

Table of Contents

List of Contributors	v
List of Abbreviations	xix
Foreword <i>Jean Frijns</i>	xxiii
Introduction <i>Prof. S.C. Bleker-van Eyk</i>	1
PART I – HUMAN BEHAVIOR	
1. Why Humans Get Organized: From Cave-Dweller to Mars Explorer <i>Prof. S.C. Bleker-van Eyk</i>	5
1.1 Terminology	5
1.2 Our place in the organization	6
1.3 Compliance is behavior	7
1.4 The moral component of behavior	9
1.5 The existential question: 'why?'	12
1.6 The role of compliance	15
1.7 Summary and conclusion	18
Bibliography	19
2. Ethics and Integrity Management <i>Prof. S.C. Bleker-van Eyk</i>	21
2.1 Organizational integrity	22
2.2 From Fraud Triangle to Integrity Triangle	23
2.3 The triangle as a means to manage in practice	28
2.4 The Integrity Management Environment	31
2.5 Special focus on Codes of Conduct	32
Bibliography	36

3. Compliance Management	37
<i>Prof. S.C. Bleker-van Eyk</i>	
3.1 The compliance function	37
3.2 Institutionalization of compliance	37
3.3 The compliance landscape	38
3.3.1 Compliance Charter	39
3.3.2 Compliance Program	40
3.3.3 Structure of the compliance function	43
3.3.3.1 The final responsibility for compliance	43
3.3.4 The Chief Compliance Officer	44
3.3.5 The 'joint committee'	45
3.3.5.1 The divisional/business unit/local compliance officer	46
3.3.6 Reporting	47
3.4 Various examples of compliance program requirements	48
3.4.1 ISO 19600 guidance and uniformity for the organization of compliance	48
3.4.2 United States of America compliance requirements: principles of federal prosecution of business organizations	50
3.4.3 Compliance management tools	54
3.5 Required skills of the compliance officer	57
3.5.1 Training aspects	57
3.5.2 Professional skepticism	58
3.6 The compliance officer 3.0: the vascular surgeon	59
Bibliography	65
4. Managing Organizational Integrity and Leadership	67
<i>T.A.H.M. van de Laar EMOc</i>	
4.1 Introduction: Paradigm shift in managing organizational integrity is needed	67
4.2 Conflicting interests managed in grain with human nature	69
4.3 Looking for a form of government	70
4.3.1 Coordination	71
4.3.2 Reciprocity	74
4.3.3 Leadership style	75
4.3.4 Obedience	77
4.3.5 Responsibility	82
4.3.6 Cognition	83
4.3.7 Diversity	87
4.3.8 Independence	89
4.3.9 Information-processing	90
4.3.10 Sustainability	92
4.3.11 Trust	94
4.3.12 Accountability	95
4.3.13 Cooperation	96
4.4 Organizational leadership: Creating organizations that are genuinely human	97
Literature	102
5. Conditioning Compliance	109
<i>Dr. M.M. Rietdijk</i>	
5.1 Introduction	109
5.2 Learning rules and compliant behavior	111

5.3 Five ways for changing behavior	111
5.4 Controlling behavior	113
5.5 The four behavioral consequences and their effects on behavior	113
5.6 Changing the parakeets behavior, the solution	114
5.7 Changing to compliant behavior	114
5.8 Lessons and conclusions	115
Bibliography	116
6. Conflicts of Interest	119
<i>R.A.M. Houben</i>	
6.1 Introduction	119
6.2 Corporate interest, conflicts of interest and intertwining of interests	121
6.3 Customer interest and customer's interest first	123
6.4 Conflicts of interest and the loyalty obligation	124
6.5 Conflicting interests in other situations	126
6.6 Summary	127
6.7 Regulation of conflicts of interest in laws and regulations	128
6.8 Dealing with interests and conflicts of interest in day-to-day practice	130
Bibliography	133

