

Contents

<i>Preface</i>	xxv
Introduction	1
A. What are Governance, Risk Management, and Compliance?	1
B. The Role of Attorneys	5
C. Subject Areas	7
Part I Governance	9
OECD Principles of Corporate Governance	10
Douglas M. Branson, Proposals for Corporate Governance Reform: Six Decades of Ineptitude and Counting	11
Basel Committee on Banking Supervision Consultative Document—Core Principles for Effective Banking Supervision	12
Chapter 1	
Shareholders	15
A. Pros and Cons of Shareholder Power	15
Lucian Bebchuk, The Case for Increasing Shareholder Power	19
Stephen M. Bainbridge, The Case for Limited Shareholder Voting Rights	20
B. Shareholder Proposals	21
SEC Rule 14a-8	21
C. Say on Pay	25
D. Investor Activists	28
E. Proxy Advisers	29
Chapter 2	
The Board of Directors	31
A. The Full Board	31
1. Powers	31
2. Size	33
3. Tenure in Office	35
Sally Beauty Holdings, Inc. 2013 Proxy Statement	36
4. Qualifications	41
a. Independence	42
NYSE Listed Company Manual §303A.02	46
b. Skills	48
c. Diversity	51

5. Fiduciary Duties	53
a. The Duty of Care	54
<i>In re Citigroup Inc. Shareholder Derivative Litigation</i>	54
b. The Duty of Loyalty	57
<i>In re Southern Peru Copper Corp. Shareholder Derivative Litigation</i>	58
c. <i>Caremark</i> and the Duty of Oversight	59
<i>In re Caremark International Inc. Derivative Litigation</i>	60
<i>Stone v. Ritter</i>	66
<i>Rich ex rel. Fuqi Int'l, Inc. v. Yu Kwai Chong</i>	68
<i>In re Pfizer Inc. Shareholder Derivative Litigation</i>	71
B. Chairmen	76
Hess Corporation 2013 Proxy Statement	77
C. Lead Directors	81
Carlson Corporation Charter of the Lead Independent Director	81
D. Audit Committees	83
E. Risk Committees	85
Greenbrier Corporation Risk Committee Charter	88
F. Compliance Committees	94
Applied Bosonics Compliance Committee Charter	94
G. Governance and Nominating Committees	97
NYSE Listed Company Manual, ¶303A.04: Nominating/Corporate Governance Committee	98
<i>Klaassen v. Allegro Development Corporation</i>	102
H. Compensation Committees	106
1. General Considerations	107
2. Structure and Function	108
<i>In re The Walt Disney Company Derivative Litigation</i>	108
3. Consultants	114
4. The Role of Shareholders in Compensation	117
5. Compensation of Independent Directors	118
Chapter 3	
Executives	121
A. Introduction	121
B. The Management Team	122
General Electric Company Annual Report to Shareholders for the Fiscal Year Ended December 31, 2012	124
C. Chief Executive Officer	126
General Electric Company Annual Report to Shareholders, for the Fiscal Year Ended December 31, 2012	128
D. Chief Financial Officer	130
E. Chief Audit Executive	130
1. What Is Internal Audit?	130
2. How Does Internal Audit Work?	132
3. Best Practices	133
Board of Governors of the Federal Reserve System Federal Deposit Insurance Corporation Office of the Comptroller of	

the Currency Office of Thrift Supervision, Interagency Policy Statement on the Internal Audit Function and Its Outsourcing	134
Board of Governors of the Federal Reserve System, Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing	137
4. Vendors	141
Board of Governors of the Federal Reserve System, Interagency Policy Statement on the Internal Audit Function and Its Outsourcing	142
Board of Governors of the Federal Reserve System, Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing	145
F. Chief Compliance Officer	147
Chief Compliance Officer	147
G. General Counsel	148
H. The Chief Risk Officer	151
I. Director of Human Resources	153

