The Program on Corporate Ethics and Compliance Center presents

Summer Compliance Institute
Week 2

June 11, 2022
9 a.m. - 1 p.m. EDT
Zoom Webinar

CLE Course Materials
Summer Compliance Institute
Resource Materials for Session 2 (June 11, 2022)

Sarbanes-Oxley Act
- Sarbanes-Oxley Act of 202, Section 404
- Guide to Sarbanes-Oxley Act: Internal Control Reporting Requirements

U.S. Sentencing Commission
- United States Sentencing Commission, The Organizational Guidelines

U.S. Department of Justice
- DOJ, Criminal Division, Evaluation of Corporate Compliance Programs (2020)
- DOJ, Antitrust Division, Evaluation of Corporate Compliance Programs in Criminal Antitrust Investigations (2019)

U.S. Department of Treasury
- Office of Foreign Assets Control, A Framework for OFAC Compliance Commitments

International
- OECD, Good Practice Guidance on Internal Controls, Ethics, and Compliance (2010)

Internal Controls Framework
- Compliance Risk Management: Applying the COSO ERM Framework (2020)

Three Lines of Defense Model
- Deloitte, Modernizing the three lines of defense model: An internal audit perspective (2020)
RISK ASSESSMENT CASE STUDY

FORDHAM 2022 COMPLIANCE RISK ASSESSMENT: CASE STUDY
Background

ConcertCentral ("CC") is a global entertainment company that promotes live events, operates ticket sales, owns and manages event venues, and promotes artists. It is the largest producer of live music events in the world. It has been steadily growing through strategic acquisitions and global expansion and reached $12B in revenue in 2019. CC is in 46 countries and has 10,000 employees worldwide, with about half in its global HQ in Los Angeles. That was in 2019, and it seems like a century ago.

In 2019, CC connected nearly 98 million fans to more than 40,000 events for over 5,000 artists and sold 485 million tickets on behalf of 11,500 clients. CC has a large database of fans (about 580 million in 2019). CC has an extensive relationship with artists, promoting shows or tours for 5,000 artists globally, and manage another 500 artists.

CC is structured into three main divisions:

<table>
<thead>
<tr>
<th>Divisions</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concerts</strong></td>
<td>The Concerts division is dedicated to the global promotion of live music events in our owned or operated venues and in rented third-party venues, the operation and management of music venues, the production of music festivals across the world, the creation of associated content and the provision of management and other services to artists.</td>
</tr>
<tr>
<td><strong>Ticketing</strong></td>
<td>Ticketing is responsible for selling tickets for events on behalf of its clients and retains a portion of the service charges as our fee.</td>
</tr>
<tr>
<td><strong>Sponsorship &amp; Advertising</strong></td>
<td>This division is responsible for creating and maintaining relationships with sponsors through a combination of strategic, international, national and local opportunities that allow businesses to reach customers through our concert, festival, venue and ticketing assets, including advertising on our websites.</td>
</tr>
</tbody>
</table>

Governance, Mission, and Values

CC is a publicly-listed corporation with headquarters in California and incorporated in Delaware. There are twelve members of the Board, include three independent directors on the Audit Committee. As a listed company, it has a published Code of Conduct that contains all the standard provisions, including an introductory letter from the CEO Linda Diller about how “integrity is the foundation of our success.” CC's mission is “to maximize the live concert experience.” The company values are:

- We are artist focused
- We are decentralized in our decision-making
- We encourage big ideas
- We are entrepreneurs
- We are focused
- We thrive on talent

Major Stakeholders

CC's major stakeholders are as follows:

- Artists
Growth Strategy

As a U.S. based company, CC has a strong presence in U.S. and Canada, and the company’s growth lies in overseas expansion. Although CC has presence in over 46 countries, in many of those countries, revenues are nominal. CC sees a lot of potential in Europe, Asia and Latin America, and has set aggressive growth targets for its overseas markets each year. Usually, CC has come close to meeting those targets, but in the past two years, performance across these metrics has dipped somewhat to 84% and 78% of target. Increased competition accounts for some of this, but market-specific regulatory obstacles have also been a challenge.

Employee Engagement

CC is known as a good place to work and employees have been generally engaged and productive, and they are generously compensated.

