



Ethics & Integrity Risk Assessments

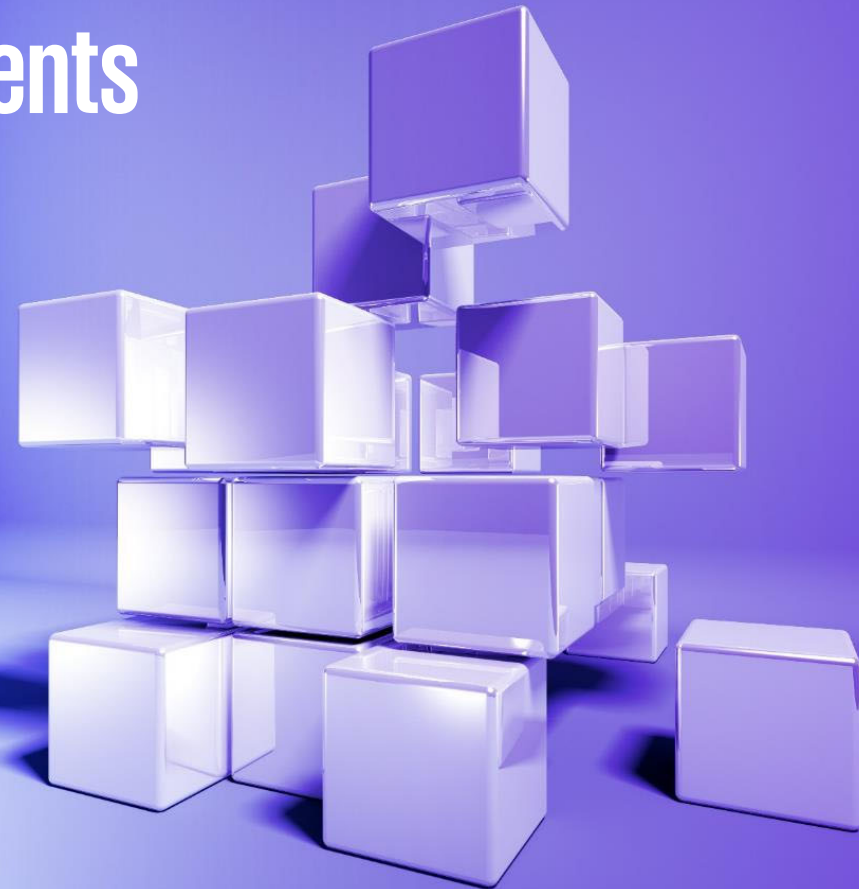
The foundation of an Ethics & Compliance Program

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**KPMG's journey to transform the
Ethics & Compliance program**

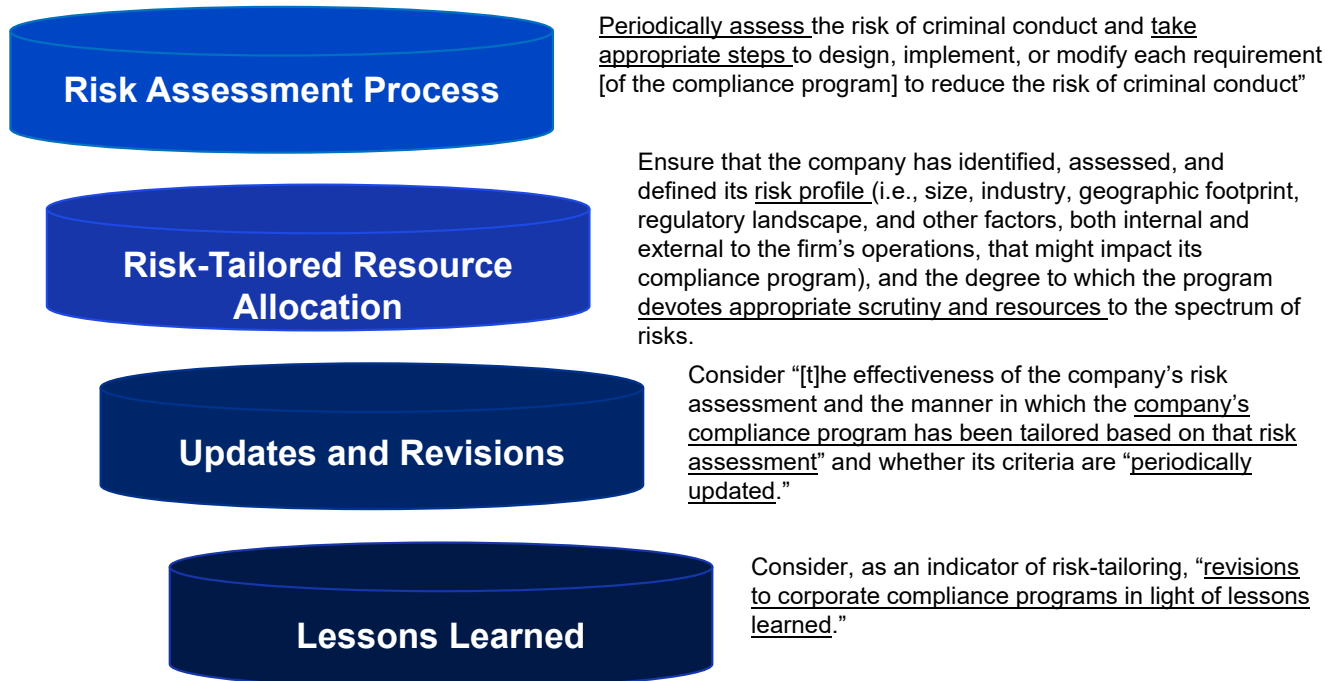
Our journey to transform our Ethics & Compliance program

