

SUBJECT **Announcing the “Cost of Compliance Standard” Contest**

“To change the game on compliance costs we must track them to attack them. What if we all got together and decided how to show compliance costs in a P&L statement? What if we paid CUs to help us with the concept and development of accounting methods, changes to income statements, budgets, and reports to move to a new level on compliance cost innovation?”

- Randy Karnes at 2013 CEO Strategies

How Are You Accounting for the Cost of Compliance Today?

Within the credit union industry, we often find ourselves saying “the cost of compliance is killing my credit union.” But how can we win this argument with our Boards, examiners, members, auditors, and regulators without a way to prove this is the case? We seem content to bellyache over what is intuitively depressing and maintain the status quo.

If we are to really innovate on the cost of compliance and risk management as an industry we must move towards doing the hard work of tracking and tactically improving how we approach compliance. We must design a standard way of calculating the cost of compliance that sets our network and our vested hopes for our industry square in its sights. AuditLink has been building business ideas around these very concepts:

1. The lowest cost for awareness—collective identification and focus on where compliance is going and where it is today.
2. The lowest cost of policy management—I am aware and I hold my firm accountable.
3. The lowest cost of procedures aligned with toolkits—we can execute and we have designed the models to do so.
4. The lowest cost of execution—we train, we evolve the processes and the tools, and we get the work done.
5. The lowest cost of auditing our performance—we verify and we have log managers on the job.

The only area where AuditLink is not working today is the idea of “opinion” on compliance; a tough nut to crack when it comes to cooperative compliance.

Two Contests in Two Years

Over the course of the next two years, AuditLink will hold two contests to develop a template to account for the cost of compliance and then to put it into practice. The first contest begins now and will revolve around getting CEOs, CFOs, and compliance professionals to develop an outline and process to actually account for compliance related costs. We’ll then announce the winners at the November CEO Strategies event. See below for contest details.

Beginning January 1, 2015, the second contest will revolve around the application of the templates in a real world environment in which compliance expenses are actually accounted for and recognized on the expense statement. We’ll announce the winners at next year’s Leadership Conference.

CU*Answers has graciously put up a total of \$10,000 for the two contests. Each contest will have three winners with first place receiving \$2,500, second place receiving \$1,500, and third receiving \$1,000. The only stipulation is that there must be a minimum of ten submissions for each contest, so you will need to encourage each other to give this some thought.

The First Contest Officially Begins July 8, 2014

Ideally, we hope to have the entire network agree to a single template. Although this is not necessary, having one template may make it an easier sell to win arguments about regulatory burden, requests for additional resources, or why the ROA has not been growing as expected. What might eventually be coined by our network as the “Cost of Compliance Standard” could become well-known by examiners and nationally accepted by CPAs and other third party auditors (similar to a FASB standard).

How to Enter

Start by [emailing Jim Vilker](#), VP of Professional Services to notify our team of your intentions to enter the contest. There is a limit of one entry per credit union preferably submitted by the credit union’s CFO or CEO. We want to see genuine commitment to this endeavor and having top leaders involved is critical. Winners will be announced at the CEO Strategies event in November 2014.

See the Cost of Compliance Standard Official Contest Rules for complete details.

What is Expected in an Entry?

Entries should address the following questions:

1. What are the costs associated with compliance?

Let’s view compliance costs as divided into different categories: *overt* and *covert* costs. *Overt* costs would contain those costs that are so obvious that the credit union actually may cut a check for a specific invoice. *Covert* costs are those that get buried in the daily operations and contain things such as regulatory review or policy administration. What other costs exist for your credit union? What category would they fall under? For example:

Overt Costs

- Forms
- BSA/ACH annual reviews
- Personnel
- Notices
- Training
- Daily log management (if using AuditLink)
- Periodic statements

Covert Costs

- Review and assimilation of new and changing regulations
- Review of regulatory requirements for new products and services
- Policy management
- Daily log management (if not using AuditLink)
- Exam management
- Third party annual risk assessments
- Annual risk assessments for BSA, OFAC, ACH, electronic services, social media.....

2. How should the chart of accounts be set up to best track these costs?

Once you’ve identified your costs of compliance, how would you account for these in your general ledger? Would you keep them all in one G/L or split them up based on *overt* vs. *covert*? The rub here revolves around where that expense was normally accounted for in the past. Take for example examination management. In the past that would have been accounted for in G/L 210 and 220, compensation and benefits. So do you create additional sub G/L accounts under those accounts or do you do overhead transfers from those accounts to a single G/L (or series located in close proximity)? For items that will be accounted for, include a brief description of the matrices used (for covert costs), tracking mechanisms if necessary, and general ledger chart of accounts associated with each item. Include if items will be accrued or accreted over the fiscal year and the frequency at which they will be expensed. Entries should be detailed to enhance adoptability by other credit unions!

3. What is the implementation plan for this standard, and how will you track costs?

The entry should contain a brief narrative on the philosophy, goal, and management of accounting for compliance including how the credit union will use the information in the future. The entry should also provide a plan for implementation and suggestions for how best to track costs once G/L considerations have been implemented. There is no formal format requirement but please take into account your audience where detail is the mantra of the accounting industry. Good Luck!

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