

synpulse^{MC}
solve·evolve

Compliance.
Meeting the Challenges in Banking.



Our Mission

We turn our client's strategy
into a value-creating reality.
With expertise.

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1 Legal & Compliance – Introducing the Functions

An institution faces major challenges with being compliant from the very beginning. The first challenge is that national as well as international regulators constantly change and intensify rules & regulations that an institution has to fulfill in order to be compliant. A second and often far more challenging issue is that Compliance is internally perceived as a conflicting function to the company's primary goals of growth and revenue maximization.

Compliance as a corporate function therefore seems to be embedded in a contradictory context of corporate and external interests. But this understanding is misleading.

Compliance should rather be understood as the internal interpreter of external rules & regulations, the trainer for all departments as well as the challenger of the level of adherence of all individuals of the company. Compliance also needs to put itself in a position as coach to all individuals and haven in case of any violation of given rules or regulations.

However, as function and department of a company, Compliance is often confronted with major difficulties settling itself into this defined role:

1. The constant change and intensification of rules & regulations challenges Compliance's responsiveness to a maximum.
2. Compliance has to constantly reinvent itself. Standard solutions to respond to rules & regulations do not exist.
3. Consequently, Compliance cannot respond with sufficient resources, important requisitions cannot be fulfilled, and last but not least...
4. Senior management does not commit itself entirely to Compliance standards. The Compliance organization thus fights on lost grounds.

Due to these reasons, Compliance as a corporate institution is often doomed to fail. Some areas of Compliance may have fostered a better perception within the organization, but still have some way to go to perfection.

Stringent development of the organization and consistent process definition can help the Compliance department to reach its maximum effectiveness and also the highly desired understanding throughout the company.

The Legal function has to be understood as the interpretative role for externally imposed

rules & regulations. The Legal function has therefore to be seen as a supporting and subordinated function to the Compliance organization of a financial institution.

The legal department working as lawyer of the financial institution representing itself towards customers and external authorities, etc., is not included in this concept.

Some of the initiatives necessary to stringently develop the Compliance function are introduced in this booklet, providing an idea of their individual goals, benefits and approaches.

In case you are interested in hearing and seeing more about the initiatives or Synpulse, please do not hesitate to contact us.

2 Roles and Responsibilities

2.1 Mandate and Strategy Definition

Since the standard function and setup of Compliance as an organization has never been defined, a common understanding of the role and the responsibilities of Compliance in a financial institution rarely exists.

Questions arise for the Compliance organization such as the following:

- 🌀 What themes does Compliance cover?
- 🌀 How does the Compliance function delimit itself compared to other corporate functions?
- 🌀 Where does Compliance stand in a normative role?
- 🌀 To what extent does Compliance work operatively?
- 🌀 How are roles distributed across centralized/decentralized Compliance units?
- 🌀 What is the service delivery strategy defined?
- 🌀 What does the roll-out plan of the Compliance function look like?

The definition of the Compliance mandate and strategy is very helpful in two aspects:

At first, Compliance is forced to reflect the roles & responsibilities imposed by the senior management as well as external institutions. Compliance then has to formulate its mandate and develop a roll-out strategy that addresses the themes imposed in the best possible way.

Second, Compliance is able to use the outcome to communicate its ideas to other entities of the organization, gathering feedback and aligning itself in this way to other corporate functions.

Setting up and discussing a draft of the Compliance mandate requires profound knowledge of all possible themes a Compliance organization might have to address. The ability to formulate the mandate requires a combination of far-reaching experiences and sensitivity since the conclusion of the mandate might trigger discussions about limitations of responsibilities within the overall organization.

2.2 Stakeholder Analysis

Stakeholders of Compliance are numerous and need to be addressed individually. Stakeholders range from senior management of the financial institution, to the business line organization (front), to internal organizations such as Business or Operational Risk Management, internal audit, etc., ending with each individual employee of the bank. In addition, external organizations such as regulatory authorities, legislative authorities or external auditors are involved in the daily business of Compliance.

A stakeholder analysis pictures the individual stakeholder and its information needs from Compliance. The Compliance function can then be set up in order to most effectively streamline interactions within the financial institution, its interfacing institutions and individuals.

Based on a thorough stakeholder analysis, the Compliance organization can most efficiently perform its tasks and address reporting requirements of stakeholders, avoiding unnecessary duplications in work efforts or conflicting responsibilities.

The stakeholder analysis focuses on two major characteristics of each stakeholder:

 Level of involvement in Compliance activities

 Information required

After identifying all Compliance stakeholders, each stakeholder is analyzed according to the involvement in Compliance activities. Stakeholders are then grouped into interest groups based on their involvement and information needs. A Compliance resource is subsequently assigned to each group of stakeholders, taking responsibility to involve and inform the interest group accordingly.

For each interest group, a description of to-be information and interaction activities is developed. Next, the current relationships with the stakeholders are checked for gaps compared to the established to-be activities. Finally, the gaps are closed by assigning responsibilities within the organization, by individual measures or by follow-up projects.

2.3 Framework Evaluation & Definition

Compliance is challenged with supporting, monitoring and influencing other organizations. A clear delineation of responsibilities and competences is required.

The Compliance framework can consist of various actions and might include/exclude certain responsibilities that finally have to be covered by other organizations. But too often, other organizations have not been involved within the framework evaluation so that Compliance is acting in a vacuum space.

The Compliance framework aims at establis-

hing a transparent, effective and efficient Compliance organization. Transparency shall assure fulfillment of the Compliance mandate by decreasing and supervising Compliance risks continuously.

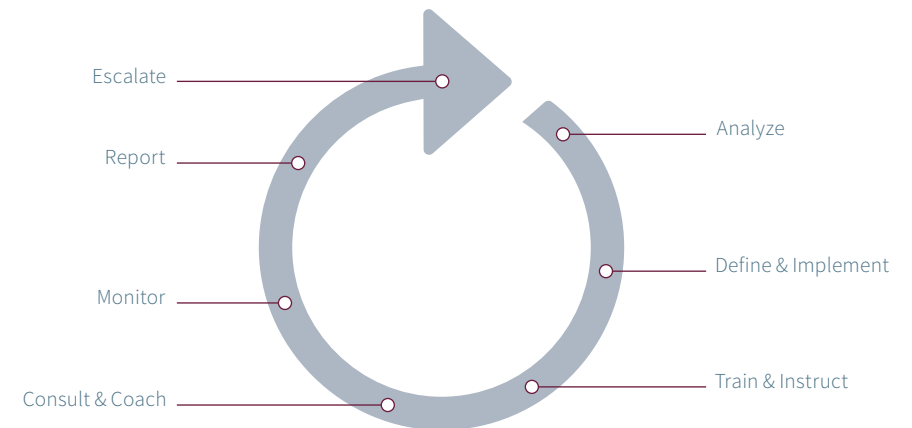
The framework promotes effectiveness by defining stringent interfaces toward other organizations. The Compliance framework sets the basis for a transparent and efficient organization by aligning all Compliance functions to a unified organization model.

Due to the risk-controlling function of Compliance, similar risk-controlling activities are conducted for each theme. The typical management circle that applies for each theme is depicted below.

The Compliance framework therefore distinguishes between activities, on one side, and themes,

on the other side. The overall Compliance function is thus defined by the activities performed for each theme, as shown in the graph below. Compliance functions cover themes such as Customer Compliance including e.g. AML, Employee Compliance including e.g. Chinese Walls. The themes are derived from major regulatory requirements and are individually structured in each bank. The framework depicted above is intended to be used as reference model, structuring individual themes horizontally and aligning activities from left to right.

Since each theme is managed within the Compliance management circle, an accurate control of activities can be established. By using benchmarks across themes and locations, gaps and shortcomings can be easily identified. Management of Compliance and its risks thus becomes transparent and reliable.



Graph: The Compliance management circle.

Setup

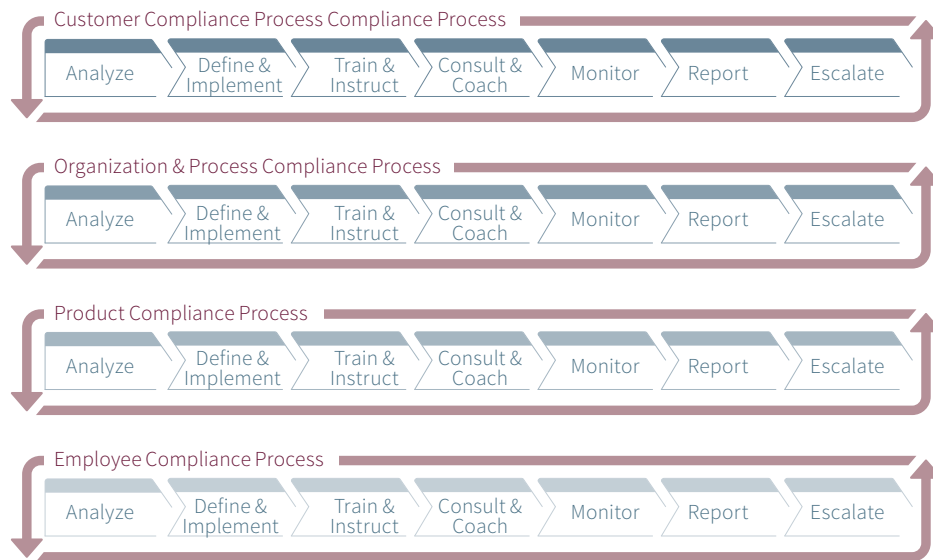
The Compliance framework defines the themes and activities in order to set up a streamlined organization, roles & responsibilities, detailed processes and reporting/management requirements.