PART II – ORGANIZATIONS AND RISK MANAGEMENT

7. Corporate Governance	137
<i>Prof. S.C. Bleker-van Eyk</i>	
7.1 Introduction	137
7.2 The use of the terms 'compliance' and 'integrity' within corporate governance codes	138
7.3 The place of compliance in the organization	142
7.4 Compliance structure	144
7.5 Risk-based compliance	144
7.6 Conclusion	145
8. Risk Management	147
<i>R. van Altena RA</i>	
8.1 Why risk management?	147
8.1.1 Business value and license to operate	147
8.1.2 Revealing Hand concept	148
8.1.3 Benefits of Enterprise Risk Management	149
8.2 Risk is about balancing uncertainty against reward ('How and What')	150
8.2.1 Mission, vision, core values and strategic priorities	151
8.2.2 Culture and behavior	153
8.2.3 Organization and infrastructure	154
8.2.3.1 Exponential organization	155
8.2.4 Risk appetite	156
8.2.4.1 Strategic risks	157
8.2.4.2 Operational, (financial) reporting and compliance risks	158
8.2.5 Business (risk execution)	159
8.2.6 Reporting and monitoring	159
8.3 Roles in risk management ('Who')	160
8.3.1 'Three Lines of Defense' model	161

8.3.1.1	First line: core business	161
8.3.1.2	Second line: support functions	161
8.3.1.3	Third line: assurance functions	162
8.3.2	Second line of defense roles	162
8.3.2.1	Embedded expert 'gatekeeper per transaction'	162
8.3.2.2	Facilitator – 'gatekeeper by helping business professionals signal red flags for risks'	163
8.3.2.3	Independent monitor 'gatekeeper by signaling red flags'	163
Bibliography		164
9. Monitoring Risk Compliance and Integrity		165
<i>R. van Altena RA & Prof. S.C. Bleker-van Eyk</i>		
9.1	Introduction to COSO	165
9.2	Why monitoring	168
9.3	Monitoring as a process ('How and What')	169
9.3.1	Establish a foundation	170
9.3.2	Design & execute	170
9.3.4	Assess & report	171
9.4	Monitoring your business	172
10. Stakeholder and Reputation Management		175
<i>F.R.P.M. van der Grint</i>		
10.1	Introduction	175
10.2	How reputations are formed and why it pays off to build and defend them	176
10.3	Reputation management in a mediocracy	179
10.4	The role of leadership behavior	180
10.5	The importance of trust and credibility	181
10.6	Stakeholders: analysis	183
10.7	Managing stakeholders to manage risk	186
Bibliography		187
PART III – REGULATION, SUPERVISION AND ENFORCEMENT		
11. Regulation and Supervision on Financial Markets		191
<i>R.A.M. Houben</i>		
11.1	Introduction	191
11.2	Regulation of the financial markets	193
11.2.1	Theories of regulation	193
11.2.1.1	Introduction	193
11.2.1.2	The welfare theory and Pareto efficiency	194
11.2.1.3	The public-interest theory	194
11.2.2	Market failure	195
11.2.2.1	Information asymmetry	195
11.2.2.2	Externalities	196
11.2.2.3	Bounded rationality	197
11.2.2.4	Market power	197
11.2.2.5	Collective or public goods	198
11.2.3	Regulatory burden and deregulation	198
11.2.4	Open and closed standards	201
11.2.5	Self-regulation	202