Incentives

CC aligns employee incentive compensation with its business strategies, which are announced on an annual basis. Roughly half of the incentive compensation is tied to company performance and half is tied to individual performance. Incentive compensation accounts for an average of 20-35 percent of overall compensation for mid-level managers and 35-50% of compensation for senior leaders. To ensure that incentives are in line with CC’s strategy, the company-based incentive compensation portion is calculated based on overall financial performance tied to CC’s earnings per share and other key financial targets, including revenue growth in designated markets. The individual-level incentive compensation portion is based initially on the supervisor’s performance evaluation and then those evaluations go through a review process to ensure overall alignment.

Leaders in the Concert Division are evaluated on live concert revenue generation, as well as on revenue generated from “new markets,” so a Concert Division leader in Asia is evaluated and compensated on new revenue growth in markets in Asia. Effectively, that means that bringing in a new concert in a designated growth target market can bring in $30,000 to $60,000, whereas bringing in a new concert in a non-designated growth market can bring in $20,000 to $40,000.

CC has a traditional performance review system based on cascading annual business objectives. That is, the company sets objectives each year, and leaders translated those business objectives into their own personal objectives and cascade those down throughout the organization. Performance assessments are tied to performance against those objectives.
Press Release

On June 14, at the peak of summer 2020’s social unrest, CC issued a statement to express outrage over the killing of George Floyd and so many other African Americans. The statement supported the calls for criminal justice reform and an end to “systemic racism.” “Performance artists are often at the forefront of social change, and we are proud of our close partnership with dozens of African American artists who use their artistic voice to challenge these injustices.” The statement added that as a company, CC recognizes its “broader obligations – to our customers, business partners, employees and society – to conduct our business in alignment with our values, and to promote peace and justice in our communities.”
MODULE 4: RISK ASSESSMENT EXERCISE

You will analyze risks relating to a hypothetical company and will discuss three risks you have identified and for each, you will need to be prepared to explain what the level of risk is, what the existing measures are to address those risks, and additional measures you are recommended to be implement to further mitigate those risks.

The exercise will be based on the hypothetical company ConcertCentral (CC). General information about CC is above, and below is supplemental information about the risk environment. Read through these materials carefully in advance of the session.

To the extent that you do not have information needed for the exercise, you may assume reasonable factors. Alternatively, you may note that the information was not available in your presentation and explain how you would go about getting this information.

Risk Environment

In 2021, CC suffered deep setbacks as a result of COVID-19 as concert and sporting event attendance worldwide went into a tailspin due to COVID lockdowns. Luckily, CC was on firm financial grounds before the pandemic, and had deep reserves to stave off an immediate liquidity crisis. Now the firm has to figure out how it can safely get back into the concert/event and ticketing business, which rely on gatherings of large crowds.

The business is highly sensitive to public tastes and is dependent on its ability to secure popular artists and other live music events, and we and our ticketing clients may be unable to anticipate or respond to changes in consumer preferences, which may result in decreased demand for our services. CC depends on relationships between key promoters, executives, agents, managers, artists and clients and any adverse changes in these relationships could adversely affect our business, financial condition and results of operations. CC faces intense competition in the live music and ticketing industries and may not be able to maintain or increase current revenue, which could adversely affect the business, financial condition and results of operations.

The success of ticketing business and other operations depends, in part, on the integrity of our systems and infrastructure, as well as affiliate and third-party computer systems, Wi-Fi and other communication systems. System interruption and the lack of integration and redundancy in these systems and infrastructure may have an adverse impact on our business, financial condition and results of operations.

Data loss or other breaches of our network security could materially harm our business and results of operations, and the processing, storage, use and disclosure of personal or sensitive information could give rise to liabilities and additional costs as a result of governmental regulation, litigation and conflicting legal requirements relating to personal privacy rights. CC may be adversely affected by the occurrence of extraordinary events, such as terrorist attacks, social unrest and/or rioting, or disease epidemics.
CC operates in international markets which subject us to risks associated with the legislative, judicial, accounting, regulatory, political, social and economic risks and conditions specific to such markets, which could adversely affect our business, financial condition and results of operations. CC is subject to extensive governmental regulation, and our failure to comply with these regulations could adversely affect our business, financial condition and results of operations.

Unfavorable outcomes in legal proceedings may adversely affect our business and operating results. CC success depends, in significant part, on entertainment, sporting and leisure events and economic and other factors adversely affecting such events could have a material adverse effect on our business, financial condition and results of operations. Exchange rates may cause fluctuations in our results of operations that are not related to our operations. CC may enter into future acquisitions and take certain actions in connection with such transactions, including actions taken to comply with antitrust, competition and other regulations, that could affect our business and results of operations; if we are unsuccessful in our future acquisition endeavors, our business could be adversely impacted.