- **SEC Order of June 2019**
- **Investigation**
- **Outcomes**
- **Transformation of the firm's E&C program**

03

Regulatory expectations

DoJ regulatory guidance summary*



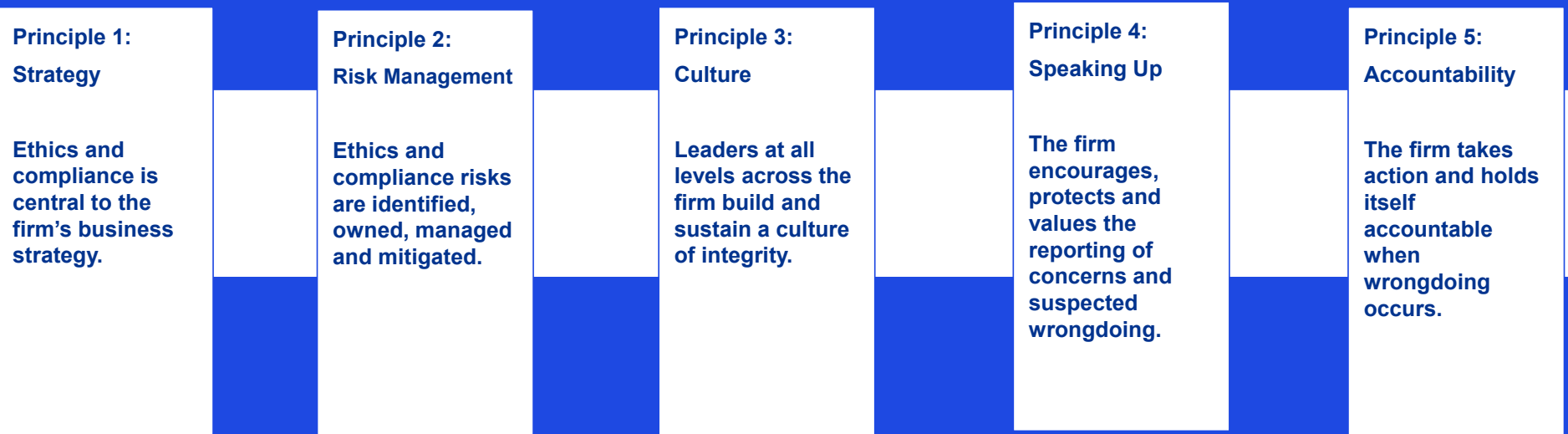
*as per *Evaluation of Corporate Compliance Programs* by U.S. Department of Justice, Criminal Division, updated March 2023

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**Elements of a High Quality
Program – ECI perspective**

Elements of a high quality program (Ethics & Compliance Initiative)

Key objectives are aligned with all five principles of a High-Quality Program (HQP) as defined by ECI