11.2.5.1	Introduction	202
11.2.5.2	Self-regulation in the financial sector	204
11.3	Financial supervisory regulations	205
11.3.1	General trends	205
11.3.2	Regulation of the financial sector as a result of the financial crisis	207
11.4	Supervision of the financial markets	208
11.4.1	Supervision in general	208
11.4.2	Structure of supervision of the financial sector	210
11.4.3	The changing role of supervision and the supervisors	212
11.4.3.1	From the perspective of the government	212
11.4.3.2	From the perspective of the supervisor	213
11.4.3.3	From the perspective of academia	214
11.4.3.4	Supervision dilemmas	215
11.4.3.5	Supervisory failure	219
11.5	Effectiveness of regulation and market supervision	220
11.5.1	Effectiveness of regulation	220
11.5.2	Effectiveness of supervision	223
Bibliography		225
12. Regulatory Compliance and Enforcement		231
<i>Prof. W. Ruijsman</i>		
12.1	Introduction	231
12.2	Regulatory enforcement	232
12.2.1	Deterrent enforcement	232
12.2.2	Compliance assistance	233
12.3	Responsive regulation	234
12.4	Causes of (non-)compliance	235
12.5	Institutional level	235
12.6	Organizational level	236
12.7	Individual level	237
12.8	Conclusion	240
Bibliography		242
13. Supervision of Conduct and Culture		247
<i>R.A.M. Houben</i>		
13.1	Introduction	247
13.2	Development of supervision of conduct and culture	249
13.3	The rationale for supervision of conduct and culture	251
13.4	Legal basis	253
13.5	Supervision and enforcement	255
13.6	Considerations	256
Bibliography		259
14. Financial Markets and Compliance		263
<i>T.A.H.M. van de Laar EMoC</i>		
14.1	Introduction	263
14.2	Goals of financial market regulation through the rules of economics	264
14.2.1	The rules of economics	264
14.2.2	Review of the goals of financial market regulation	265
14.2.2.1	The protection of investors	265

14.2.2.2	The protection of customers	266
14.2.2.3	Financial stability	267
14.2.2.4	Market efficiency	268
14.2.2.5	Competition	269
14.2.2.6	Prevention of financial crime	269
14.2.2.7	Other goals	269
14.3	Regulatory strategies to achieve goals	270
14.3.1	Entry regulation	270
14.3.2	Conduct regulation	271
14.3.3	Information regulation	271
14.3.4	Prudential regulation	272
14.3.5	Governance regulation	272
14.3.6	Insurance regulation	272
14.3.7	Resolution regulation	273
14.4	The role of compliance	273
14.4.1	Compliance should adopt a why-based mindset	273
14.4.2	Compliance should act as a countervailing power	274
14.4.3	Compliance as a strategic advisor	275
14.4.4	Managing conflicting interests	276
14.4.5	Behavioral biases and customer and investor welfare	278
	Bibliography	282
PART IV – CAPITA SELECTA		
15. Fraud and Internal Investigations		287
<i>Prof. S.C. Bleker-van Eyk</i>		
15.1	Introduction	287
15.2	Detection of fraud and other instances of non-compliance	288
15.3	Internal Investigation and scoping	291
15.3.1	Securing evidence	293
15.3.2	Pre-investigative communication	294
15.3.3	Investigation of documentation	295
15.3.4	Interviews	295
15.3.5	Reporting, management decisions and remediation	296
15.3.6	Communication	297
15.4	Conclusion	297
16. Extraterritorial Jurisdiction		299
<i>Prof. S.C. Bleker-van Eyk</i>		
16.1	Introduction	299
16.2	Extraterritorial jurisdiction as a driving force of compliance	300
16.3	The definition of extraterritoriality	301
16.4	Principles of extraterritoriality	302
16.4.1	The active personality principle	302
16.4.2	The passive personality principle	302
16.4.3	The principle of universality	302
16.5	The link between jurisdiction and the state	304
16.6	Extradition risk	305
16.7	Drastic increase in extraterritorial risk	307
16.8	Dual-use goods: the sink-hole in the compliance structure	307

