



Compliance Charter

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0. PURPOSE AND SCOPE

- The Compliance Charter defines the fundamental principles, roles and responsibilities of the Compliance function within the organisation as well as its relationship with executive management, the Board of Directors and the business and operational functions.
- The Charter encompasses all current and future regulatory requirements in terms of Compliance, in particular the CSSF circular 04/155 aiming at ensuring the compliance risk management via the formal implementation of a Compliance function within the organisation.
- Once approved, the Charter applies to all Board and staff members as well as to external service providers of the organisation and all its subsidiaries and branches.
- The Charter shall be updated from time to time to reflect legal and regulatory evolution and shall be communicated to all staff.

1. OBJECTIVES OF THE COMPLIANCE FUNCTION

1.1. Independent function with the objective to:

- identify and evaluate the compliance risks (as defined in paragraph 1.2) within the organisation;
- organise, coordinate and structure compliance-related (de)centralised controls;
- control and monitor all measures taken to mitigate the compliance risks
- report accordingly to executive management and the Board of Directors, as appropriate;
- act as an adviser in compliance matters within the organisation.

The Compliance function intervenes at the third control level, as defined in the CSSF circular 98/143 on Internal Control, i.e. at the level of controls performed by executive management on activities under their direct responsibility.

1.2. The compliance risk is defined as the risk the bank may suffer as a result of its failure to comply with applicable laws, regulation, codes of conduct and standards of good practice and includes:

- legal and regulatory risk;
- reputation risk;
- litigation risk;
- risk of financial loss.

1.3. Applicable laws, regulation and professional standards relate to:

- Laws, regulations and circulars governing access to the financial sector and performance of banking or financial activities.
- The prevention of money laundering and terrorism financing.
- Confidentiality of information / banking secrecy;
- Professional ethics, including the protection of the client interest (investor protection, client information, market integrity, prevention of price manipulation...);
- Insider trading and market abuse;

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- Internal code of conduct fostering an ethical environment, and best practice rules established by professional associations (e.g. ABBL, ALCO) or financial organisations (e.g. Stock Exchanges);
- Where deemed appropriate, rules of labour, social or environmental law.

2. RESPONSIBILITIES AND COMPETENCIES

The responsibility for compliance within an organisation is defined at four levels:

2.1. Responsibilities of the Board of Directors

- The Board of Directors is responsible for defining the compliance principles to which the organisation has to adhere. It has to demonstrate a clear commitment by ensuring that an appropriate policy is in place and that the compliance risks are managed appropriately.
- The Board of Directors must formally approve the Compliance policy set up by executive management. The efficiency of implementation of this policy has to be evaluated on an annual basis by means of a status report provided by executive management. The Board of Directors may delegate this responsibility to the Audit Committee (as defined in Circular 98/143) or to a separate Compliance Committee appointed by itself.
- The compliance policy has to include a Compliance Charter setting up a permanent and independent Compliance function within the organisation.
- The Board has to ensure that the Compliance function is authorised to contact the Chief Executive Officer or the Board of Directors directly, as deemed necessary.

2.2. Responsibilities of executive management (“four-eyes”)

- The executive management being in charge of the daily management of the organisation is jointly responsible for implementing a compliance policy and a permanent Compliance function, as defined in the CSSF circular 04/155.
- One executive director has to be formally appointed to be in charge of Compliance and his name has to be communicated to the CSSF as well as subsequent changes.
- On a regular basis, executive management has to assess the adequacy of the compliance policy and to verify that it is fully implemented and followed by staff. The policy must outline the main compliance risks facing the organisation and the preventive measures to be implemented to mitigate these risks. It should further include the establishment of a permanent Compliance function, a Compliance Charter and an ongoing training programme for staff on compliance matters.

Executive management has to:

- review the policy on a regular basis;
- report to the Board of Directors on matters relevant to the policy and the status and efficiency of its implementation at least once a year (including, but not limited to the achievement of compliance-related objectives, the human and technical resources needed to achieve these objectives, the main risks detected by the Compliance function and the corrective action taken and preventive measures to mitigate these risks);
- report promptly to the Board of Directors on any material breaches of laws, regulation, rules, code of conduct and standards of good practice;
- define the governing rules setting out sanctions applied in case of breach of compliance, and apply such sanctions where relevant.

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2.3. Responsibilities and competencies of the Compliance function

The Compliance function must:

- identify and assess the compliance risks associated with the organisation's current and proposed future business activities, including new products, new business relationships and any extension of operations or network on an international level;
- identify and keep an inventory available to all staff of essential laws and regulation pertinent to the organisation;
- advise management on the applicable laws, regulation, rules and standards and inform them about any developments in these areas;
- establish written guidelines to staff and service providers on the appropriate implementation of the laws, regulation, rules and standards through policies and procedures (Compliance manual, code of conduct);
- assess the appropriateness of internal policies, procedures and guidelines, ensure a follow-up of any identified deficiencies, make recommendations for amendments, where necessary, and supervise the implementation of corrective measures to mitigate the identified deficiencies;
- monitor compliance with internal policies, procedures and guidelines by performing regular and comprehensive compliance risk assessments and testing; report the results on a regular basis and promptly where deemed necessary to executive management and, if necessary, the Board of Directors;
- centralise all information on compliance-related issues (ex.: breach of regulation, non-respect of procedures, conflict of interest);
- educate staff with respect to compliance with the applicable laws, rules and standards and act as advisor on compliance queries from staff members;
- liaise with relevant external bodies and regulators on compliance matters; exercise any specific legal responsibilities such as reporting suspicious transactions related to money laundering and the fight against terrorism financing;
- establish and/or supervise appropriate compliance checks and controls (level 3 internal controls as defined in CSSF circular 98/143).