The setup of a transparent Compliance framework is suggested as follows:

1. Identification and grouping of themes/ functions
2. Definition of requirements for each theme/function

3. Identification of activities
4. Definition of activities for each theme/ function
5. Definition of interfaces to business units and within themes/functions
6. Definition of the framework and the according roles & responsibilities
7. Documentation and training of the Compliance framework

The framework roll-out across international locations is described in the chapter 3.10 "International Legal & Compliance Roll-Out."



Graph: The Compliance framework.

3 Implementation of Compliance Function

3.1 Line Organization Definition and Redesign

Organizations usually develop incrementally. Due to this process, roles and responsibilities are shifted permanently. The organizational setup is decided upon personal preferences rather than abilities. In the long run, the organization is tending toward an inefficient setup.

The definition or redesign of the organizational setup first aims at the identification of all existing issues and shortcomings within the current organization. Based on this information, the initiative aims for an optimized setup of all existing resources and identification of insufficient/necessary resources.

The benefit to address the line organization with a professionalized methodology, using external resources is threefold:

1. Internal politics and routine blindness are by-passed; all issues and shortcomings will be identified and brought up for discussion. Internal resources will not be made responsible for the identification/discussion of issues.
2. External experience and routine speed up the analysis phase, identify issues more efficiently and shorten the overall

duration of the project. This lowers disconcertment of the involved staff and avoids personal preference/exertions of influence of individuals.

3. Internal resources are involved to a limited extent. Due to the highly efficient approach of the initiative by well-experienced professionals, the necessary efforts, the initiative duration as well as involvement of internal resources are kept as low as possible.

The line organization usually starts with a review of roles & responsibilities of the individuals. Within the review, all issues are identified, clustered and restructured so that all issues and shortcomings are addressed. Based on this, suggestions for the future setup are defined and verified against the individual issues.

Synpulse designed a thorough and proven project approach that allows a profound analysis, identifying all issues and shortcomings within the existing line organization. Based on the analysis, an optimized organization with centralized as well as decentralized functions is developed. The project approach, based on the STRIPmethod®, assures a minimum duration, allowing high impact at low costs. Efforts for the organization itself are kept at a minimum.

3.2 Reorganization through STRIPmethod®

An organization's efficiency decreases over time. Initially specific tasks are assigned to specific resources; the organization performs at its best. Over time new tasks have to be assigned and old ones canceled. Others have to be re-addressed. These changing tasks lead to gaps and redundancies. The complexity and dynamic of this allocation also presents a challenge to Compliance units. A lack of transparency as well as inefficiency are often the results.

STRIPmethod® projects aim at establishing transparent, effective and efficient organizations. STRIPmethod® projects therefore allow organizations to more easily perform their daily business.

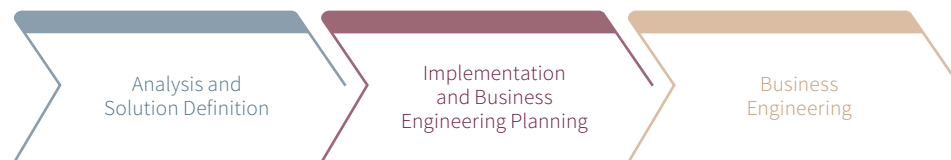
3.2.1 A structured reorganization approach STRIPmethod®

is a standardized, tool-supported approach to re-assigning tasks to resources. (STRIP stands for Structured Task to Resource Improvement Planning.)

Phase I: Analysis and Solution Definition.

To identify current inefficiencies, it is essential to first gain a profound understanding of the organizational setup of the Compliance unit. This is achieved by a tool-supported survey in which each employee individually lists all the activities they perform.

Phase II: Implementation and Business Engineering Planning. To solve the inefficiencies uncovered during the first phase, all identified issues are discussed and approaches are defined in order to solve these shortcomings in future organizational structures. Finally, the



Graph: The three phases in the STRIPmethod® approach.

newly developed organizational structure is implemented.

Phase III: Business Engineering. New and optimized processes are implemented.

3.2.2 Key Aspects of STRIPmethod®

- ☪ Structured approach boosts achievement of objectives
- ☪ Tool support guarantees efficient analysis
- ☪ Tool support enables comparability of individual survey results
- ☪ Clear goal definition for each phase allows effective usability of results and deliverables as input for next phase
- ☪ The changes are anchored by the involvement of all employees within the change process

3.3 Process Documentation

Where documentation is missing, work cannot be reproduced. Where work cannot be reproduced, the quality cannot be assured. Only documented processes can assure that necessary Compliance functions are conducted in an appropriate manner. The documented processes define the tasks and responsibilities that each Compliance staff member fulfills in his/her daily work.

Process Documentation is prerequisite for a thorough understanding of operational business. Compliance officers often think they know their business processes very well until official investigations bring them back to reality.

With the help of documented processes, the Compliance organization can start to identify critical steps and potential risks. It becomes obvious where, when and how Compliance should engage in the business process. Automatic checkpoints therefore can and should be installed wherever possible. Staff can be trained to fulfill the Compliance function and to understand the interconnections between business and Compliance.

Furthermore, documented processes set the basis for further development. Whether to increase efficiency, increase effectiveness of controls and management, or simply to identify risks, documented processes are required in order to develop the Compliance function toward a higher level. The stages toward achieving an agile Compliance function that is able to keep up with business and regulatory changes are depicted below.

Processes must be aligned to directives and thus require constant re-modeling and re-engineering to pursue the ever-changing market and regulatory environment.

With the experience and the well structured approach of Synpulse, processes will be documented in short time and necessary detail.

3.4 Process Modeling

Process modeling boosts the Compliance functions effectiveness. By aligning and structuring processes to business and Compliance needs, hot spots and bottle-necks can be resolved and the focus of primary Compliance activities redefined. The Compliance function thus can be streamlined to fulfill its mandate effectively.

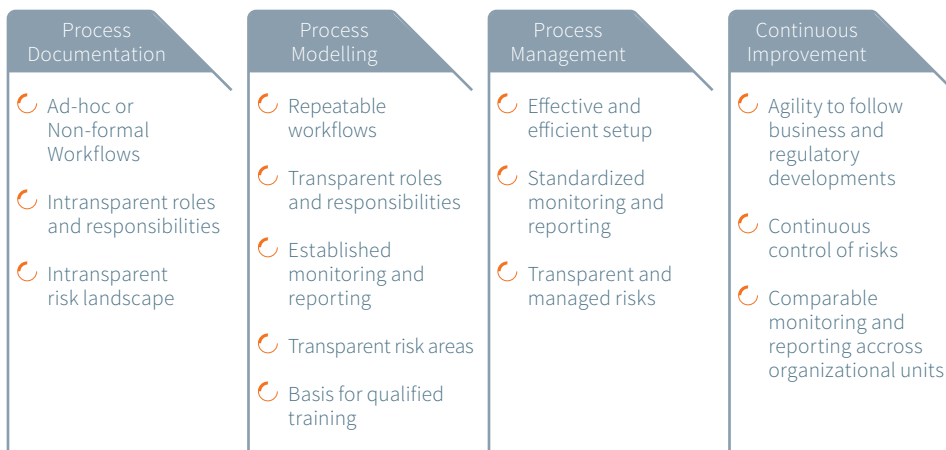
Based on the Compliance Framework Synpulse has defined, processes can be easily structured into themes on a high level, standardized on the level of activities and tailored to the specific needs on the task level. While themes define the core Compliance areas, the standardized activities of the Compliance circle define the required actions to take to ad-

dress each theme. On the task level, the specific requirements for each theme are modeled. Also, on this level, work instructions and controls are defined (see Graph below).

The process framework developed by Synpulse thus allows a quick overview of Compliance activities in order to verify completeness. It is designed for agility, promoting a tailor-made setup of individual Compliance functions of any size.

3.5 Hot Spot – White Spot Coverage

Especially within the field of the Compliance function, it is of high importance that all involved management levels communicate with a common language. To mitigate additional and



Graph: Process documentation enables continuous improvement of the Compliance function.

