

Statement of Approach

How Internal Compliance Programs are Considered by MACD

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1. Introduction

1.1 Purpose

The Market Assessment and Compliance Division ("MACD") of Ontario's Independent Electricity System Operator ("IESO") is issuing this statement to communicate its views on internal compliance programs ("ICPs") to market participants and the IESO[1].

Although market participants are not required to develop or implement an ICP by the market rules, MACD is required to consider the "presence and quality" of a market participant's ICP under Chapter 3, section 6.6.7.13 of the market rules when determining a financial penalty as part of an enforcement matter.

This statement sets out the treatment of internal compliance programs within the context of an enforcement matter under the market rules[2] and the factors MACD will consider when reviewing a market participant's ICP under Chapter 3, section 6.6.7.13 for the purposes of determining a financial penalty.

The considerations in section 4.2 of this statement set out a framework for MACD's review of the "presence and quality" of a market participant's ICP. At a high level, they reflect the key components of an ICP that MACD will use to assess presence and quality of an ICP. These key components include the policies, procedures, systems, mechanisms and practices established by market participants.

In summary, the primary purposes of this statement are:

- To explain how ICP reviews relate to penalty assessments under Chapter 3, section 6.6.7 of the market rules;
- To communicate the increasingly important role that ICP reviews will play in investigation and enforcement matters; and
- To encourage market participants to develop and implement ICPs, or improve existing ICPs.

1.2 Why has MACD Issued this Statement to Participants?

While breach prevention has always been one of MACD's priorities, a shift in focus to ICP reviews is believed to be an effective means to promote compliance with the market rules. If market participants are proactive in developing ICPs, this should translate into fewer breaches of market rules, and a reduction in enforcement actions and financial penalties.

In issuing this statement, MACD has several other long-range objectives in mind:

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[1] For the purposes of this statement, a reference to *market participants* includes the *IESO*.

[2] For the purposes of this statement, *market rules* include *reliability standards*, among other things. See the Glossary in Appendix I, below, for further details.

- To help foster and encourage proactive compliance by market participants with the market rules;
- To encourage the development and implementation of ICPs by market participants; and
- To increase the transparency of MACD's enforcement activities so market participants have a better understanding of MACD's objectives and priorities in discharging its obligations under the market rules.

1.3 Scope and Limitations

This statement describes, at a high level, MACD's approach to reviewing and determining the "presence and quality" of an ICP in an investigation and an enforcement matter. This statement does not provide a specific methodology for the review of ICPs.

MACD will only review those aspects of an ICP directly related to compliance with the market rules. MACD will not consider those aspects of an ICP unrelated to those obligations, including, for example, those aspects related to compliance with occupational health and safety regulation, environmental regulation, or any other regulations applicable to market participants.

The views expressed in this statement should be treated as general, non-binding opinions on the high-level design of an ICP. MACD strongly encourages market participants to obtain their own advice on compliance with the market rules and reminds them this statement should not be interpreted as regulatory advice or a statement on the appropriate scope, design, comprehensiveness, effectiveness or quality of an ICP.

2. What is an Internal Compliance Program?

For purposes of this statement, an ICP is defined as a program that is intended to achieve the outcome of compliance with applicable obligations under the market rules. An ICP is a framework of interdependent components that include the full scope of processes, people, infrastructure, technology and organizational activities established by market participants to achieve compliance with applicable market rules. This framework is presented as a set of considerations in section 4.2 of this statement.

3. Responsibilities and Obligations

3.1 MACD's Responsibilities

The IESO has been granted the authority under the Electricity Act, 1998 to make and enforce market rules governing the IESO-controlled grid and the IESO-administered markets. Chapter 3 of the market rules details the IESO's powers and procedures for enforcing these market rules.

In appropriate circumstances, Chapter 3, section 6.2.7 of the market rules empowers the IESO to impose financial penalties on market participants for breaches of the market rules. In determining the amount of a penalty, Chapter 3, section 6.6.7.13 of the market rules requires the IESO to consider "the presence and quality of the market participant's compliance program."

As part of the investigation process, MACD has the authority to request all relevant information from the market participant, including information related to the "presence and quality" of the market participant's ICP, at any time during the investigation. Accordingly, ICP information may be requested before a breach is determined. However, Chapter 3, section 6.6.7 of the market rules requires that MACD consider the "presence and quality" of a market participant's ICP as part of the penalty determination process. As a result, MACD may choose to wait until later in the investigation, when assessing an appropriate sanction, to request ICP information. The nature and amount of ICP information MACD will request may differ depending on the nature and seriousness of the alleged breach.

