

Compliance Management Systems and Culture of Compliance



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Where does this “compliance management system” concept come from?

FDIC, OCC and NCUA – but mostly the first two.

- More of an Examination Tool in practice with NCUA.



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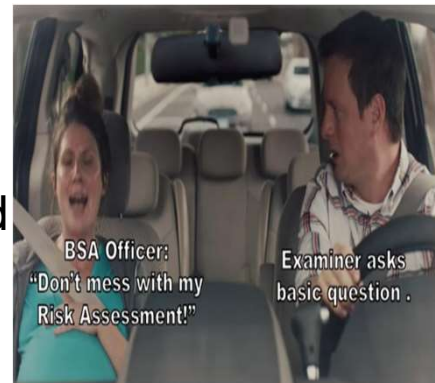
A compliance management system is how an institution:

- learns about its compliance responsibilities;
- ensures that employees understand these responsibilities;
- ensures that requirements are incorporated into business processes;



A compliance management system is how an institution (II):

- reviews operations to ensure responsibilities are carried out and requirements are met; and
- takes corrective action and updates materials as necessary.

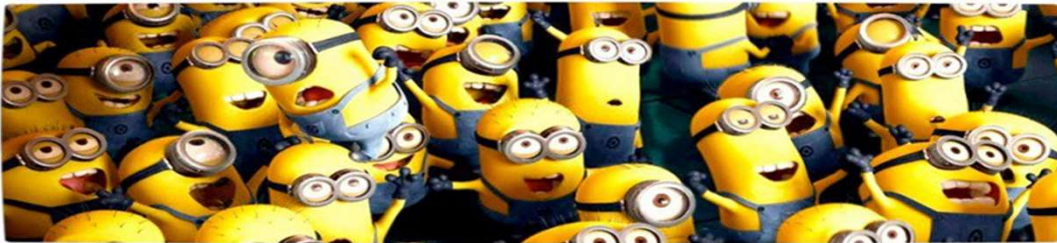


An effective compliance management system is commonly comprised of three interdependent elements:

- Board and management oversight
- Compliance program
- Compliance audit



When all elements are strong and working together, an institution will be successful at managing its compliance responsibilities and risks now and in the future.



Why (I)?

Financial institutions are required to comply with federal consumer protection laws and regulations. Noncompliance can result in monetary penalties, litigation, and formal enforcement actions.



Why (II)?

The responsibility for ensuring an institution is in compliance appropriately rests with the board of directors and management of the institution.

Therefore, the **FDIC** expects every **FDIC**-supervised institution to have an effective compliance management system adapted to its unique business strategy.



Board of Directors and Management Oversight

To a large degree, the success of an institution's compliance management system is founded on the actions taken by its board and senior management.



Key actions for the board and management to consider (I):

- demonstrating clear and unequivocal expectations about compliance;
- adopting clear policy statements;
- appointing a compliance officer with authority and accountability;



Key actions for the board and management to consider (II):

- allocating resources to compliance functions commensurate with the level and complexity of the institution's operations;
- conducting periodic compliance audits; and
- providing for recurrent reports by the compliance officer to the board.



The COMPLIANCE OFFICER

The board and senior management must grant a compliance officer sufficient authority and independence to:

- cross departmental lines;
- have access to all areas of the institution's operations; and
- effect corrective action.



Option: COMPLIANCE COMMITTEE

A compliance committee, as an alternative to or in addition to a full-time compliance officer, could be formed consisting of the compliance officer, representatives from various departments, and member(s) of senior management or the board. However, the ultimate responsibility of overall compliance with all statutes and regulations resides with the board.



A Qualified COMPLIANCE OFFICER

Somewhat Flexible

But – More is Better



Compliance Officer's General Responsibilities:

- developing compliance policies and procedures;
- training management and employees in consumer protection laws and regulations;
- reviewing policies and procedures for compliance with applicable laws and regulations and the institution's stated policies and procedures



Compliance Officer's General Responsibilities:

- assessing emerging issues or potential liabilities;
- coordinating responses to consumer complaints;
- reporting compliance activities and audit/review findings to the board; and
- ensuring corrective actions.



Compliance Program

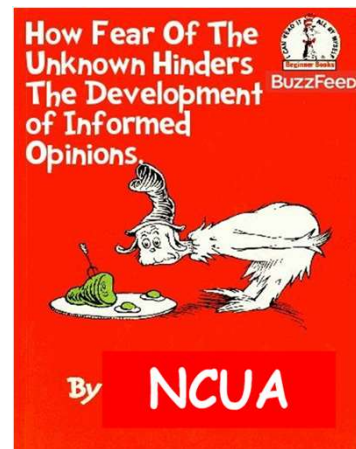
A sound compliance program is essential to the efficient and successful operation of the institution, much as a business plan. A compliance program includes the following components:

- Policies and procedures
- Training
- Monitoring
- Consumer complaint response



Policies AND Procedures

Not “*Polcedures*”
Remember Corporate Governance.



Training

Real, Practical and as applicable “targeted.”



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Monitoring

An effective monitoring system includes regularly scheduled reviews of (1) disclosures; (2) document filing and retention procedures; (3) posted notices, marketing literature, and advertising; (4) state rules; (5) third party ops; and (6) internal compliance communication systems

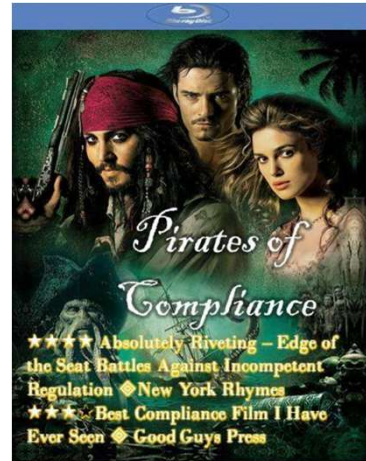


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Consumer Complaint Response

An institution should be prepared to handle consumer complaints promptly. Procedures should be established for addressing complaints, and individuals or departments responsible for handling them should be designated and known to all institution personnel to expedite referrals.



Compliance Audits / Auditing I

A compliance audit is an independent review of an institution's compliance with consumer protection laws and regulations and adherence to internal policies and procedures. The audit helps management ensure ongoing compliance and identify compliance risk conditions.



Compliance Audits / Auditing II

It complements the institution's internal monitoring system. The board of directors of the institution should determine the scope of an audit, and the frequency with which audits are conducted.



Benefits of CMS

- Protects the Credit Union
- Protects the "Players"
- Mitigation Factor
- Maximize Efficiencies
- TQM Benefits / Engaging Employees



“Culture of Compliance”

- ERM / Corporate Governance
- Broad Application
- Supported by CMS



“Culture of Compliance”

- CFPB Supervisory Manual
- Wells
- Recent CMP (BSA/AML) Actions



Bringing It Home

It's About Managing All Risks in Today's Inherently Risky World.



Questions? Follow-up?

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