16.9	A time for compliance to look over its shoulder	308
	Bibliography	309
17. Anti-Bribery & Corruption		311
<i>Prof. S.C. Bleker-van Eyk</i>		
17.1	Introduction	311
17.2	Bribery, corruption and definitions	312
17.3	The ACC	313
17.4	The FCPA	315
17.5	FCPA prosecution and compliance	317
17.6	The UKBA	320
17.7	Conclusion	323
	Bibliography	324
18. Export Controls & Sanctions		325
<i>Prof. S.C. Bleker-van Eyk</i>		
18.1	Extraterritoriality of American export controls and sanctions	325
18.2	Export	327
18.3	Directorate of Defense Trade Controls (DDTC)	328
18.4	Military, dual-use items, export restrictions and sanctions	330
18.5	Office of Foreign Assets Control (OFAC)	330
18.6	Bureau of Industry and Security (BIS)	332
18.7	The role of compliance in protecting against 'export control' infringements	334
18.8	Third-party screening	334
18.9	Conclusion	336
	Bibliography	337
19. Information Management and Privacy		339
<i>W. Seinen</i>		
19.1	Introduction	339
19.2	Information security	340
19.3	Data protection laws	341
19.4	Sources of data protection laws	342
19.4.1	Key actors and concepts	342
19.4.1.1	Personal data	342
19.4.1.2	Data processing	343
19.4.1.3	Data Subject, Data Controller and Data Processor	343
19.4.2	Jurisdiction/territoriality	343
19.4.3	Key principles of personal data processing	344
19.4.3.1	Purpose limitation	344
19.4.3.2	Proportionality principle and data minimization	345
19.4.4	Sensitive Personal Data	346
19.4.5	Information duties (information on request, privacy policies and notification)	347
19.4.5.1	Notifications	347
19.4.5.2	Notice requirements when collecting data from the Data Subjects	347
19.4.5.3	Notice requirements when collecting data from the Data Subjects	348
19.4.6	Data Subjects' rights (including 'right to be forgotten')	348

19.4.7	International data transfers	348
19.4.8	Data breach notification duty	350
19.4.9	Enforcement & demonstrability	350
19.4.10	Future law (GDPR)	351
19.4.10.1	Expanded scope and one-stop-shop	351
19.4.10.2	Enhanced rights of Data Subjects	352
19.4.10.3	Profiling restrictions	352
19.4.10.4	Consent	352
19.4.10.5	Data Processors	352
19.4.10.6	Data Mapping	353
19.4.10.7	Data protection by design and by default	353
19.4.10.8	Data Protection Impact Assessments (DPIAs)	354
19.4.10.9	Accountability	354
19.4.10.10	Data Protection Officers (DPOs)	355
19.4.10.11	Overhauled data transfer rules	356
19.4.10.12	Data breach notification	357
19.4.10.13	Enforcement & sanctions	357
20.	Duty of Care	361
	<i>R.A.M. Houben</i>	
20.1	Introduction	361
20.2	The duty of care for financial undertakings under private law	362
20.3	Duties of care for financial undertakings under public law	363
20.4	Interaction between private law and public law	367
20.5	The generic duty of care for financial service providers	368
20.6	Conclusion	371
	Bibliography	373
21.	Market Abuse	375
	<i>R.A.M. Houben</i>	
21.1	Introduction	375
21.2	Insider dealing	377
21.2.1	Introduction	377
21.2.2	Scope of prohibition	379
21.2.3	Applicability of the prohibition	381
21.3	Public disclosure of inside information	382
21.3.1	Introduction	382
21.3.2	Definition of inside information	383
21.3.3	Delay of disclosure of inside information	384
21.4	Prevention and detection of market abuse	385
21.4.1	Introduction	385
21.4.2	Active investigation	386
21.5	Insider lists	387
21.6	Market manipulation	389
21.6.1	Prohibition of market manipulation	389
21.6.2	Scope of the prohibition of market manipulation and exceptions	390
	Bibliography	392
	Appendix: legal framework	394

22.	Competition	397
	<i>M.J. Osse</i>	
22.1	What is competition law and why is it relevant for compliance officers?	397
22.2	Competition law in the EU – an outline	398
22.3	Cartels	400
22.4	Abuse of a dominant position	403
22.5	Mergers and acquisitions	404
22.6	Sanctions and risks	405
22.7	How to limit risks – compliance tips	406
	Index	407