If MACD's views of ICPs significantly change, MACD will reissue this statement to update market participants.

3.2 Market Participants' Responsibilities

~~While MACD encourages all market participants to have comprehensive ICPs and views these programs as important to achieving compliance, market participants are not obliged to implement an ICP under the market rules. However, market participants are required to comply with the market rules.~~ Chapter 3, section 6.1.3 obliges market participants to develop an internal compliance program. MACD may begin enforcing this requirement six months after section 6.1.3 comes into force.

Also, market participants are obliged[3] to fully comply with all MACD requests for information, including those that pertain to the "presence and quality" of their ICP. Failure to disclose all information relevant to a MACD request may be a breach of either Chapter 3, section 6.2.4.3, Chapter 1, section 11.1.1 or Chapter 1, section 11.2.1 of the market rules.

[3]Under Chapter 3, section 6.2.6

4. ICP Reviews: Principles and Considerations

4.1 Principles

The following section explains the underlying principles that guide MACD's approach to reviewing ICPs as part of an enforcement matter. These principles are provided to encourage the development and implementation of ICPs by all market participants in a manner that is suitable to each market participant.

MACD will not dictate how market participants should design and implement an ICP and market participants remain accountable for the ICPs established within their organizations. Market participants should design an ICP that best serves their organizational needs.

a) A Focus on Desired Compliance Outcomes

MACD intends to take an outcome-focused approach to the review of a market participant's ICP. The underlying philosophy behind this approach is to encourage the development of ICPs that deliver the desired compliance outcomes. MACD recognizes that these outcomes and their demonstrable attributes will change as ICPs evolve over time.

Irrespective of how a market participant chooses to establish an ICP, all programs tend to exhibit common outcomes that can be demonstrated over time. The following are examples of desired outcomes that result when a market participant has implemented a quality ICP:

A decrease in the number of market rule breaches over the long term and fewer high-risk breaches;

Early and rapid detection of potential and actual breaches of market rules and improved communications to relevant stakeholders;

Upon the detection of actual or potential breaches, timely and effective implementation of correction, mitigation and prevention plans; and

A developed capability to anticipate and respond to compliance risks.

The above examples are not a full and complete list of all the compliance outcomes with which MACD will be concerned during an enforcement matter and are provided only to illustrate MACD's outcome-focused approach.

b) One Size Does Not Fit All

MACD recognizes that an ICP can take many forms and that market participants will develop their own approach to managing compliance obligations according to, among other things, the specific regulations to which they are subject, as well as the priorities of their business units and operational activities. This statement does not advocate for a particular ICP model or structure but, rather, it serves to inform market participant's that MACD's approach to presence and quality reviews is flexible enough to accommodate these realities.

MACD understands that there is no one-size-fits-all for market participants when considering the quality of their ICPs. At best, a quality ICP is likely present when market participants are able to proactively manage their compliance risks and monitor, measure and achieve improvements in compliance with the market rules over time.

c) Recognition of the State of Maturity of ICPs in the Electricity Sector

Within Ontario's electricity sector, MACD acknowledges ICPs are still mostly in an early state of development. Accordingly, MACD has taken this current state of development into account in issuing this statement. Building upon the experience of regulators and to help market participants obtain a better understanding of MACD's views on "presence and quality," MACD has developed a set of quality attributes organized by states of maturity that takes into account the early and different states of ICP maturity within Ontario's electricity sector. It can be found in Appendix II. MACD does expect the quality of ICPs to improve in the sector as a whole over time, given the present early state of development.

The model describes attributes or characteristics of each ICP consideration at different states of maturity. MACD will be guided in its review of the "presence and quality" of ICPs by the attributes in the model, among other things. The attributes alone are not criteria or a check list for a successful ICP review by MACD. For example, the quality attributes will be used to inform MACD as to whether and how the market participant has implemented the Foundational and Operational considerations in section 4.2 of this statement. The model places quality on a continuum, and is meant to inform market participants of MACD's views on "presence and quality" at different states of maturity. Typically, quality improvements tend to correlate with increases in maturity.