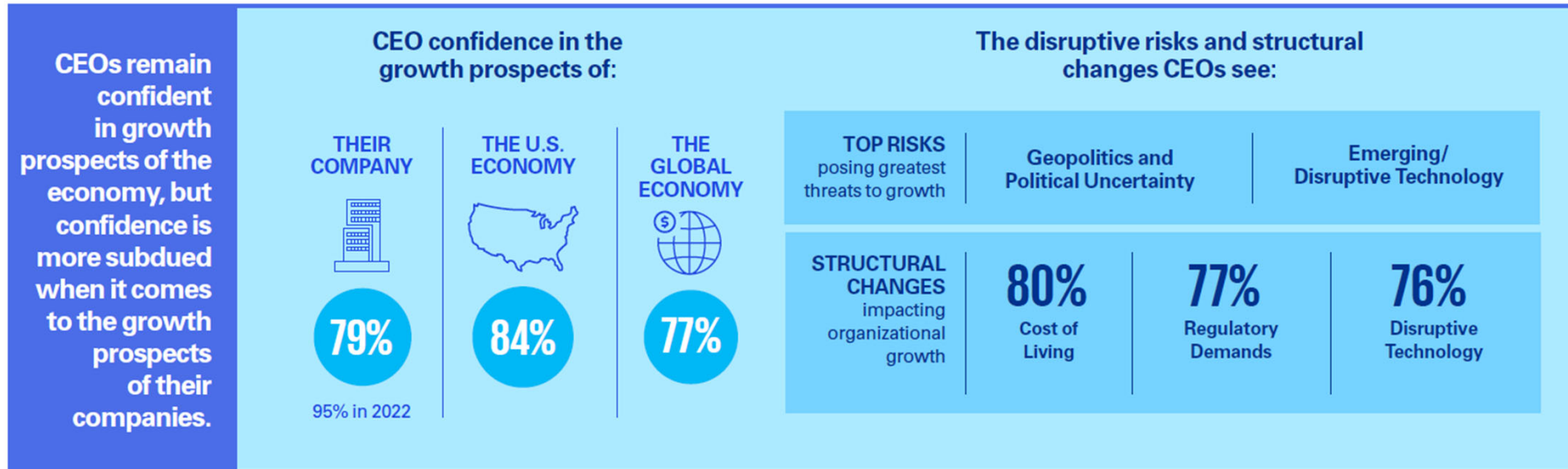


Objectives are also aligned with DOJ regulatory guidance on the evaluation of corporate compliance programs, specifically guidance on how the firm has *“identified, assessed, and defined its risk profile, and the degree to which the program devotes appropriate scrutiny and resources to the spectrum of risks.”*

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**Highlights from 2023
KPMG Surveys**

KPMG 2023 Chief Executive Officer Outlook*



The ninth edition of the KPMG CEO Outlook—which surveyed 1,325 CEOs between Aug. 15 and Sept. 15, 2023—provides unique insight into the mindsets, strategies and planning tactics of CEOs globally. All respondents led organizations with annual revenues exceeding \$500 million, and over one-third had more than \$10 billion in annual revenue. The U.S. part of the survey is composed of 400 U.S. CEOs. They came from companies with at least \$500 million in revenues, with 36% representing companies with revenues of at least \$10 billion and 11 industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology and telecommunications).



KPMG 2023 CEO Outlook

Conclusion



Confidence and growth

Increased disruption and structural changes to the economy are compounding risks, requiring CEOs to move forward with long-term growth strategies, while remaining agile to take advantage of new opportunities and respond to unforeseen challenges.



ESG

CEOs are fully embracing ESG to create value, but complicated supply chains, talent shortages and a complex reporting environment are challenges. Failure to act could mean missing out on top talent and giving competitors an edge.



Disruptive tech and gen AI

Generative AI is accelerating innovation and creating new opportunities, but CEOs understand they must engage their workforce to drive ethical and effective use of the technology. With the right governance, policies and controls, organizations can move faster and scale with confidence.



Talent and culture

Talent and culture are more important than ever. CEOs must foster ethical cultures that embrace change, innovation and smart risk-taking to drive growth. Ethical cultures also improve operational resilience and accelerate transformation. CEOs want more in-person work, but return-to-office strategies cannot be one-size-fits-all – they require a deep understanding of employee dynamics and impediments.

KPMG 2023 Chief Risk Officer Survey* - Highlights

De-risking



Of the four top future challenges that risk executives identified, they feel least prepared to address economic downturn/recession and geopolitical risks while they feel slightly more prepared for regulatory/compliance risks.



