

Third-Party ABC Due Diligence

Designing and Implementing a Global Program

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1

Presenters



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2

Agenda

- ✓ Third-Parties – Your Biggest Risk
- ✓ Creating a Due Diligence Program
 - ✓ Planning
 - ✓ Designing
 - ✓ Implementing
- ✓ Challenges and Lessons Learned

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Third-Party Compliance Risk

- Legal standard
- 90% of FCPA cases involve third-party intermediaries
- Recent DOJ Guidance

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Pearson's Story

- International publishing and educational company
- The world's leading learning company
- Products and services for learners at every stage
 - Pre-K-12 Education
 - Higher Education
 - Industry & Professional Training



5

Pearson's Story



- Global operations with offices all over world
- Reliance on a large network of third-parties

6

The Need for a Due Diligence Program



ANTI-BRIBERY AND
CORRUPTION RISK



POTENTIAL LIABILITY



NEED FOR A UNIFORM
PROCESS

7



The ABCs

- Acceptance
- Budget
- Commitment

Identify needed internal and external resources

Create implementation team

Timeline for Project

8

Designing the Due Diligence Program

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Define the Scope

- Identify all categories of third-parties
- Narrow the universe using a risk-based approach
 - Review ABC risk factors
 - Rank third-parties based on ABC risk exposure
 - Draw the line based on Company's risk tolerance
- Develop clear definitions for in-scope third-party
 - Include qualifiers, thresholds or exemptions



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Pearson's Approach

- Narrowed universe of third-parties to 14 categories
- Developed matrix that included:
 - Third-party category
 - Description
 - Explanatory notes

In-Scope Third-Parties		
Third-Party Type	Definition	Notes
Affiliates	A third-party is an affiliate if Pearson has the legal power to control it.	
Joint Ventures	An association with another business to carry out a shared purpose and profits and losses.	
Subsidiary	A company owned and controlled by Pearson.	
Distributor	A person or company engaged in the distribution, marketing or sales of Pearson's products or services.	Some distributors have distribution centres or warehouses, and others distribute directly to customers.
Customs Agents, Brokers and Logistics Providers	A person or company that is paid to move goods through the importation and exportation process or move them from place to place.	
Sales Agents	A person or company that sells Pearson products, especially to government officials.	
Charitable Organizations	A non-profit organization focused on philanthropic or social goals.	Charitable organizations that have been confirmed as registered in their local countries are exempt.
Lobbyists	A person or organization that tries to influence legislation or the government on behalf of Pearson.	
Immigration Service Providers	A person or company that helps individuals to gain legal status (like visas or permanent residency) in a country.	
Real Estate Brokers / Agents	A person or company that facilitates the buying or selling of commercial or residential property.	
Marketing Advisors	A person or company that provides services and advice about selling products.	
Financial and Advisory support (accounting firms, auditing firms), Consultants, and Lawyers	A person or company that provides professional services related to a specialty area like finance, law, or tax.	Organizations of this type with more than 50 people are exempt from due diligence
Introducers	A person who is paid to introduce Pearson to decision-makers to sell or promote Pearson products.	
Test Centres	Testing Centres	

11

Developing the Due Diligence Process



Factors to Consider

- Capabilities and resources of Company
- Budget
- Cost
- Impact on business team



Key Elements of the Process

- Information gathering
- Analysis
- Risk ranking
- Due diligence review
- Red flag clearing criteria
- Third-party approval



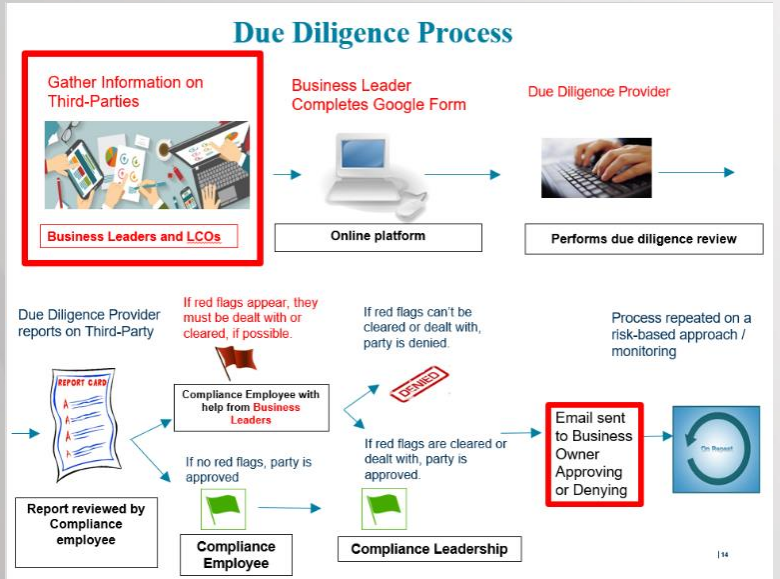
Other Considerations

- Not a "one and done" process
- Due diligence renewal
- Ongoing monitoring
- Documentation

12

Pearson's Approach

- Overview of process
- Risk ranking based on information included in Google form
- Risk Ranking determined level of due diligence scrutiny
 - Low Risk
 - Medium Risk
 - High Risk
 - Very High Risk



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Pearson's Approach

- Red flags reviewed and cleared in accordance with clearing criteria
- Collaborated with business to obtain additional information
- Developed remediation strategies
- Escalated as appropriate
- Final approval decision

Risk Ranking of Third-Party	Type of Report
Low	Sanctions and Politically Exposed Person Screening
Medium	Sanctions, Politically Exposed Person, and Adverse Media Screening
High	Analyst-led online search, including litigation history, public records, and local language media
Very High	On-the-ground covert intelligence-gathering search, as well as online search and analyst-led evaluation of results

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Implementing the Due Diligence Program

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Implementation Strategy



Factors to consider:

- On-site versus remote
- Budget for travel
- Timeline for implementation
- Location sequence



Other considerations:

- “All at once” versus phased approach
- Other company initiatives
- Local holidays or customary time for annual vacations

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Pearson's Three-Bucket Approach



Legacy Contracts

Bucket one: High-risk legacy contracts

- Immediate due diligence review

Bucket two: Low-risk legacy contracts

- Due diligence review at contract renewal



New Contracts

Bucket three: New engagements

- Due diligence review during contract negotiations/on-boarding

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Around the World in 180 Days

- Sequential waves to implement the program
- 11 total waves over 6 months
- Deployment of SWAT Team
 - Combination of Pearson and Spark Compliance
 - Trained on process
 - Manual to ensure consistency



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Around the World in 180 Days (cont.)

- Waves were used to socialize the new process
- Two phases of the wave:
 - Lead meetings to set the stage
 - Brief local compliance team on project
 - Initial information gathering
 - Follow up meetings to train and execute
 - Continue information gathering
 - Training
 - Processing third-parties



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Stories From the Trenches

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Challenges

- False Positives
- Resistance from the business
- Language / Cultural differences
- Training



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Lessons Learned and Best Practices



Advanced meetings to set the stage



Incorporate consultants as part of the team



Define not only what is in-scope but also what is out-of-scope



Weekly SWAT calls



Minimize impact on business



Follow up and reinforce training

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Best Practices

- Continuous improvement
 - Learn as you go (during implementation, and beyond!)
 - Self-correct
 - Implement improvements to the process
 - Update process as risks change



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Questions

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25

Thank You! Keep In Touch!

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26