This statement does not advocate or signal that MACD expects market participants to develop ICPs that are at a particular state of maturity or strive for full maturity but, rather, it serves to inform market participants that MACD's approach to "presence and quality" reviews is flexible enough to accommodate different states of maturity. However, MACD does expect the quality of ICPs to improve for each market participant to a level that is organizationally suitable. Over time, it is expected market participants will attain and preserve a level of quality of ICPs that are organizationally suitable and invest in on-going compliance initiatives (both developing quality ICPs and staying abreast of changes in the environment which result in new or changes to risks to compliance).

d) Encouraging Risk-Based, Organizationally-Suitable ICPs

MACD's views on ICPs are consistent with contemporary thinking on risk-based approaches that align resources towards the effective management of risk. This sentiment fed into the IESO's 2011-2013 business plan, which reinforced the shared need to focus on compliance and enforcement in order to operate effectively in today's increasingly integrated operating environment, and stated that "all market participants, including the IESO, require an effective in-house compliance program, which will necessitate greater effort in the coming years to undertake risk identification, analysis and mitigation." ~~At the time of writing, the IESO's business plan was being updated; however,~~ MACD believes this statement still holds true today.

4.2 Considerations Used in ICP Reviews

MACD has used and will continue to use the following considerations in reviewing a market participant's ICP. These considerations are premised upon the underlying principles described previously. The principles will also be used to guide ICP reviews.

The considerations set out a framework for MACD's review of the "presence and quality" of a market participant's ICP. They reflect the key components of an ICP that MACD will use as one of the inputs in assessing a penalty[4]. These key components include the policies, procedures, systems, mechanisms and practices established by market participants that existed at the time of the breach under investigation, not at the time of the ICP review.

These considerations have been grouped according to two categories, as follows:

Foundational Considerations

Foundational considerations shed light on the presence and quality of governance, infrastructure, and oversight established by the *market participant* in managing compliance with the *market rules*. They provide compliance direction and strategy within the organization and help shape the characteristics of the remaining considerations described below.

Foundational considerations are as follows:

a) Organizational Leadership and Culture of Compliance

b) Compliance Standards and *Procedure*s

c) Roles and Accountabilities

d) Compliance *Risk* Assessment

Operational Considerations

Operational considerations help to determine how market participants embed and institutionalize an ICP within an organization.

a) Operational considerations are as follows:

b) Training and Compliance Communication

c) Monitoring Controls and Evaluating Compliance Program Effectiveness

d) Performance Incentives and Disciplinary Actions

e) Response to Breaches and Remedial Actions

The above two groups of considerations do not appear in any particular order of importance and in no way reflect how MACD will apply, prioritize or weight each specific consideration.

Foundational Considerations

[4] Under Chapter 3, section 6.6.7 of the *market rules*

a) Organizational Leadership and Culture of Compliance

This consideration describes whether and how a market participant has established and can demonstrate accountability within the organization for compliance with the market rules. For most market participants, accountability will typically consists of two elements – leaders who are held ultimately accountable for compliance performance and a culture in which all employees demonstrate individual responsibility for achieving compliance.

This consideration describes whether and how market participants had:

- actively exercised authority and responsibility for the overall design, operation, consistency and integrity of the ICP;
- appropriate organizational structures, resources, relationships and processes to achieve, demonstrate and verify compliance with the market rules;
- exercised an appropriate level of independent oversight with respect to the effectiveness of the program;
- established compliance leadership that was, or the ICP had components that were, independent of operational and business drivers;
- ensured that leaders of the ICP had access to the most senior decision-makers in the organization; and
- actively reported and responded to the organization's Board of Directors and management's concerns and queries on compliance strategy, performance and risks.

MACD believes it is important and timely to reiterate that a "culture of compliance" needs to be grounded in, and fully reflect, a real and demonstrable set of values, behaviours and beliefs. It is these elements that underpin a true commitment to compliance.

b) Compliance Standards and Procedures

A compliance-oriented culture will not produce positive compliance results unless employees know which market rules apply to their work and what actions they must take to comply. Each market participant will have its own approach to communicating its compliance policy, specific to its size, type and organizational structure.

