

Compliance Program

(Decision)

**ISO Board of Governors
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**John C. Anders
Acting Corporate Secretary
General Session**

Why Have a Compliance Program?

- **Two critical reasons:**
 - Prevention of legal and/or policy violations generally reduces the risk of criminal and civil liability; and
 - As set forth in the FERC's October 20, 2005 Policy Statement on Enforcement, corporations with an effective compliance program may be afforded greater deference in a criminal or civil prosecution related to violations of applicable laws and/or regulations, and may receive reduced civil or criminal penalties if a violation is found to have occurred.
- **Strategic Objective:** “. . . continuously and proactively review [CAISO] operations and activities to assure its compliance with legal and regulatory requirements.”

Outline of a Compliance Program

- **Seven elements of an effective Compliance Program:**
 1. Adopt written policies and standards
 2. Board oversight and Executive Management role
 3. Reasonable efforts to prevent misconduct (pre-hire)
 4. Effective communication and training
 5. Effective methods to monitor, audit, evaluate, and publicize
 6. Promote and consistently enforce the program
 7. Respond and take reasonable preventative measures
- **CAISO already has basic Policies and Standards**
 - Code of Conduct, Information Security Policies, etc.
- **CAISO already engages in relevant practices/processes**
 - SAS 70 Audit, Code of Conduct Training and Audit, etc.
- **CAISO includes actively engaged Divisions/Departments**
 - Legal and Regulatory, Enterprise Risk Management, Internal Audit, Human Resources, Finance, Facilities, and Operations
- **Leverage existing elements to the maximum possible extent**

Additional Elements

Three initial steps are recommended to establish the Compliance Program

1. Compliance Program Policy

- Establishes high level objectives for the program
- Outlines the general framework for implementation, training and monitoring

2. Enhance the Employees Code Of Conduct

- Existing Employees Code of Conduct unchanged
- Responsibilities for compliance are highlighted
- Additional conflict of interest provisions/requirements
- Specific areas of compliance are discussed

3. Formalize the Compliance Structure

- ADR/Audit Committee Charter amendment
- Appointment of a Chief Compliance Officer

Next Steps

- **Disseminate Compliance Program information**
- **Establish Management level Compliance Committee**
- **Identify compliance risks in continued coordination with Enterprise Risk Management and Internal Audit**
- **Update and develop additional Policies and Standards as necessary to support the Compliance Program**
- **Train employees with respect to the Compliance Program and compliance issues, with general training starting in 2007 and specific training starting in 2008**
- **Monitor the effectiveness of the Compliance Program and make changes as appropriate**
- **Report to the ADR/Audit Committee periodically, but under no circumstances less than annually**

Challenges

- **Budget and Resource Constraints**
- **“Paper Program” Risk**
- **Mitigation Measures**
 - Appoint a Chief Compliance Officer with support from the Board and Executive Management (“tone from the top”)
 - Make sure the program fits the organization (“right sized”)
 - Foster a culture of understanding and awareness with respect to risk/compliance by focusing on training, communication, and enforcement (a “culture of compliance”)
 - Continually monitor and improve the program to make sure it remains effective (“constant improvement”)

Conclusion

- **Compliance Programs are a best practice**
- **CAISO already has many required elements**
- **Leverage existing elements**
- **Follow the steps outlined in the materials**
- **Result: appropriate and effective Compliance Program that meets the Strategic Objectives of the CAISO**