

“To change the game on compliance costs we must track them to attack them. What if we all got together and decided how to show compliance costs in a P&L statement? What if we paid CUs to help us with the concept and development of accounting methods, changes to income statements, budgets, and reports to move to a new level on compliance cost innovation?”

- Randy Karnes at 2013 CEO Strategies

How Are You Accounting for the Cost of Compliance Today?

Within the credit union industry, we often find ourselves saying “the cost of compliance is killing my credit union.” But how can we win this argument with our Boards, examiners, members, auditors, and regulators without a way to prove this is the case? We seem content to bellyache over what is intuitively depressing and maintain the status quo.

If we are to really innovate on the cost of compliance and risk management as an industry we must move towards doing the hard work of tracking and tactically improving how we approach compliance. We must design a standard way of calculating the cost of compliance that sets our network and our vested hopes for our industry square in its sights. AuditLink has been building business ideas around these very concepts:

1. The lowest cost for awareness—collective identification and focus on where compliance is going and where it is today.
2. The lowest cost of policy management—I am aware and I hold my firm accountable.
3. The lowest cost of procedures aligned with toolkits—we can execute and we have designed the models to do so.
4. The lowest cost of execution—we train, we evolve the processes and the tools, and we get the work done.
5. The lowest cost of auditing our performance—we verify and we have log managers on the job.

The only area where AuditLink is not working today is the idea of “opinion” on compliance; a tough nut to crack when it comes to cooperative compliance.

Two Contests in Two Years

And so we’re turning to the network to tackle this issue. Over the course of the next two years, AuditLink will hold two contests to develop a template to account for the cost of compliance and then to put it into practice. The first contest will begin at this year’s June Leadership Conference. This contest will revolve around getting CEOs, CFOs, and compliance professionals to develop an outline and process to actually account for compliance related costs. We’ll then announce the winners at the November CEO Strategies event.

Beginning January 1, 2015, the second contest will revolve around the application of the templates in a real world environment in which compliance expenses are actually accounted for and recognized on the expense statement. We’ll announce the winners at next year’s Leadership Conference.

To sweeten the pot, CU*Answers has graciously put up a total of \$10,000 for the two contests. Each contest will have a top three winners circle with first place receiving \$2,500, second place receiving \$1,500, and third receiving \$1,000. The only stipulation is that there must be a minimum of ten submissions for each contest, so you will need to encourage each other to give this some thought.

Priming the Pump for the First Contest

Although the first contest won’t be open until Leadership Conference, we’re going to provide you with some ideas to get the wheels spinning now. Ideally, we hope to have the entire network agree to a single template. Although this is not

necessary, having one template may make it an easier sell to win arguments about regulatory burden, requests for additional resources, or why the ROA has not been growing as expected. What might eventually be coined by our network as the “Cost of Compliance Standard” could become well known by examiners and nationally accepted by CPAs and other third party auditors (similar to a FASB standard).

I see compliance cost divided into different categories. Category one would contain those costs that are so obvious that the credit union actually may cut a check for a specific invoice. We will call these *overt costs*. The second are those that get buried in the daily operations and contain things such as regulatory review or policy administration; *covert costs*. Below I have listed a number of costs to the credit union divided by those specific categories. What others might be added?

Overt Costs

- Forms
- Training
- BSA/ACH annual reviews
- Daily log management (if using AuditLink)
- Personnel
- Periodic statements
- Notices

Covert Costs

- Review and assimilation of new and changing regulations
- Exam management
- Review of regulatory requirements for new products and services
- Third party annual risk assessments
- Policy management
- Annual risk assessments for BSA, OFAC, ACH, electronic services, social media.....
- Daily log management (if not using AuditLink)

Next let's begin the discussion on the chart of accounts and where compliance costs report to on the general ledger. Ultimately, it would be nice to see it all reside in one G/L. The rub here revolves around where that expense was normally accounted for in the past. Take for example examination management. In the past that would have been accounted for in G/L 210 and 220, compensation and benefits. So do you create additional sub G/L accounts under those accounts or do you do overhead transfers from those accounts to a single G/L (or series located in close proximity)?

This is a lot to think about, but consider the benefit this could add for the entire network. Stay tuned for further details including how you can enter and how we'll judge entries. See you in June!

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