Reference: PCOAB's Rulemaking Docket 026: Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk; Proposed Conforming Amendments to PCAOB Standards

November 10, 2008

ISG Metrics assists financial companies in achieving the highest ethical standards and related values with accountability and transparency through synchronized compliance on interconnected federal regulations and Operational Risk Ratings.

ISG Metrics applauds the PCAOB's efforts to strengthen the assessment of and response to risk by auditors through Rulemaking Docket 026.

This communication will help financial firms achieve the highest ethical standards and related values through synchronized compliance with laws and regulations. This involves:

1) Solving regulatory compliance risks that directly impact internal controls on financial reporting based on industry standards.

2) Incorporating new regulatory requirements from October 2008 into compliance risk assessment models.

3) Providing synchronized compliance - a holistic, coordinated solution to compliance risks with each member of the financial community applying existing standards and regulations with transparency and accountability so that financial firms can achieve the highest ethical standards and thus improve enterprise values.

Currently, there are three interconnected regulatory compliance risks that directly impact internal controls on financial reporting based on industry standards.

The newest compliance risk, per the Emergency Economic Stabilization Act (EESA) dated 10-3-08, is misrepresentation. Misrepresentations are reportable events to the Attorney General of the United States. Misrepresentations include fraud, misrepresentations and malfeasance in the development, advertising and sale of financial services, misrepresentations in the representations and warranties of the US Treasury's TARP Capital Purchase Program and misrepresentations in the advertising of the Federal Deposit Insurance Corporation brand.

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Misrepresentations per the EESA capture the two other compliance risks. These are compliance violations with safety and soundness regulations that risk termination of federal deposit insurance and illegal acts per Section 10a of the Securities Exchange Act of 1934. Illegal act means “an act or omission that violates any law, or any rule or regulations having the force of law.”

Failure of Boards of Directors to have adequate oversight and awareness of these regulatory compliance risks, including illegal acts, represents negligence and breaches of fiduciary duties. Most importantly, the failure of Boards of Directors to remediate material illegal acts, such as misrepresentations per the EESA and/or violations of safety and soundness regulations require auditing firms to report these violations to the Securities Exchange Commission and either qualify their auditing opinion or resign from the audit engagement – actions that have a direct impact on financial reporting.

ISG Metric’s Solution: Synchronizing compliance of complex interconnected federal regulations will enable financial firms to achieve the highest ethical standards, thus improving enterprise values. This requires each member of the financial community to apply existing standards and regulations with transparency and accountability.

The benefit of achieving the highest ethical standards is a higher enterprise value, thus ethics pays. Ethics pays is a quote from COSO’s Enterprise Risk Management Framework.

Enclosed is our analysis of the multi-facted issues, which we are prepared to discuss with you at your convenience.

Sincerely,

Beckwith B. Miller
Chief Executive Officer

Addendum 1 – Public Comments – PCAOB’s Rulemaking Docket 026

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Addendum 1 – Public Comments – PCAOB's Rulemaking Docket 026

Paragraph	Topic
1	Introduction
2	Executive Summary
3	Code of Ethics per Sarbanes-Oxley 406
4	COSO's Internal Control Framework, May 1994
5	COSO's Enterprise Risk Management Framework
6	Synchronized compliance will solve interconnected compliance risks as of October, 2008
6-a	Misrepresentations per Emergency Economic Stablization Act
6-b	Illegal Acts per Section 10a; 15 U.S.C. § 78j-1 Audit Requirements of the Securities Exchange Act of 1934
6-c	Compliance Risk per Federal Reserve's Supervisory Letter SR 08-8 including violation of safe and sound banking regulations.
6-d	Compliance risks, illegal acts, ethical values and ethical behavior per the PCAOB's Rulemaking Docket 026: Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk; Proposed Conforming Amendments to PCAOB Standards
7	ISG Metric's assists financial companies in achieving the highest ethical standards with accountability and transparency through synchronized compliance on the interconnected federal regulations and Operational Risk Ratings.
8	Definitions

1) Introduction: Our comments and recommendations are focused on helping financial firms achieve the highest ethical standards and related values per 3 interconnected dimensions, i.e.,

   a) Solving regulatory compliance risks that directly impact internal controls on financial reporting based on industry standards. These include:

      i) COSO's Internal Control – Integrated Framework, May 1994.

      ii) COSO's Enterprise Risk Management. This states that ethics pays.

      iii) Sarbanes Oxley 404. This states "Internal control over financial reporting means providing reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements."

