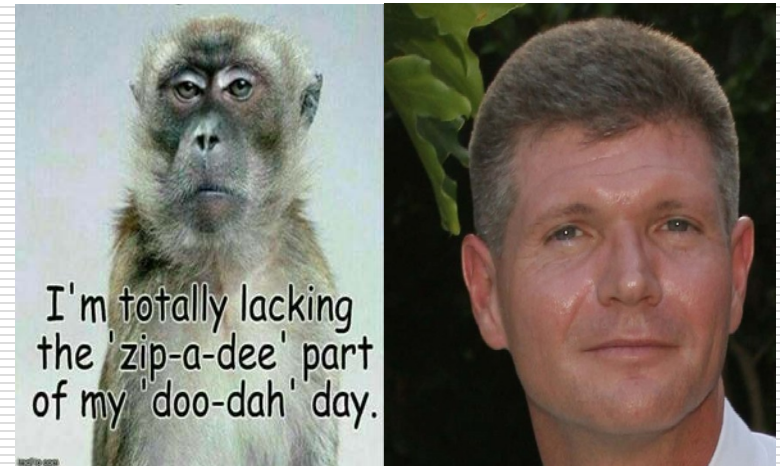




# “Culture of Compliance & Ethics”

**By:**  
**R. Todd Sherpy**  
**Sherpy & Jones Law P.A.**  
**Credit Union Resources &**  
**Educational Services, LLC**  
**Post Office Box 2599**  
**Lexington, SC 29071**  
**Atlanta Phone 770-631-3527**  
**SC Phone 803 356-3327**  
**rts@sherpy-jones-law.com**



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# About Me ...



NO



# The minions?



# Laying the Ground-Work for Assessing – Understanding State of Obsolescence

1. antiquated

(AN tuh kwat id)

**Definition:** obsolete, out of fashion, no longer usable

**Synonym:** Antique, Archaic

**Antonym:** Modern

**Sentence:**

His antiquated high waisted pants made him look like he was from the 70's

**Activity:** Write your own sentence.



Committed to advancing the  
Credit Union Movement since 1917



# Complex Financial Enterprise

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# Today's World – Culture of Compliance

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# Today's World – Ethical Conduct, Expectations and Risks

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# Where did it come from ...

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- **The Sarbanes-Oxley Act of 2002**, demanding greater accountability by boards and top executives. In particular, this law offered the platform to popularize the term “tone at the top,” clearly an element missing in the aforementioned scandals.
  - In addition, the 2004 amendments to the **U.S. Federal Sentencing Guidelines** created powerful incentives for corporations to “promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.” Much of this legislation also emphasized the importance of assigning a high-ranking official to administer the organization’s ethics and compliance programs.
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# Where did it come from ...

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- **Dodd-Frank Wall Street Reform and Consumer Protection Act**, coinciding with an unprecedented level of cross-border cooperation of regulators and prosecutors globally.
  - In March 2010, the Organization for Economic Co-operation and Development (OECD) issued its Good Practice Guidance urging companies to promote a comprehensive system of ethics and a culture of integrity, to which 45 nations have become signatories.
  - In May 2013, The **Committee of Sponsoring Organizations of the Treadway Commission (COSO)** adopted provisions to its original guidance promoting ethics and culture as integral to a comprehensive framework for reputation risk management.
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# Where did it come from ...

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- **Summary of Selected Provisions of the Sarbanes-Oxley Act of 2002 and Related Sound Corporate Governance Guidance for FCUs.**