This consideration describes whether and how market participants had:

- established and implemented a corporate compliance policy that articulated the objectives and strategy of the ICP, expectations for compliance with market rules and the implications of non-compliance;
- defined compliance processes and developed corporate compliance procedures that communicated the compliance strategy, roles and responsibilities, and explains the interactions between compliance roles;

- procedures for monitoring compliance that recognized the amount of monitoring necessary within an effective ICP will vary amongst business units and the significant business activities of the organization;
- implemented operational procedures that served as 'how-to' mechanisms for achieving compliance with the market rules, particularly for high-risk compliance obligations; and
- embedded and 'operationalized' their ICP throughout their business activities.

MACD expects that market participants will move beyond simply having well designed programs that look good on paper. While laying the foundation and sound design principles for a quality ICP are important, it is also important to MACD that market participants have embedded and 'operationalized' their ICP throughout their business activities.

c) Roles and Accountabilities

This consideration describes whether and how a market participant ensures that management accountable for achieving compliance understands their compliance accountabilities and requirements, is able to recognize potential compliance exposures within their operations, takes ownership of potential compliance breaches and resolves compliance problems.

This consideration describes whether and how market participants had:

- given compliance decision-makers a position within the corporate structure which reflected the importance of the ICP and the decision-making rights and authority to act independently;
- ensured compliance decision-makers were not compromised by conflicting priorities; and
- assigned authority to, and documented the roles and responsibilities of, employees managing the ICP and those tasked with achieving compliance with the market rules.

d) Compliance Risk Assessment

MACD believes that effective compliance risk assessments are an important element of an ICP. Effective risk assessments will allow market participants to identify and prioritize their own specific compliance risks. An ICP that is risk-informed or risk-based improves the delivery of compliance outcomes, and leads to efficient deployment of finite resources aligned with effective risk-based strategies.

Regardless of size, type or complexity of operations, effective risk assessments allow market participants to identify and prioritize compliance risks.

This consideration describes whether and how market participants had:

- established a risk assessment process that is fully embedded within the organization's ICP; and
- performed regular risk assessments with management and key staff members responsible for compliance with market rules.

The risk assessment will invariably involve various business and functional leaders in the organization to ensure ownership for managing compliance risks is communicated, understood and accepted.

No organization can eliminate all compliance-related risks. While risk mitigation strategies will necessarily be context-specific, key compliance risks should be adequately addressed. Once key compliance risks are identified, consideration will be given to whether and how market participants had:

- implemented appropriate mitigation strategies to reduce the likelihood and potential impact of those risks; and;
- established and communicated risk mitigation plans, such that key compliance risks are managed and mitigated according to the risk tolerances established by the organization.

Although MACD recognizes that each organization will establish its own risk tolerance, which will drive corporate decision making to address risks of non-compliance, this does not change MACD's authority to pursue all possible breaches of the market rules regardless of whether the organization has accepted the risk of non-compliance and, therefore, not taken actions to eliminate or mitigate the risk.

Operational Considerations

a) Training and Compliance Communication

Training and communication of compliance obligations are ongoing activities, whereby the effectiveness of the ICP is demonstrated when there is extensive awareness of compliance policies and an understanding of responsibilities under them, as well as prompt awareness of changes to the market rules and the impact of those changes on employees' roles and responsibilities. The approach taken by market participants should involve regular communications with employees, reminding them of the organization's corporate commitment to compliance and their role in promoting and achieving compliance.

This consideration describes whether and how market participants had:

- communicated compliance policies and procedures to all employees such that implemented training initiatives can demonstrate that they have led to desired changes in compliance behaviour across the organization;
- developed and implemented a training plan and strategy with suitable breadth and scope that encompassed general awareness and specific compliance skills training, presented the ICP to employees, made supporting information available and articulated and reinforced compliance roles and accountabilities; and
- delivered compliance training to employees based on risk, seniority and/or role within the organization, educated personnel in their individual and collective accountabilities for compliance with the market rules.

b) Monitoring Controls and Evaluating Compliance Program Effectiveness

Strong elements of a quality ICP are effective prevention, detection and mitigation methods over non-compliance in the form of mechanisms that ensure that potential or actual breaches of market rules are prevented or detected, disclosed and remediated through the use of internal controls.

