

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

– JEROME POWELL,
CHAIRMAN OF THE FEDERAL RESERVE

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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.”*



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.”*



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**”*



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.”*



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.”



CGU
“The commitment of the top management is critical to foster an ethical culture”

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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



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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

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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

General Recommendations

1. More time, higher priority, stronger signals from boards

2. Genuinely integrate E&C into business operations

3. Elevate the CECO, establish direct & confidential reporting lines

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