**NATIONAL CREDIT UNION ADMINISTRATION**  
**1775 Duke Street, Alexandria, VA**

**DATE: October 2003**

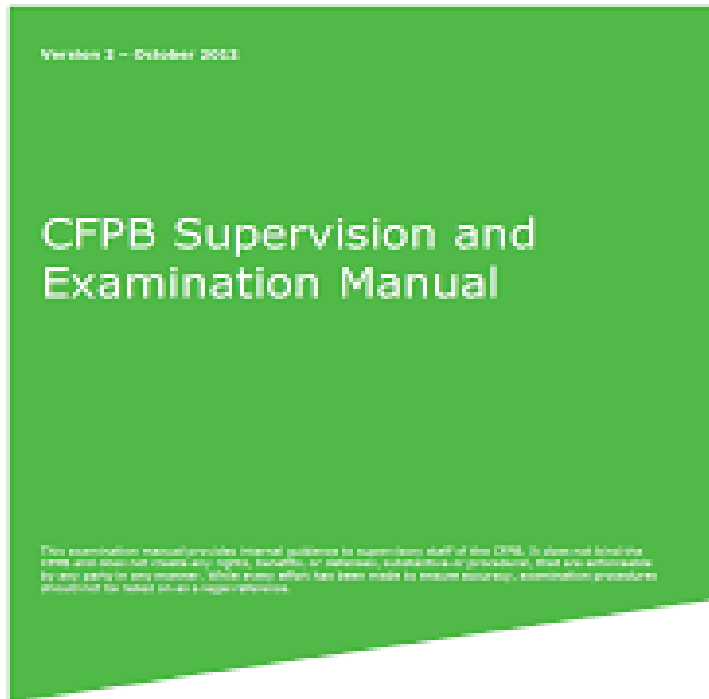
**LETTER NO.: 03-FCU-07**

**TO: All Federal Credit Unions**

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# Culture of Compliance: From Whence does this Culminates?

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**cfpb** Consumer Financial Protection Bureau

[https://files.consumerfinance.gov/f/201306\\_cfpb\\_bulletin\\_responsible-conduct.pdf](https://files.consumerfinance.gov/f/201306_cfpb_bulletin_responsible-conduct.pdf)

**AND – consider nearly every CFPB CMP / Order Since the Beginning ---**

# Culture of Compliance:

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# **Know what's important**

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# Remember Who You Serve: Why You do this?

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# How to Get There ...



**While there are a number of factors that separate the “good” from the “great,” generally, there are five factors that are key differentiators in the highest-performing ethics and compliance programs.**

# How to Get There ... 1

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**Tone at the top—The starting point for any world-class ethics and compliance program is the board and senior management, and the sense of responsibility they share to protect the Credit Union’s’ reputational and financial assets. The board and senior management should do more than pay “lip service” to ethics and compliance. They need to empower and properly resource the individuals who have day-to-day responsibilities to mitigate risks and build organizational trust.**

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# How to Get There ... No Place for Prima Donas

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A risk-taking environment starts at the top of a corporation. If the CEO doesn't have this spirit, chances are you won't find it anywhere else in the organization.

Mary Kay Ash

 quoteancy

# How to Get There ... 2

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**Corporate culture—A culture of integrity is central to any effective ethics and compliance program. Initiatives that do not clearly contribute to a culture of ethical and compliant behavior may be viewed as perfunctory functions instilling controls that are impediments to driving the “value change” of the enterprise.**

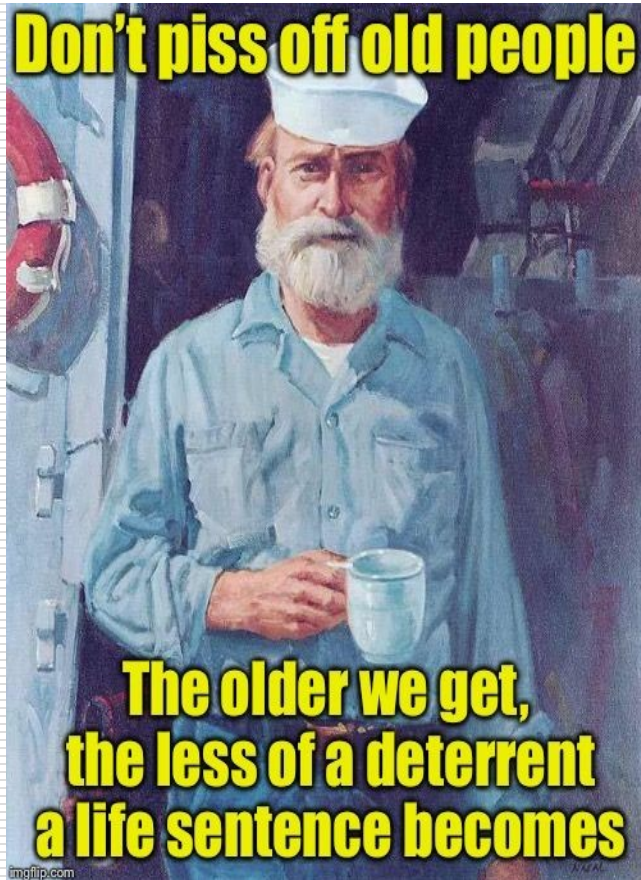
**Compare:**

**FinCEN Advisory FIN-2014-A007**

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# How to Get There ... 3

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**Risk assessments—Ethics** and compliance risk assessments are not just about process—they are also about understanding the risks that an organization faces. The risk assessment focuses the board and senior management on those risks that are most significant within the organization, and provides the basis for determining the actions necessary to avoid, mitigate, or remediate those risks.