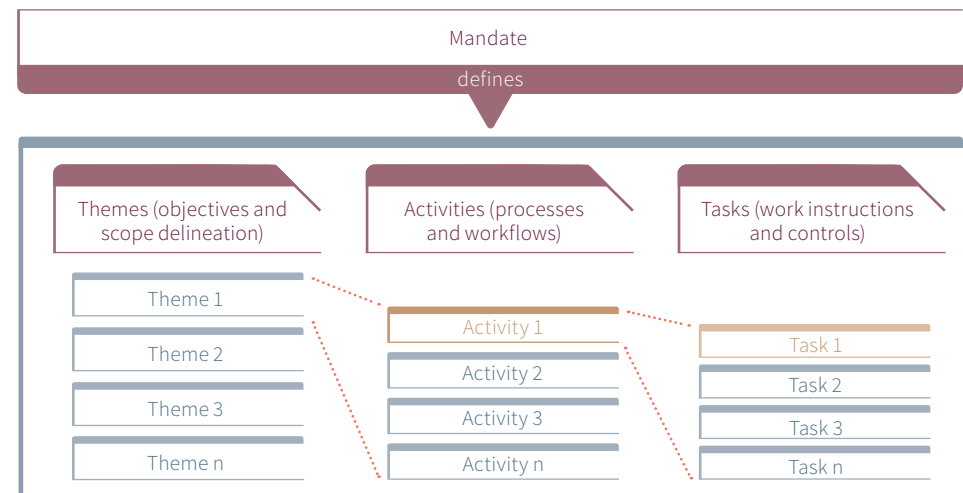
unwanted risks of internal communication, the concept of “Hot Spot – White Spot Coverage” enables the responsible management level to stringently communicate about specific topics on the broad Compliance risk landscape.

The internal definition of the terms “hot spot” and “white spot” is at the beginning of the implementation of this concept. The term “hot spot” is reserved for Compliance-relevant areas of interest that have recently changed and/or have become significant due to changes within the institution or its surroundings. In contrast to the already identified and probably mitigated Compliance risks, the hot spots need additional attention and an increased pace in the analysis of the possible areas of cause and the potential impacts on the respective risk dimension. The mitigation or even

circumvention of Compliance hot spots will be prioritized after realignment of the Compliance function activities.

The “white spot” concept is commonly used to define the reach of the Compliance function. White spot definition encompasses the areas where the Compliance function is not in a position to control and manage inherent risks, or describes topics where the Compliance representatives decided that they will not cover the inherent risks within the current setup.

Prioritization of hot spots, inherent risks and white spots is used to underline the importance of targeted Compliance activities. Hot spots and white spots are the cornerstones for successfully communicating the Compliance risk situation. Hot spots and white spots thus are



Graph: Process definition is based on a hierarchical decomposition of the mandate.

key success factors when planning targeted Compliance activities and accordingly setting up an organization.

3.6 Policy / Directive Definition

Directives (synonym for internal policies) are the basis of the daily Compliance work. In order to be able to set up a transparent, standardized Compliance function, internal policies and directives must be adequately designed.

First, policies assign the power to the Compliance function by making employees responsible for conducting business according to legal and moral standards. Second, policies assign the power to supervise business activities in order to sustain the bank's good reputation. Third, the policies clearly delineate the responsibilities of employees, line management and Compliance personnel.

If policies are not adapted to the setup of the Compliance function, severe competence conflicts may result. Regulations may be neglected, and therefore inappropriate business activities may occur.

Since the Compliance framework is based on themes, defined minimum standards and local requirements, directives shall be structured alike – facilitating implementation of directives in international locations.

Each policy thus defines:

- Theme and scope

- Minimum standard
- Local adaptations

Policies define the goals and rules, but not the activities on how to achieve the goals. Thus, policies define the input and output of processes, the roles and responsibilities, but not the processes themselves. The issuer of the policy should be responsible to assure compliance to the very policy.

By defining policies based on the Compliance framework, various Compliance issues can be handled effectively:

- Policies set the foundation for the Hot Spot – White Spot Coverage
- Completeness of themes and standards in international setup can be verified
- Management of Compliance risks becomes transparent and comparable across locations

Policy definition is triggered by the definition of the Compliance mandate. Policies are set up as a sub-project of the international Compliance function alignment. Definition is conducted in accordance with selected stakeholders. The theme-leads are responsible to kick off and successfully conclude implementation of policies with or in the Compliance function. Aligning the policies structure is a key aspect to assure fulfillment of the Compliance mandate.

3.7 Monitoring

3.7.1 Monitoring Definition

Monitoring sets the basis for a high quality of Compliance risk mitigation. Monitoring mitigates risks by ensuring that regulations are adhered to through supervision. However, monitoring is always a question of resources.

Simply because it is impossible to monitor everything, Compliance has to solve two critical issues. Do I monitor the right things, and is monitoring performed the right way?

A proper monitoring program should contain regular and extraordinary audits. Regular monitoring is based on defined processes and draws information from applications used in these processes. Regular monitoring thus relies on defined, automated checks. For regular monitoring, it is thus essential to define parameters identifying suspicious transactions, unwanted customers or disobedient employees. Technical support will help to identify the essential items. However, parameters must be reviewed and adjusted regularly.

Extraordinary audits are normally based on special subject areas. They help the Compliance organization to get a better feeling for potential risks in areas that are currently not, or insufficiently, covered. Typically, extraordinary audits are triggered from risk assessments within a specific theme and, if deficiencies are found, may lead to redesign of the regular monitoring. Extraordinary audits have to be conducted regularly, but on varying subjects. By

applying a monitoring program and extraordinary audits, Compliance can decrease the risk of breaches of regulations. Furthermore, the extraordinary audits indicate flaws in the monitoring program, thus assuring that the right things are monitored.

3.7.2 Monitoring Implementation

The implementation of monitoring is the direct consequence of the Monitoring Definition. The implementation requires a delineation of monitoring requirements from business and Compliance side, the definition of events to monitor and furthermore according tool and management support.

Special attention has to be paid to the definition of resources, as the result of the monitoring is hardly measurable. Therefore, a systematic approach to define resource and tool requirements is needed. As for the resources, it is important to set monitoring goals. Additionally, time for special investigations is to be planned and assigned to the resources. By conducting the special investigations, Compliance officers will identify hot spots that may not necessarily be addressed in the automated systems.

3.8 Compliance Reporting

3.8.1 Reporting Requirements

Compliance reporting aims at providing transparency of Compliance-related topics and issues.

On the one hand, Compliance reporting serves as an important indicator for the company-wi-

de risk management. On the other hand, the regulator asks for the evidence that legal and regulatory requirements are fully adhered to.

Compliance reporting supplies a wide range of internal and external stakeholders with information tailored to their specific needs. To ideally realize the benefits from comprehensive Compliance reporting, efficient workflows, tool support as well as proper roles and responsibilities have to be defined.

3.8.2 Reporting Tool Support

By deciding to use an integrated Compliance reporting system, a company can effectuate various advantages:

- ⦿ Reduction of Compliance reporting cycle or production time by streamlining and automating report submission and administration
- ⦿ Increase of data accuracy and availability
- ⦿ Minimization of costs associated with printing, distributing, storing, and managing printed form

Tool-supported Compliance reporting also allows decentralized information gathering and the compilation of consolidated reporting tailored to the hierarchy level, i.e. address-see-oriented reporting.

3.9 Compliance Training

All regulations and policies are useless if they are not adhered to. It is therefore most important

to assure knowledge of policies as well as consequences in case of disregard. A consistent Compliance training approach throughout the organization is to be established in order to promote the Compliance values.

3.9.1 Training Concept Definition

Successful training is always based on a stringent training concept, as depicted below.

Step 1: Identify all the employees within the bank who have a need for Compliance training (e.g. Relationship Managers, Legal and Compliance staff) and group them into user profiles.

Step 2: Define the training modules (e.g. CDB '03, anti-money laundering, bank-specific directives) based on the training needs.

Step 3: Assign modules to profiles. As a result, every employee will know in which Compliance trainings he will have to participate.

3.9.2 Training Quality Assurance

The depicted training concept incorporates three major activities: identification and adaptation of training content, assessment of training effectiveness, and trainee management.

The following activities are thus required in order to implement the integrated training concept (see graph on next page):

1. A monitoring process has to be established to recognize changes and to thus adapt training content.
2. The effect of the training sessions must

be assessed by tests. Standardized tests need to be designed.

