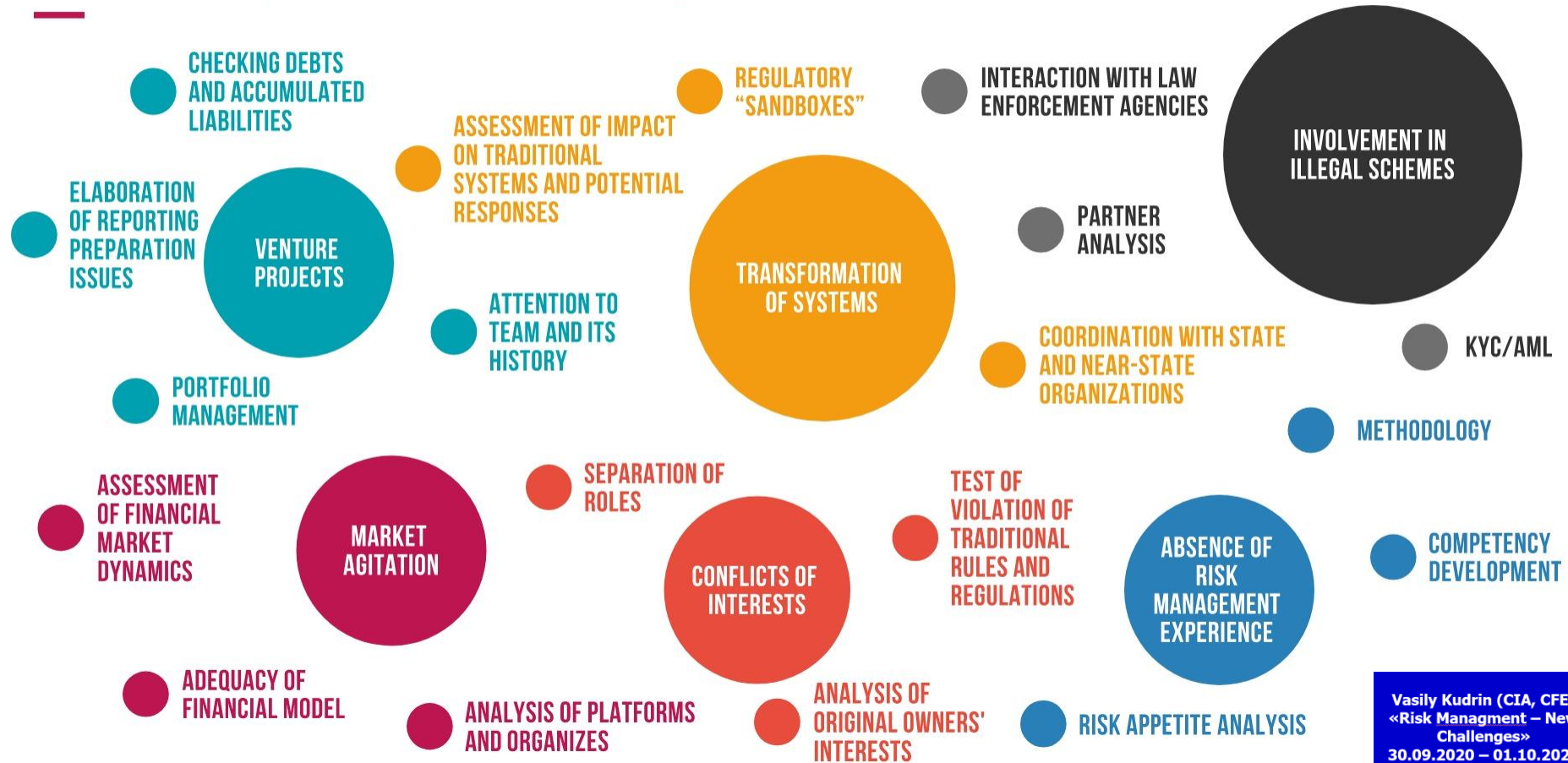
- Periodic staff meetings
- Information policy
- Role of each employee is fixed by agreement



INEFFECTIVE BONUS, OPTION AND SIMILAR PLANS

- Bonus and motivational compensation rules
- Benchmarking

FRAUD RISKS, ASSOCIATED WITH DFA, AND MANAGEMENT METHODS



DFA MANAGEMENT RISK ASSESSMENT

Offering co-organizer, underwriter, agent, broker, bid organizer

1. ENVIRONMENT & PRODUCT

- Acquaintance, preliminary information
- Environment & strategy
- Core product

2. APPETITE & FACTORS

- Risk appetite understanding
- Human factor consideration
- Risk factors
- Risk zones

