



FEDERAL RESERVE BANK *of* NEW YORK

Compliance and Ethics at the Federal Reserve Bank of New York

Operational Risk and Internal Audit Course

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Internal FR

The views expressed today are those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of New York or the Federal Reserve System.



Why Establish a Compliance Function?

- The Bank provides a number of financial services that are analogous to those offered by financial institutions (with different purpose).
- The Bank is not subject to many of the laws and regulations that mandate Compliance Programs at financial institutions.
- The Bank has often adopted policies on a voluntary basis consistent with the “spirit of the law”.



Why Establish a Compliance Function? (Cont.)

- The Bank always had an ethical culture and implemented sound business practices, but it lacked a formal comprehensive structure to assess, evaluate, and centrally document these practices.
- As a supervisor of financial services, we decided to lead by example by creating an internal compliance department at a central bank.
- In order to offer our employees a competitive work environment, the Bank has adopted best practices to protect the Bank and its staff.



Background

- FRBNY Compliance Function established in July 2005
- Tasked with developing a Compliance Program for the Bank and managing the existing Ethics and Records Programs
- Skill Set
 - Analytical
 - Legal
 - Ethics/Training
- Compliance is a separate Function in the Legal Group



Compliance Function Mission

- Identify, assess, monitor and remediate compliance risks across the Bank.
- Compliance risk, generally, is the risk of legal or regulatory sanction, financial loss, or reputational damage arising from failure to comply with applicable laws, regulation, codes of conduct, standards or sound industry practice.



A Unique Role

- The NY Compliance Function is the only one in the Federal Reserve System:
 - FRBNY has broader responsibilities than most Reserve Banks
 - Open Market Operations
 - Central Bank and International Account Services
 - Transactions on behalf of the U.S. Government
 - Broad supervisory responsibilities
 - International Cash Distribution
 - Financial Stability Programs



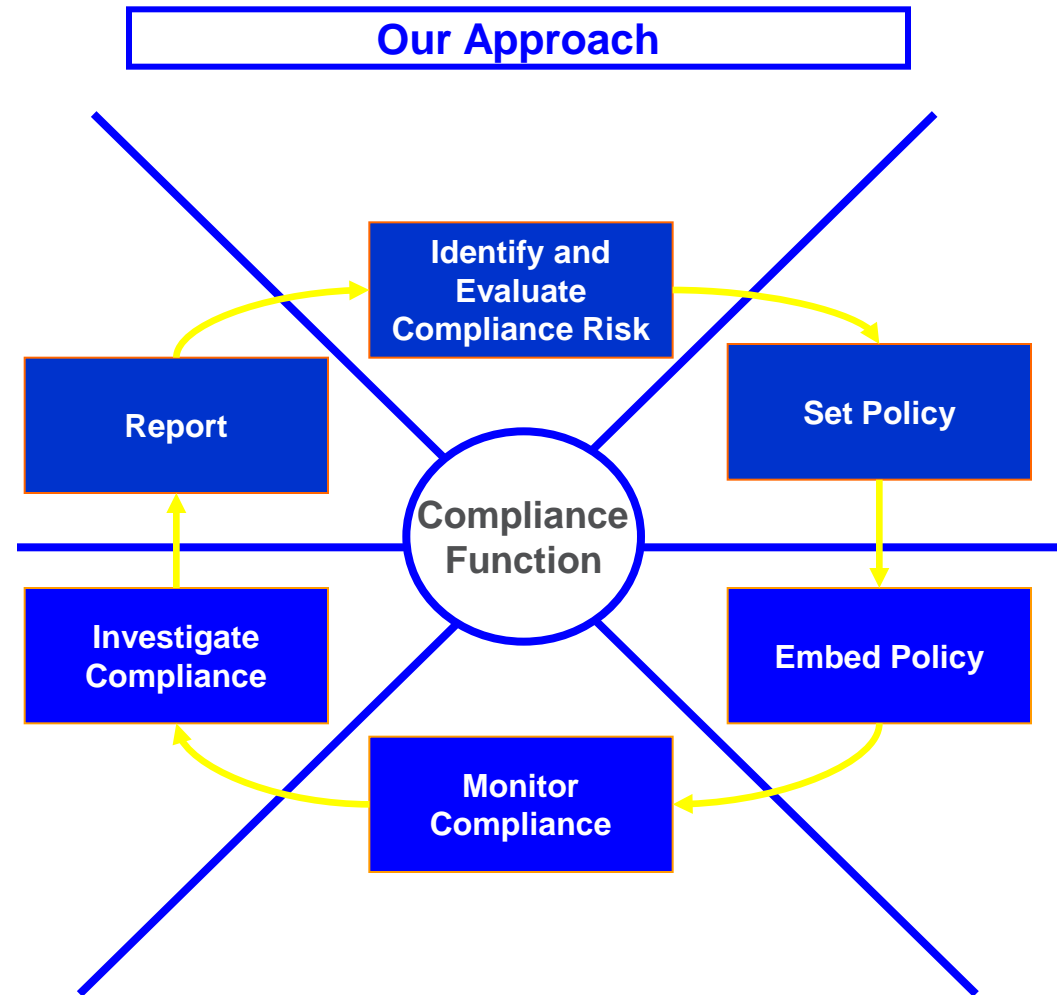
How Do We Do It?