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# How to Get There ... 4



Oh Look –  
NCUA  
Arrived --

**The Chief Compliance Officer (CCO)**—  
The CCO has day-to-day responsibility for overseeing the management of compliance and reputational risks, and is the agent for the board's fiduciary obligations in this regard. A skilled CCO can create a competitive edge for their organization.

# How to Get There ... 5

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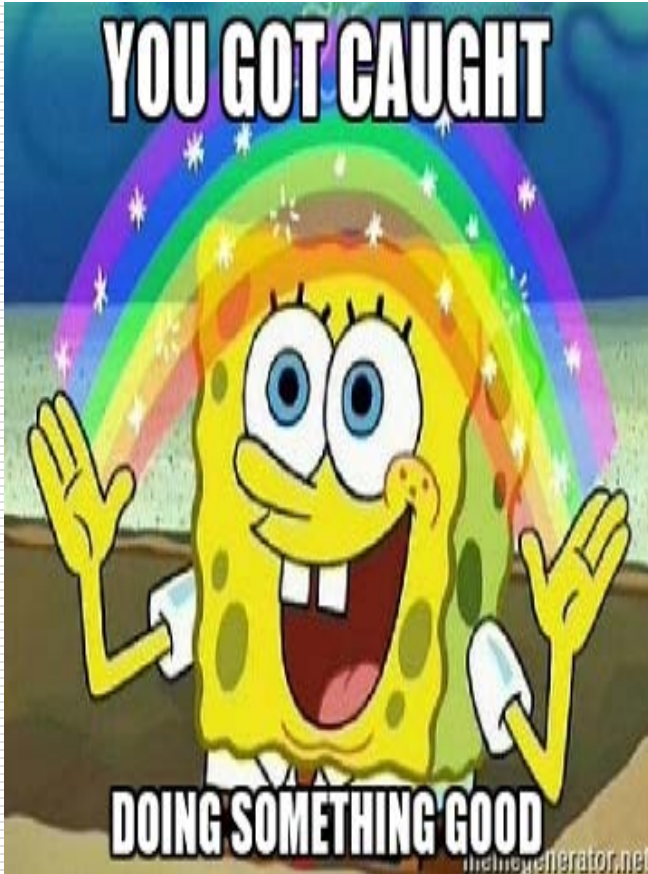


**Testing and monitoring**—A robust testing and monitoring program can help ensure that the control environment is effective. The process begins with implementing appropriate controls, which should be tested and ultimately monitored and audited on a regular basis.

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# Consider What You Incent --

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**Testing and monitoring**—A robust testing and monitoring program can help ensure that the control environment is effective. The process begins with implementing appropriate controls, which should be tested and ultimately monitored and audited on a regular basis.

“Culture helps people understand what is expected of them and how they need to behave. When the organizational culture embraces integrity, people know that integrity needs to characterize their actions.”

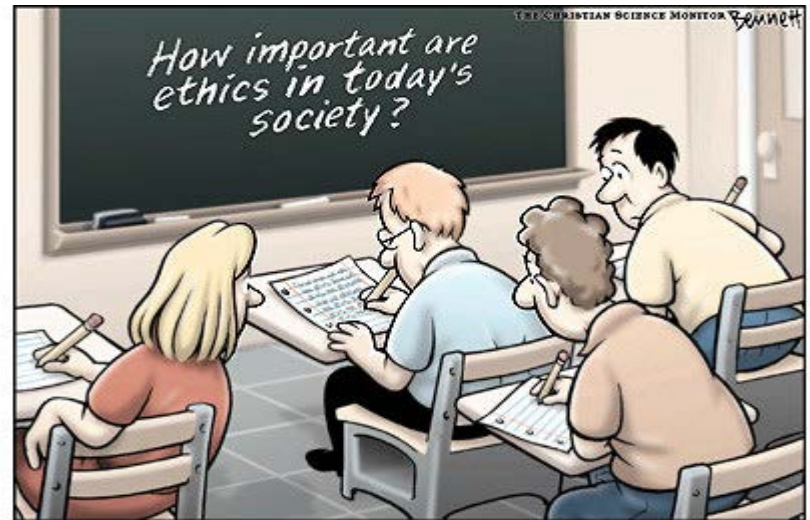
George Hanley, director, Deloitte Advisory, Deloitte & Touche LLP

