

Habits of the Highly Effective Compliance Manager

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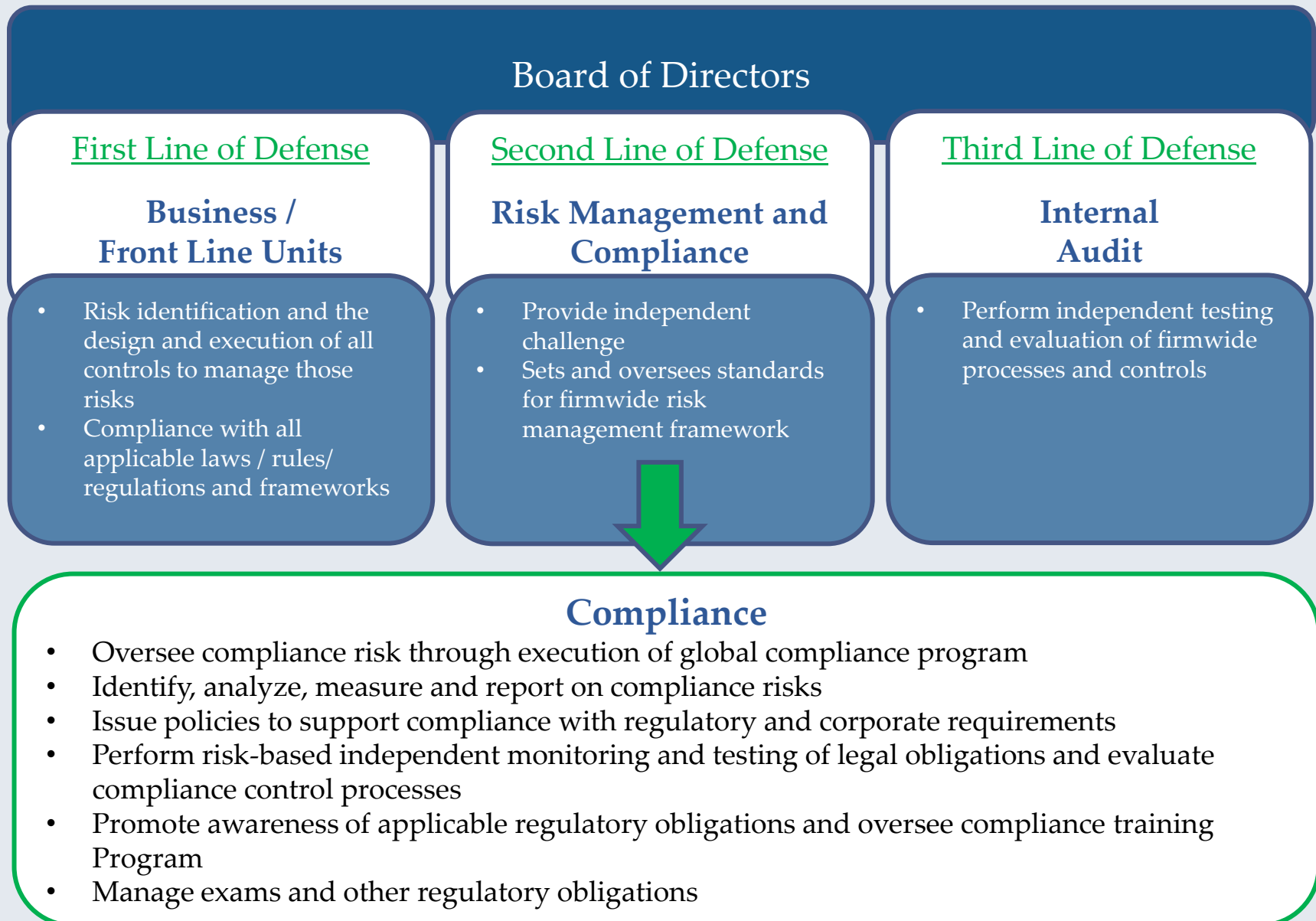
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Three Lines of Defense



Habits

Universal Truths

- Act with Integrity
- Ensure your Stature in the Organization
- Build Relationships
- Be (or Become) the Expert

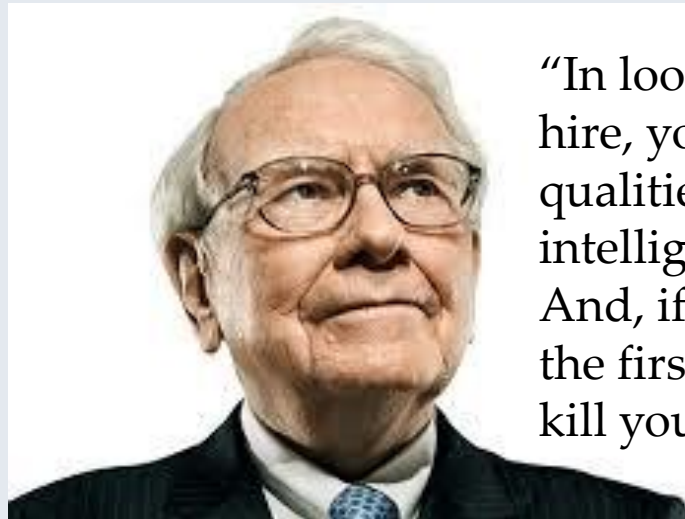
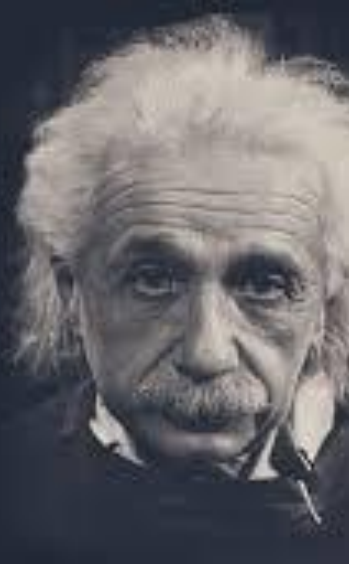
Effective Compliance Programs

- Create Active Compliance Programs
- Have an Opinion
- Say “No” (or “No, but...”)
- Hear “No”
- Clarify the Record
- Champion the Letter and Spirit of the Rules
- Maintain Independence Vigilantly

Act with Integrity

“Whoever is careless with the truth in small matters cannot be trusted with important matters.”