Risk leaders are far more confident about their ability to handle cybersecurity threats/data breaches today. But they cited this as their second-leading risk challenge and 53% consider cybersecurity measures a priority risk area to modernize.

Growth or strategic change



82% of CROs say they have a high level of support from the C-suite in terms of sufficient budget and attention to risk management.



Risk activities set to be strengthened most over the next 2 years: Emerging risk and trend analysis, risk strategy alignment with the business, and data analytics and predictive modelling.

Compliance risk



Regulatory/compliance issues are the biggest expected risk management challenges in the next 2-5 years.



Regulators/government agencies and stakeholders/investors are creating the most pressure and interest around risk management.

Effectiveness and efficiency



88% of companies will increase risk management budgets by at least 5% in the next 12 months.



Artificial Intelligence (AI)/Machine Learning (ML) are by far the most vital digital tools to accelerate risk management processes now and in 2-5 years, followed by cloud and cyber solutions.



The top measures cited for empowering risk teams: Improving data, analytics and visualizations/dashboards; increasing training for employees in targeted areas; and increasing diligence in policy management, controls, and employee accountability.

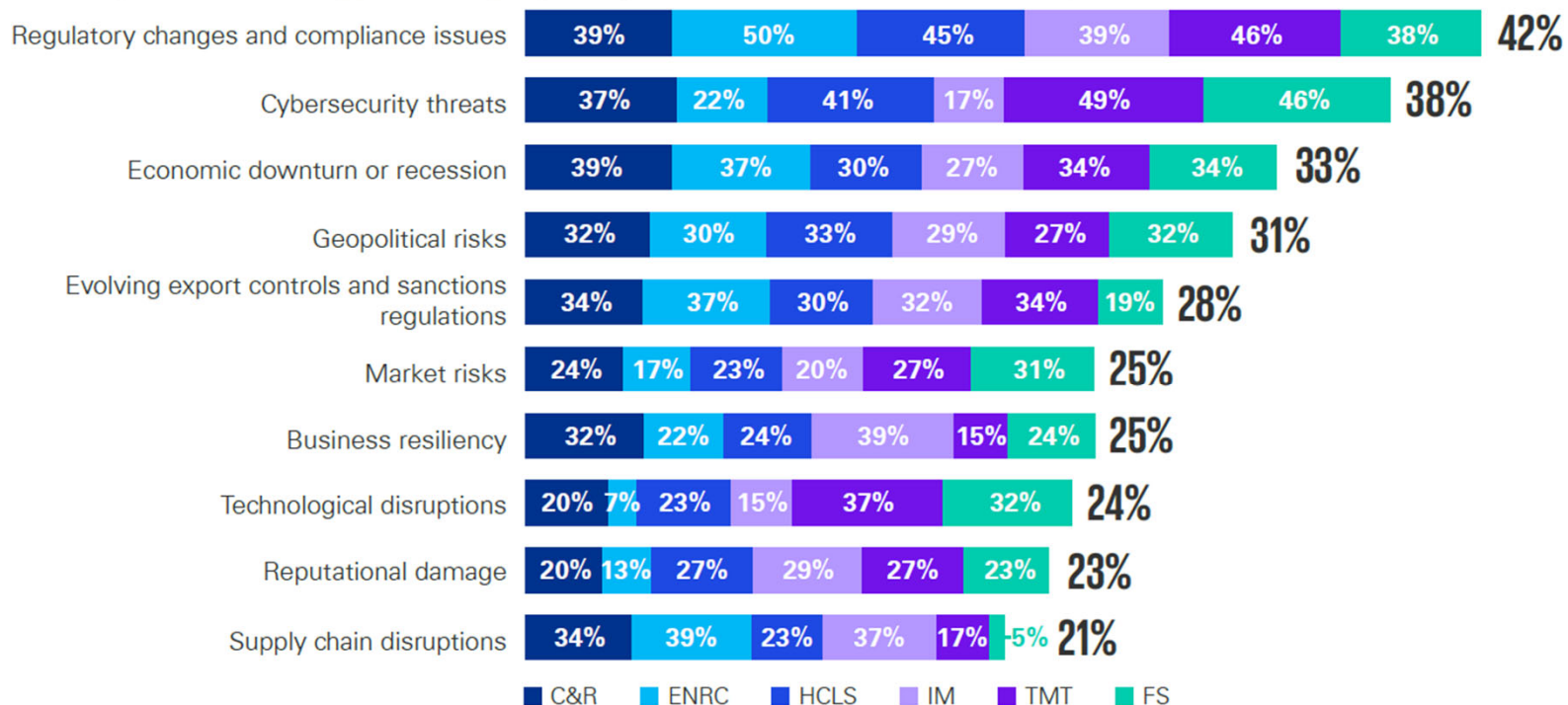
Cost takeout



The top areas organizations will consider outsourcing/co-sourcing: Strategic risk management and planning; financial risk analysis, including market, liquidity, and credit risks; cyber security and threat protection services; and technology-driven risk management, such as AI/ML implementation and oversight.

KPMG 2023 Chief Risk Officer Survey* - Highlights

What do you think are the biggest challenges your organization will face within the next 2-5 years?



Notes: N = 390. Industries surveyed: Consumer and Retail; Energy, Natural Resources & Chemicals; Healthcare and Life Sciences; Industrial Manufacturing; Technology, Media & Telecommunications; and Financial Services. Multiple select: Select up to 5. Only the top 10 options selected by respondents have been displayed in this graphic