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# “Ethics”

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**Ethics** (also moral philosophy) is the branch of philosophy that involves systematizing, defending, and recommending concepts of right and wrong conduct.



# Right & Wrong -- Expectations

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Business ethics are often guided by law, while other times provide a basic framework that businesses may choose to follow in order to gain public acceptance. The concept often hinges on public expectations as well as legal requirements.





# Human Nature - Incenting Bad Behavior

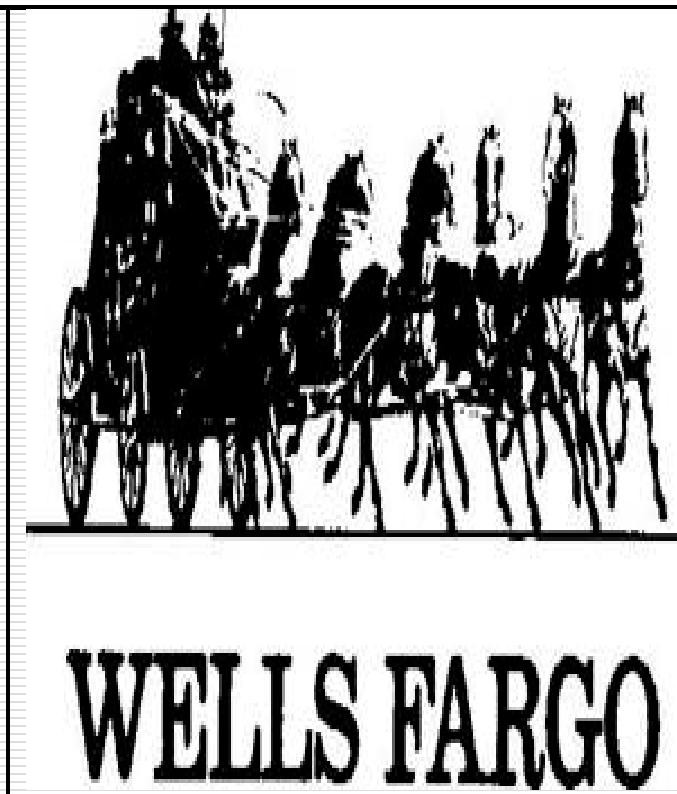
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## **N114A-2016 Community Notice – Lessons to Be Learned from Wells-Fargo.**

First – if you somehow missed it read:

<http://money.cnn.com/2016/09/08/investing/wells-fargo-created-phony-accounts-bank-fees/>

Second – consider the language and scope of the order. My colleagues and I spent a good part of this morning discussing the implications of this CFPB action.



# Consequences of a Lack of Ethical Conduct & Lack of Controls

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# **Understand the Dynamics – Be Aware – Establish Principles - Expectations**

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## **The Navy Federal Code of Ethics**

In accordance with Board Policy, every Director, Committee Member, Officer, Agent, Attorney and Employee of Navy Federal Credit Union shall be guided by the Code of Ethics set forth below and should:

<https://www.navyfederal.org/about/code-of-ethics.php>



# Today's World – Risk Management and ERM

The interrelationship among enterprise risk management (ERM), internal audit, and compliance risk assessments

	ERM	Internal audit	Compliance
Objective	Identify, prioritize, and assign accountability for managing strategic, operational, financial, and reputational risks	Determine and prioritize risks to aid in developing the internal audit plan, helping to provide the board and the executive team with assurances related to risk management efforts and other compliance activities	Identify, prioritize, and assign accountability for managing existing or potential threats related to legal or policy noncompliance—or ethical misconduct—that could lead to fines or penalties, reputational damage, or the inability to operate in key markets
Scope	Any risk significantly impacting the organization's ability to achieve its strategic objectives	Financial statement and internal control risks, as well as some operational and compliance risks that are likely to materially impact the performance of the enterprise or financial statements	Laws and regulations with which the organization is required to comply in all jurisdictions where it conducts business, as well as critical organizational policies—whether or not those policies are based on legal requirements
Typical owner	Chief Risk Officer/Chief Financial Officer	Chief Audit Executive	Chief Compliance Officer