CC is dependent upon our ability to lease, acquire and develop live music venues, and if we are unable to do so on acceptable terms, or at all, our results of operations could be adversely affected. CC’s operations are seasonal and our results of operations vary from quarter to quarter and year over year, so our financial performance in certain financial quarters or years may not be indicative of, or comparable to, our financial performance in subsequent financial quarters or years. Even in normal times, there is the risk of personal injuries and accidents in connection with our live music events, which could subject us to personal injury or other claims and increase our expenses, as well as reduce attendance at our live music events, causing a decrease in our revenue.

CC may fail to adequately protect our intellectual property rights or may be accused of infringing upon intellectual property rights of third parties. CC depends upon unionized labor for the provision of some of our services and any work stoppages or labor disturbances could disrupt our business; potential union pension obligations could cause us to incur unplanned liabilities.

**Risk Assessment and Mitigation**

Review all of the risk factors below. Decide which are the top three (3) that you think a compliance function would have a role in addressing. For each, make sure you really understand the risk factor and then come up with a plan to mitigate the risks.

1. **Know Your Customer – Financial Crimes (Money Laundering, Fraud, Bribery, Sanctions)**
2. **Foreign Corrupt Practices Act and comparable local laws (bribery and corruption)**
3. **Data Privacy and Cyber Security**
4. **Third Party Risk Management**
5. **Accurate books and records**
6. **COVID-19 – impact on customers, economy, businesses, employees, markets (Federal/ State Guidelines including evolving Global, Federal, and State Regulations (e.g., CARES Act)**
7. **Whistleblowing Protections**
8. **Disruptive Social Movements and social media**
9. Terrorism (e.g., 2015 Paris soccer stadium attack; 2017 Manchester attack during Ariana Grande concert)

10. Insurance premiums (property, casualty, death, pandemic, cancellations by artists or venues)

Then, for each identified risk, use the table below in your prep session to guide your analysis. Key definitions for your risk assessment to assess severity and likelihood are provided in the appendix. If you don’t have time to get to all three, then focus one or two.
### Category

#### Source of information
- What documents will you be reviewing?
- With whom will you be speaking?
- How will you collect information?

#### Key factors are evaluating risk
- What you learned for sources of information that shaped your assessment of inherent risk?

### Risk Severity
- What is the level of risk? Use the categories of risk identified below

### Risk Likelihood
- What is the likelihood of the risk materializing in the absence of controls?

### Inherent Risk
- What is the inherent risk level?

### Control #1 (repeat this for each identified control)
- Control type (people, process, technology)
- Who owns the control?
- What is the role of the Compliance Function? (primary? secondary?)
- To what extent do this control lessen the likelihood or severity of the risk?

### Residual Risk
- What is the risk severity taking into account the existing controls?
- What is the risk likelihood taking into account the existing controls?
- What is the residual risk?

### Action Plan
- Action – What need to be done?
- Owner – Who is accountable?
- Timeline – By when?
- Reporting – How will implementation status be reported?
The Seven Components of the Compliance Risk Assessment

1. Identify Business Unit and Metrics
2. Map Applicable Rules
3. Assess Inherent Risk with Compliance Risk Themes and Drivers
4. Define Controls Inventory
5. Rate Control Effectiveness
6. Determine Residual Risk
7. Score, Rate, and Report
REFERENCES and DEFINITIONS


2. Inherent risk + mitigating controls = residual risk

3. In Enterprise Risk Management – Integrated Framework (2004 and updates), COSO¹ defines:

   a. “Inherent risk” as the risk to an entity in the absence of any actions management might take to alter either the risk’s likelihood or impact (severity) – or the combination of both. “Residual risk” is the risk remaining after management’s response to the risk.

4. Per the COSO Internal Control Framework, below are three of the five elements including Control Environment, Risk Assessment and Control Activities (the other two are Information & Communication; and Monitoring.

   a. Control Environment

      i. Exercise integrity and ethical values.
      ii. Make a commitment to competence.
      iii. Use the board of directors and audit committee.
      iv. Facilitate management’s philosophy and operating style.
      v. Create organizational structure.
      vi. Issue assignment of authority and responsibility.
      vii. Utilize human resources policies and procedures.

   b. Risk Assessment

      i. Create companywide objectives.
      ii. Incorporate process-level objectives.
      iii. Perform risk identification and analysis.
      iv. Manage change.

   c. Control Activities

      i. Follow policies and procedures.
      ii. Improve security (application and network).
      iii. Conduct application change management.
      v. Perform outsourcing.

