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Cost of Regulatory Compliance

Scope of project: To create a **starting point** to account for the cost of compliance in an effort to find ways to improve, reduce, or make more efficient the processes by which we are regulated to ensure safety and soundness.

Definition of Compliance: In general, compliance means conforming to a rule, such as a specification, policy, standard or law. Regulatory compliance describes the goal that organizations aspire to achieve in their efforts to ensure that they are aware of and take steps to comply with relevant laws and regulations. Due to the increasing number of regulations and need for operational transparency, organizations are increasingly adopting the use of consolidated and harmonized sets of compliance controls. This approach is used to ensure that all necessary governance requirements can be met without unnecessary duplication of effort and activity from resources.

Laying the Ground Work ~

Overt Cost

- Training – Board / Staff – Annual Planning Session
- Education & Certification of Compliance Staff
- BSA/OFAC/ACH annual reviews
- Daily/Weekly/Monthly Report Monitoring
 - Cash Structuring
 - Dormancy
 - File Maintenance
 - Security Override
 - Employee Security
 - Escheat/Unclaimed Property
- Personnel
- Third Party
 - CU RX
 - Commercial Alliance
 - CU Solutions – Misc Forms & Membership Cards
 - CLS (Compliance Systems) – TIS Disclosure Mgmt.
 - Cuna Mutual – Loan Liner – Misc Brochures & Loan Doc's
 - ATM Delivery Channel / Accessibility
 - In Branch Accessibility – Elevator & Handicapped Door
- Periodic Statements
- Notices – Privacy, delinquency, maturity, nsf, transfer, etc?

Covert Costs

- Review and assimilation of new and changing regulations
- Exam Management
- Review of regulatory requirements for new products and services
- Third party annual risk assessments
- Policy management
- Annual risk assessments for BSA, OFAC, ACH, GLBA, electronic services, social media
- Material Reprint – CUA, Disclosures, Forms, etc.

Brain Dump:

- Compensation & Benefits - Compliance Officer, CFO, CEO
- Annual Audit
- Business Lending Due Diligence
- Education & Training
- Annual Planning Session & BSA
- Organizational Meeting
- Policy / Disclosure Management
- Forms & Membership Brochures
- Annual Dues / Subscriptions – SAFE ACT
- ADA Compliance – Elevators, Handicap Parking, Handicap Auto Doors,
- Escheat Processing
- 990 & 990T Processing
- Retiree Benefit Processing - Actuarial
- PCI Compliance
- Third Party Due Diligence & Risk Profile
- Record Retention
- VISA Reporting Requirements
- SARS / CTRS

Product Profile Considerations (Hidden Compliance/Audit Expenses):

- Consumer Lending
- Business Lending
- Ancillary Products – Plastics, It's Me 247, CU Talk, A2A
- Regular Deposit Accounts
- Investment Deposit Accounts
- Transactional Accounts
- Collections
- Teller Area / Vault Management
- Marketing / Social Media / Website
- Information Technology/CYBERSecurity
- Human Resources