# Today's World – Corporate Governance

## LEGISLATIVE



- ★ Makes laws
- ★ Approves presidential appointments
- ★ Two senators from each state
- ★ The number of congressmen is based on population

The Board  
**Sets Policy**

## EXECUTIVE



- ★ Signs laws
- ★ Vetoes laws
- ★ Pardons people
- ★ Appoints federal judges
- ★ Elected every four years

Management Team  
**Executes Policy**

## JUDICIAL



- ★ Decides if laws are constitutional
- ★ Are appointed by the president
- ★ There are 9 justices
- ★ Can overturn rulings by other judges

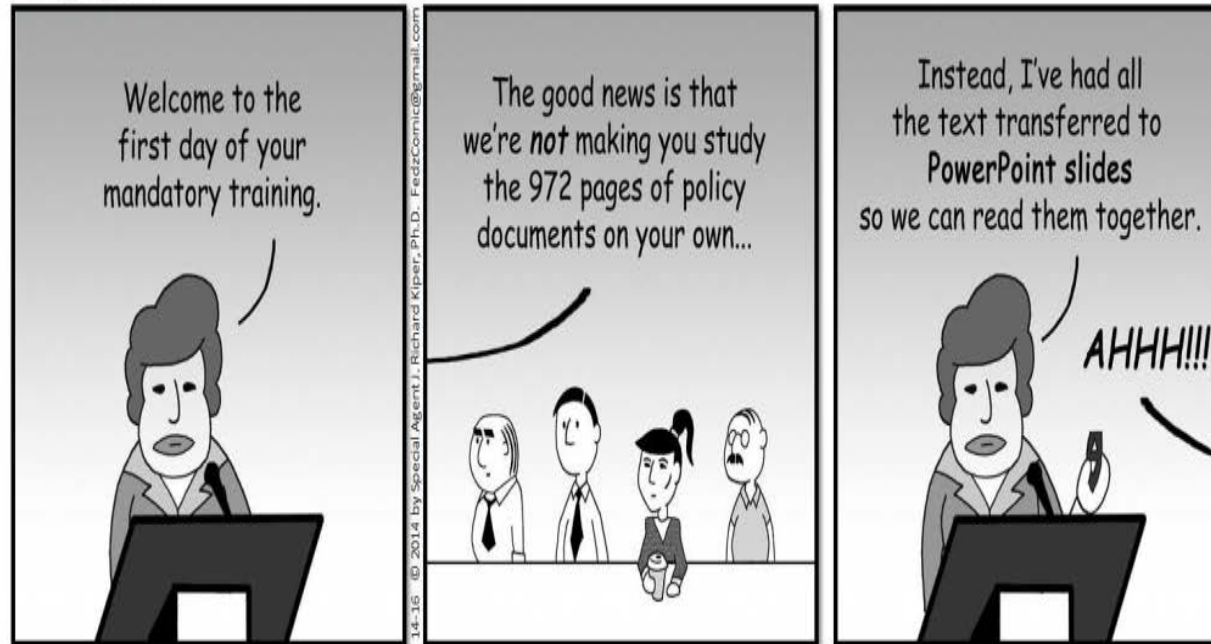
Supervisory and Regulators  
**Ensure Rules Followed**

# Today's World – MUST TRAIN VOLUNTEERS

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Fedz

Facebook.com/fedzcomic



1. Must Know Duties
  2. Must Know Rules
  3. Must Know How to Protect
  4. Must Abide by Rules
  5. Must be Ethical in all Respects
-

