SCCE’s 2018 Utilities & Energy Conference

Strategy & Compliance – Where Shall the Two Meet?
February 6, 2018

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Agenda

Topic
Introductions – who are we?
Compliance & Strategy – what matters?
Examples – when is structure relevant?
Communications – where do they help?
Accountability – why is it important?
Q&A – how can we help?

Introductions – who are we?

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Compliance & Strategy – what matters?

Fragmented functions, lacking clear ownership, accountability and integration

**Current state**

- Lack of standardization and consistency
- Ineffective and inefficient structures
- Lack of coordination among risk management functions
- Data and compliance issues are not well defined or integrated
- Increasing cost of compliance/complexity
- Gaps and overlaps in risks/compliance areas

**Challenges**

- Compliance and audit fatigue in the business
- Increasing cost of compliance/increasing regulatory complexity
- Challenge growing/developing organizations

**Future state**

- Enhanced risk insight for executive management and the board
- Brand value and reputation protection
- Cost savings
- Proactive vs. reactive risk insights

**Risk management ecosystem**

Examples – when is structure relevant?

Does your organization have a named Chief Compliance Officer or Chief Ethics and Compliance Officer, whose sole responsibility is the monitoring and oversight of compliance or compliance and ethics?

- 25%
- 44%
- 19%
- 7%

In the absence of a named CCO or CECO, is there someone else who functions as your organization’s compliance officer?

- 3%
- 3%
- 3%
- 14%
- 23%
- 54%

To whom does your Chief Compliance Officer or Chief Ethics and Compliance Officer report?

- General Counsel 73%
- Chief Financial Officer 5%
- Chief Executive Officer 7%
- Chief Operations Officer 9%
- Chief Information Officer 1%
- Legal function 2%
- Other 1%
- Board of Directors/audit committee 2%
- Chief Audit Executive 1%
- Senior Compliance Role 1%
- Chief Risk Officer 1%
- Multi-functional Role 1%
- VP/AVP/Director 1%
- Other 1%

Examples – when is structure relevant? (cont.)

How would you describe the compliance and ethics function’s role in your organization’s strategic planning?

- Is inherently integrated into all of our strategic activities and plans
- Plays a key role in our strategic plans and activities
- Is informed about our organization’s strategic plans/initiatives but does not actively participate in their development
- Has a limited role in the organization’s strategic plans or activities

- 7%
- 19%
- 44%
- 25%

* Source: PwC State of Compliance study
Examples – when is structure relevant (cont.)?

CSES Leadership Team

Examples – when is structure relevant (cont.)?

CSES Organization

Examples – when is structure relevant (cont.)?

CSES Priorities
### Examples – when is structure relevant (cont.)?

<table>
<thead>
<tr>
<th>Reporting to</th>
<th>Defining the C&amp;E Reporting Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer (CEO)</td>
<td>100%</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>100%</td>
</tr>
<tr>
<td>Legal Department</td>
<td>50%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>25%</td>
</tr>
</tbody>
</table>

#### Compliance Risk Management:
- **Compliance Structure**: Creates a silo in the business to handle compliance issues.
- **Compliance Function**: Separates compliance from the business units.

#### Factors and Considerations Impact:

<table>
<thead>
<tr>
<th>Structure of Functions</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>A need for visibility to other business units</td>
<td>5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Unit Alignment</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increases visibility to other businesses</td>
<td>15%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Flexible Structure</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better leverage risk management</td>
<td>20%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Complimentary Organization</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhances comfort with other stakeholders</td>
<td>80%</td>
</tr>
</tbody>
</table>

### Communications – where do they help?

How would you describe senior leadership’s support of the compliance and ethics program at your organization?

<table>
<thead>
<tr>
<th>Support</th>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>Proactively supports the organization’s commitment to compliance and ethics and provides a meaningful oversight of the program</td>
<td>56%</td>
</tr>
<tr>
<td>21%</td>
<td>Provides meaningful and consistent oversight of the organization’s commitment to compliance and ethics</td>
<td>1%</td>
</tr>
<tr>
<td>38%</td>
<td>Is committed to compliance and ethics, but delegates most oversight activities</td>
<td>1%</td>
</tr>
<tr>
<td>12%</td>
<td>Does not demonstrate a visible commitment to compliance and ethics</td>
<td>1%</td>
</tr>
</tbody>
</table>

* Source: PwC State of Compliance study
Communications – where do they help (cont.)?

Does senior leadership formally communicate with employees regarding the importance of a compliance and ethics culture and/or other compliance and ethics-related topics?

- Yes: 79%
- No: 21%

How frequently does senior leadership formally communicate with employees regarding the importance of a compliance and ethics culture and/or other compliance and ethics-related topics?

- Monthly: 31%
- Quarterly: 24%
- Semiannually: 20%
- Annually: 15%
- Every other year: 4%
- Annually: 32%
- Don't know: 6%

How does senior leadership formally communicate with employees regarding the importance of a compliance and ethics culture and/or other compliance and ethics-related topics?

- Email communications: 44%
- Town hall meetings: 43%
- Video messages: 32%
- Webinars: 11%
- All hands calls/meetings: 10%
- Audio messages: 8%
- Town hall meetings: 7%
- Intranet: 2%

24% as part of every day business communications

Source: PwC State of Compliance study

Accountability – why is it important?

Company culture trumps company policy almost all of the time.

Companies need to pay as much attention to culture as to policies, training, auditing, etc.

Research proves: Culture drives behavior!

*Source: Ethics Resource Centre, NBES

Accountability – why is it important (cont.)?

19% of employees feel pressure to compromise their Code.

Those in positions of authority are the top three most commonly cited sources of this pressure.

- Middle Management: 33%
- Top Management: 27%
- Senior Leadership: 25%
- Colleagues: 22%
- Customers: 15%
- Business Partners: 12%
- Subordinates: 12%
- Suppliers: 11%
Accountability – why is it important (cont.)?

Does your organization assess its tone at the top?

- 35% Yes
- 40% No
- 25% Don’t know

How does your organization assess its tone at the top?

- 76% We conduct external benchmarking to assess tone at the top
- 10% We include tone at the top in senior leadership performance metrics
- 3% We conduct employee surveys to assess perception of tone at the top
- 3% No central tone assessments

Source: PwC State of Compliance study 2018

Q&A – how can we help?

Thank you!

Thank you!