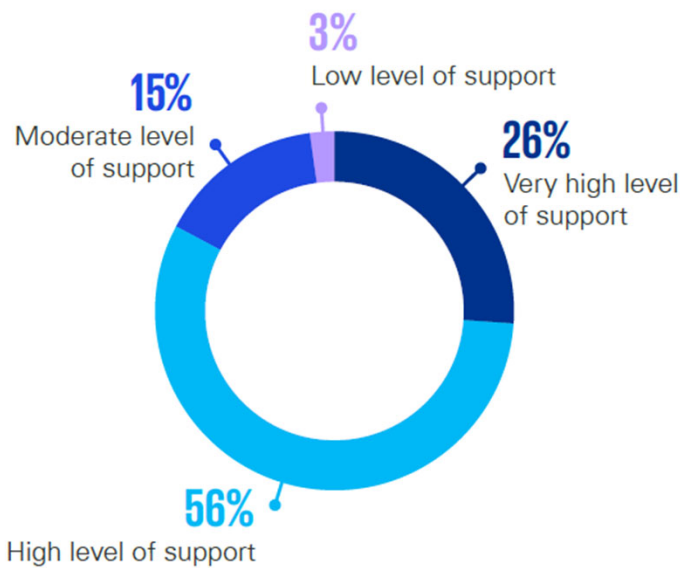
2023 KPMG Chief Risk Officer Survey



KPMG 2023 Chief Risk Officer Survey* - Highlights

C-suite support for risk management

How would you rate the level of support the risk function receives from the C-suite and senior management, in terms of sufficient budget, C-suite attention to support risk management efforts, and overall alignment of the risk management business strategy?



- **Four out of five CROs (82%) say they have a high level of support from the C-suite in terms of budget and attention to risk management.**
- **Most of those who lack support say they want greater alignment of risk management to business strategy.**

KPMG 2023 Chief Risk Officer Survey* - Highlights

Strategies to align risk and strategic goals of the business

Looking ahead over the next 2-5 years, what can your organization do to effectively align or continue to align risk objectives to the strategic goals and priorities of the business?



- **Top three strategies risk leaders think can better align risk with strategic goals:**

- Training and resources
- Learn from risk mitigation successes
- Foster a strong compliance culture

KPMG 2023 Chief Ethics & Compliance Officer Survey*

Key findings



The KPMG 2023 Chief Ethics & Compliance Officer Survey draws on the perspectives of 240 CECOs representative of the largest companies operating in six industry sectors to provide insights into their current and two-year outlook on key areas of ethics and compliance focus, including regulatory complexity, operational challenges, driving an ethical firm culture, sustainability/ESG, and evolving technology.



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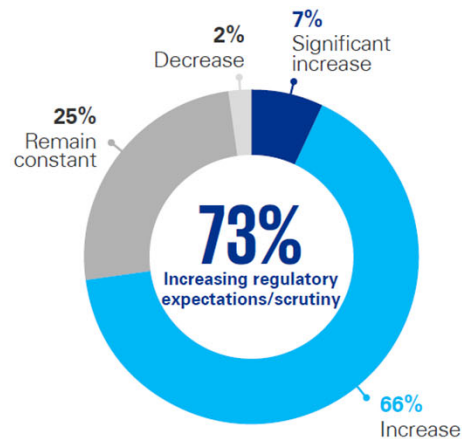
KPMG 2023 Chief Ethics & Compliance Officer Survey*

Pressures on compliance from Boards and regulators

Key Findings: Most CCOs expect the focus on Compliance to increase based on increasing regulatory expectations and scrutiny, with the greatest pressure to enhance coming from their boards and regulators.