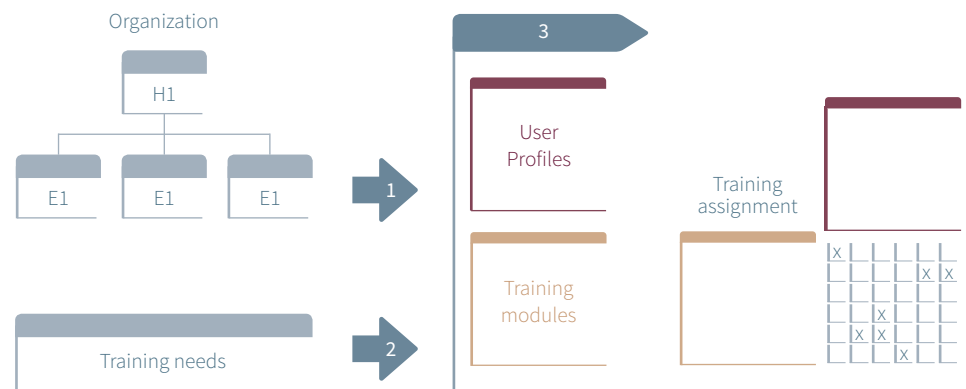
3. Feedback from trainees is essential to advance the Compliance training. Feedback forms and coordination must be established.
4. An overall controlling process, including instruments, has to be implemented. This may be essential for communication to auditors.

An integrated Compliance training approach is crucial to establish a Compliance culture throughout the bank. With Synpulse' proven model, maintenance of existing training content as well as the efficient development of new highquality Compliance training modules is assured.

3.10 International Legal & Compliance Roll-Out

3.10.1 Goals of the Roll-Out

A standardized setup of the Compliance function facilitates fulfillment of the Compliance mandate across international organizations. By basing each location's setup on a common Compliance framework, higher transparency will lead to a more efficient management and control of the Compliance activities.



Graph: Training concept approach.

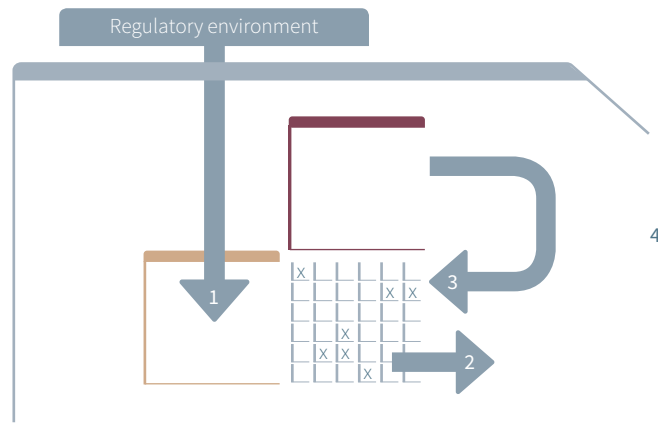
Independent setups within each international location have shown several insufficiencies in fulfilling the Compliance mandate:

- Gaps in the Compliance function due to missing definitions and rules.
- Identification of gaps is hindered by varying processes and roles & responsibilities.
- Compliance setup is assessed, monitored and controlled individually for each location, which leads to excessive management and coordination efforts.
- Reported figures are hardly comparable since underlying rationales are defined differently.

○ The Compliance function is constantly struggling to keep up with regulatory developments due to lacking transparency within the international setup.

The above-listed difficulties mainly stem from non-convergent international regulations. The diverging regulations that lead to these difficulties are depicted on the next page as the “cross of international Compliance functions”. As a result of the diverging requirements, the organization is burdened with significant efforts to follow regulatory developments across the globe instead of fulfilling daily work.

By establishing a transparent organization, the completeness of Compliance activities can be supervised and guaranteed – global and local requirements are made manageable.



Graph: Quality assurance processes.

le, the activities performed can be verified against a pre-defined overarching Compliance framework.

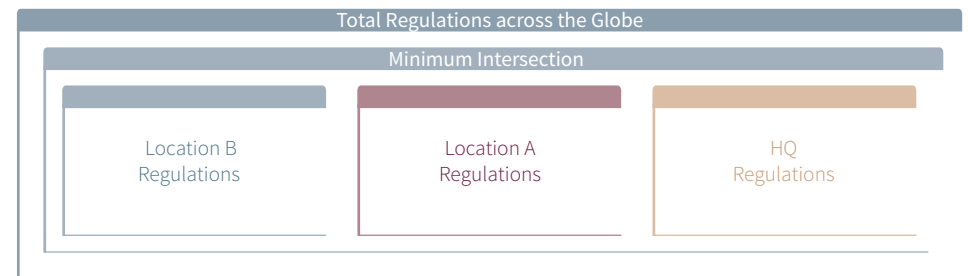
A transparent organization also ease communication – roles get equally defined across locations, terms are used with the same meaning. Reporting of Compliance risks and issues benefits from standardized processes and measures and thus delivers transparent figures. Finally, the ever-changing regulatory requirements can be handled in a joint approach across locations – the Compliance network becomes resilient to change. A transparent organization is achieved by aligning international locations to a coarse framework. The framework makes the cross of international Compliance manageable. Basing the international setup on this framework thus improves efficiency and effectiveness of the international Compliance function.

3.10.2 The Framework to be Rolled out

As regulations vary across locations, the framework to be rolled out must be flexible in order to incorporate local regulations. The applicable regulations for each location are defined by two major components: the minimum standards required by headquarters plus the local regulative requirements. The following diagram shows how minimum standards relate to local requirements:

Minimum Standards

Minimum standards define the Compliance requirements that apply for all locations. The minimum standards are therefore defined by the requirements of the headquarters’ regulatory requirements for international business.



Graph: The cross of international Compliance functions – requirements diverge for each location.

Local Requirements

The local requirements define Compliance requirements that apply for local business.

Applicable Standards

Applicable Compliance standards are the minimum standards plus the local requirements. The Compliance framework comprises all necessary elements in order to guarantee the conformance to the minimum standards. The necessary elements are depicted in the next section.

3.10.3 Framework Components

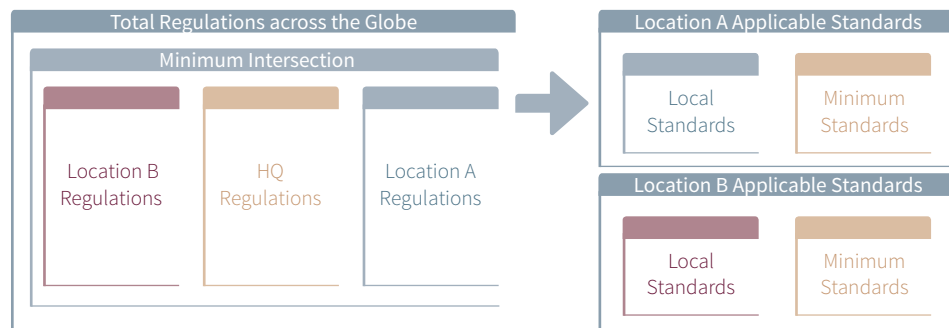
In order to establish a transparent international Compliance function, all elements of the local Compliance functions are aligned to the minimum standards. The Compliance

function always comprises the elements depicted below. Each of these elements is aligned to the minimum standards during the implementation:

In order to implement the applicable standards within the local organizations, each element of the minimum standard can be adapted to meet local requirements.

Therefore, the local Compliance organization is defined as follows:

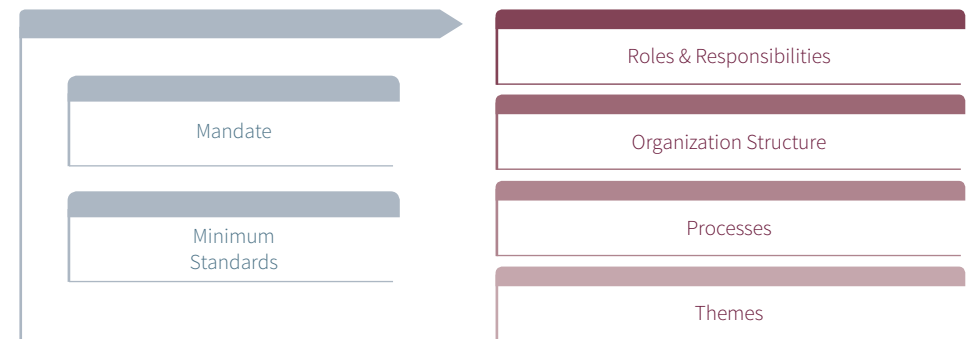
1. Mandate as defined in minimum standard plus local requirements
2. Organization structure as defined in minimum standard plus local requirements



Graph: The framework resolves the cross of international Compliance functions by defining minimum standards.

3. Processes as defined in minimum standard plus local requirements
4. Roles & responsibilities as defined in minimum standard plus local requirements
5. Special topics as defined in minimum standard plus local requirements
 - a. Compliance-specific topics
 - b. Management and employee development topics
 - c. Information technology topics

When defining the local organization structures, each of the above five elements is analyzed and adapted to local requirements. The local requirements must therefore be precisely documented and kept distinct from the minimum standards. Because that clear distinction between local and minimum standards, changes within either local requirements or headquarters regulations can be incorporated swiftly. The international Compliance function becomes resilient to change.



Graph: The mandate and minimum standards define the setup of each organizational element.