- Identify and mitigate compliance risks to the Bank via:
 - Establishing the Compliance Function as a resource to assist areas in identifying and resolving issues related to compliance risks
 - Collaborate with Bank management in the development and implementation of practical policies and procedures to mitigate these risks
 - Facilitate ongoing compliance via a comprehensive monitoring program
 - Introduce formal tools to help Bank staff become more mindful, knowledgeable and capable of responding to those risks that can affect the reputation and legal exposure of the Bank.
- Integrating Compliance into the *Way We Work* - foster a Bank compliance culture through research, education and training



Compliance Framework

- The Compliance Function has created a framework that represents a comprehensive and systematic approach to compliance
- Via this approach, the Compliance Function facilitates and oversees the development, implementation and maintenance of each aspect of the compliance program, while relying heavily on others in the organization to assume certain roles and responsibilities
- In particular, each Group has a responsibility for helping to create its compliance initiatives and for implementing the initiatives within its respective areas



Compliance Function Initiatives

- Risk Management
 - Risk Assessment
 - Anti-Money Laundering (AML)
 - Financial Stability Work
 - Personal Trading Program
- Policy Development
 - Data Privacy, AML/OFAC
 - Communications
 - Information Barriers and Conflicts of Interests
- Program Management
 - OFAC
 - Anti-Fraud
 - Ethics Office
 - Records Management
 - Email monitoring
 - Training



Identify and Evaluate Risks: Bank-wide Risk Assessment

- Compliance Risk Assessment
 - Importance of Comprehensive Risk Inventory – know your business and its risks
 - Document existing controls – policies, procedures aimed at mitigating identified risk
 - Identify responsible persons – business area responsible, Legal
 - Ensure adequacy of/create training programs
 - Coordinate with assessment of operational, financial risks

- Assessment of Compliance Risks:
 - Fraud
 - Money laundering/sanctions
 - Ethics and Conduct
 - Information Management
 - Custody
 - Trading



AML Program Focused Internationally

- Initial Risk Assessment
- Policies and Procedures
 - Designation of AML Officer
 - AML Policy, High Risk Accounts Policy
 - Guidelines for Escalating Suspicious Activity, Money Services Businesses, Politically Exposed People, Arms Trafficking
- Program/Framework Development
 - KYC and Due Diligence programs
 - Account opening guidelines
- Monitoring and Testing
 - OFAC screening
 - Know Your Customer and Due Diligence Programs
 - Reviews of payments flows and transactions



AML: Compliance Tools for an AML Program

- Risk Assessment
 - Geographic Risk Assessment
 - Customer Risk Assessment
- Policies and Frameworks
 - AML policies and procedures
 - Know Your Customer and Due Diligence Programs
 - Account Opening Guidelines
- Monitoring and Testing
 - Look back reviews
 - Testing existing controls
- Escalation and Training
 - Guidelines for Escalating Suspicious Activity, Money Services Businesses, Politically Exposed People, Arms Trafficking, Internet Gambling



Anti-Fraud Program

- Fraud Reporting Framework
- Compliance coordinates and reviews all fraud-related information so that management and Chief Compliance Officer can effectively certify:
 - Knowledge of any allegations of fraud or suspected fraud received in communications from employees, former employees, regulators, or others
- Anonymous Hotline
- Up the Ladder Reporting
- Whistleblower Policy
- Fraud Risk Assessment
 - COSO Integrated Framework for Enterprise Risk Management



Anti-Fraud Program cont.

