Third-Party ABC Due Diligence

Designing and Implementing a Global Program

Presenters

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Agenda

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

Third-Party Compliance Risk

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

Pearson’s Story

- Global operations with offices all over the world
- Reliance on a large network of third-parties
The Need for a Due Diligence Program

ANTI-BRIBERY AND CORRUPTION RISK  POTENTIAL LIABILITY  NEED FOR A UNIFORM PROCESS

Getting Started: Planning

The ABCs
- Acceptance
- Budget
- Commitment

Identify needed internal and external resources

Create implementation team

Timeline for Project
Designing the Due Diligence Program

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
Pearson’s Approach

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

## 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
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

Due Diligence Process

- Gather Information on Third-Parties
- Business Leader Completes Google Form
- Online platform
- Due Diligence Provider
- Performs due diligence review

- If red flags appear, they must be dealt with or cleared, if possible.
- Compliance Employee with help from Decision Leaders
- If no red flags are cleared or dealt with, party is approved.
- Compliance Leadership
- Email sent to Business Owner Approving or Denying

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

<table>
<thead>
<tr>
<th>Risk Ranking of Third-Party</th>
<th>Type of Report</th>
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<tbody>
<tr>
<td>Low</td>
<td>Sanctions and Politically Exposed Person Screening</td>
</tr>
<tr>
<td>Medium</td>
<td>Sanctions, Politically Exposed Person, and Adverse Media Screening</td>
</tr>
<tr>
<td>High</td>
<td>Analyst-led online search, including litigation history, public records, and local language media</td>
</tr>
<tr>
<td>Very High</td>
<td>On-the-ground covert intelligence-gathering search, as well as online search and analyst-led evaluation of results</td>
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Implementing the Due Diligence Program

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
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

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
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

Keys to Implementation

- Plan: Have a plan
- Team: Create and implementation team
- Contact: Appoint a local contact at each office
- Train: Train as many people as possible
- Guidance: Provide guidance documents
- Engage: Be heavily engaged during the initial rollout
- Troubleshoot: Troubleshoot and self-correct as necessary
Stories From the Trenches

Challenges

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

Best Practices

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

Thank You! Keep In Touch!

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