

Compliance Management Systems (CMS)



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What is a Compliance Management System (CMS)?

A CMS is how an institution:

- Learns about its compliance responsibilities
- Ensures that employees understand these responsibilities
- Ensures that requirements are incorporated into business processes
- Reviews operations to ensure responsibilities are carried out and requirements are met
- Takes corrective action and updates materials as necessary



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Why is a CMS important?

- **It helps manage risk**

A CMS helps manage risks associated with:

- o Changing product and service offerings
- o New legislation enacted to address developments in the marketplace

- **Noncompliance with consumer protection laws may result in:**

Litigation, monetary penalties, and other formal enforcement actions



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Components of a CMS

An effective CMS is comprised of three interdependent elements:

- 1. Board and management oversight**
- 2. Compliance program**
- 3. Compliance audit**



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Board Oversight

The Board of Directors is ultimately responsible for developing and administering a CMS that ensures compliance with federal consumer protection laws and regulations.



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Board Oversight (continued)

A Board can demonstrate commitment to maintaining an effective CMS by:

- Demonstrating clear and unequivocal expectations about compliance, not only within the institution, but also to third-party providers
- Adopting clear policy statements
- Appointing a compliance officer with authority and accountability
- Allocating resources to compliance functions commensurate with the level and complexity of the institution's operations
- Conducting periodic compliance audits
- Providing for recurrent reports by the compliance officer to the Board



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Board Oversight (continued)

Compliance Officer

The first step a Board and senior management should take in providing for the administration of the compliance program is the designation of a compliance officer and/or compliance committee, depending on the profile of the institution.



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Board Oversight (continued)

Compliance Officer

A compliance officer's duties include ensuring that an institution:

- Develops compliance policies and procedures
- Ensures that management and employees receive proper training in consumer protection laws and regulations
- Reviews policies and procedures for compliance with applicable laws and regulations and the institution's stated policies and procedures
- Assesses emerging issues or potential liabilities
- Provides proper responses to consumer complaints
- Reports compliance activities and audit/review findings to the Board
- Ensures corrective action



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Board Oversight (continued)

Compliance Officer/Committee

A compliance officer should have sufficient authority and independence to:

- Cross departmental lines
- Have access to all areas of the institution's operations
- Effect corrective action

A compliance committee may be formed to assist the compliance officer in coordinating the program.



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Compliance Program

A financial institution should generally establish a formal, written compliance program. In addition to being a planned and organized effort to guide the institution's compliance activities, a written program represents an essential source document that will serve as a training and reference tool for all employees. A well planned, implemented, and maintained compliance program will prevent or reduce regulatory violations, provide cost efficiencies, and is a sound business step.



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Compliance Program (continued)

A sound compliance program includes the following components:

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



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Compliance Program (continued)

Policies and Procedures

Policies and Procedures should:

- Include goals and procedures for meeting those goals
- Include all the information needed for personnel to perform a business transaction
- Be reviewed and updated as the institution's business and regulatory environment changes



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Compliance Program (continued)

Training

- Proper training for the Board, management, and staff is essential to maintaining an effective compliance program.
- An effective compliance training program is frequently updated with current, complete, and accurate information on:
 - o Products and services and business operations of the institution
 - o Consumer protection laws and regulations, internal policies and procedures
 - o Emerging issues in the public domain



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Compliance Program (continued)

Monitoring

- Monitoring is a proactive approach by the institution to identify procedural or training weaknesses in an effort to preclude regulatory violations.
- Institutions that include a compliance officer in the planning, development, and implementation of business propositions increase the likelihood of success of its compliance monitoring function.



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Compliance Program (continued)

Monitoring

An effective monitoring system includes regularly scheduled reviews of:

- Disclosures and calculations for various product offerings
- Document filing and retention procedures
- Posted notices, marketing literature, and advertising
- Various state consumer protection laws and regulations
- Third-party service provider operations
- Internal compliance communication systems that provide updates and revisions of the applicable laws and regulations to management and staff



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Compliance Program (continued)

Consumer Complaint Response

- An institution should promptly handle consumer complaints.
- 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 responses.
- A compliance officer should be aware of complaints received and act to ensure a timely resolution.
- Complaint trends should be evaluated to identify systematic compliance problems.



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Compliance Audit

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



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Compliance Audit (continued)

Regardless of whether audits are conducted by institution personnel or by a contractor, the audit findings should be reported directly to the Board or a committee of the Board. A written compliance audit report should include:

- Scope of the audit (including departments, branches, product types and third-party relationships reviewed)
- Deficiencies or modifications identified
- Number of transactions sampled by category of product type
- Descriptions of, or suggestions for, corrective actions and time frames for correction



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Resources

Compliance Examination Manual:

- http://www.fdic.gov/regulations/compliance/manual/index_pdf.html
- Overview of Compliance Examinations
- Compliance Management Systems
- Consumer Compliance Rating System



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