This consideration describes whether and how market participants had:

- established and documented internal controls over compliance that address the risks of each compliance obligation according to the risk tolerance established by the organization;
- monitored and measured the effectiveness of their ICP by establishing measurable objectives for the ICP and the compliance performance of the organization; and
- ensured monitoring and reporting to senior decision-makers incorporated indicators, metrics and measures over both ICP effectiveness and compliance outcomes.

c) Performance Incentives and Disciplinary Actions

An effective way to encourage a compliance culture is for market participants to create incentives for employees to promote compliance, encourage reporting of non-compliance and reduce the organization's exposure to compliance issues. This consideration includes the full range of decisions and actions taken by market participants to positively or negatively incent the latter desired behaviours. This consideration recognizes that how a market participant recruits, compensates, rewards and recognizes, educates and promotes employees will be at play in cultivating a compliance culture.

This consideration describes whether and how market participants had:

- employed positive incentives that promote the achievement of targets for compliance with the market rules and aligned employee compensation, performance evaluation and other visible reward programs with compliance performance;
- employed negative incentives, which may include disciplinary action, when employees deliberately or negligently breach a market rule;
- monitored and reviewed disciplinary actions taken and reported significant disciplinary decisions and actions to management and/or the Board of Directors; and
- aligned documented roles and responsibilities with performance incentives according to established criteria and measures for evaluating compliance performance, particularly for key roles with substantial compliance authorities.

d) Response to Breaches and Remedial Actions

Once a potential or actual breach is detected, it is imperative that market participants act expeditiously to address the event by mitigating the impact, correcting the breach, and reducing the likelihood of similar events in the future. Although the specific actions and timeframes required for any given breach are necessarily risk and context-specific, a quality ICP will ensure that a suitable organizational response structure exists to quickly and adequately respond.

This consideration describes whether and how market participants had:

- promptly identified and initiated corrective, mitigating, and preventative plans, through a process that allowed for the review, consultation and establishment of management responses to potential and actual breaches detected;

- clearly assigned and specifically accepted, accountability and responsibility for corrective, mitigating, and preventative plans for implementing and the tracking of potential and actual breaches detected;
- collected timely and accurate data and reported the results of corrective, mitigating, and preventative plans to both internal and external stakeholders; and
- performed root cause analysis of breaches and initiated action to address underlying causes

4.3 Internal Compliance Programs in the Context of Enforcement Processes

When MACD has determined that a market participant has breached the market rules and that the appropriate sanction is a financial penalty, the "presence and quality" of an ICP may generally serve as a mitigating factor in determining an appropriate penalty. However, in certain circumstances, the lack of an ICP may serve as an aggravating factor in determining an appropriate penalty.

Elements of an ICP may also overlap with other factors in the penalty assessment, which may lead to a decrease or an increase to a financial penalty. These factors include:

- s. 6.6.7.1 the circumstances in which the breach occurred;
- s. 6.6.7.4 the length of time the breach remained unresolved;
- s. 6.6.7.5 the actions of the market participant on becoming aware of the breach.

MACD does not look at penalty factors in isolation from each other. Generally speaking, if a financial penalty is determined by MACD to be warranted, the existence of a quality ICP will likely be a mitigating factor, and likely serve to reduce the size of the financial penalty imposed on a market participant.

5. Appendix I: Glossary of Abbreviations and Terms

"Accountability" means an authority to approve an activity, to accept the execution of an activity, and the responsibility to ensure that activities are completed successfully;

"Activity" means a unit of work, task, or action that is performed as part of a procedure;

"Compliance obligations" means a market participant's applicable obligations under the market rules;

"Correction plan" means a set of tasks that result in either or both the cessation of an act or activity that constitutes a breach of the market rules or commencement and completion of an act(s) or activity(ies) that results in compliance with a compliance obligation;

"IESO-administered markets" has the meaning provided in Chapter 11 of the market rules;

"IESO-controlled grid" has the meaning provided in Chapter 11 of the market rules;

"Internal compliance program" or "ICP" means a program that is intended to achieve the outcome of compliance with compliance obligations;

"Internal control" means a mechanism or method designed to mitigate risk;

"Management" means individuals in the market participant who are vested with a certain amount of discretion and judgment in managing the affairs of the market participant and have accountabilities for achieving compliance with the market rules or associated with an ICP;

"MACD" means the Market Assessment and Compliance Division of the IESO;

"Market participants" means market participants as defined in the Chapter 11 of the market rules and the IESO;