- Fraud Risk Assessment - key fraud risks:
 - Misuse of confidential information for private gain
 - Fraud relating to procurement practices
 - Manipulation of financial results to reach incentives
 - Fraud perpetrated by privileged users

Data Privacy

- The Bank's commitment to protecting Private Information of Employees and others
- Personal information: social security numbers, driver's license information, medical and personnel records, financial account numbers, PINs, financial disclosure forms, immigration documentation, credit and background checks
- In the event of a breach (occurrence or reasonable likelihood of unauthorized access or likely misuse), the Bank will notify employees and will offer free credit reporting if appropriate
- Incident Response Procedures – guidelines for investigating and responding to breach, escalation, communication
- Agreements with vendors regarding outsourced information

APPENDIX



Compliance Framework - Details

Identify and Evaluate Compliance Risk

Identifying, understanding and monitoring changes in the compliance risk environment, identifying applicable laws and regulations and areas of legal and reputational risk, assessing compliance initiatives in place, targeting enhancements for compliance initiatives, and prioritizing the resources available within FRBNY to address these risks.

Set Policy

Create policies to address the identified legal and regulatory requirements and compliance and reputational risks. Revise policies as needed. Coordinate the development of formal procedures and other initiatives to implement the policy. Provide vehicles for the communication of policy, procedures and other compliance initiatives.

Embed Policy

Translating policy into compliance initiatives that encourage behaviors/operations consistent with compliance objectives. (e.g., changes to business processes, documenting and enhancing procedures, developing new controls within systems, training). Provide vehicles for the communication of these initiatives.

Compliance Framework - Details (cont.)

Monitor Compliance

Includes day-to-day monitoring as well as active, periodic monitoring of FRBNY's compliance program. Day-to-day monitoring should be supported by systems and processes that alert businesses and/or the compliance function to issues. Periodic monitoring should include an assessment of both overall program compliance as well as the effectiveness of the program.

Investigate Compliance

Analyzing compliance issues and deficiencies identified through compliance monitoring or through escalations. Taking corrective actions. Learning from compliance issues surfaced and investigated in order to improve the overall compliance program.

Report

Reporting to key stakeholders should include information about compliance with program requirements, the effectiveness of the program, significant compliance issues uncovered, the status of implementation of corrective actions, and new compliance risks to consider.

Assurance & Advisory Services

Inspection & Quality Assurance Framework

“Protecting the Perimeter against External & Internal Threats”



Mission

The Assurance & Advisory Services Unit of the Compliance Function identifies threats to the FRBNY's control framework by independently providing:

- **Assurance Services** - Onsite assessments of the compliance infrastructures of service providers engaged in our financial stability programs
- **Advisory Services** - Ongoing support to the FRBNY's business and support functions and to the Senior Management Team by providing subject matter expertise on risk management topics

The Unit is a risk identification function. It is not tasked with mitigation of identified gaps or weaknesses.