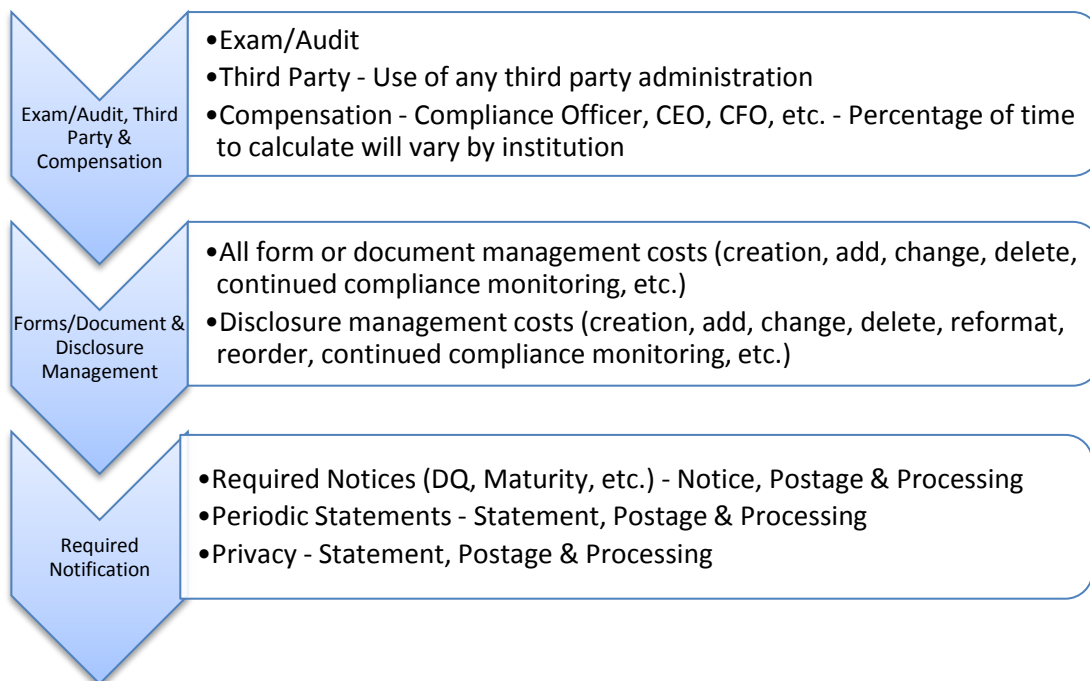
Conclusion and Summary of Template:

After many months of actually going through each invoice and documenting all the expenses that appeared to be even remotely related to a regulation; I found that it was almost an impossibility to start this project in such a granular way to produce a template for others to follow. With that being said, I over simplified my over granulated data to provide what I would call the “Step 1” to containing, understanding, or breaking out the “Cost of Compliance”. My thought is that you need to create a foundation or starting point to build from rather than try to build Rome in a day. I am very interested in moving forward with the construction of the “Cost of Compliance” as I believe this process will become very useful for other areas just the same.

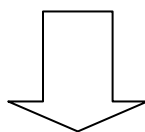
Define the Expenses

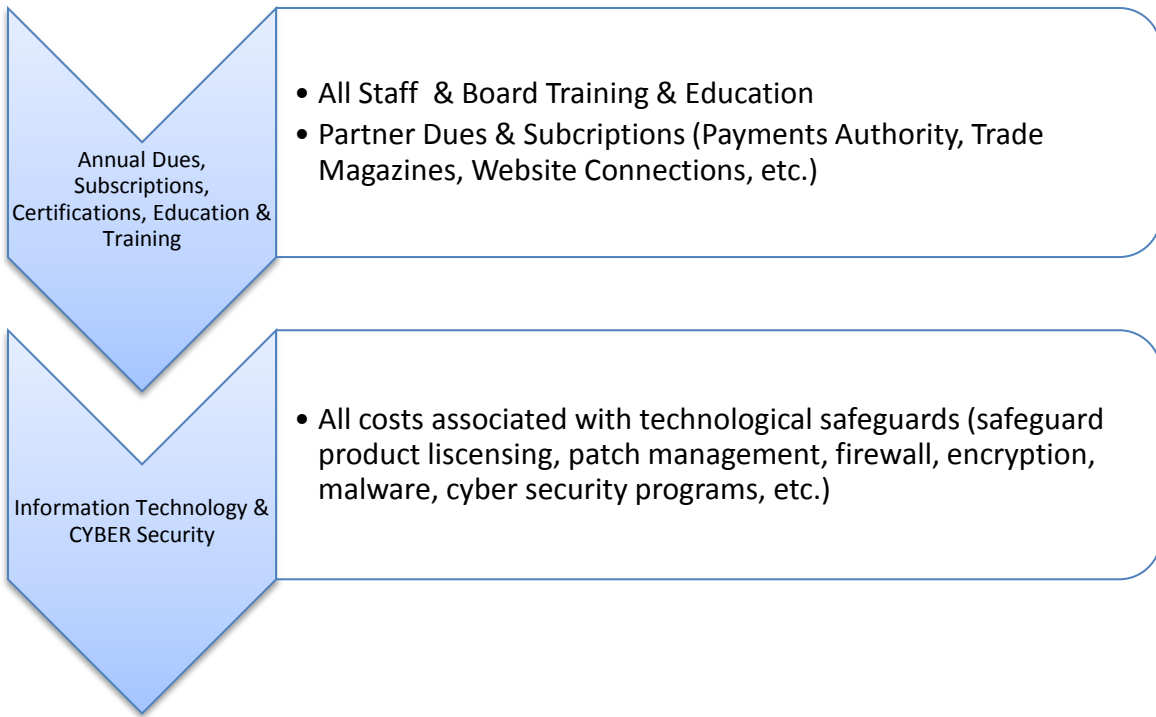
1. Each invoice/expense you receive, define any items that may be relevant to regulatory requirement.
2. Confirm the relevancy to the “Cost of Compliance” – Find out what it is and why it’s being charged.
3. Keep a file, log, track record, or whatever of the relevancy factor you confirmed.
4. Post the transaction within the category accordingly.