"Market rules" means all documents containing obligations that the MACD may enforce, including but not limited to the "Market Rules for the Ontario Electricity Market", market manuals, reliability standards, interconnection agreements, and policies, guidelines, and interpretation bulletins issued by the IESO;

"Mitigation plan" means a set of tasks that result in the partial or complete removal of impacts created by an actual or potential breach of the market rules;

"Prevention plan" means a set of tasks that result in addressing the root cause(s) of a breach such that it reduces the likelihood of future similar breaches;

"Procedure" means a systematic set of instructions required to complete an activity;

"Process" means a collection of procedures that take inputs from different sources, manipulates the inputs, and produces outputs to achieve a specific and defined outcome;

"Program" means a structured grouping of interdependent components that includes the full scope of processes, people, infrastructure, technology and organizational activities required to achieve a specified and defined outcome;

"Reliability" has the meaning provided in Chapter 11 of the market rules;

"Reliability standards" has the meaning provided in Chapter 11 of the market rules;

"Remedial actions" means the implementation of prevention, mitigation, and correction plans;

"Risk" means the likelihood and impact of potential non-compliance with the market rules;

"Risk assessment" means an assessment that identifies, evaluates and prioritizes the impact and likelihood of risks;

"Risk mitigation plan" means one or more approved documents that outline planned activities to manage, control and reduce risks;

"Risk tolerance" means the level of risk that a market participant is willing to accept.

6. Appendix II: ICP Maturity Model

There are many authoritative resources on process maturity models, covering a range of capabilities and disciplines, such as risk maturity, safety management maturity and business process maturity. The maturity model provided in this Appendix is to be interpreted with the same common understanding and operation of maturity models from these disciplines.

MACD has decided to provide market participants with a set of quality attributes organized in the form of a maturity model that will help them obtain a better understanding of our views on "presence and quality" of an ICP. This approach recognizes that increases in quality correlate with ICP maturity over time.

To help market participants interpret MACD's ICP maturity model, the following provides additional information on the quality attributes.

1. The attributes presented in the model are intended to guide market participants in developing an ICP and to inform MACD during an ICP review as to whether and how market participants have implemented the ICP considerations within section 4.2 of this statement. MACD will also examine other indicators of quality in its ICP reviews.
2. Technical language has been eliminated as far as practical and some electricity industry terms have been used. Other than the defined terms in the glossary, dictionary definitions will apply.
3. The model may not be fully consistent with other maturity models with which market participants may be familiar. Rather, MACD reflected on its enforcement experiences with Ontario market participants and developed a spectrum of attributes that would reflect a practical roadmap for improvements in the quality of ICPs within the Ontario electricity industry as a whole. These views may change in the future as experience with ICP reviews increases as the sector develops more, and better, ICPs.
4. As ICP maturity increases, improvements to existing practices and techniques are made, new practices and techniques are introduced, and ICPs become increasingly sophisticated. Therefore, a one-to-one mapping of every attribute across the model will not always be practical or possible.

MACD'S MODEL FOR ICP MATURITY WITHIN THE ONTARIO ELECTRICITY MARKET

	State 1 Forming	State 2 Developing	State 3 Formalized	State 4 Established	State 5 Self-improving
ICP consideration	Recognition of the need for a compliance program is emerging.	There is awareness of the need to act on the compliance program.	There is understanding of the need to act on the compliance program.	There is understanding of the full requirements of the compliance program.	There is forward-looking understanding of compliance program requirements.
1. **Organizational Leadership and Culture of Compliance**	Little to no compliance oversight exists. The performance of compliance leadership is not measured. There is disarray when compliance issues occur and the organization may be perceived as lacking in its commitment to compliance.	Compliance oversight is largely informal and is not independently exercised. Measurement of the effectiveness and efficiency of compliance leadership is largely subjective. Compliance issues are not consistently reported and the organization's actions may be inconsistent with its commitment to compliance.	A formal governance structure for compliance oversight is emerging which includes an independent perspective. Defined and repeatable methods are used to measure the effectiveness and efficiency of compliance leadership. Compliance issues are being consistently reported, however employees may not seek advice, guidance and training.	The governance structure for compliance oversight is independently controlled. Consistent methods are used to measure the effectiveness and efficiency of compliance leadership. Employees are comfortable reporting compliance issues and in seeking advice, guidance and training.	The governance structure for compliance oversight is fully independent and self-directing. The effectiveness and efficiency of compliance leadership is consistently measured and benchmarked. Employees are comfortable in seeking and providing advice, guidance and training to prevent compliance issues.
2. **Compliance Standards and Procedures**	Compliance standards, policies and procedures are not defined. Informal, largely undocumented compliance processes exist.	Compliance standards, policies and procedures are emerging, based on individual expertise and initiative. Some documentation of compliance processes exists, however there is little standardisation of these processes across the organization. Compliance processes are separate from organizational business processes and are applied inconsistently.	Compliance policies and procedures are defined and documented for all key compliance activities. Compliance processes are linked with organizational business processes; however, compliance processes may still be applied inconsistently. Understanding and application of internal standards for compliance are emerging.	Compliance policies and procedures are documented, repeatable and well-known. Similar compliance processes are identified, coordinated and standardised across the organization and applied consistently. Internal standards for compliance are applied and are aligned with external best practices.	Compliance standards, policies and procedures are standardised and integrated across the organization. Compliance processes are indistinguishable from organizational business processes. Compliance processes are subject to continuous improvement and benchmarked to external best practices.