Methodology

We use standardized inspection procedures to ensure consistency in evaluations of the following attributes:

- **Due Diligence**
 - Oversight and Governance Infrastructures
 - Policies, Procedures & Business Practices
 - Risk Assessments & Risk Ratings
 - BSA/AML & OFAC Compliance
 - Training Programs
 - Internal or External Audit Coverage

Methodology (contd)

- **Conflicts of Interest**

- Management Oversight
- Code of Conduct, Confidentiality, Privacy & Disclosure policies
- Controls around non-public information
- Data Security
- Front-Running and Tail-Gating
- Segregation of staff
- Provision of Targeted Training
- Independent Validation & Quality Assurance Procedures

Results

Policies and Procedures are usually adequate. However, execution is inconsistent and presents several challenges:

- Insufficient oversight independent of the business line
- Inadequate risk assessment processes
- Non-adherence to due diligence requirements
- Fragmentation and wide dispersal of data architectures
- Insufficient oversight of outsourced arrangements
- Gaps in enforcement of logical access controls (passwords)
- Poor surveillance of personal/corporate trading activity and e-mail
- Insufficient attention to training needs
- Lack of independent validation



Remediation Mechanism

- Findings are communicated to the inspected entity and the FRBNY business line that manages the relationship
- The FRBNY business lines monitor remedial action(s)
- Our Unit, or the FRBNY's Audit Function, evaluates remedial action(s) to verify that identified weakness(es) have been fully addressed

Questions



FEDERAL RESERVE BANK *of* NEW YORK

The Bank's Code of Conduct and Ethics Office

David K. Clune

Compliance and Ethics Officer and Vice President

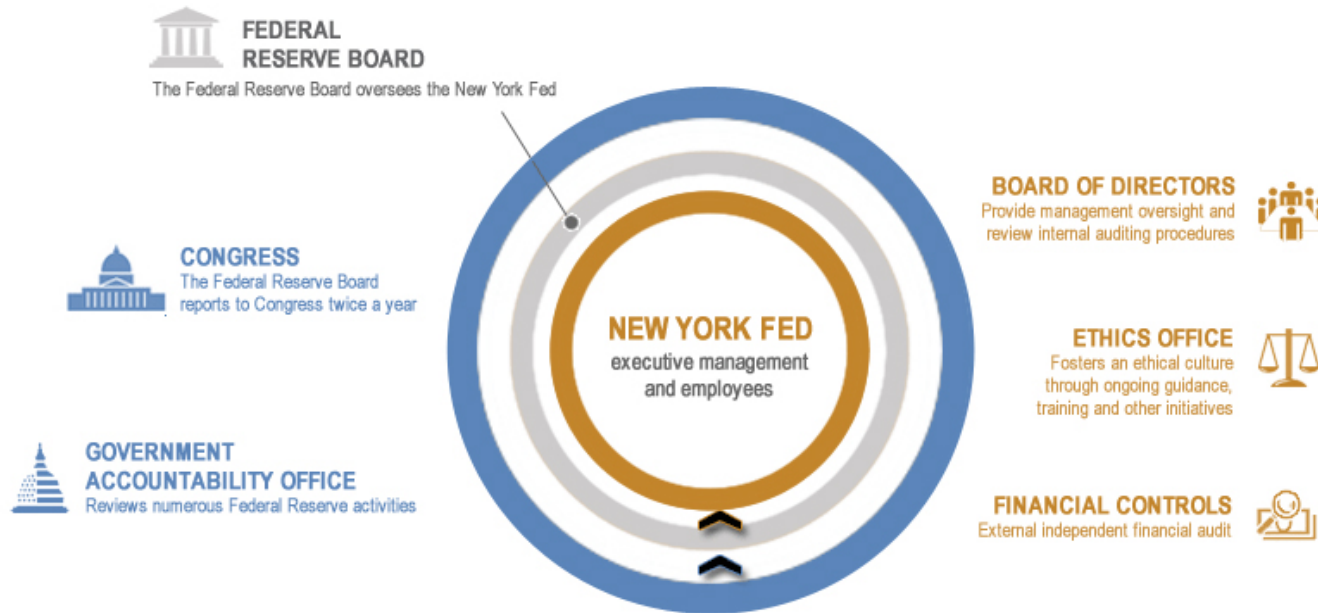
March 26, 2015

Internal FR

The Ethics Office

LAYERS OF GOVERNANCE

The New York Fed operates under the general supervision of the Board of Governors of the Federal Reserve System. The Federal Reserve Board reports to Congress twice a year and is subject to several layers of audit and review by the General Accountability Office and the Office of the Inspector General. The New York Fed has a board of directors, an Ethics Office, an internal audit function, and the financial statements are audited annually by an independent external firm.