3. RISK MEASURES

- Modeling of questions
- Review of management actions
- Residual risks

4. SCORING PLAN

- Scoring composition
- Sampling
- Collection of additional information

5. ANALYSIS

- Collateral
- Financial analysis
- Conditional testing
- Analysis of scoring results

6. COMPLETION & MONITORING

- Discussion of results
- Solution and action plan
- **Project risk assessment**
- Monitoring plan

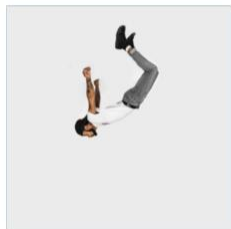
FINANCE RISK MANAGEMENT (EXAMPLE)

Risks and management methods



INEFFECTIVE CASH MANAGEMENT; DISTRESSED LENDING AND DEBT COLLECTION

- Weekly billing calendars
- Monthly cash flow statements
- Analysis of debts to the company and collection assurance measures



MARKET RISKS; ASSET VALUE DECREASE

- Depreciation of property
- Property use option tracking
- Recovery asset management policy and practice
- Indicators of events leading to value losses of specific types (groups) of property



PROBLEMS WITH FINANCING AND MAINTAINING THE BALANCE OF INVESTED CAPITAL RISKS

- Work planning and “feedback” review with financial institutions
- Liquidity and financial stability analysis



FINANCIAL BURDENS, LOAN PROBLEMS

- Assessment of loan commitments
- Accounts payable turnover analysis
- Financial burden tests

PROCESS ORGANIZATION

Risks and management methods



INEFFICIENT ADVERTISEMENT AND MARKETING COMMUNICATION

- Marketing strategy, its periodic discussion and review
- Analysis of advertising campaign aggressiveness
- Effectiveness and efficiency test of channel utilization
- Response analysis



PRODUCT SALES NOT MEETING IMMEDIATE MARKET DEMANDS; PRICING ERRORS

- Focus groups
- Periodic analysis and testing of various forms of product presentation and implementation
- Comparison with competitor prices
- “Feedback” from groups of buyers (clients)



SUPPLY, PROCUREMENT AND INVENTORY MANAGEMENT ISSUES

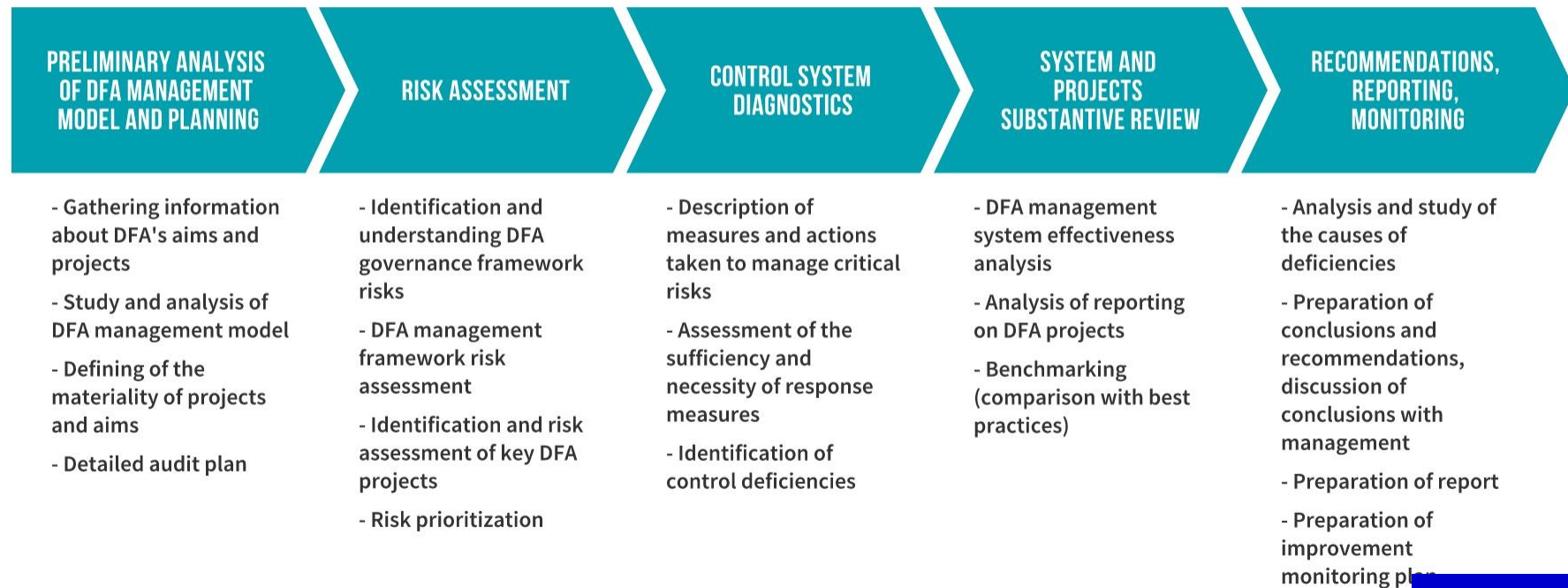
- Procurement contract analysis
- List of authorized suppliers
- Procurement conflicts of interest identification
- Stock control system, turnover analysis