¹ Committee of Sponsoring Organizations of the Treadway Commission (COSO)
Risk Assessment Module
Appendix 3

Risk Assessment Matrix Template

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Remote</th>
<th>Unlikely</th>
<th>Possible</th>
<th>Likely</th>
<th>Very likely</th>
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</thead>
<tbody>
<tr>
<td>Extreme</td>
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<tr>
<td>Major</td>
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<tr>
<td>Moderate</td>
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<tr>
<td>Minor</td>
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<tr>
<td>Incidental</td>
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<tr>
<td>Probability</td>
<td>1-10%</td>
<td>11-25%</td>
<td>26-50%</td>
<td>51-90%</td>
<td>91%+</td>
</tr>
<tr>
<td>Risk Level</td>
<td>Description</td>
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<tr>
<td><strong>Extreme</strong></td>
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</table>
  - Decrease in Net Income of or more than $25MM  
  - International long-term negative media coverage; game-changing loss of market share  
  - Significant prosecution and fines, litigation including class actions, incarceration of leadership  
  - Significant injuries or fatalities to employees or third parties (e.g. concert attendees, vendors)  
  - Multiple senior leaders leave |
| **Major** |  
  - Decrease in Net Income between $16-$25MM  
  - National long-term negative media coverage; significant loss of market share  
  - Report to regulator requiring major project for corrective action  
  - Limited in-patient care required for employees or third parties (e.g. concert attendees, vendors)  
  - Some senior managers leave, high turnover of experienced staff, not perceived as employer of choice |
| **Moderate** |  
  - Decrease in Net Income between $3-$15MM  
  - National short-term negative media coverage  
  - Report of breach to regulator with immediate correction to be implemented  
  - Out-patient medical care required for employees or third parties (e.g. concert attendees, vendors)  
  - Widespread staff morale problems and high turnover |
| **Minor** |  
  - Decrease in Net Income between $300,000 to $3MM  
  - Local reputational damage  
  - Reportable incident to regulator, no follow up  
  - No or minor injuries to employees or third parties (e.g. concert attendees, vendors)  
  - General staff morale problems and increase in turnover |
| **Incidental** |  
  - Decrease in Net Income less than $300,000  
  - Local media attention quickly remedied  
  - Not reportable to regulator  
  - No injuries to employees or third parties (e.g. concert attendees, vendors)  
  - Isolated staff dissatisfaction |
Michael Blackshear

Michael serves as senior vice president and global chief compliance officer for Ryan Specialty Group (RSG), with responsibilities for maintaining and growing an effective compliance and regulatory framework. RSG is an international specialty insurance organization that provides solutions to brokers, agents, and insurance carriers, with operations in North America, the United Kingdom, and Europe. He has over 27 years of financial service and executive experience in the areas of compliance and risk management.

Prior to joining RSG, Michael was the North America chief compliance officer for Chubb Insurance Group, developing and maintaining their North American (NA) compliance program. Michael was primarily responsible for the NA compliance framework integration and transformation during the ACE-Chubb merger. Before his time with Chubb, he held various leadership roles with Marsh & McLennan Companies, focusing on compliance and government affairs. Before joining Marsh, he held compliance and risk-management-oriented advisory roles for both KPMG and PricewaterhouseCoopers. He began his insurance career as an underwriter for Continental Insurance Company and then as a casualty broker with Alexander & Alexander Insurance Brokerage Firm.

Michael was recently named in Insurance Business America’s Hot 100 insurance practitioners for 2020. This listing consists of the top 100 U.S. insurance professionals that shaped, transformed, and pushed the insurance industry forward with their dedication, mentorship, and vision for the past 12 months. Michael also has been honored by both Syracuse University—receiving the Chancellor’s Citation, the university’s most exclusive honor, in recognition of his significant career and civic achievements—and by Fordham’s Black Law Student Association—receiving the annual Ruth Whitehead Whaley Award for being a prominent alumnus in the field of compliance. He is an adjunct professor at Fordham Law School, and is a member of the Advisory Board to Compliance Programs at Fordham Law.

Michael obtained his Juris Doctor from Fordham Law School; his MBA from St. John’s University School of Risk Management, Insurance, and Actuarial Science; and his BS in Finance from Syracuse University. He also received a certification in “Managing Ethics in Organizations” from Bentley College.