Part II Compliance 155

Chapter 4
Introduction to Compliance 157

A. What Is Compliance?	157
B. Landmarks in the History of Compliance	158
C. The Rise of the Administrative State	160
1. Increases in the Scope and Complexity of Regulation	161
2. From Judging to Administration	161
a. The Power to Establish Norms of Conduct	161
<i>SEC v. Chenery Corp.</i>	161
<i>National Cable & Telecommunications Association v. Brand X Internet Services</i>	164
<i>City of Arlington v. FCC</i>	166
b. The Power to Determine Legal Rights	171
<i>Crowell v. Benson</i>	172
<i>Atlas Roofing Co., Inc. v. Occupational Safety and Health Review Commission</i>	175
<i>Camp v. Pitts</i>	177
<i>Ex parte Young</i>	179
<i>Sackett v. Environmental Protection Agency</i>	181
3. Enforcement Powers	186
a. Power to Obtain Information	186
<i>Donovan v. Dewey</i>	186
b. The Power to Impose Penalties	188
D. The Compliance Response	193
E. The Compliance Industry	193

Chapter 5	
Internal Enforcement	195
A. Introduction	195
B. Compliance Policies	195
C. Compliance Programs	199
Zambac Co. Compliance Program	199
D. Hiring	203
1. Background Investigations	203
2. Use of Information	204
a. Arrests and Convictions	204
Equal Employment Opportunity Commission, EEOC Files Suit Against	
Two Employers for Use of Criminal Background Checks	205
b. Credit History	207
E. Training	208
F. Monitoring	209
1. Drug and Alcohol Testing	210
Texas Workforce Commission, Model Drug-Free Workplace Policy	210
2. Surveillance	212
G. Investigations	214
1. Types of Investigations	214
Miriam Hechler Baer, Corporate Policing and Corporate	
Governance: What Can We Learn from Hewlett-Packard's	
Pretexting Scandal?	216
2. Comparison of Internal Investigations and Government Investigations	218
3. The Role of Counsel	221
4. Disclosure	222
5. Enforcement Credit	223
Assistant Attorney General Leslie R. Caldwell Remarks at the	
Compliance Week Conference	224
Chapter 6	
Regulators	227
A. Individual or Corporate Liability?	227
Individual Accountability for Corporate Wrongdoing	
Deputy Attorney General Sally Quillian Yates	228
B. Regulation of the Compliance Program	233
1. General Considerations	233
2. "Best Practice" Recommendations	235
Remarks by Assistant Attorney General for the Criminal Division,	
Leslie R. Caldwell	235
3. Legislative and Regulatory Mandates	238
Bank Secrecy Act	238
Securities and Exchange Commission Final Rule: Compliance	
Programs of Investment Companies and Investment Advisers	239
4. Compliance Terms in Settlements	245
Consent Order, <i>In the Matter of: RBS Citizens, N.A.</i>	245

	<i>Consent Order, In the Matter of: HSBC Bank USA, N.A.</i>	246
	<i>United States v. International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, AFL-CIO</i>	250
C.	Regulation of Compliance Officers	256
1.	Requirements to Establish and Empower Compliance Officers	256
	Securities and Exchange Commission Final Rule: Compliance Programs of Investment Companies and Investment Advisers	256
2.	Obligations to Compliance Officers	259
	Securities and Exchange Commission, <i>In the Matter of Carl D. Johns</i>	259
3.	Liability of Compliance Officers	261
	<i>In the Matter of Judy K. Wolf</i>	262
	Statement of Commissioner Daniel M. Gallagher on Recent SEC Settlements Charging Chief Compliance Officers with Violations of Investment Advisers Act Rule 206(4)-7	269
	<i>In the Matter of Theodore W. Urban</i>	272
D.	Oversight Liability	275
	SEC, <i>In the Matter of Steven A. Cohen</i>	275
	<i>United States v. S.A.C. Capital Advisors, LLP</i>	277
E.	Mitigation of Penalties	278
	EPA, Incentives for Self-Policing: Discovery, Disclosure, Correction and Prevention of Violations	279
	SEC, Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934 and Commission Statement on the Relationship of Cooperation to Agency Enforcement Decisions	284
F.	Advice	288
G.	Admissions	289
	SEC's Memorandum of Law in Response to Questions Posed by the Court Regarding Proposed Settlement	290
	<i>SEC v. Citigroup Global Markets, Inc.</i>	293
	<i>SEC v. Citigroup Global Markets, Inc.</i>	296