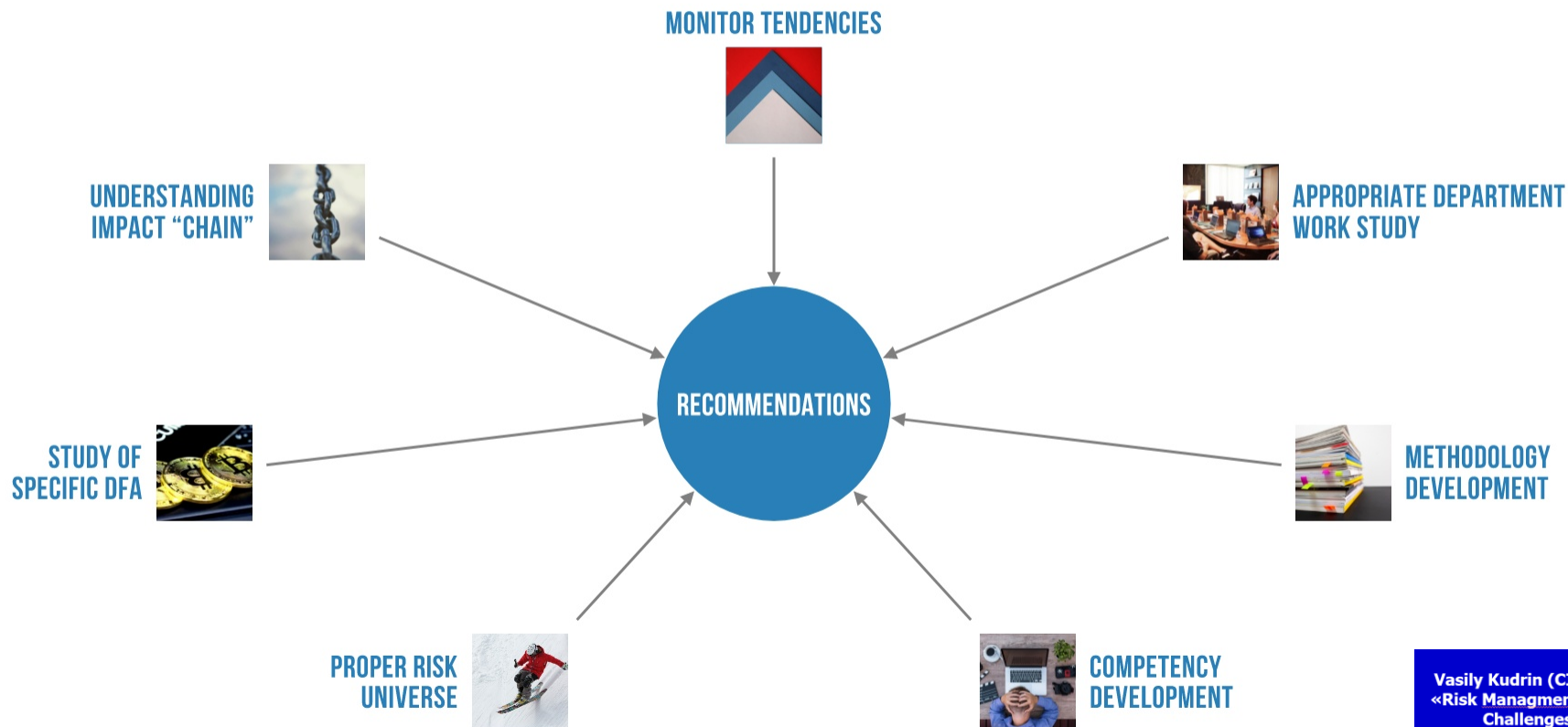
POOR QUALITY OF SERVICE

- Methods of getting “feedback”, quality questionnaires
- Researching expectations of current and potential customer groups
- Quality commitment policy

AUDIT OF DIGITAL FINANCIAL ASSET MANAGEMENT



RECOMMENDATIONS FOR RISK MANAGEMENT DEPARTMENTS



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