Across a range of responsibilities, we simply expect much more of boards of directors than ever before.

– JEROME POWELL, CHAIRMAN OF THE FEDERAL RESERVE

REGULATORS ARE RAISING EXPECTATIONS FOR ETHICAL CULTURE

US Federal Sentencing Guidelines
“… undertake an appropriate assessment of corporate efforts to create an organizational culture that encourages a commitment to compliance with the law and ethical conduct.

UK Serious Fraud Office
“Culture needs to be set from the top. Members of the corporation need to know that the corporation is committed to ethical standards of business and that executives at the most senior levels are role models for ethical business conduct.”

International Monetary Fund
“Ultimately, we need more individual accountability. Good corporate governance is forged by the ethics of its individuals. That involves moving beyond corporate ‘rules-based’ behavior to ‘values-based’ behavior. We need a greater focus on promoting individual integrity.”

“The Department of Justice
“… A corporation is directed by its management and management is responsible for a corporate culture in which criminal conduct is either discouraged or tacitly encouraged.”

The Securities and Exchange Commission
“Keep up your vigilance, avoid complacency, and remain steadfast in your efforts to maintain strong compliance programs, built on the foundation of a culture in which investor interests are placed first. Let your business and compliance decisions always be guided by that principle.”

CGU
“The commitment of the top management is critical to foster an ethical culture.”
We found that most boards…

➢ Have a poor understanding of E&C programs
➢ Lack a systematic "game plan" for E&C oversight
➢ Have little time, low priority for E&C
➢ Don't focus on behavioral root causes, culture, or robust metrics
➢ Don’t hold management accountable for E&C
➢ Lack a confidential communication channel with CECO

LRN: What’s the Tone at the Very Top

• Only 36% of boards have received education and training on ethics and compliance issues
• Only 25% of CECOs report their boards review the ethics and compliance budget to ensure adequacy and sufficient risk remediation
• Only 34% of boards review results of employee surveys and/or cultural assessments pertaining to ethics
• Only 40% of boards hold senior executives accountable for misconduct and implementation of remedial controls
• Only 25% of boards review the ethics and compliance budget to ensure adequacy and risk remediation
• Only 43% of boards institute a direct reporting channel from CECO to the board
Engaged boards....

- Ask probing questions
- See E&C as foundational to the business
- Ensure the E&C program has the right amount of resources and support
- Focus on values and culture and provide guidance on metrics
- Hold leadership accountable for ethics and compliance
- Participate in robust training

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<th>General Recommendations</th>
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<td>1. More time, higher priority, stronger signals from boards</td>
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<td>2. Genuinely integrate E&amp;C into business operations</td>
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<td>3. Elevate the CECO, establish direct &amp; confidential reporting lines</td>
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