Chapter 7

Prosecutors

303

A.	The Problem of Corporate Criminal Liability	303
	Samuel W. Buell, The Blaming Function of Entity Criminal Liability	304
B.	The Decision to Prosecute	307
	United States Department of Justice Manual, Principles of Federal Prosecution of Business Organizations	308
C.	Plea Bargains, Deferred Prosecution Agreements, and Non-Prosecution Agreements	317
1.	Plea Bargains	317
	United States Justice Department Manual, Principles of Federal Prosecution of Business Organizations	317
2.	Deferred Prosecution and Non-Prosecution Agreements	319
a.	Nature and Rationale	319

United States Department of Justice Manual, Principles of Federal Prosecution of Business Organizations	320
b. Contents	321
<i>Deferred Prosecution Agreement, United States of America v. Aibel Group Limited</i>	321
c. Judicial Review	325
<i>United States v. Fokker Services B.V.</i>	325
D. Coordination with Other Enforcement Agencies	333
United States Department of Justice Manual, 1-12.100 - Coordination of Corporate Resolution Penalties in Parallel and/or Joint Investigations and Proceedings Arising from the Same Misconduct	333
E. Sentencing	334
Federal Sentencing Guidelines, §8B2.1 Effective Compliance and Ethics Program	335
Chapter 8	
Whistleblowers	339
A. Whistleblowers	339
1. Who Is a Whistleblower?	339
Testimony of Sherron Watkins Before the Oversight and Investigations Subcommittee of the House Energy and Commerce Committee	340
2. Encouraging Whistleblowing	343
a. Tone at the Top	344
b. Protections for Whistleblowers	345
<i>Lawson v. FMR LLC</i>	345
c. Rewards and Bounties	353
d. Mandatory Reporting	355
3. Whistleblower Policies	356
OVB Inc. Whistleblower Policy	356
4. Responding to the Whistleblower	359
Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp.	359
B. <i>Qui Tam</i> Actions	363
<i>Darity v. C.R. Bard Inc.</i>	365
Department of Justice, Office of Public Affairs, C.R. Bard Inc. to Pay U.S. \$48.26 Million to Resolve False Claims Act Claims	367
Chapter 9	
Gatekeepers	371
A. Introduction	371
<i>Lincoln Savings & Loan Ass'n v. Wall</i>	373
B. Attorneys	374
1. Zealous Advocates or Public Servants?	375

a. Lord Brougham, Dean Pound, and the Rules of Professional Conduct	375
b. The Kaye Scholer Affair	378
Harris Weinstein, Attorney Liability in the Savings and Loan Crisis	379
c. Lauren Stevens	385
<i>United States v. Stevens</i>	385
d. Cahill Gordon	389
<i>Williams v. BASF Catalysts LLC</i>	389
2. Organization Clients	394
a. Who Is the Client?	394
ABA, Model Rule of Professional Conduct 1.13, Organization as Client	395
b. Relations with Employees	397
United States Department of Justice Manual, Principles of Federal Prosecution of Business Organizations	398
3. Confidentiality	399
a. Scope of the Lawyer's Duty of Confidentiality	399
ABA, Model Rule of Professional Conduct 1.6(b), Confidentiality of Information	400
b. Special Confidentiality Rules for Organization Clients	402
ABA, Model Rule of Professional Conduct 1.13, Organization as Client	402
4. Attorney-Client Privilege	404
a. Scope	404
<i>Upjohn Co. v. United States</i>	404
<i>In re Kellogg Brown & Root, Inc.</i>	409
b. The Crime-Fraud Exception	413
c. The Fiduciary Exception	413
<i>Garner v. Wolfinbarger</i>	414
5. Work-Product Protection	416
<i>Hickman v. Taylor</i>	416
6. Waiver of Privilege	422
United States Department of Justice Manual, Principles of Federal Prosecution of Business Organizations	422
United States Department of Justice Manual, Principles of Federal Prosecution of Business Organizations	424
7. Reliance on Counsel	425
C. Accountants	426
D. Auditors	427
1. Introduction	427
AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion	428
<i>United States v. Arthur Andersen LLP</i>	431
2. Independence Requirements	434
3. Attestation of Internal Controls	436
4. PCAOB Enforcement Actions	438
<i>In the Matter of Ernst & Young LLP</i>	439
<i>In the Matter of PricewaterhouseCoopers LLP's Quality Control Remediation Submissions</i>	444
5. Compliance Audits	447