The New York Fed supports sound principles of corporate governance and is committed to incorporating those values in its operations. The Bank believes that sound corporate governance is necessary to maintain the trust and respect of its stakeholders and to facilitate the integrity of its performance and financial reports.

Road Map of Goals

1

Put the Bank's Interests First

- Avoid Conflicts of Interest and Prohibited Financial Interests
- Disclose your interests
- Know the Gifts/Meals Rules

2

Safeguard the Bank's Information and Property

- Protect and don't misuse
- Avoid Insider trading

3

Ensure your outside activities are not incompatible with your Bank duties

4

Maintain a Safe and Positive Work Environment

- Report Violations
- Know the FRBNY Integrity Hotline

What is a Conflict of Interest?

Your interests

A diagram consisting of two large triangles pointing towards each other, meeting at a central point. The left triangle is light purple and contains the text 'Your interests'. The right triangle is teal and contains the text 'Your Bank Duties'. The overall shape is a diamond or hourglass.

Your Bank Duties

**Working
on an
assignment**

**Financial
Interests**

**Related
Parties**

QUIZ: Prohibited Financial Interests

You are a software developer in TSG who got married last month, and you and your new spouse are opening a joint account on fidelity.com. Your spouse mentions that he already has a Fidelity account of his own, and it holds shares of Citigroup stock that he received as part of his bonus when he worked at Citi 5 years ago.

What should you do?



What Should You Do?

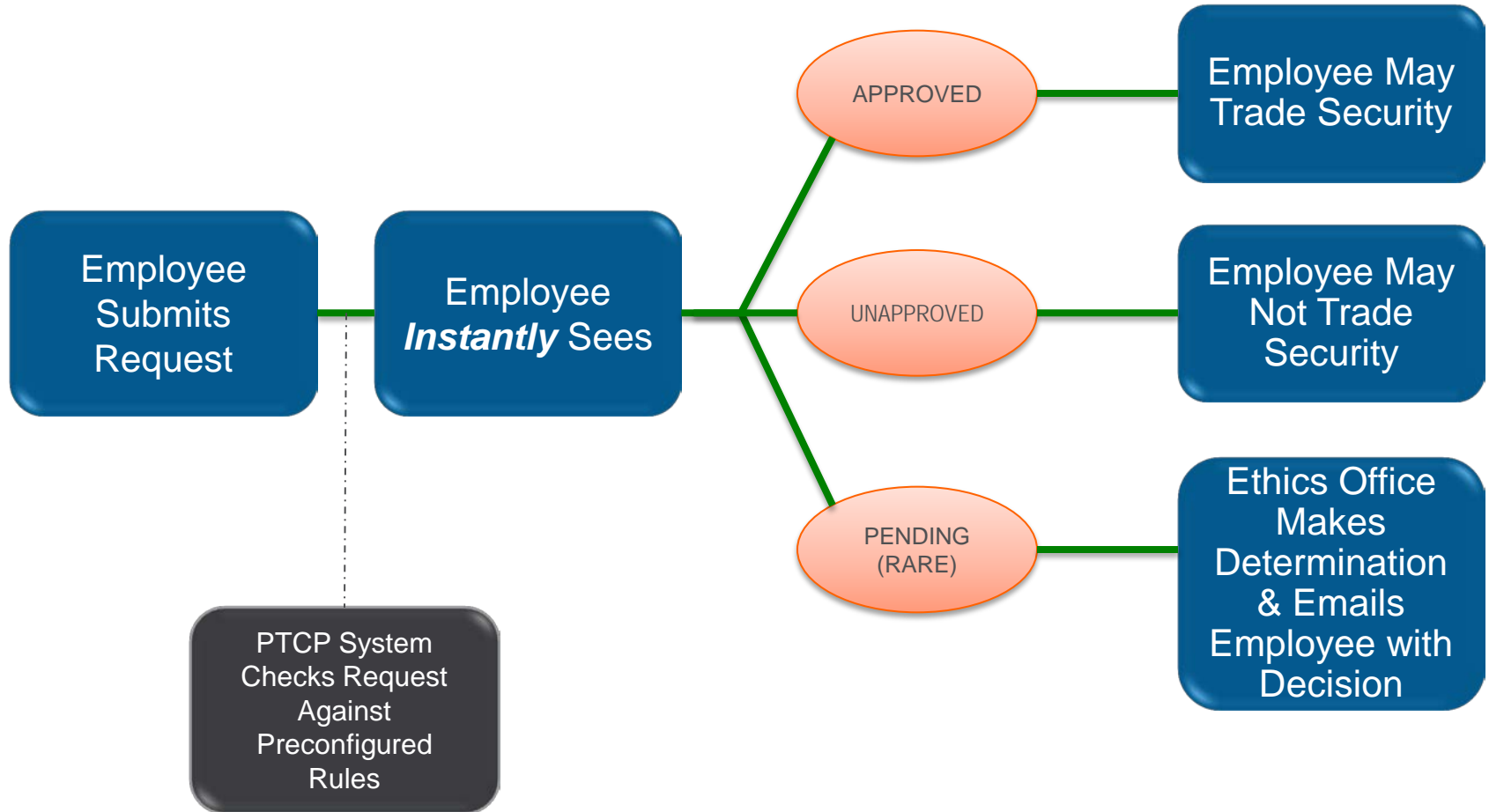
- a. Nothing, because it's your spouse's stock, not yours.
- b. Nothing, because you don't work on matters concerning banks or financial institutions.
- c. Contact the Ethics Office and ask.
- d. Tell your spouse to sell the stock, because all Bank employees and their spouses are prohibited from owning Citigroup stock.