Level of compliance focus: Nearly three-fourths of CCOs (73%) note increasing regulatory expectations and scrutiny. (Figure 1)

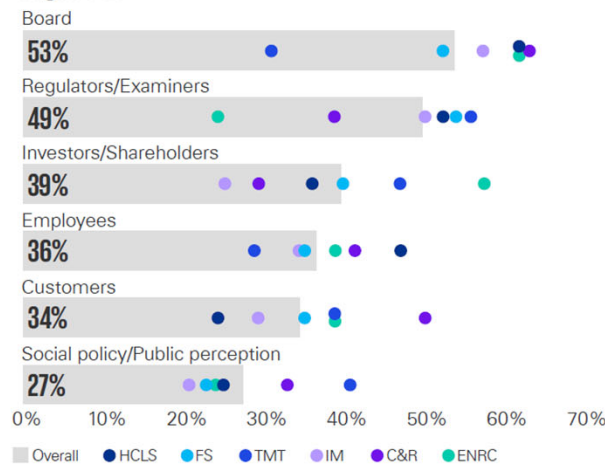
Figure 1



Pressure to Enhance Compliance: While overall CCOs say they feel the most pressure to enhance Compliance from their boards (53%) and regulators/examiners (49%) (Figure 2), there are clear industry stakeholder differences. (Figure 3)

- Board: #1 for HCLS, IM, C&R, and ENRC.
- Regulators/Examiners: #1 for FS and TMT.

Figure 2



(Respondents could choose one or more. Industry acronyms defined on page 20.)

Figure 3

Industry	Board	Regulator/Examiner	Investor/Shareholder	Customer	Employee	Social policy
HCLS	1	2	4	6	3	5
FS	2	1	3	4	5	6
TMT	5	1	2	4	6	3
IM	1	2	5	4	3	6
C&R	1	4	6	2	3	5
ENRC	1	5 (tie)	2	3 (tie)	3 (tie)	5 (tie)

(Ranked highest to lowest.)



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Ethics & Integrity Risk Assessments

Purpose of the Ethics Risk Assessment

Enable leadership to understand and focus attention on key ethics risks and manage those risks within the firm's risk tolerance

Benefits of an Ethics Risk Assessment

- Provides an early warning process for detecting compliance and ethics threats
- Allows companies to correct identified problem areas before they are discovered by regulators, clients, investors, or the media
- Enables the organization to revise policies, procedures, training, and monitoring in key areas to address potential red flags
- Improves decision-making by providing leaders with critical information on compliance risks and mitigation strategies
- Demonstrates to regulators a proactive approach to compliance and thereby meet a due diligence element of an effective compliance and ethics program

KPMG's journey – E&C RACER Mission & History

Our mission is to enable the firm's leadership to understand the firm's ethical risk profile and corresponding mitigation and management activities.