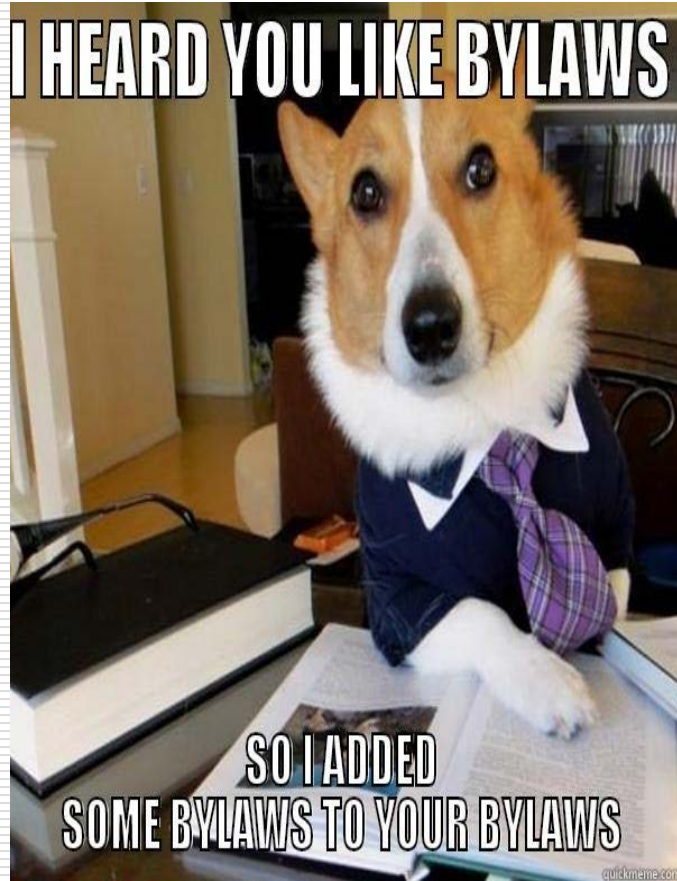
# Basic Duties:

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# Know the Bylaws:

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# Agree to Comply with the Bylaws and “Other Stuff”:

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# Gifts?

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# **OTHER STANDARDS: Continuing the Concepts to Protect the Credit Union and YOU – Protecting Against Liability**

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# Know Your Duty I - Loyalty

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# Know Your Duty II “Caring”

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EmmaDotFox

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# The “Business Judgment Rule”

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## Business Judgment Rule

- Protects boards decisions
  - Presumption of acting in good faith
  - Decisions must be
    - Plausibly rational
    - Involve no conflict of interest
    - Reasonably informed
-

# Blurred Lines and the Danger they Present

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# Polcedures - Separation

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**Consider:**

**[https://consumercomplianceoutlook.org/2009/third-quarter/q3\\_01/](https://consumercomplianceoutlook.org/2009/third-quarter/q3_01/)**

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Consumer Compliance Outlook > 2009 > Third Quarter 2009

#### CONSUMER COMPLIANCE OUTLOOK: THIRD QUARTER 2009

### The Bank Director's Role in Establishing a 'Culture of Compliance'

By Andrew Olszowy, Manager, Consumer Compliance Examinations, Federal Reserve Bank of Boston

This article provides insights into a bank director's role in fostering an effective compliance culture and provides a basic model that can be applied in a proactive compliance risk management program.

#### THE ROLE OF THE DIRECTOR IN ENSURING CONSUMER COMPLIANCE

The hallmark of the Federal Reserve System's approach to consumer compliance supervision is its emphasis on ensuring that appropriate risk management controls are in place and consumers' rights are protected. As Federal Reserve Governor Elizabeth Duke recently stated before Congress:

"One objective of our consumer compliance examination program is to identify compliance risks at banks before they harm consumers and ensure that state member banks have appropriate controls in place to manage those risks. In conducting a consumer compliance examination at a state member bank, examiners review the commitment and ability of bank management to comply with consumer protection laws as well as the bank's actual compliance with such laws."<sup>1</sup>

# What Happens if You Omit Any of This?

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# **Big Picture View**

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## **Compliance and Liability Exposure Risk Reduction Planning**



# Questions:

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**Sherpy & Jones P.A.**  
**POST OFFICE BOX 2599**  
**LEXINGTON, SC 29071**

**CREDIT UNION RESOURCES AND  
EDUCATIONAL SERVICES, LLC (“CURES”)  
104 PENINSULA DRIVE  
PEACHTREE CITY, GA 30269  
770-631-3527  
PHONE: (803) 3563327  
[RTS@SHERPY-JONES-LAW.COM](mailto:RTS@SHERPY-JONES-LAW.COM)**



Need Help  
Prepping  
for Your  
Next  
Meeting  
with  
Regulators?