Categorize the Expenses



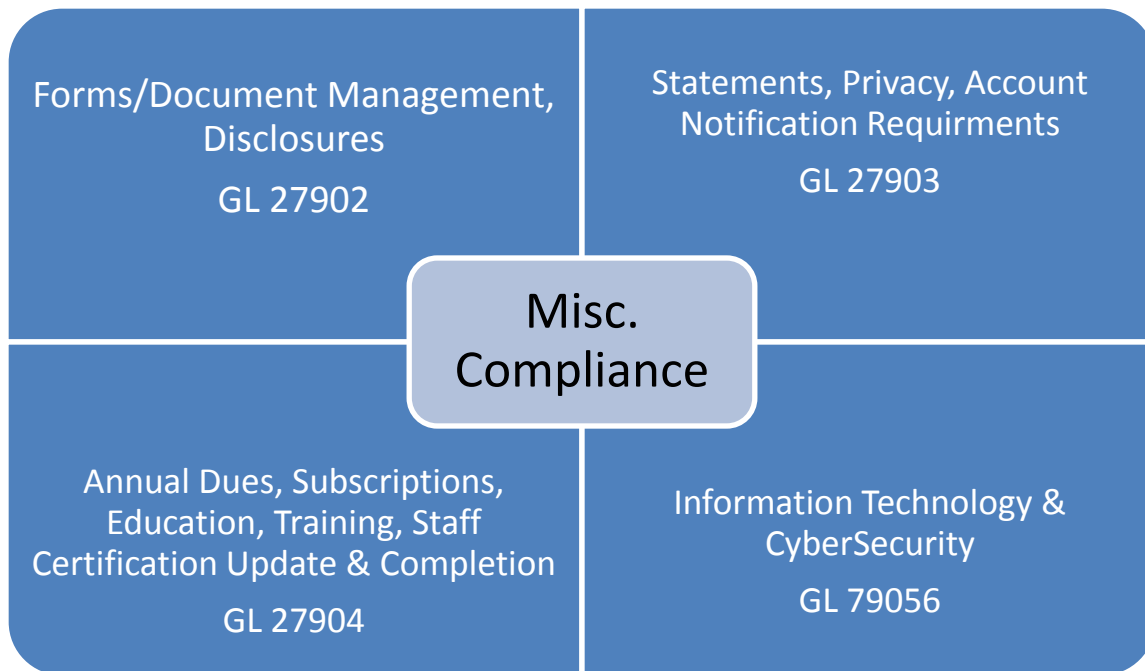
Yes there are more





"Book 'em, Danno!"