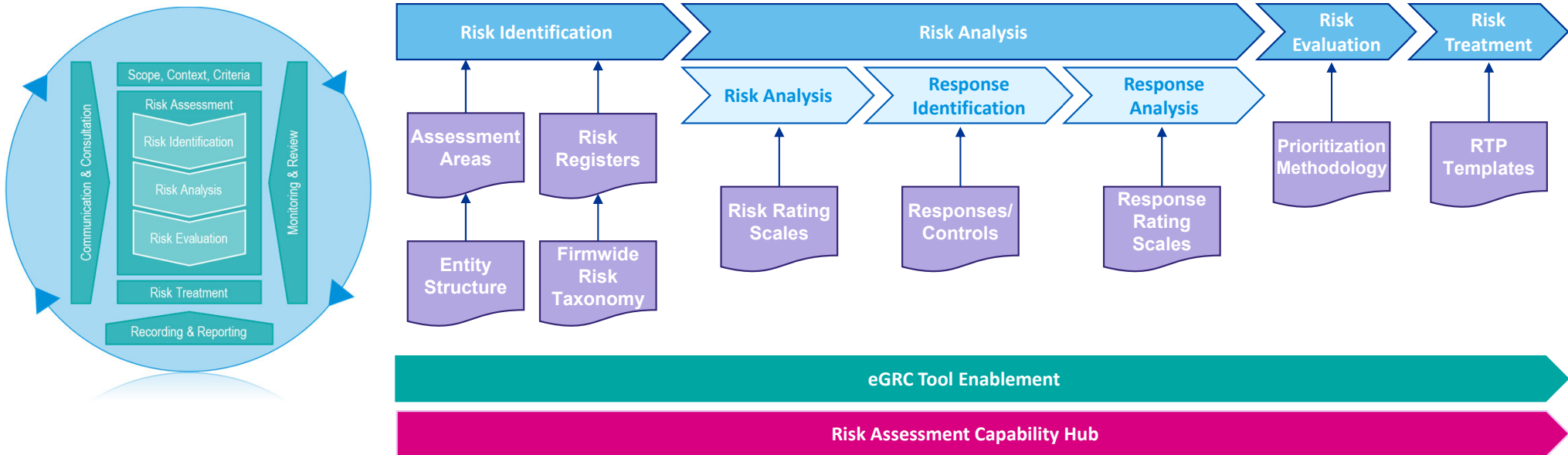
RACER's objectives to support that mission include:

- Support firm leadership in the identification, mitigation and monitoring of ethics* and integrity risks;
- Provide advice, counsel and expertise to support Risk Owners in managing ethics risks.
- Conduct testing and periodic monitoring to provide reasonable assurance to stakeholders (risk owners, control owners, firm leadership) on risk mitigation activities.
- Apprise senior leadership of the state of the firm's ethics risk profile;
- Support the firm's integrated risk management activities; and
- Incorporate the firm's ethical culture and values into our day-to-day business decisions and activities.

**An "Ethics Risk" is the risk that KPMG personnel may act unethically, unlawfully or inappropriately in their performance of professional services or otherwise fail to comply with professional standards related to ethics and integrity.*

Firmwide risk assessment design

The FIRM approach utilizes the ISO 31000 Standards as the steppingstones for design, layering on the methodology of risk management processes currently in place throughout KPMG as well as several key enablers, to ensure the successful implementation of this program.





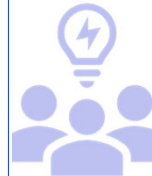
Ethics Risk Assessment Contributors

RACER sought the input of over 82 individuals from across the business, including:



27 Risk Owners & Delegates

- Audit, Tax and Advisory representatives, Risk Management; LRC, Finance & Accounting; Digital Nexus, Talent & Culture



21 Workshop Participants

All client facing functions, functional risk management, and supporting departments such as Legal Regulatory Compliance, Finance & Accounting, Talent & Culture, and Operations



38 Culture Champions

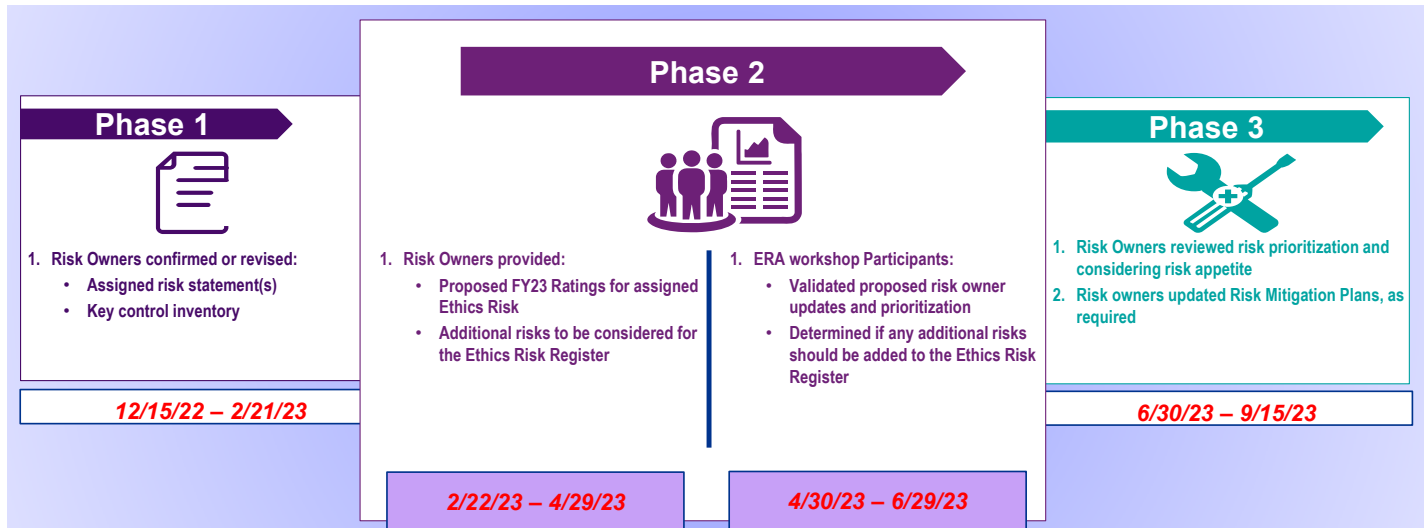
- 10 levels (EA through partner) across all 4 functions