E. Monitors	449
<i>United States v. HSBC Bank USA, N.A. and HSBC Holdings PLC</i>	450
U.S. Department of Justice Criminal Division, October 11, 2018, Selection of Monitors in Criminal Division Matters	456
F. Consultants	462
<i>In re American Continental/Lincoln Savings & Loan Securities Litigation</i>	462
<i>NYDFS, In the Matter of Deloitte Financial Advisory Services LLP</i>	463
NYDFS Announces PricewaterhouseCoopers Regulatory Advisory Services Will Face 24-Month Consulting Suspension; Pay \$25 Million; Implement Reforms After Misconduct During Work at Bank of Tokyo Mitsubishi	469
G. Providers of Financial Services	472
<i>In re Rural Metro Corporation Stockholders Litigation</i>	472

Chapter 10

Plaintiffs' Attorneys 477

A. Shareholders Derivative Litigation	477
1. Procedural Hurdles	478
a. The Demand Requirement	478
<i>Grimes v. Donald</i>	478
b. Special Litigation Committees	482
<i>Zapata Corp. v. Maldonado</i>	482
<i>In re Oracle Corp. Derivative Litigation</i>	485
2. Compliance Remedies	488
<i>In re Johnson & Johnson Derivative Litigation</i>	488
B. Class Actions	491
<i>In re JPMorgan Chase & Co. Securities Litigation</i>	492
<i>Chevron Corporation v. Donziger</i>	496
<i>Chevron Corp. v. Donziger</i>	497

Chapter 11

Information Security 501

A. Introduction	501
Viator Email to Customers	508
B. Gramm-Leach-Bliley Act	509
Gramm-Leach-Bliley Act §501	510
Federal Financial Institution Examination Council, Interagency Guidelines Establishing Information Security Standards	511
Federal Financial Institution Examination Council, Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice	518
C. HIPAA	521
Health and Human Services, 45 C.F.R. §164.306 Security Standards: General Rules	521
Resolution Agreement, U.S. Department of Health and Human Services and Wellpoint, Inc.	525
<i>Acosta v. Byrum</i>	527

Contents	xix
D. FTC Act	528
<i>Federal Trade Commission v. Wyndham Worldwide Corporation</i>	528
<i>FTC, In the Matter of Dave & Buster's, Inc.</i>	531
E. Securities Law	534
1. Disclosure Requirements	534
SEC, Commission Statement and Guidance on Public Company Cybersecurity Disclosures	534
2. Regulated Entities	541
<i>In the Matter of R.T. Jones Capital Equities Management, Inc. Securities and Exchange Commission Investment Advisers Act Release No. 4204</i>	541
F. Fiduciary Duties	543
G. Rules of Professional Responsibility	545
State Bar of Arizona Ethics Opinion 05-04	549
Note on Cloud Computing	552
Pennsylvania Bar Association Committee on Legal Ethics and Professional Responsibility Ethical Obligations for Attorneys Using Cloud Computing/Software as a Service While Fulfilling the Duties of Confidentiality and Preservation of Client Property	553
Chapter 12	
Off-Label Drugs	559
A. Background	559
U.S. Department of Justice Press Release, Pharmaceutical Company Eli Lilly to Pay Record \$1.415 Billion for Off-Label Drug Marketing: Criminal Penalty Is Largest Individual Corporate Criminal Fine	560
FDA, Guidance for Industry: Responding to Unsolicited Requests for Off-Label Information About Prescription Drugs and Medical Devices	562
FDA, Good Reprint Practices for the Distribution of Medical Journal Articles and Medical or Scientific Reference Publications on Unapproved New Uses of Approved Drugs and Approved or Cleared Medical Devices	563
<i>United States v. Caronia</i>	565
B. The Compliance Response	568
Corporate Integrity Agreement Between the Office of Inspector General of the Department of Health and Human Services and Cephalon, Inc.	569
Chapter 13	
Foreign Corrupt Practices	577
A. Basics	577
1. Elements of the Statute	577
2. What Is an “Instrumentality” of a Foreign Government?	584
<i>United States v. Esquenazi</i>	584
3. Consultants and Business Partners	587
<i>SEC, In the Matter of Alcoa, Inc.</i>	588

