Internal Controls

Steven Noess, Director of Regulatory Programs
Ed Kichline, Senior Counsel and Director of Enforcement Oversight
Compliance Committee Open Meeting
November 1, 2019
• Internal Controls Commitment
• Definition of a Compliance Oversight Plan (COP)
• Elements and Outcomes of a COP
• Example Discussion
• Value Proposition
CMEP Evolves and Matures
• Goals for internal controls unchanged
• Internal controls shape oversight planning

Emphasis and Commitment Have Grown
• Internal Controls understanding built into all aspects of CMEP

The Value Proposition
• Investment in strong internal controls matters
• CMEP experiences should reflect those differences
Maturation of Risk-based Assessment Processes

- **2016**: Inherent Risk Assessment (IRA) Process Harmonization
- **2018 - 2019**: COP Process Harmonization
- **2019 - 2020**: Transition Period
• The COP tailors compliance monitoring activities based on entity-specific factors.
• COP is the oversight strategy for a registered entity.
• COPs provide comparative assessments to shape oversight planning and resource allocation of ERO Enterprise staff.
• COPs place emphasis on understanding internal controls and other performance considerations.
• A COP is shared with the registered entity.
COP Process Highlights

- Enhanced Analysis
- Targeted Oversight
- Prioritized Monitoring
- Single Report
• Compliance Monitoring Impacts
• Enforcement Considerations
• Understanding of entity and strength of controls impacts monitoring experience (frequency, scope, etc.)

• Impacts to risk assessment of violation
• Throughout the second half of 2019, REs began implementation of new COP summaries.
• Industry outreach will continue through 2020.
Questions and Answers
Streamlining in Enforcement

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• Themes from stakeholder perception survey:
  ▪ Perception that it takes too long to resolve minimal risk noncompliance, and
  ▪ Stakeholders see limited differentiation among processes for minimal risk noncompliance and higher risk violations.
Streamlining Activities

- Sampling to verify completion of mitigation for Compliance Exceptions
- Enhancements to guidance for ERO Enterprise and registered entities
  - Information gathering
  - Risk assessment
  - Cause analysis and mitigation
- Rules of Procedure revisions
  - Self-Logging Program
  - Data retention
  - Mitigating activities
Questions and Answers