Ethics Risk Assessment

Execution of the annual Ethics Risk Assessment (ERA) to understand the firm's ethics risks and the adequacy of key controls that mitigate those risks, including risk mitigation plans related to priority ethics risks.

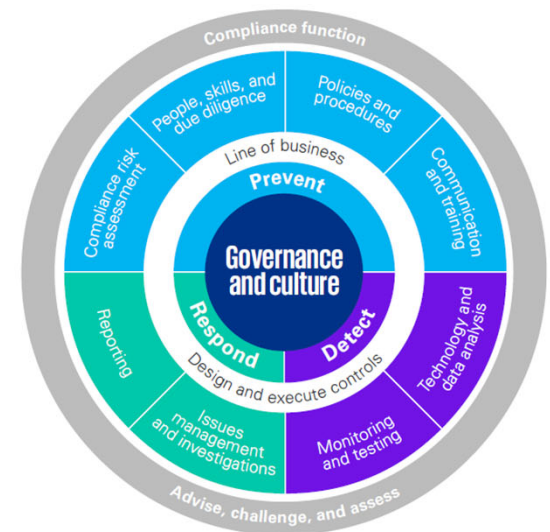
- FY23 ERA consisted of three distinct phases:



KPMG Insights: The future of compliance

Compliance programs should follow a sound compliance framework, with governance, culture and risk assessments as foundational elements.

Governance and culture	<ul style="list-style-type: none"> Are the board and committee(s) regularly updated on regulatory and compliance changes including regulatory examination and enforcement expectations?
Compliance risk assessment	<ul style="list-style-type: none"> Does the risk assessment incorporate both qualitative and quantitative data/inputs? Based on the assessment, are sufficient economic, technological, and human resources allocated to compliance?
People, skills, and due diligence accountability	<ul style="list-style-type: none"> Are roles and responsibilities clearly articulated and does the company demonstrably show that compliance responsibilities matter (e.g., performance reviews, compensation impacts)? Are disincentives built into the incentive plans to discourage misconduct?
Policies and procedures	<ul style="list-style-type: none"> Do written policies and procedures reflect actual practice? Are written policies and procedures regularly reviewed and updated for changing compliance concerns, such as sustainability and models/AI?
Communication and training	<ul style="list-style-type: none"> Is there a compliance training program that includes an annual and formalized training calendar? Is compliance training sufficiently tailored to individuals' roles and responsibilities?
Technology and data analytics	<ul style="list-style-type: none"> How does the organization leverage data to support Compliance risk assessments, monitoring and surveillance methodologies, and transaction and control testing? Does the organization have the policies, procedures, and technology in place to ensure emerging technologies are implemented responsibly (e.g., considerations around AI security, ethics and governance, etc.)?
Monitoring and testing	<ul style="list-style-type: none"> Is risk-based assessment and testing of third-party relationships for compliance with regulatory requirements and organizational policies adequately assessed in due diligence and conducted via ongoing monitoring/testing?
Issues mgmt. and investigations	<ul style="list-style-type: none"> Are protocols established for handling data and evidence (documentary and digital), as well as resolution, communication, and disclosure? Does the review or investigation include root cause analysis and "lessons learned" protocols?
Reporting	<ul style="list-style-type: none"> Are key performance indicators (KPIs) used to monitor compliance with regulations and compliance effectiveness? Are compliance key risk indicators (KRIs) established and tracked regularly, and do they link to the organization's risk appetite/tolerance levels?



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Q&A



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