

Memorandum

To: ISO Board of Governors
From: Nancy Saracino, Chief Compliance Officer
Date: May 11, 2011
Re: **Compliance Update**

This memorandum does not require Board action.

The *Compliance and Ethics Program Policy*, as revised by the Board in March 2010, provides that the Chief Compliance Officer will administer the Compliance Program “under the oversight of the Audit Committee of the Board of Governors,” and with support from Executive Management and the Compliance and Ethics Committee. This is the report of the Compliance Officer and the Compliance and Ethics Committee about progress on compliance initiatives since the previous report on December 15, 2010.

The Compliance and Ethics Committee met on February 7, 2011, and plans to meet again later this month. The following initiatives have been completed:

- The Legal and Regulatory group released a template for recording reportable gifts that employees receive from business related sources, in accordance with Employees Code of Conduct and Ethical Principles, and initiated an annual collection of logs as part of an enhanced compliance program for the gift policy.
- Human Resources released an updated employees’ manual, which reflects the most current best practices and employment law. This updated manual represented a significant effort by Human Resources and legal staff to ensure that the manual clearly sets out the guidelines and rules governing employment at the ISO. All employees were required to certify that they agree to abide by the policies as part of the ISO compliance program to ensure that employees are knowledgeable about and conversant with the policies and rules that we are all accountable for.
- Internal Audit completed its audit of the ISO's fraud risk management program. The report recommended best practices and found that the ISO has a comprehensive fraud risk management program with no significant deficiencies that would warrant an audit finding.

In addition, the Corporate Compliance Group has been working on other compliance-related initiatives, including:

Tariff Compliance Framework

This project involved formalizing compliance with the tariff by decomposing it into discrete requirements, rating compliance risks, identifying owners for each requirement, documenting controls, and mapping to each requirement the relevant process documents and sections of business practice manuals. During the first quarter of 2011, the corporate compliance team, in coordination with the dedicated staff from affected business units, identified owners for the last group of tariff requirements and completed compliance matrices associated with these remaining requirements. With this last step, the tariff compliance project was complete with the next phase focusing on implementation of the ongoing Manage Tariff Compliance Program. This program will ensure new and revised tariff requirements have business unit owners and that adequate controls exist to minimize the risk of non-compliance with tariff requirements.

Internal Investigations

The corporate compliance team continues to refine the process for internal investigations by incorporating tools and methods learned from researching best practices, including those of the Western Electricity Coordinating Council and the North American Electric Reliability Corporation, from interviewing ISO attorneys, and participating in training courses provided by the Society of Corporate Compliance and Ethics.