Examination/Audit	• GL 27900
Third Party	• GL 27901
Staff Compensation	• GL 21108



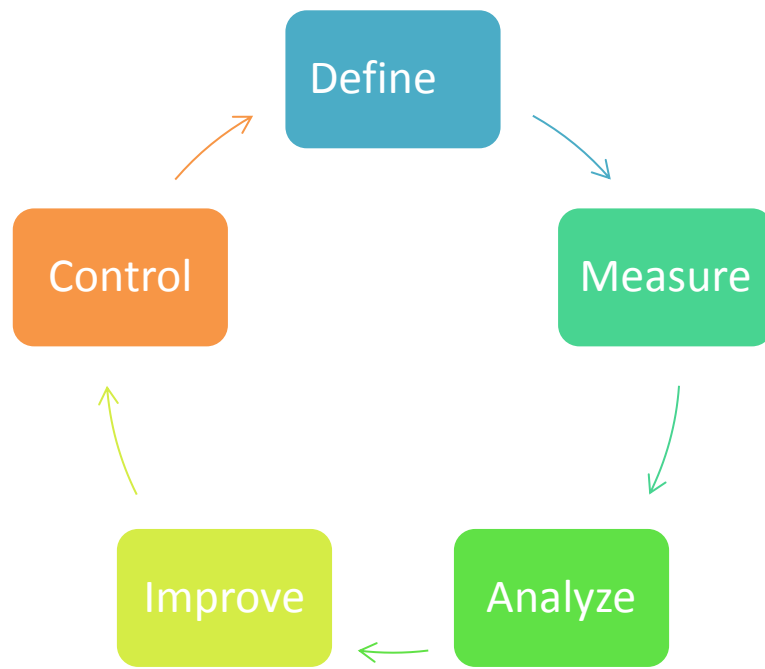
*Expense method is dependent on individual credit union policy and contract/agreement management. Keep it simple, gradually work your way into a system of accrual to better assist with budgeting.

** Posting method would be direct to the general ledgers from the invoices. Keep it simple, you can continually improve on the process once you have mastered the basics.

***Calendar year is recommended as you are going to experience immaterial differences that will eventually catch up. Keep it simple, being too granular could add a layer of complexity to an already complex dissection.

The Cost of Compliance

DMAIC



Define the expenses to be considered

Measure the specifics of what you have defined for further analysis

Analyze the data by breaking out expenses

Improve the process by taking action with the output of analysis

Control the costs!!!!

“Step 2” and Beyond Foot Notes

1. Maintain a log, track record, or file of data for each item found that relates to a regulatory requirement.
2. Continually evaluate your necessity to expand the expense categories as they relate to your goals for cost containment, compliance management, and budget.
3. Look for redundancies or overlaps.
4. Log or track the amount of hours you or your staff spends in an effort to make assumptions of dollars to allocate specifically. Whether it is training, job responsibility, meetings, education, etc. Time study is important for institutions that have “multi-hatters” performing the audit/compliance duties. There is no limit to the employee’s that may fit this role in some fashion or another.
 - IT Manager/Staff
 - Lending Staff
 - Accounting Staff
 - Back Office Staff
 - CEO, CFO, or Compliance Committee
 - Collections Staff
 - Marketing Staff
 - Branch Staff
5. Continually look for ways to make a process more efficient. Learn from a peer; ask questions, research, etc.
6. Do you want to go so granular that you look at a percentage of the building, fixed assets, utilities, computer use, telephone use, supplies, mileage for training, food for training, hotel for training, etc? Think outside the box; you might be surprised at the amount of work you can create for yourself in this arena.
7. Continually be on the lookout for “pass-thru” items as they relate to CUSO’s (Commercial Alliance, CO-Op, CU Answers, etc...)
8. Look at every invoice. Some fees are subject to a quarterly billing in which case you may want to accrue.
9. Consider evaluating larger monetary contract “start dates” for a calendar year so you have the ability to better budget. Often times you can work through a couple months of roll.
10. What once was but is no longer due to system upgrades – annual evaluation?
11. Other Considerations:
 - Fixed Costs/Variable Costs
 - Economies of Scale
 - Sunk / Historical Costs
 - Avoidable Costs
12. Assumption Tables:
 - Member Inconvenience
 - The “Unnecessary Cost of Compliance”