

7 FACTORS FOR BETTER COMMUNICATION BETWEEN COMPLIANCE AND THE BOARD

Your bank's board must hear from Compliance more than once a year

* * *

Wouldn't it be every compliance officer's dream come true to have the authority to provide regular, substantive reporting to the bank's board of directors about compliance matters?

Possibly. Maybe that would be so only if there is good news to report and no bad news to draw attention to the compliance function.

But the truth is, there's always going to be both good and bad news relating to compliance performance in a financial institution. Providing the board of directors with comprehensive reporting on compliance activities is going to be very beneficial to the institution, with both sides of the picture.

But how do you get the board's collective ear?

Moving beyond ten minutes of fame

Compliance officers frequently have a difficult time convincing senior management to give Compliance more than the obligatory ten minutes per year at a board meeting when the compliance officer is reappointed and the compliance policy is re-approved.

That does not give the board enough information about the state of compliance for the directors to be adequately informed and adequately prepared to oversee compliance for the institution, which is one of the critical responsibilities of a bank board.

Ideally, a compliance officer should be providing periodic (not just annual) reporting to the board, with substantive information and analysis concerning the institution's compliance performance.

Quarterly is a good reporting frequency. Compliance reports should become a normal (and highly anticipated) part of board reporting. Reporting to the audit or risk management committee of the board is OK. Reporting to the full board is better.

A report to the board should include a current overview of the state of affairs relating to compliance in the bank. It should not be excessively detailed to the point of drowning out important information, and it should not be overly broad and non-substantive.

Compliance board reports that get read

A good board report should include all or most of the following topics:

1. Staffing and organizational changes—new compliance staff hired or staff departed; changes in reporting structure for the compliance group, and why the change was made.
2. Changes in compliance laws and regulations—key new legislation and changes in regulation that will significantly impact the bank (for which 2009 has been a banner year).
3. Regulatory examinations update—results of recent compliance exams; scheduled upcoming exams; follow-up on corrective action taken in response to exam criticisms; significant changes in the regulators’ examination approach or focus.
4. Compliance monitoring—Monitoring scheduled, completed, and behind- schedule compliance tasks; significant issues identified in monitoring; corrective actions taking place to address the identified issues.
5. Compliance risk matrix/assessment—Annually, an assessment of compliance risks should be presented to the board for review. Quarterly, any changes that have been made to that risk assessment should be included in the quarterly report.
6. Training—Compliance training planned and completed for bank staff; external compliance training of compliance staff.
7. Forecast—What is coming soon in the compliance world (trends, significant penalties assessed against other institutions) and impact on the institution

What to leave out

Reporting to the board should be succinct, and should focus on the significant items.

It is not vital to inform the board that three branches in the recent branch audit did not display the proper Equal Housing Lender poster.

Reports to the board of directors also provide an opportunity to sneak in some compliance training for board members.

This is one area that should yield great benefits in terms of regulator goodwill. The regulators are looking for more and

better compliance reporting to senior management and the board of directors.

I think it's a good thing to provide regular detailed reporting to the board of directors about the compliance function. Good news and bad news.

What do you think? Share your experiences as a Compliance officer, senior manager, or director in the comment area below.

About Nancy Derr-Castiglione

"Lucy and Nancy's Common Sense Compliance" is blogged by both Lucy Griffin and Nancy Derr-Castiglione, both ABA Banking Journal contributing editors on compliance.

Nancy, a Certified Regulatory Compliance Manager, is owner of D-C Compliance Services, an independent regulatory compliance consulting services business that has provided expertise in compliance training, monitoring, risk assessment, and policies and procedures to financial institutions since 2002.

Previously, Nancy held compliance positions with Bank One Corporation and with United Banks of Colorado.

In addition to serving as a Contributing Editor of ABA Banking Journal, Nancy has served on the ABA Compliance Executive Committee; National and Graduate Compliance Schools board; conference planning committees, and the Editorial Advisory Board for the ABA Bank Compliance magazine.

She can be reached at nancycastiglione@comcast.net

Compliance Officers: Don't miss ABA BJ's online coverage of ABA's 2009 Regulatory Compliance Conference. [Click here](#)

Community Bank Compliance Officers: Be sure to check out our other compliance blog, "AML, Fraud, and Other Things." BSA expert John Byrne blogs on money-laundering and related matters with a definite point of view. Check it out

For ABA Member Banks Only: Get regular compliance news updates with ABA's Compliance Source E-Letter

ABA member-bank employees have access to almost three dozen ABA news and information e-bulletins on important industry topics. One e-bulletin, THE Compliance Source, is dedicated to becoming your source for compliance information in the electronic world. Compliance Source is published each Monday throughout the year. In this changing regulatory environment, every compliance professional should subscribe THE Compliance Source. It will link you to recent compliance developments and alert you to upcoming compliance events. In addition to regular sections on "What's New in Review" and "On the Compliance Horizon," THE Compliance Source will have rotating sections including analysis of compliance issues by ABA staff in the "ABA Reports" section.

For a sample newsletter, [click here](#).

To subscribe, [click here](#)