

## CURRENT 'HOT' REQUIREMENTS

Aqua consultants are experts in their fields. As with our BCM and HR consultants the great advantage of our recruitment pedigree is realised. Using our recruitment business to source interim, contract or permanent resource we can provide a flexible team with a core of Aqua senior consultants. Projects are by their very nature variable, we seek to map onto this to avoid having to pass on bench costs to our clients.

The following narrative defines the current hottest topics and indicates where we can work with clients to achieve compliance.

### 1. **Sarbanes Oxley**

#### Provisions

The Sarbanes-Oxley Act's major provisions include:

- Creation of the Public Company Accounting Oversight Board (PCAOB)
- A requirement that public companies evaluate and disclose the effectiveness of their internal controls as they relate to financial reporting, and that independent auditors for such companies "attest" (i.e., agree, or qualify) to such disclosure
- Certification of financial reports by chief executive officers and chief financial officers
- Auditor independence, including outright bans on certain types of work for audit clients and pre-certification by the company's Audit Committee of all other non-audit work
- A requirement that companies listed on stock exchanges have fully independent audit committees that oversee the relationship between the company and its auditor
- Ban on most personal loans to any executive officer or director
- Accelerated reporting of trades by insiders
- Prohibition on insider trades during pension fund blackout periods
- Additional disclosure
- Enhanced criminal and civil penalties for violations of securities law
- Significantly longer maximum jail sentences and larger fines for corporate executives who knowingly and wilfully misstate financial statements, although maximum sentences are largely irrelevant because judges generally follow the Federal Sentencing Guidelines in setting actual sentences
- Employee protections allowing those corporate fraud whistleblowers who file complaints with OSHA within 90 days to win reinstatement, back pay and benefits, compensatory damages, abatement orders, and reasonable attorney fees and costs.

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## **2. Basel II**

### **The Accord in Operation**

Basel II uses a "three pillars" concept - (1) minimum capital requirements; (2) supervisory review; and (3) market discipline - to promote greater stability in the financial system.

The Basel I accord only dealt with parts of each of these pillars. For example: of the key pillar one risk, credit risk, was dealt with in a simple manner and market risk was an afterthought. Operational risk was not dealt with at all.

### **The First Pillar**

The first pillar provides improved risk sensitivity in the way that capital requirements are calculated for three major components of risk that a bank faces: credit risk, operational risk and market risk. In turn, each of these components can be calculated in two or three ways of varying sophistication. Other risks are not considered fully quantifiable at this stage.

Technical terms in the more sophisticated measures of market risk include VaR (Value at Risk), EL (Loss function) whose components are PD (Probability of Default), LGD (Loss Given Default), and EAD (Exposure at Default). Calculation of these components requires advanced data collection and sophisticated risk management techniques.

### **The Second Pillar**

The second pillar deals with the regulatory response to the first pillar, giving regulators much improved 'tools' over those available to them under Basel I. It also provides a framework for dealing with all the other risks that a bank faces, such as name risk, liquidity risk and legal risk, which the accord combines under the title of residual risk.

### **The Third Pillar**

The third pillar greatly increases the disclosures that the bank must make. This is designed to allow the market to have a better picture of the overall risk position of the bank and to allow the counterparties of the bank to price and deal appropriately.



### 3. CMMI

#### Definition and Structure

Capability Maturity Model Integration (CMMI) is a process improvement approach that provides organizations with the essential elements of effective processes. The latest version of CMMI ver 1.2 was released in August 2006. There are 3 constellations of CMMI in the new version, namely: - CMMI Development, CMMI Services and CMMI Acquisition.

CMMI for Development Ver 1.2 consists of 22 process areas with Capability or Maturity levels. CMMI is created by the Software Engineering Institute and is available for download. CMMI should be adapted to each individual company, therefore companies are not "certified." A company is appraised (e.g. with an appraisal method like SCAMPI) at a certain level of CMMI. The results of such an appraisal can be published if released by the appraised organization (see SCAMPI Appraisal Results).

#### Process Areas

The CMMI contains 22 process areas:

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| 1. CMMI Causal Analysis and Resolution           | 12. CMMI Project Monitoring and Control        |
| 2. CMMI Configuration Management                 | 13. CMMI Project Planning                      |
| 3. CMMI Decision Analysis and Resolution         | 14. CMMI Process and Product Quality Assurance |
| 4. CMMI Integrated Project Management            | 15. CMMI Quantitative Project Management       |
| 5. CMMI Measurement and Analysis                 | 16. CMMI Requirements Development              |
| 6. CMMI Organizational Innovation and Deployment | 17. CMMI Requirements Management               |
| 7. CMMI Organizational Process Definition        | 18. CMMI Risk Management                       |
| 8. CMMI Organizational Process Focus             | 19. CMMI Supplier Agreement Management         |
| 9. CMMI Organizational Process Performance       | 20. CMMI Technical Solution                    |
| 10. CMMI Organizational Training                 | 21. CMMI Validation                            |
| 11. CMMI Product Integration                     | 22. CMMI Verification                          |

#### History

The CMMI is the successor of CMM, CMM was developed from 1987 until 1997. In 2002 version 1.1 of the CMMI was released: v1.2 followed in August 2006. The goal of the CMMI project is to improve usability of maturity models for software engineering and other disciplines, by integrating many different models into one framework. It was created by members of industry, government and the SEI. The main sponsors included the Office of the Secretary of Defence (OSD) and the National Defense Industrial Association (NDIA) Systems Engineering Committee.



## Appraisal

There are three different types of appraisals, type A, B and C. In Appraisal Requirements for CMMI (ARC) the requirements for CMMI appraisal methods are defined. The Standard CMMI Assessment Method for Process Improvement (SCAMPI) is the only appraisal method which meets all of the ARC requirements for a Class A appraisal method.

## Structure

The CMMI comes with two different representations - staged and continuous. The staged model, which groups process areas into 5 maturity levels, was also used in the ancestor software development CMM, and is the representation used to achieve a "CMMI Level Rating" from a SCAMPI appraisal. The continuous representation, which was used in the ancestor systems engineering CMM, defines capability levels within each profile. The differences in the representations are solely organizational; the content is equivalent.

The CMMI uses a common structure to describe each of the 22 process areas (PAs). A process area has 1 to 4 goals, and each goal is comprised of practices. Within the 22 PAs these are called specific goals and practices, as they describe activities that are specific to a single PA. There is one additional set of goals and practises that apply in common across all of the PAs; these are called generic goals and practices. Table 1 describes CMMI terminology in more detail. The page numbers refer to the Staged Representation. Common Features are historical artefacts from the software CMM; they do not appear in the CMMI v1.2.