What Should You Do?

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The Personal Trading Compliance Program (PTCP)



Gifts, Meals, and Entertainment

The Code of Conduct prohibits Bank employees from accepting anything of value from a “Covered Source.”



Exceptions

- **Cost & Frequency** -- \$20 or less, must be infrequent.
- **Widely Attended Event** -- Reduced or waived admission fees or meals in connection with a widely attended event that is in furtherance of your duties.
- **Unrelated to the Bank** -- Results from outside activities and relationships unrelated to your Bank duties.
- **Available to Everyone** -- Discounts or benefits available to the general public.
- **Perishable Goods** – Must receive Ethics Office approval first, and share with your team.



QUIZ: Gifts, Meals, and Entertainment



You went to a conference sponsored by a Bank vendor. There were 500 people in attendance, from a variety of organizations. You placed your business card into a raffle to win an iPad Air.

A week later, you received a call informing you that you were chosen as a winner! You were excited because your girlfriend has been asking for an iPad Air. Can you accept it?

May you accept the iPad Air?

- a. No, it's a gift from a covered source.
- b. Yes, it's a widely attended conference and your card was picked at random.
- c. Yes, because you'd be giving it to your girlfriend and not keeping it for yourself.
- d. Yes, because attendance was in furtherance of your duties.

May you accept the iPad Air?

- a. No, it's a gift from a covered source.
- b. Yes, it's a widely attended conference and your card was picked at random.
- c. Yes, because you'd be giving it to your girlfriend and not keeping it for yourself.
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Bank Property and Information

Bank Property



Bank Information



FRBNY Integrity Hotline and Whistleblower Policy

- Phone Number: **877-52-FRBNY**
- Internet Form: **www.frbnyhotline.org**
- Whistleblower Policy:

Protects employees who have reported wrongdoing from retaliation in the form of:

 - **Discrimination**
 - **Demotion**
 - **Termination**

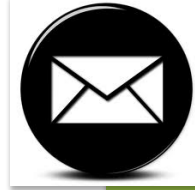


Contact Us



Call

- Ethics Answer Line:
x1234



E-mail

- NY Ethics Office Mailbox
- NY Personal Trading Mailbox



Meet

- Ethics Staff member
- Your manager



Report

- FRBNY Integrity Hotline:

877-52-FRBNY
www.frbnyhotline.org

*For anonymous reporting of wrongdoing

Recap of Goals

1

Put the Bank's Interests First

- Avoid Conflicts of Interest and Prohibited Financial Interests
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