Therefore members of the Compliance function should have a high professional competence in the domain of banking and financial activities and of the applicable norms.

2.4. Responsibilities of line managers, staff members and external service providers

At a functional level, the Compliance function provides advisory, monitoring, training and control services (cf. section 2.3.). At an operational level, compliance with the organisation's integrity rules is the responsibility of line management, all staff members and external service providers through adherence to applicable laws, regulations and the organisation's policies, standards and procedures.

In this context, it is important to stress that the line managers, staff members and external service providers remain personally responsible for:

- organising and managing their business and operational areas in a proper professional manner;
- implementing the compliance policy in their respective business and operational areas;
- reporting all breaches thereof promptly to the Compliance Officer.

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3. INDEPENDENCE OF THE FUNCTION

The Compliance Officer and all staff of the Compliance function is independent from any commercial, administrative or control function within the organisation in order to allow them to carry out their work freely and objectively. Independence is achieved through organisational status and objectivity:

- From an organisational viewpoint, the Compliance function is hierarchically linked and report directly to executive management. It is authorised to perform its roles and responsibilities at its own initiative. Escalation to Board members or Board committees is allowed.
- In order to warrant objectivity, staff members of the Compliance function are not authorised to assume commercial or operational responsibilities in the areas they control. Moreover, as a guideline objectivity is presumed to be impaired when staff of the Compliance function controls processes or activities for which they previously had authority or responsibility during the past year. However, providing professional consultancy in these processes or activities does not adversely affect objectivity.

4. PERMANENCE OF THE FUNCTION

Executive management is responsible for establishing a permanent Compliance function within the organisation. For this purpose, executive management formally appoints a Compliance Officer, whose name and subsequent changes thereto are communicated to the CSSF, and grants sufficient human and technical resources to achieve the defined Compliance objectives.

5. RELATIONSHIP WITH OTHER BUSINESS AND OPERATIONAL FUNCTIONS

Certain tasks, as defined in section 2.3., may be delegated to or co-ordinated with other business and operational functions in the organisation. The list of such delegated tasks is as follows:

Compliance task description	Business / operational function	Responsible person
XXXXX		
YYYYY		
ZZZZZ		

In these cases, the Compliance function coordinates and structures the delegated compliance-related tasks in accordance with the following principles:

- The Compliance function remains responsible for the delegated compliance-related tasks.
- The responsible person mandated in the business/operational function to perform such delegated tasks has to formally and immediately report any findings, assessments and identified risks to the Compliance Officer who has an instruction right vis-à-vis this person in relation to the delegated tasks.



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- The Compliance Officer has free access to any checklists or other work papers produced by the responsible person in order to document the compliance-related tasks.
- For these specific tasks, the responsible person is not authorised to assume commercial or operational responsibilities in the areas he controls, i.e. the delegated tasks must be compatible with the other tasks performed by such person.
- The delegated processes must be duly documented by means of internal procedures agreed between the Compliance and the business/operational functions.
- In order to strengthen the cooperation between the two functions and to foster the full implementation of the Compliance policy in all business and operational areas, the Compliance Officer undertakes to organise regular meetings with the responsible persons to whom tasks have been delegated.

6. RELATIONSHIP WITH INTERNAL AUDIT

The Compliance function is separate from the internal audit function. Where feasible, Compliance may consider delegating certain tasks to internal audit, or coordinating certain compliance matters. The work and performance of the Compliance function is subject to periodic review by internal audit.

7. ACCESS TO INFORMATION AND CONFIDENTIALITY

The staff members of the Compliance function shall have full and unrestricted access to any information at any time. All staff members of the Compliance function must comply with confidentiality requirements. Any confidential information received during the course of the exercise of their roles and responsibilities cannot be used for any personal gain nor in any manner which would be contrary to law or detrimental to the interests of the organisation.

8. RIGHT TO INITIATE INVESTIGATIONS

The Compliance function has the right to start investigations at its own initiative, when deemed necessary. In such case, the Compliance function may use the expertise from other functions within the organisation (e.g. legal department, internal audit and internal control); the Compliance function remains, however, responsible for coordinating the investigation and for presenting the outcome of the analysis to executive management and/or the Board of Directors, if appropriate.

9. REPORTING LINES

Considering the hierarchical link of the Compliance function to executive management, a formal regular reporting line to executive management must be implemented. In addition, the Compliance Officer has an ad hoc reporting line to the executive director who has formally been appointed as manager for Compliance (cf. section 2.2.). Functional reporting to Group compliance may furthermore be envisaged, whether to the parent organisation abroad or from foreign branches and subsidiaries to the Luxembourg parent company, subject always to prevailing law.

10. RIGHT TO CONTACT THE BOARD OF DIRECTORS

The Compliance Officer shall have the right to discuss any relevant issue with the executive management. Furthermore, an escalation procedure must be defined and implemented in order



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to guarantee¹ the Compliance Officer's right to report significant incidents directly to the Board of Directors or its relevant Committees.

11. RECOURSE TO EXTERNAL EXPERTS

The Compliance function has the right to recourse to the expertise or technical means of third parties outside the institution or within the same group, for certain specific or technical aspects (e.g. legal advice), but retains responsibility for outsourced or co-sourced assignments. Third party access to confidential info must be subject to adequate supervision and / or execution of a confidentiality agreement.

¹ Escalation to the Board must be possible for the Compliance Officer without any limitation or sanction. This is recommended as a guarantee of the independence of the Compliance function towards business and operational staff that may prevail with executive management. Institutions may consider carrying out a regular and timely compliance review at Board level.