3.10.4 The Roll-Out Procedure

Implementing the framework in each location requires thorough management of the minimum standards. As the framework is rolled out, the framework itself might be adjusted and optimized to suit the complex requirements. The advancement of the implemented framework and subsequent changes within all locations is a key success factor. Managing the evolution of the framework becomes a core competence of headquarters Compliance organization.

In order to promote advancement of the framework and decrease risk of inadequate setups, a phased approach to roll out the frame-

work in the international locations is proposed. The first phase implements the framework adapted to the local regulations at the headquarters. Subsequent phases implement the framework for one location each, incorporating the know-how gathered in previous setups. The phased approach proposed by Synpulse is depicted on the next page:

Each implementation step can be conducted according to the STRIPmethod® for organizational development. The STRIPmethod® provides efficient and effective means to analyze gaps and align the organizational elements to the minimum standards.



Graph: Minimum standards and local requirements define the local setup of all elements.

4 Compliance Special Topics

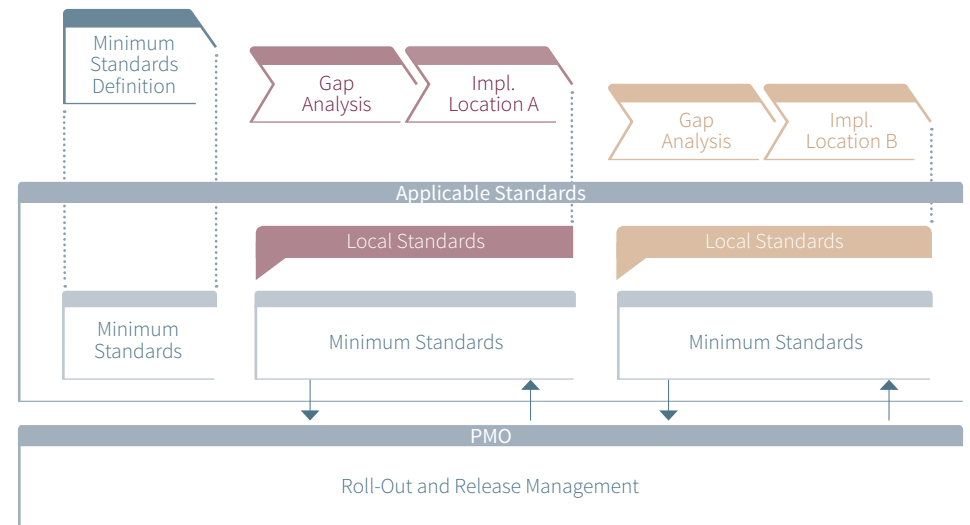
4.1 Analysis and Solutions for Conflicts of Interest

The Swiss Federal Banking Commission, e.g., emphasizes the avoidance and/or disclosure of conflicts of interest as one of the main objectives. It is therefore a vital concern for financial institutions to identify and disclose actual and potential conflicts of interest.

Conflicts of interests arise primarily when and if a person is in the situation to realize that his/her action might be favorable for one party and, at the same time, disadvantageous or

even harmful to another party. That person is often stuck in such a situation due to circumstances or acts of third parties and seldom because of an effort on his/her part. In order to be able to manage actual and potential conflicts of interest, the company needs to assess and evaluate the current situation thoroughly.

Synpulse developed a structured approach to conduct the analysis and, further on, to identify possible solutions for the uncovered conflicts of interest. The conflict situations are clearly distinguishable by the respective rela-

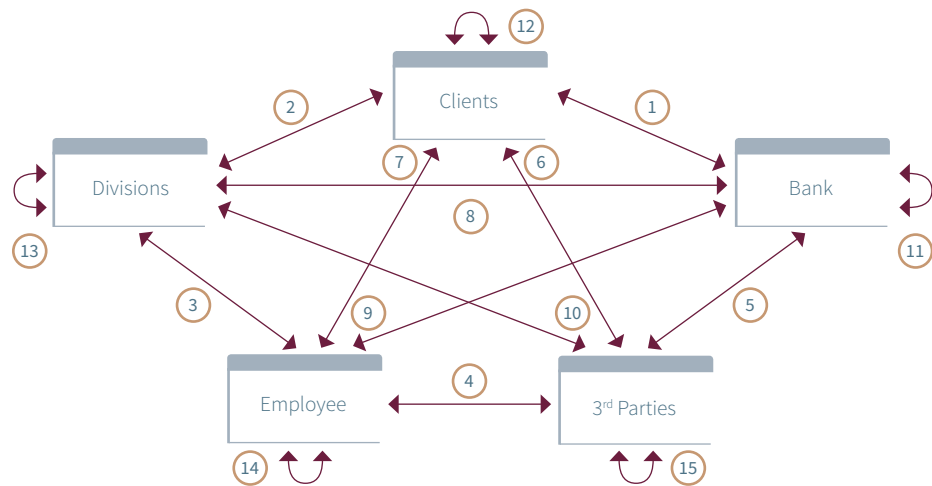


Graph: The implementation of the transparent organization follows a phased approach in which organizational elements are aligned to the minimal standards.

on between the involved parties. Depending on the focus of the assessment or the business orientation of the financial institute, there are up to 15 different relations that can be addressed within the analysis, as depicted in the following graph.

It is imperative to prioritize and regroup the relations according to the group of employees that are participating in the assessment. The level of the employee within the organization and the specialization of the business unit the employee works in will influence the perception and the actual understanding of the employee about conflicts of interests he/she is, or might be, experiencing.

By composing a targeted questionnaire and interview agenda, the focus can be set on the topics from which the Compliance function expects considerable potential for conflicts of interest. The results of the assessment then have to be grouped and crosschecked with the current mitigation measures already in place to distinguish between issues that came up based upon actually unsolved or uncovered delicate situations and issues that arose because of a lack of knowledge of internal processes and guidelines. It is the responsibility of the respective Compliance representatives to evaluate the inherent risks of the uncovered conflicts of interest. The executives will have to judge if the identified risks can be mitigated or



Graph: Interest groups and their relationships.

if the situation leading to the conflict of interest has to be avoided at all.

In any case, the accurate analysis of persistent and possible conflicts of interest is a crucial element for the widely claimed Compliance function. The assignment of Synpulse will help you to profit from the broad experience in conflicts of interest analysis.

4.2 Compliance Risk Assessment

The regulators demand a high level of transparency from the financial institutions regarding Compliance risks. On the other hand, the regulated companies do not get precise instructions on how to obtain the requested level of transparency. In order to be prepared for internal or external reviews, the financial institutions have an imperative need for identifying and managing the risk of audit findings. A

structured approach to first assess the current Compliance risk portfolio and later to regularly update the assessed situation is recommended by Synpulse.

In contrast to the narrow definition of operational risks that have to be assessed according to the Basel II regulation, the Compliance risk structure bears much more uncertainty. The methodology that Synpulse developed for Compliance risk assessment is based upon the chain of causation and specific themes.

The chain of causation describes how an event causes an impact in case of a breach of regulations. Moreover, the possible preventing measures are considered in the structured and systematic approach. The themes focus on breaches of present laws, regulatory directives and/or internal guidelines of professional conduct.



Graph: The chain of causation.

Within the chain of causation, the initial event serves as starting point for further analysis of issues after the assessment. Only based on this vital information, the appropriate measures can be defined to mitigate identified risks or even to circumvent the occurrence of a specific breach of rule.

Broad experience is needed to conduct a structured assessment within a national or even international financial institution. It is important to identify and address the right participants as well as to structure the questionnaire used in the assessment, which is one of the key success elements. Synpulse developed an integrated tool that supports the professional user in designing the questionnaire as well as in the direct production of the respective questionnaires. The coherent loading of the assessed information into the analysis database is also part of its functionality.

Based on the assessed answers, a complex technical analysis is conducted in order to identify correlations between influencing factors, areas of cause and impact dimensions. Based on manifold detail results, the drawing of a Compliance risk landscape becomes possible. A sample Compliance risk landscape is shown below. By sorting the respective information, the risk topics can be prioritized on the subject of need of management attention.

The engagement of professional support and the use of an integrated questionnaire tool will empower your company to assess the current Compliance risk landscape in a structured and reliable way.

4.3 Research Compliance

The area of private banking research experiences increased regulatory pressure due to strengthened customer protection laws. The requirements for information disclosure are growing within Switzerland as well as in the European Union, with the German regulator BaFin in a precursor role. Additionally, the business units increase the pressure on the research departments to prepare research reports that are compliant with numerous local jurisdictions at once. Therefore, the subject of Research Compliance becomes increasingly important.

Today's research publication workflows often rely on the expertise of a small number of highly qualified employees who have covered the topic for years. Considerable output increases or resource-specific changes thus heavily influence the output quality and therefore the amount of inherent Compliance risks from research reports.

Another trigger for workflow disturbance is the internationalization of research production. Even though Compliance enables the business to distribute the reports across more countries, the sponsorship for such Research Compliance initiatives often remains within the Compliance function. As such, Compliance eventually becomes responsible for international publications.