	State 1 Forming	State 2 Developing	State 3 Formalized	State 4 Established	State 5 Self-improving
3. **Roles and Accountabilities**	Compliance accountabilities and responsibilities are not defined. Employees take ownership for compliance based on their own initiative and on a reactive basis.	Compliance accountabilities and responsibilities are defined at an operational level. Individuals are held accountable for non-compliance, yet may be unaware of their responsibilities.	Compliance accountabilities and responsibilities are defined at strategic and operational levels. Compliance owners have been identified but are unlikely to have full authority to exercise their responsibilities.	Compliance accountabilities and responsibilities are defined at oversight, strategic and operational levels. Responsibilities and accountabilities for compliance are accepted, well-understood and respected and compliance owners are able to fully discharge their responsibilities.	Compliance accountabilities and responsibilities are defined at all levels (leadership, oversight, strategic and operational). Compliance owners are empowered to take decisive action and compliance responsibilities and accountabilities are accepted at all levels within the organization.
4. **Compliance Risk Assessment**	Assessments of compliance risk are informal and largely subjective. Risks are considered only in response to compliance issues.	A methodology for the assessment of compliance risk is emerging; however application is at the discretion of individuals. Discrete compliance risk assessments occur and risk mitigation plans are high level and inconsistent.	An organization-wide process to conduct compliance risk assessments is defined and documented; however decisions to follow the process are still left to individuals. The methodology for the assessment of compliance risk ensures that key compliance risks are accurately identified. Risk mitigation plans are implemented once risks are identified, however risk mitigation can still be inconsistent.	Standardised compliance risk assessment, measurement and mitigation procedures are being followed, with some compliance risk data emerging. Compliance risk management is the responsibility of senior management and all identified compliance risks have an assigned owner accountable for their management. Risk mitigation plans are consistent with the levels of risk that the organization can tolerate and its risk mitigation strategies.	An enterprise-wide, systematic compliance risk management process is enforced and the identification, analysis and reporting of compliance risk data is highly structured. Compliance risk management is integrated into all significant business activities and processes. Management continually assesses the effectiveness of risk mitigation plans and strategies.
5. **Training and Compliance Communication**	Compliance skills requirements are not identified and compliance training occurs informally, if at all. There is little to no communication of compliance issues.	Minimal compliance skills requirements have been identified for critical compliance areas and informal, on-the-job training occurs in response to short term needs. Compliance issues are communicated inconsistently.	Compliance skills requirements are defined and documented and job descriptions consider compliance responsibilities. An organization-wide training plan exists, yet formal training occurs based on employees' own initiative.	Compliance skills requirements are regularly updated and minimum competency levels have been established for critical compliance skills. Advanced training methods are used to deliver compliance training, knowledge sharing is encouraged	Compliance skills requirements are subject to continuous improvement and considered within business and personal plans. Leading training concepts and techniques are used to deliver compliance training and knowledge sharing and best practices are routinely part of the training plan.