4. Successor Liability	593
DOJ Opinion Procedure Release No. 14-02	593
5. Problems	596
B. Elements of Effective FPCA Compliance	598
1. FCPA Compliance Programs	598
U.S. Department of Justice and SEC, A Resource Guide to the U.S. Foreign Corrupt Practices Act	599
2. FCPA Investigations	608
Avon Products, Inc., 2010 Form 10-K	608
3. Department of Justice Enforcement Policies	610
United States Department of Justice Manual, 9-47.120 - FCPA Corporate Enforcement Policy	610

Chapter 14

Anti-Money Laundering, the Bank Secrecy Act, and OFAC 615

A. Anti-Money Laundering/Bank Secrecy	616
FinCEN Guidance on Preparing a Complete and Sufficient Suspicious Activity Report Narrative	617
FinCEN Guidance on Preparing a Complete and Sufficient Suspicious Activity Report Narrative	618
<i>United States v. Wachovia Bank</i>	620
Board of Governors of the Federal Reserve System, Written Agreement by and Among M&T Bank Corporation, Manufacturers & Traders Trust Company and Federal Reserve Bank of New York	624
B. Sanctions	627
<i>United States v. Barclay's Bank</i>	627
Department of Justice Office of Public Affairs BNP Paribas Agrees to Plead Guilty and to Pay \$8.9 Billion for Illegally Processing Financial Transactions for Countries Subject to U.S. Economic Sanctions	633
C. Attorneys	635
ABA Task Force on Gatekeeper Regulation and the Profession, Voluntary Good Practices Guidance for Lawyers to Detect and Combat Money Laundering and Terrorist Financing	636
ABA Standing Committee on Ethics and Professional Responsibility, Formal Opinion 463: Client Due Diligence, Money Laundering, and Terrorist Financing	639

Chapter 15

Sexual Harassment 643

A. Introduction	643
<i>Faragher v. City of Boca Raton</i>	644
B. Sexual Harassment Programs	647
U.S. Equal Employment Opportunity Commission, Vicarious Employer Liability for Unlawful Harassment by Supervisors	647
C. Enforcement	652
<i>EEOC v. Carrols Corp.</i>	652

Chapter 16**Ethics, Social Responsibility, and Culture**

659

- A. Charitable Gifts 659
 - A.P. Smith Mfg. Co. v. Barlow* 659
- B. Public Benefit Companies 664
- C. Codes of Ethics 665
 - Mike's Bagels, Code of Ethics and Professional Conduct 666
- D. Social Responsibility 667
- E. Human Rights 670
 - United Nations High Commissioner on Human Rights, Guiding Principles on Business and Human Rights 671
- F. Sustainability 677
 - Judd F. Sneirson, Green Is Good: Sustainability, Profitability, and a New Paradigm for Corporate Governance 677
 - Plexus Inc. Sustainability Policy 681

Chapter 17**When Compliance Fails**

683

- A. Introduction 683
- B. Enron 683
 - Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp. 684
- C. WorldCom 688
 - Report of Investigation by the Special Investigative Committee of the Board of Directors of WorldCom, Inc. 688
- D. Sexual Abuse by Priests 697
 - Commonwealth of Pennsylvania
 - Office of the Attorney General
 - A Report of the Thirty-Seventh Statewide Investigating Grand Jury 698
 - Protecting Minors: Declaration by the Director of the Holy See
 - Press Office on Response to Sexual Abuse 702
 - Remarks of Pope Francis 705
- E. General Motors Ignition Switch Scandal 708
 - Written Testimony of General Motors Chief Executive Officer Mary Barra
 - Before the House Committee on Energy and Commerce
 - Subcommittee on Oversight and Investigations 708
 - GM Announces New Vehicle Safety Chief
 - Jeff Boyer Named Vice President, Global Vehicle Safety 709
 - Statement of the Honorable David Friedman
 - Acting Administrator, National Highway Traffic Safety Administration
 - Before the Committee on Energy and Commerce
 - Subcommittee on Oversight and Investigations
 - U.S. House of Representatives 710

