

MOODY'S



Compliance and Ethics Roles and Responsibilities

*SCCE Regional Conference
New York, New York – May 15, 2015*



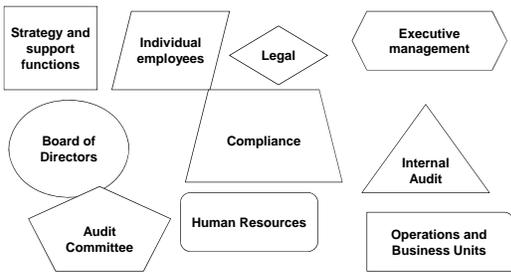
Society of
Corporate
Compliance
and Ethics

Topics for discussion

- » The Chief Ethics and Compliance Officer (CECO) and his/her department
- » The board and senior management
- » Liaisons and other staff
- » Practical considerations

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Who is responsible for compliance?

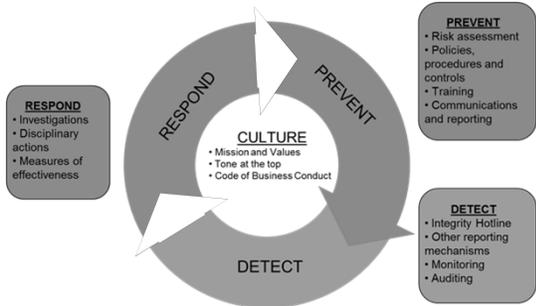


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Why have a compliance and ethics program?

- » In any company, an **effective** compliance and ethics program can help achieve three principal objectives:
 - To prevent, detect and respond to non-compliance
 - To help build and enhance a culture of ethics and compliance
 - To help the company execute its business strategies and achieve its business objectives more efficiently
- » In addition, the Federal Sentencing Guidelines make clear that an **effective** compliance and ethics program can help an organization avoid indictment and reduce penalties post-conviction. **“Effective”**:
 - Exercise due diligence to prevent and detect criminal conduct
 - Otherwise promote a culture that encourages ethical conduct and a commitment to compliance
- » The structure of a company’s compliance and ethics program – and clarity about who is responsible for what – is critical to **effectiveness**

Prevent. Detect. Respond. Repeat. . .



What do the Guidelines say about structure and roles?

Function	Roles
Organization’s governing authority	- Be knowledgeable about the content and operation of the compliance and ethics program - Exercise reasonable oversight of the implementation and effectiveness of the compliance and ethics program
High-level personnel of the organization	Ensure that the organization has an effective compliance and ethics program
Specific individuals within high-level personnel	Overall responsibility for the compliance and ethics program
Specific individuals with operational responsibility	- Day-to-day operational responsibility for the compliance and ethics program - Report periodically to high-level personnel and the governing authority (subgroup) on the effectiveness of the compliance and ethics program - Shall be given adequate resources, appropriate authority and direct access to the governing authority (subgroup)

What else do the Guidelines suggest we consider when thinking about structure?

- » Compliance and ethics program structure should be commensurate with an organization's **risks**
 - Nature of the organization's business
 - Industry practice
 - Applicable governmental regulation
- » Compliance and ethics program structure should be tailored to an organization's **size**
 - "Large Organizations" – more formal operations, greater resources
 - "Small Organizations" – same degree of commitment, but less formal operations and fewer resources
 - » Examples include training employees through informal staff meetings, and using available personnel rather than employing separate staff to carry out the compliance and ethics program

Structure and roles – issues to consider

- » Reporting relationship for the compliance and ethics function
 - Independence required but can be achieved in many ways
 - Alignment with the business doesn't necessarily compromise independence
- » Internal structure and roles within the compliance and ethics team
 - Degree of alignment with the company's structure
 - Balance between decentralization and centralization
 - » Depending on company's structure, may require decentralized approach to compliance and ethics advice and support (i.e., compliance officers embedded within lines of business)
 - » Consider centralizing certain compliance and ethics functions and processes where there are efficiencies to doing so, including policy development, training, investigations, and surveillance/monitoring
 - » Even if some functions are decentralized, consider how to assure coordination across functions, lines of business and geographies

Roles and responsibilities – issues to consider

- » Consider "role clarity" exercise with other control functions, including legal, risk, government affairs, human resources and internal audit
 - Aligned missions and clear articulations of roles help drive efficiency
 - Coordination (i.e., on policy development, on surveillance and monitoring) can help drive efficiency
- » Consider how best to engage the business
 - In people-centric organizations, incorporate key compliance roles into advancement and development planning (i.e., rotational assignments)
 - Consider developing liaison roles in the business and forming a compliance leadership team
 - » Senior level colleague from each function/line of business; Compliance coordinates
 - » Liaison for two channels of communication
 - From the function (risk assessment, feedback on policies and training)
 - To the function (compliance initiatives, messages)

Compliance mission and roles – one view

- » Mission: to prevent, detect and respond to non-compliance, and to help [Company] achieve its objectives while effectively managing compliance risks
 - Prevent
 - » Conduct compliance risk assessments
 - » Develop policies, procedures and other controls
 - » Provide training and communications
 - » Develop annual compliance plans
 - » Provide reporting to regulators, executive management, the Board and employees
 - Detect
 - » Operate the hotline
 - » Maintain other reporting mechanisms
 - » Conduct compliance auditing, monitoring and surveillance
 - » Measure effectiveness of compliance program and controls
 - Respond
 - » Investigate allegations of non-compliance
 - » Advise management on disciplinary action
 - » Drive continuous improvement in compliance program, processes and controls

Compliance roles and responsibilities – another view

- » Design, implement and enhance an effective compliance program
- » Design, implement and enhance core compliance processes
 - Conduct risk assessments
 - Develop or enhance policies, procedures and guidance
 - Design and implement additional controls
 - Provide training and communications
 - Conduct monitoring, surveillance, auditing and evaluation
 - Conduct investigations
 - Develop metrics and measure compliance program effectiveness
- » Develop and implement an annual compliance plan
- » Manage regulatory examinations and inspections
- » Provide compliance support to business clients to help them achieve business objectives while effectively managing compliance risks
- » Manage the hotline
- » Report on compliance matters and compliance program effectiveness to regulators, executive management, the Board and employees

Practical considerations

- » "The beginning of wisdom is to struggle with this." – Anonymous General Counsel
- » 千里之行，始於足下 – or
- » "A journey of a thousand miles begins with a single step." – Laozi, Tao Te Ching
- » Whether your program and structure is new, evolving or a bit dated, your program will benefit from beginning the journey
- » Pick a starting point (i.e., compliance and ethics team's role) and achieve internal agreement
- » Share your work product with a friendly function or colleague (i.e., Legal, HR) and incorporate feedback
- » Expand the circle outward (other control functions) and incorporate feedback
- » And then further outward still (the business) and incorporate feedback
- » Integrate role clarity into your training and communications
- » Reinforce agreed-upon role clarity when "teachable moments" occur
- » Keep track of, and start telling, stories – when things worked well, and when things didn't