	State 1 Forming	State 2 Developing	State 3 Formalized	State 4 Established	State 5 Self-improving
	Little to no compliance data is available.	Compliance information is emerging but is not shared.	Management communicates significant compliance issues. Compliance information is shared vertically within the organization.	and the effectiveness of the training plan is assessed. Management provides regular, structured compliance communications. Compliance information is shared across the organization.	Management proactively communicates compliance issues and trends. Compliance information is indistinguishable from non-compliance information.
6. **Monitoring Controls and Evaluating Compliance Program Effectiveness**	Management recognises the need for internal controls over compliance but is unaware of compliance control gaps. Management typically learns of non-compliance informally or from complaints and deals with issues as they arise. Goals for compliance are not well defined or communicated.	Where internal controls over compliance are in place, they are largely, if not exclusively manual, not documented and their effectiveness is dependent on individual initiative and understanding. Awareness of control gaps is through compliance breaches, and are unlikely to be adequately addressed. Some goals for compliance have been established but are not monitored or measured.	Internal controls over compliance are in place, adequately documented and their effectiveness is routinely evaluated, however the evaluation process is largely informal and not documented. Control gaps are detected before they appear through compliance breaches, however gaps persist and are inconsistently addressed. Some compliance goals and measures have been established and are linked to business objectives; however measurement is still inconsistent.	Internal controls over compliance are coordinated with business processes, with many automated compliance controls and formal, documented evaluations of their effectiveness occur on a regular basis. Gaps in controls that prevent compliance breaches are likely to be detected and when identified, are consistently addressed. Compliance goals are linked to business objectives, communicated and consistently measured. Program exceptions are monitored and continuous improvement is emerging.	Internal controls over compliance are integrated within business processes, proactively planned as part of business changes and continuously evaluated to prevent compliance breaches. Compliance performance is measured and linked to business objectives and the strategic plan. Program exceptions and maturity are consistently monitored by management and continuous improvement of compliance performance is valued.
7. **Performance Incentives and Disciplinary Actions**	Little to no compliance performance incentives exist and discipline, if applied, is perceived as inconsistent among similar positions and across similar levels in the organization.	Compliance performance incentives are established for some critical compliance areas and performance measurement is largely subjective and inconsistent. Disciplinary actions are not consistently applied across similar positions and have little effect on	Compliance performance incentives are established for all critical compliance areas but are not consistent across the organization. Performance measurement is consistent at each level but not across the organization.	Compliance performance incentives are established at each level of the organization, are aligned across levels, but are not yet strategically integrated with corporate performance measures. Performance measurement is consistent and aligned across the organization.	Compliance performance incentives are established at each level of the organization, aligned across levels and strategically integrated with corporate performance measures. Performance measurement is consistent at each level and integrated with corporate performance measures.

	State 1 Forming	State 2 Developing	State 3 Formalized	State 4 Established	State 5 Self-improving
		promoting positive compliant behaviour.	Disciplinary actions are consistently applied across similar positions and predictably deal with most non-compliant behaviour.	Disciplinary actions are consistently applied, with expectations increasing by position, and are likely to promote positive compliance behaviour.	Management has full accountability for compliance enforcement and enforcing disciplinary actions such that expected disciplinary action serves as a deterrent.
8. **Response to Breaches and Remedial Actions**	Responses to breaches are retrospective, high level and remedial actions only address the actual breach. Decision-making over reporting and disclosure of breaches is not made at appropriate levels, with large variations in the quality and timeliness of information disclosed.	Remedial actions to resolve breaches are informal, not prioritised or consistent and managers and individuals connected to the incident define the remedial action plan. Decision-making over reporting and disclosure of breaches involves specific individuals or groups from one or more levels of the organization; however variations in the quality and timeliness of information that is disclosed persist.	Subjective root-cause analysis is used to develop remedial actions. A designated compliance owner drives the assessment and response process and the remedial action plan considers associated risks, costs and benefits. Decision-making over reporting and disclosure of breaches involves management at appropriate levels, and while standardisation in the quality of information is emerging, material information may still not be disclosed promptly.	Root-cause analysis is becoming standardised and remedial actions are supported by business cases. Accountabilities for assessing responses to breaches are well understood and the effectiveness of remedial actions is measured. Accountabilities and processes for required disclosures of breaches are established, supported by certification of the quality of information between multiple levels of accountability, and reporting timelines are consistently applied.	Root-cause analysis is consistently applied and responses to breaches consider business process and control gaps. The organization benchmarks to external best practices and employees seek advice on remedial actions. Accountabilities and standards for required disclosures of breaches are enforced and reporting timelines for disclosures are monitored.

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