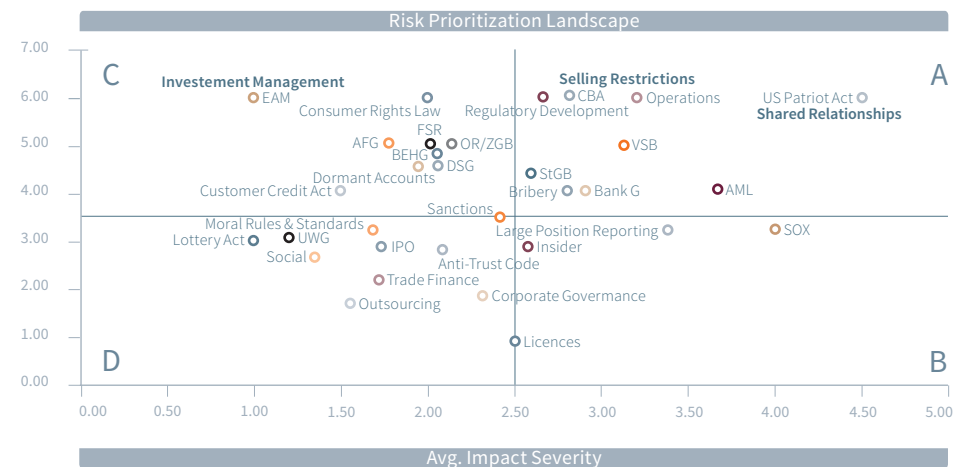
Synpulse supports financial institutions in the development of new Research Compliance concepts as well as in the assessment of addi-

tional research distribution requirements within previously untouched jurisdictions. Experience shows that the assessment of the actual workflows is a key success element in order to build a basis for conjoint discussions. Based on the as-is workflows, the future processes can be designed and verified. The integration of international units into the process constitutes the need for an open and integrating communication in order to create as much buy-in as possible on all involved levels.

After the alignment of the future collaboration and the definition of the forthcoming processes, it is imperative to prepare all necessary documentation and internal policies to cons-

titute the new workflows within the bank. The clear definition of process owners as well as the definition of roles with their respective responsibilities within the process of day-to-day research production and distribution are the two main success criteria.

To ensure a high-quality standard in the future research production and distribution processes, it is a vital element to introduce powerful control mechanisms within the involved units as well as on the interfaces between them. Each employee must also be made responsible for quality assurance by adding the desired level of quality to the annual management objectives. These issues have to be covered in a



Graph: The landscape of Compliance risks.

holistic approach to lift Research Compliance to a new level. The complex management of the manifold stakeholders and the development of an integrated process model are the topics where professional consultancy, as demonstrated by Synpulse, can be leveraged at its best.

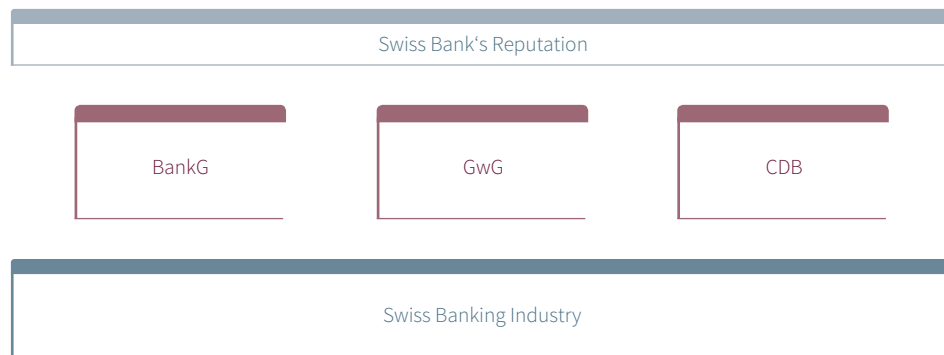
4.4 CDB Audit Definition

The Swiss banking industry has many assets, but its reputation is surely the most important. It is therefore in the banks' primary interests to prevent the financial proceeds of criminal activities and to safeguard its good name.

The agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB), the Banking Law (BankG) and the Money Laundering Law (GwG) constitute the basis of the Swiss banking regulatory framework.

A Swiss bank could suffer severe punishment – financial, organizational even personal – if it violates the CDB regulations. But how can a Swiss bank be sure about its thorough compliance to CDB? The CDB regulations require a risk-oriented proceeding. This obligation is not deterministic and thus can be interpreted in various ways by the relationship management.

A CDB Audit is a methodical examination of all processes, roles and responsibilities, tools and documentations with respect to CDB compliance. The audit reviews the risk-oriented proceedings for completeness and effectiveness. Any shortcomings out of the audit implicate a self-report to the CDB supervisory board. However, to dissimulate the results and to risk a complaint by an external party could lead to even more painful measures.



Graph: Foundation to sustain the Swiss banks' good reputation.

Elements of a CDB Audit

A CDB Audit is a very effective instrument to determine the current level of Compliance of a Swiss bank regarding CDB.

The following points have to be reviewed and examined in order to determine the quality of the CDB implementation:

- Internal policies, roles and responsibilities
- Processes concerning Compliance and client identification
- Training documentation
- Client documentation (Identification, Forms A, etc.)

The audit itself points out the gaps to complete CDB compliance. Post-processing projects have to be implemented in order to close any gaps. The project portfolio to close gaps could, for example, include completion of client identification documents, adjustments to policies and processes as well as training for relationship management or other involved internal parties. However, CDB Audits depict the quality of Compliance in the present and do not guarantee its ongoing validity. Corresponding changes of the organization and the processes have to be addressed in an ongoing change management.

4.5 Anti-Money Laundering (AML)

According to the SFBC (Swiss Federal Banking Commission), all banks are obliged to take measures to prevent and/or detect money laundering activities. It is in the banks' best interests to avoid any money laundering cases since the public has proven to be sensitive toward inappropriate business conduct.

The measures taken by the banks in order to prevent money laundering can be divided into three areas:

- Know your customer
- Know your transactions
- Know your processes

These three areas and strategies to manage the AML Compliance risks are described in detail below. The requirements for effective tool support are explained at the end.

4.5.1 Know Your Customer

Banks must group their clients into different risk groups. Relationships with higher risks have to be monitored and surveyed more thoroughly.

A three-step approach is suggested to implement this requirement:

1. Definition of risk factors (e.g. nationality, domicile, occupation of client)
2. Definition and implementation of risk profiling model
3. Definition and implementation of processes to assure that changes in risk factors are recognized and, if necessary, risk profile of client is updated and constantly monitored

A series of software applications has been developed over the recent years, which support the banks in supervising their transactions. Depending on the tool used, a specific proceeding to develop the rule sets can be applied.

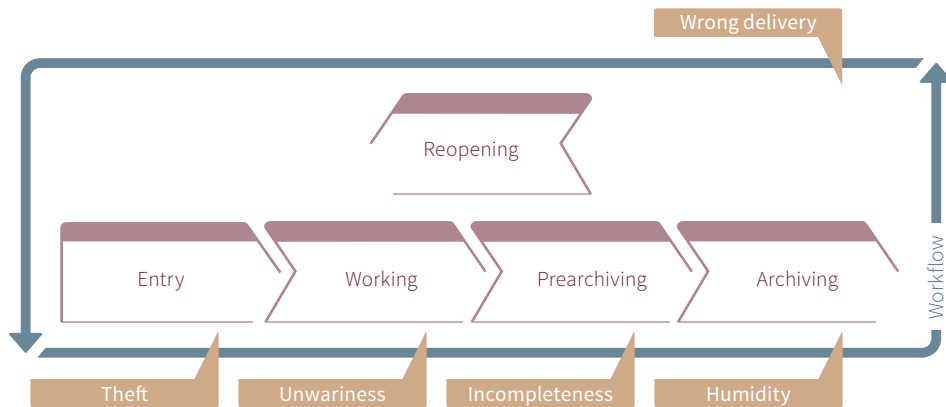
4.5.3 Know Your Processes

Issues that arise based on changes in the risk profile or on unusual transaction behavior have to be analyzed in detail. The respective processes have to be developed and implemented.

4.5.2 Know Your Transactions

In what case is a single transaction or transaction behavior over a time period suspicious? To answer this question a well-balanced framework of thresholds has to be developed and set in place.

Appropriate competences have to be assigned in the worldwide Compliance organization to escalate such issues. For example, the question has to be addressed whether issues are handled centrally by a dedicated AML team, or whether issues are directly assigned to the respective relationship manager.



Graph: Various hazards may lead to document loss or damage during the document lifecycle.

Documenting the processes as described in this booklet provides the starting point to “knowing your processes” and managing identified issues.

4.5.4 AML Tool Support

Tool support is essential to fulfill the listed requirements. Based on the proven SPEEDmethod®, Synpulse is able to evaluate and implement standard software packages as well as to develop customized and integrated AML systems.