Anton R. Valukas	
Report to the Board of Directors of General Motors Company	
Regarding Ignition Switch Recalls	713
F. Wells Fargo Sales Practices	720
Independent Directors of the Board of Wells Fargo & Company	
Sales Practices Investigation Report	720
G. Volkswagen Emissions Cheat	730
United States Securities and Exchange Commission v. Volkswagen	
Aktiengesellschaft, Martin Winterkorn, Volkswagen Group of	
America Finance, LLC, and VW Credit, Inc.	730
Part III Risk Management	735
Chapter 18	
Introduction to Risk Management	737
A. What Is Risk?	737
B. What Is Risk Management?	738
C. The Public Interest in Risk Management	739
D. Enterprise Risk Management	741
1. Definition of Risk	741
2. Distribution of Responsibility for Managing Risk	742
3. Risk Mitigation Strategies	743
4. Priority of the Topic	743
5. Focus of Risk Assessment	743
6. Transparency of Risk and Risk Management	744
E. Types of Risk	745
F. Governance of Risk	749
1. Corporate Law Approaches	749
Wachtell, Lipton, Rosen & Katz, Risk Management and the	
Board of Directors	749
Unwritten Rules: The Importance of a Strong Risk Culture	
Thomas J. Curry, Comptroller of the Currency	751
2. Regulatory Approaches	753
G. Disclosure of Risk	758
Target Corporation 2012 Form 10-K Item 1A	759
Chapter 19	
Approaches to Risk Management	767
A. Data	767
B. Risk Appetite	772
C. Implementing the Risk Appetite	773
1. Compiling a Risk Inventory	773
2. Assessing Inherent Risk	774
3. Assessing Controls and Mitigation Options	775

4. Assessing Residual Risk	776
5. Accepting Residual Risk	777
D. Black Swans, Fat Tails, and Stress Tests	777
Kevin Dowd, Math Gone Mad: Regulatory Risk Modeling by the Federal Reserve	782
E. Drilling Down: Specific Risk-Management Strategies	783
1. Corporate Default Estimation Methods	783
2. Black-Scholes Option Pricing Formula	784
3. Value-at-Risk Models	785
F. Model Risk	786
Board of Governors of the Federal Reserve System, Supervisory Guidance on Model Risk Management	786
<i>In the Matter of: JPMorgan Chase Bank, N.A.</i>	790
G. Rating Agencies	793
H. Government Risk Assessment	794
I. Behavioral-Economic Approaches to Risk Management	796
Geoffrey Miller & Gerald Rosenfeld, Intellectual Hazard: How Conceptual Biases in Complex Organizations Contributed to the Crisis of 2008	797

Chapter 20

When Risk Management Fails

799

A. UBS and the Financial Crisis	799
Transparency Report to the Shareholders of UBS AG: Financial Market Crisis, Cross-Border Wealth Management Business, Liability Issues and Internal Reviews	799
B. The London Whale	801
Permanent Subcommittee on Investigations, United States Senate, JPMorgan Chase Whale Trades: A Case History of Derivatives Risks and Abuses	802
C. Benghazi	804
Report of the State Department Accountability Review Board	805
D. Royal Bank of Scotland	809
U.K. Financial Conduct Authority Final Notice to Royal Bank of Scotland Plc. et al.	809
E. Boeing 737 Max	812
Federal Democratic Republic of Ethiopia, Ministry of Transport, Aircraft Accident Investigation Bureau: Aircraft Accident Investigation Preliminary Report, Ethiopian Airlines Group, B737-8 (MAX) Registered ET-AVJ	812
Open Letter from Dennis Muilenburg	815
F. Flint, Michigan Water Supply	817
Flint Water Advisory Task Force, Final Report	817

<i>Table of Cases</i>	827
-----------------------	-----

<i>Table of Authorities, Statutes, and Other Materials</i>	831
--	-----

<i>Index</i>	843
--------------	-----