

Compliance

A Strategic Imperative





COMPLIANCE: A STRATEGIC IMPERATIVE

Compliance and compliance executives have moved increasingly into the limelight in recent years.

The growing complexity of business compliance presents significant challenges for senior executives tasked with managing a diverse ecosystem of customers, vendors and service providers. There is a growing understanding amongst senior management teams, corporate boards and institutional investors that the consequences of poor compliance can do long term damage to a company's brand, reputation and business opportunities. The consequences of poor compliance; large financial penalties, jail time for senior executives, brand damage and loss of shareholder value, have captured the attention of corporate stakeholders and have made compliance a key strategic issue.



CUSTOMER & VENDOR RELATIONSHIPS

B2B compliance has two critical areas that are driving organizations to invest resources: time and money. KYC or "know your customer" focuses on a company's worldwide network of suppliers and service providers. Key regulatory actions such as the Foreign Corrupt Practices Act (FCPA) in the United States and the United Kingdom Bribery Act have brought global vendor relationships to the forefront; particularly for organizations with complex supply chains. KYC focuses on your customers around the world with a particular focus on preventing money laundering and reputation damaging relationships. In both KYC and KYV scenarios, building a deep knowledge base about your partners is the critical factor in avoiding damaging relationships.



AVOIDING DIRTY MONEY

After establishing identity, it is critical that compliance teams investigate the financial resources of their new partners. Particularly in dealing with new customers, pointed diligence on cash sources is helpful in avoiding regulatory violations. Compliance teams want to be on the look out for money laundering activities, particularly in the areas of:

- Terrorism - companies set up to fund the activities of organizations such as the Taliban & ISIS
- Sanctioned Nations - corporations established in an attempt to circumvent trade embargoes and financial restrictions

- Organized crime - classic money laundering behavior, often in first world economies
- Illicit Narcotics - particularly required in international markets

The consequences of not identifying money laundering activity can be dire. Recent headlines have highlighted the United States Justice Department's commitment to handing out big fines for compliance violations. In January of 2013, HSBC paid over \$1.9 billion in fines for money laundering activities and spent an additional \$290 million to improve its compliance infrastructure.



PAYING THE PRICE | THE BRAND, EXECUTIVES & SHAREHOLDERS

Beyond the direct financial penalties resulting from compliance violations, there are severe ramifications for senior executives, shareholders and the company brand. Senior executives found to be negligent to compliance failures face life changing ramifications as regulators continue to focus on the behavior of senior executives. In fact, 2013 was the first year in which the UK Financial Conduct Authority sanctioned more individuals than firms. Large fines, incarceration and stripping of licenses will impede, if not end, the careers of many senior executives.

The damage can be equally harsh for shareholders. On October 30, 2014 Standard Chartered Plc (STAN) fell for a fourth consecutive day in London after U.S. prosecutors reopened investigations to determine whether the bank, which entered into a deferred prosecution agreement in 2012, withheld evidence of Iran sanctions violations. The lender's stock fell 4.9 percent to 943.60 pence in London trading, the lowest level since April 2009. The stock has dropped about 31 percent this year, the worst performance among the five largest British lenders.

Beyond the bottom line financial impact is the immeasurable damage done to corporate brands. International stalwarts such as Nike, H&M and the Gap have seen their brand perception tarnished by accusations of running sweatshops and utilizing child labor. Considering the 100's of millions of dollars in advertising and brand building spent by these companies on an annual basis, it is easy to see how months of bad press could lead to a significant brand crisis.

So what are the key elements in building a long term strategy for compliance success?

PROACTIVE COMPLIANCE

Knowledge of commerce compliance landscape
(legal, financial, political, reputational risk)

Knowing potential customers/partners/suppliers before doing business

Monitoring of key customers & vendors for compliance issues

Plan of action for non-compliant customers & vendors

Efficiency

Streamline compliance process by looking at a single source for key compliance research



BUILDING A COMPLIANCE PERIMETER

Companies have the opportunity to create a compliance perimeter - a protective technology & diligence zone around their company to help guard against compliance mishaps.

Dun & Bradstreet has worked with some of the world's top corporations to build out industry leading compliance best practices. Our unmatched combination of global intelligence compliance acumen and technology products, make D&B an ideal partner for companies constructing a "compliance perimeter" focused on protecting the organization from the ramifications of compliance violations.

When we examine companies that have built sustainable compliance programs we find four critical elements:

- Ongoing diligence in monitoring new vendors and customers
- Clear governance within the organization with documented processes and responsibilities
- Technology management expertise and investment in key technologies
- Executive level commitment to funding and championing compliance efforts

Dun & Bradstreet provides two strategic solutions in the compliance space that empower the "compliance perimeter". The first is D&B Onboard which is primarily focused on the "know your customer" space and Compliance Check which is squarely focused on the "know your vendor" arena. When combined with the aforementioned commitment to diligence, governance and investment, companies can create industry leading solutions to their compliance challenges.

The results of these compliance efforts are clear and powerful.

No incarceration for key executives and managers

No multi-million dollar fines for the corporation

No loss of shareholder value

No damage to the companies brands & reputation

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