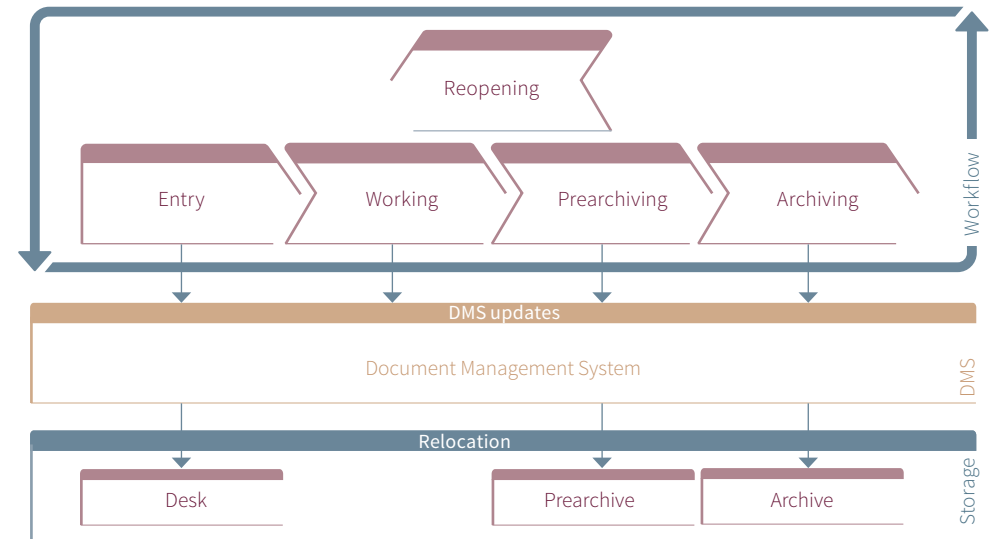
4.5.5 AML Assessment

Synpulse can also help you to assure that your AML framework is up-to-date, still fits your needs and supports you in re-defining and implementing the processes, measures and tools in place.

4.6 Document Management and Security

4.6.1 Documents are Major L&C Assets

Legal & Compliance depends on accurate and complete documentation. Whether as evidence in court or as information for auditors: documents that enter the Legal & Compliance organization are destined to be requested in case of legal actions. Thus, documents are the major assets of the Legal & Compliance organization. Most Legal & Compliance organizations have experienced cases of lost or damaged documents. Possible losses or damage can happen during the whole lifecycle of a document, as depicted in the graph .



Graph: Document location is tracked in the document management system; documents are thus searchable and available at any time in the document lifecycle.

Eventually, documents can be re-requested from customers. However, a missing document may lead to punishment or fines. The bank's credibility and reputation may be severely damaged. Nevertheless, the quality of the internal document management and the security of documents are largely assumed "OK". Document management arises from neglect only after major issues have occurred.

Establishing document management within the Legal & Compliance organization reduces the risk of losing documents and additionally increases the efficiency of each employee. By defining simple processes and providing according tool support, document storage and retrieval is accelerated massively. Burdensome searches for documents are no longer necessary, and document security is assured.

4.6.2 No Missing Documents

Preventing losses of physical documents requires constant monitoring of the document locations: from the moment a document enters the Legal & Compliance organization until its final archiving, the location of the document must be tracked in order to make it available.

The tracking of documents requires a defined document management process as well as a supporting tool. Registering each document at its entry, the document location can be tracked throughout its lifecycle, as depicted below.

Tracking the document in the document management tool, the document flow can be monitored and alerts can be generated if documents are not properly handled. Furthermore,





documents become easily retrievable by looking up their location in the management tool. Last but not least, the quality of the document management can be reported from the document management tool. Bad surprises, such as missing documents, can thus largely be prevented.

4.6.3 No Damaged Documents

Safe storage of documents as well as tracking is crucial in order to prevent lost or damaged documents.

Archives are typically secured against physical hazards. However, as long as a document is not archived, it is usually not, or only weakly, secured against any hazard. The tracking of documents therefore plays a vital role in assuring that documents are stored in their safest location.

Safely storing the documentation comprises various activities:

-  Access must be controlled
-  Documents must be physically secured (fire, water, humidity, etc.)
-  Documents must retain original content
-  Documents must be searchable

By managing documents with a central tool, the amount of time a document resides in "unsafe" locations can be minimized. Documents that seem to be stuck in the workflow can be identified, and personnel can be made res-

possible for delays or inadequate handling of documents. Qualitative and quantitative management of documentation thus assures completeness and availability of documents – the major assets of Legal & Compliance.

4.6.4 Achieving Document Security

In order to achieve document security, the two aforementioned measures must be implemented: tracking and secure storage of documents. However, the first step toward document security often aims at immediately cleaning up the current document storage locations.

Synpulse proposes a project covering the below listed activities in order to achieve document security:

1. Immediate measures
2. Process definition
3. Tool selection or adaptation
4. Implementation of new document management system and process
5. Ongoing monitoring of document security

Immediate measures aim at securing crucial documents and/or securing storage locations. In parallel, the document management process and tool support can be specified. Finally, the new document management can be rolled out. The staff is therefore introduced to the document management processes. Synpulse supports these tasks by its SPEEDmethod® and project management experience.

Concluding the project, it is proposed that ongoing monitoring of the document management quality be started. Ongoing, automatic monitoring and reporting of document flows will identify any neglected documents that might require actions. The documents of the Legal & Compliance function thus become secured and available at any time.

4.7 Compliance Tool Evaluation and Implementation Support

A vast variety of Compliance systems is available. However, since the regulatory environment as well as internal rules and regulations differ for each bank, an optimal fit of one existing tool seems to be difficult to realize.

The purpose of Compliance tool evaluation therefore is to determine which system meets the individual Compliance organization's business needs best and how this system should be adapted and implemented.

Synpulse' SPEEDmethod® describes the Compliance software evaluation process in a series of consecutive steps:

Step 1: Market survey. Define market search criteria to get a market overview. The answers to the Request for Information are used to shorten the Long List to about three entries (Short List). Only the remaining three software packages will be subject to the further evaluation.

Step 2: Criteria development. Describe the specific requirements for the new system and

the detailed criteria for choosing a suitable standard software package. This results in a request for proposal for each of the tools on the short list.

Step 3: Evaluation and selection. Select the Compliance software package that meets the requirements best and define how the selected system can be integrated in the existing IT architecture.

Step 4: Conversion approach. Prepare the conversion process for the new system. This includes the definition of the training concept, the test strategy and the conversion strategy.

Step 5: System design. Design the system prior to committing to the implementation phase and ensure that the system implementation phase is possible based on a feasible design. Synpulse cannot only help you evaluate the tools you need, but also support you during the implementation using its well-proven standardized project approaches and its successful SPEEDmethod® project management methodology.



Graph: Market survey approach.

5 Compliance Project Support

5.1 Project Portfolio Definition & Management

5.1.1 Project Portfolio Management

Project Portfolio Management (PPM) aims at managing the complexity of a series of projects by organizing them in a single portfolio. By doing this, PPM should provide transparency and increase the overall efficiency of the initiatives. Executives can then regularly review entire portfolios, spread resources appropriately and adjust projects to produce the highest returns.

In today's competitive and ever-changing business environment, organizations must be able to articulate their business objectives, ensure that resources are only committed to agreed goals and have the processes in place to actively monitor and keep them on track. The inability to do this will ultimately undermine the effort, time and money spent in the pursuit of profitable and competitive business.

5.1.2 Project Portfolio Approach

Synpulse' reliable project portfolio approach consists of two consecutive steps:

Step 1: Individual project proposals. In a first step, Synpulse prepares individual project proposals for each of the identified initiatives. These proposals include a clear definition of the project goals, the identification of pre-

quisites for a successful project accomplishment, a description of a concise project approach and timelines, a definition of project deliverables as well as an estimation of the project efforts.

To define the proposals, Synpulse separately interviews the various stakeholders of the respective project, formulates the project proposal based on the gathered information, and finally consolidates and discusses the interview results. This procedure will be conducted for each of the identified initiatives.

Documentation efforts will be held at a minimum since Synpulse can profit from many years of experience and reuse document templates from their own SPEEDmethod®.

Step 2: Proposal project portfolio. Based on the individual project proposals of the various initiatives, Synpulse then creates an overall project portfolio proposal. The portfolio enables an efficient and effective approach to target the individual initiatives. However, some of the initiatives might be merged together if a joint project could benefit from synergy effects. An optimal solution should be proposed based on the simulation of different staffing and cycle-time alternatives.

Establishing project portfolios enables executives to transparently monitor project pro-

gress and identify critical dependencies. PPM thus enables effective project work parallel to successful daily work.

5.2 Audit Task Force Management

5.2.1 Introduction to project management

Project Management is the discipline of defining and achieving targets while optimizing the use of resources (e.g. time, budget, people, materials) over the course of a project.