– **Albert Einstein**



“In looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And, if they don’t have the first, the other two will kill you.”

– **Warren Buffet**

Ensure your Stature in the Organization

“...a critical part of an effective Framework is for independent risk management and internal audit to have the organizational stature needed to effectively carry out their respective roles and responsibilities.”

“However, evidence of stature extends beyond the reporting structure. Appropriate stature is evidenced by the attitudes and level of support provided by the board of directors, CEO, and others within the covered bank toward these units. The board of directors demonstrates support for these units by ensuring that they have the resources needed to carry out their responsibilities and by relying on the work of these units when carrying out their oversight responsibilities...”

“The CEO and front line units demonstrate support by welcoming credible challenges from independent risk management and internal audit and including these units in policy development, new product and service deployment, changes in strategy and tactical plans, and organizational and structural changes.” (*emphasis added*)

Build Relationships

“The concept of independence does not mean that the compliance function cannot work closely with management and staff in the various business units. Indeed, a co-operative working relationship between compliance function and business units should help to identify and manage compliance risks at an early stage”

Be (or Become) the Expert

- Focus on an area
- Study the rules
- Seek out other perspectives
- Apply experience to real business situations
- Adjust along the way
- Never stop learning

Create Active Compliance Programs

- There can be a tendency for Compliance programs to be purely responsive to business demands – new projects, new products, analysis of existing programs
- In order to fulfill its mandate of providing independent oversight, Compliance must staff and organize itself to have an active agenda
- Risk Assessments, testing and monitoring programs help create a culture of proactivity
- Advisory Compliance personnel should also have an agenda and plan for the year above the testing, monitoring and business/committee asks to ensure that they maintain a current view of the subject matter area and current state of controls
- One solution is to have the advisory compliance teams plan for review of specific topics of potential interest outside of the planned testing cycle. Advice and suggestions on areas of improvement can become part of the advisory practice without needing the formality of the testing program

Have an Opinion

- Fiduciary rules are principle-based by their very nature
- As such, there is typically a spectrum of acceptable answers to questions posed to Compliance officers around proposed activity
- While ultimately decisions among acceptable options belongs to the business in their 1st line of defense role, effective Compliance officers will be able to articulate both the spectrum of options and an opinion about a preferred outcome, with support for the opinion.
- This builds trust, relationships and helps foster good business decision-making and a desire to seek out Compliance's advice in the future.

Say “No” (or “No, but...”)

- Sometimes, the business has an idea that cannot fit into the rules or is inadvisable in a given environment.
- All Compliance managers must always have the ability to say no and stop inappropriate activity before it starts or after it is discovered. The reasons should be well thought out and communicated early
- Effective Compliance managers will be able to help guide the business to a similar desired outcome by being able to also explain what other appropriate options are available to accomplish the same or similar goals.
- Being able to do this successfully, leads to better relationships, reinforces the independence and stature of the function, and make it more likely that the compliance function will be consulted early in the future.

Hear “No”

- 1st line of Business should not feel that it is acceptable to ignore a properly raised question from the 2nd line about a process, policy, product.
- Business cannot restrict the access of the compliance function to senior management, MIS data and ultimately the Board of Directors through appropriate channels.
- “...the independent risk management and internal audit units must have unrestricted access to the board, or a committee thereof, with regard to their risk assessments, findings, and recommendations, independent from front line unit management and, when necessary, the CEO. This unrestricted access to the board of directors is critical to the integrity of the Framework.”

Clarify the Record

- Credible Challenge – “Pictures, or it didn’t happen”
 - If you want credit for providing credible challenge, you will need to be able to demonstrate it in the record (typically through formal forums like committees or testing/monitoring results)
- Be sure that the record has all the context necessary to allow someone to reach the same conclusion
 - Committee materials should be accurate and precise
 - Discussions should be minuted
 - If a particular piece of information was critical to the decision, it needs to be maintained
 - If someone who was not there cannot reach the same decision after the fact, you need better records
 - Minutes that read like transcriptions are sub-optimal, minutes that are too vague are unhelpful – must draw a balance
 - Compliance participation, credible challenge, and independence should be able to be evidenced from the materials and minutes.
 - Care must be taken when approving minutes to ensure that they are accurate and at the right level of detail.

Champion the Letter and Spirit of the Rules

“...compliance officers should be considered part of the bank's total risk management team. The most successful organizations ... are those in which employees not only understand specific provisions of law, but have internalized the spirit of the law as well.”

- Comptroller of the Currency John D. Hawke, Jr., June 1999.

Maintain Independence Vigilantly

- If you are conducting day-to-day processes in the Compliance function that aren't part of testing and monitoring, where a business process is dependent upon your involvement, you should consider that you may have misaligned the function within the 3 lines of defense model.
- Prevent “line-jumping” – businesses may suggest or prefer that a compliance-minded person conduct an activity that should belong to the 1st line of defense. Regular provision of approval for exceptions, for example. When Compliance operates in this fashion, it risks the independence of the function and the ability for Compliance to be objective about the process and its controls.

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