5.2.2 Common Problems

Projects often close without success

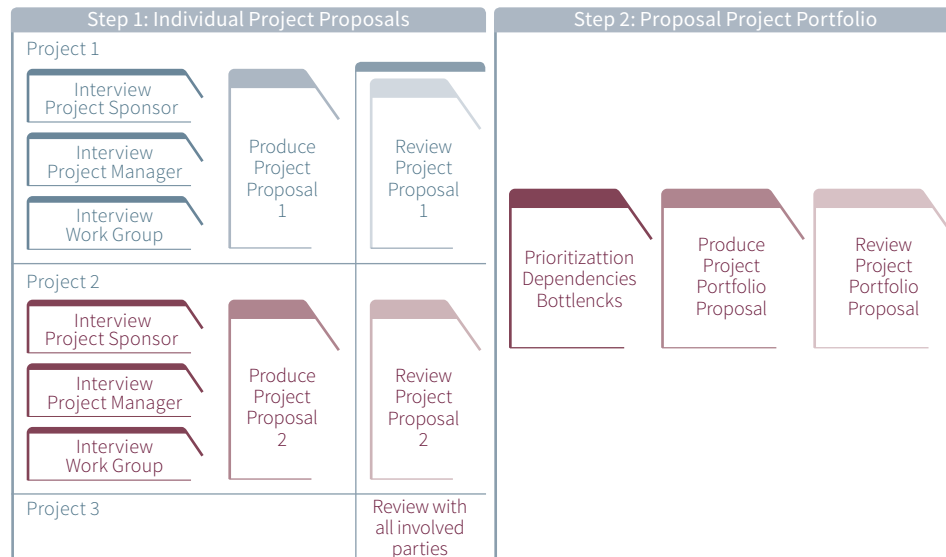
The success of a project prevails or fails with the competence of the project management. For task-force projects, the mission is even

more challenging because they are typically time-critical and demand the highest quality standards. Ineffective project management is the reason projects often fail to achieve the deadlines, exceed the approved budget, or sometimes even miss the targets.

Project management is not trivial

Project management is a complex task. However, employees with little or even no experience in project management are often assigned to this function. Additionally, internal resources usually have to continue their daily work besides their function as project manager.

These challenges frequently lead to capacity overload for the project manager. As a consequence, the project duration and project costs increase while the quality decreases.



Graph: Project portfolio approach.

5.2.3 Key Success Factors

Use of a project management methodology Applying a top-down approach and a structured and systematic proceeding, the complexity of a project can be managed and the targets can be accomplished.

Effective communication

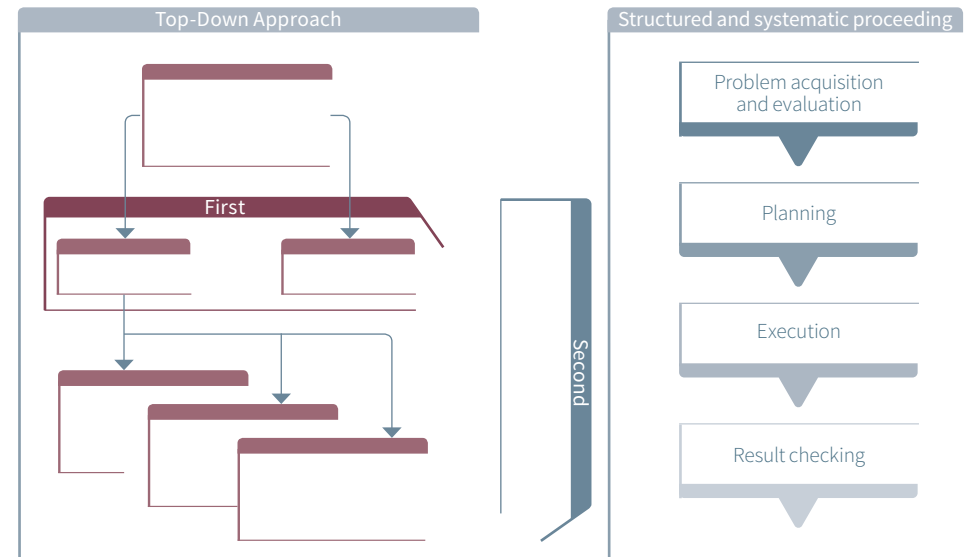
Continuous meetings and regular reporting cycles are the most important utilities for ensuring the communication flow through all levels of stakeholders. Standardized meeting agendas, meeting minutes and status reports facilitate achieving the aims and securing the results.

Technical knowledge

A functional leadership with extensive expertise ensures high-quality standards and a goal-oriented process.

Tool support

Audit projects usually handle a large amount of audit objects, therefore tool support is essential. Centralized databases with decentralized access are especially qualified because they simplify object tracking by allowing all authorized parties to keep data up-to-date.



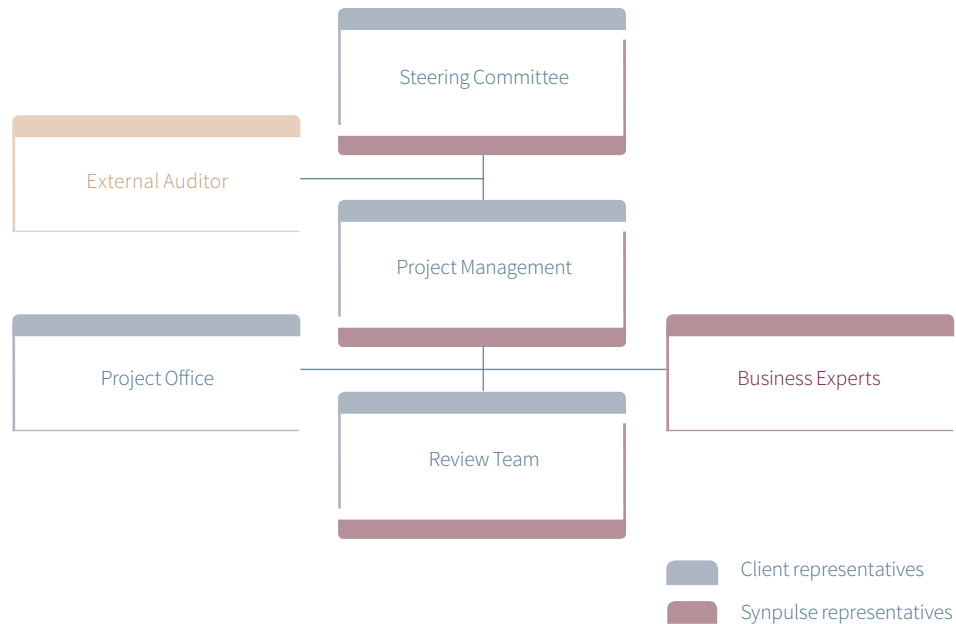
Graph: Example of project management methodology.

5.2.4 Synpulse' Added Value SPEEDmethod®

The SPEEDmethod® was developed by Synpulse as a means to successfully execute projects. This structured and systematic approach ensures that, together with the client, any project is successfully completed within the planned timeframe and budget.

Proven project organization

A lean and goal-oriented project organization is predestinated for audit task forces. Since Synpulse works in close cooperation with the client, a typical project organization could appear as shown in the graph below.



Graph: Cooperative project organization for audit task forces.

6 Getting Started with Compliance of Tomorrow

The Desire to Improve

Ambitious people always seek to improve themselves and their surroundings, but they are often overwhelmed by the complexity to do so.

Stringent approaches and methodologies as well as extensive experience are the best possible guarantees for turning ambition into reality.

An organization often seeks to acquire a helping hand in order to sufficiently address the challenges at hand and possible existing shortcomings.

Due to its widespread and specialized experience, Synpulse is able to understand your situation and provide the best possible help to improve the operational efficiency as well as to find the optimal setup of your Compliance organization.

About Synpulse

Through more than a decade of consultancy work, Synpulse managed to gather a broad understanding of the Compliance function and develop thorough methodologies to efficiently address the challenges to the corporate Compliance organization. Based on this profound professional experience, Synpulse defined a Compliance Competence Team. The team consists of partners, managers and senior consultants that were specially trained and preferably conducted Compliance projects.

The Compliance Competence Teams major tasks are as follows:

- Analyze the Compliance landscape and deduce necessary measures
- Strive for expertise in all Compliance themes
- Generate and share professional experience on our client engagements
- Develop comprehensive Compliance services for our clients
- Create consistent methodologies and project approaches

The Competence Team gathers and transfers the know-how that enables successful Compliance projects. Whether specific themes like AML are in scope, or whether an overarching risk assessment is requested, Synpulse brings its experience right to you.

Apart from specific Compliance know-how, Synpulse may add other specific values to your projects:

- Independency of a management consultant
- Broad experience through in-depth theme study and project engagements
- Willingness to take over responsibilities in your projects
- Swiss-based, surveying the national and international Compliance specifications for Swiss and international companies
- Flexible to easily adapt to your individual requirements and necessities



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