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iv) Sarbanes-Oxley 406's Code of Ethics.

v) The Federal Reserve Board's Supervisory Letter 08-8 on compliance risk, including safe and sound banking regulations. Compliance is required for maintaining federal deposit insurance.

vi) Misrepresentations per the Emergency Economic Stabilization Act. Misrepresentations are to be reported to the Attorney General of the United States.

vii) Illegal acts per Section 10a of the Securities Exchange Act of 1934. Illegal act means "an act or omission that violates any law, or any rule or regulations having the force of law." Illegal acts, if material, must be remediated by the Board. If not, auditors must report these to the Securities Exchange Commission and either qualify their opinion or resign from the engagement.

b) Incorporating relevant events and new regulatory requirements from October 2008 into compliance risk assessment models. These include:

i) The PCAOB's Rulemaking Docket 026: Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk; Proposed Conforming Amendments to PCAOB Standards dated 10-21-08.

ii) The principles of the Federal Reserve's Supervisory Letter 08-8, dated 10-16-08. This states, "organizations must comply with applicable rules and standards".

(1) These include safe and sound banking regulations required for maintaining federal deposit insurance.

iii) The Emergency Economic Stabilization Act (EESA). This was enacted on 10-3-08 with a clear focus on regulatory oversight, regulatory compliance and reporting misrepresentations to the Attorney General. Key factors include:

(1) Misrepresentations are reportable events to the Attorney General.

(a) The EESA's Financial Stability Oversight Board (FSOB) shall "report any suspected fraud, **misrepresentation**, or

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malfeasance to the Special Inspector General for the Troubled Assets Relief Program or the Attorney General of the United States, consistent with section 535(b) of title 28, United States Code." EESA - Section 104

(2) Misrepresentations, fraud and malfeasance on the development, advertising and sale of financial services expose the federal financial regulators to investigations by the FBI. EESA - Section 127

(3) Misrepresentations on the advertising of the Federal Deposit Insurance brand are violations of the EESA-Section 126.

(4) Misrepresentations or violations of the representations and warranties under the $250 billion US Treasury's TARP Capital Purchase Program are reportable events to the Attorney General.

(5) New monthly EESA hearings by the Congressional Oversight Panel begin on11-18-08.

(6) Congressman Barney Frank's 10-31-08 statement that "the federal government will insist on compliance" with the provisions of the US Treasury's TARP Capital Purchase Program.

(7) Members of the FSOB. These include the Chairman of the Board of Governors of the Federal Reserve System; Secretary of the Treasury, Director of the Federal Housing Finance Agency; Chairman of the Securities Exchange Commission; Secretary of Housing and Urban Development.

c) Providing synchronized compliance - a holistic, coordinated solution to compliance risks with each member of the financial community applying existing standards and regulations with transparency and accountability so that financial firms can achieve the highest ethical standards and related enterprise values.

2) Executive Summary: To achieve the highest ethical standards and related enterprise values, financial firms need to synchronize compliance with transparency and accountability on interconnected regulations to the standards set in the Code of Ethics per Sarbanes-Oxley 406 and COSO's Internal Control Framework and COSO's Enterprise Risk Management.

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a) Financial firms include federally insured financial firms plus their auditors and federal financial regulators.

b) Interconnected regulations include safety and soundness, consumer protection, Sarbanes-Oxley and the Securities Exchange Act. These are cited in the Federal Reserve's Supervisory Letter 08-8.

(1) The standards include full regulatory compliance or no exposure to material **illegal acts** or **misrepresentations**.

3) The Code of Ethics per Sarbanes-Oxley 406 "are written standards that are:

a) reasonably designed to deter wrongdoing and to promote:

i) **Compliance with applicable governmental laws, rules and regulations;**

ii) The prompt internal reporting to an appropriate person or persons identified in the code of violations of the code;

iii) **Accountability** for adherence to the code;

iv) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

v) Full, fair, accurate, timely, and understandable disclosure in reports and documents that a registrant files with, or submits to, the Commission and in other public communications made by the registrant."

b) reinforced by the Federal Sentencing Guidelines for Effective Compliance and Ethics Program.

4) COSO's Internal Control Framework dated May, 1994 is the foundation for internal controls on financial reporting in the United States.

a) "Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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i) Effectiveness and efficiency of operations.

ii) **Compliance with laws and regulations**.

iii) Reliability of financial reporting.

iv) Safeguarding of assets is an additional function that is intertwined with each of the first three functions.

(1) This is especially relevant for safety and soundness regulations whereby financial firms are obligated to safeguard their information assets from criminal acts.

b) The foregoing standards are embedded within the following regulations, which all state the same core principle:

i) NCUA Rule: § 715.2(h): "Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition refers to prevention or timely detection of transactions involving such unauthorized access, use, or disposition of assets which could result in a loss that is material to the financial statements."

ii) FDIC Proposed Rule, 11/1/07, 12 CFR Parts 308 and 363 Annual Independent Audits and Reporting Requirements; Proposed Rule: "The Institution's internal control over financial reporting includes those policies and procedures that (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Institution's assets that could have a material effect on the financial statements."

iii) Sarbanes-Oxley 404 (2003): "Internal control over financial reporting means providing reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements."

iv) SEC Rule 13a-15: Controls and procedures. " The term internal control over financial reporting is defined as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial

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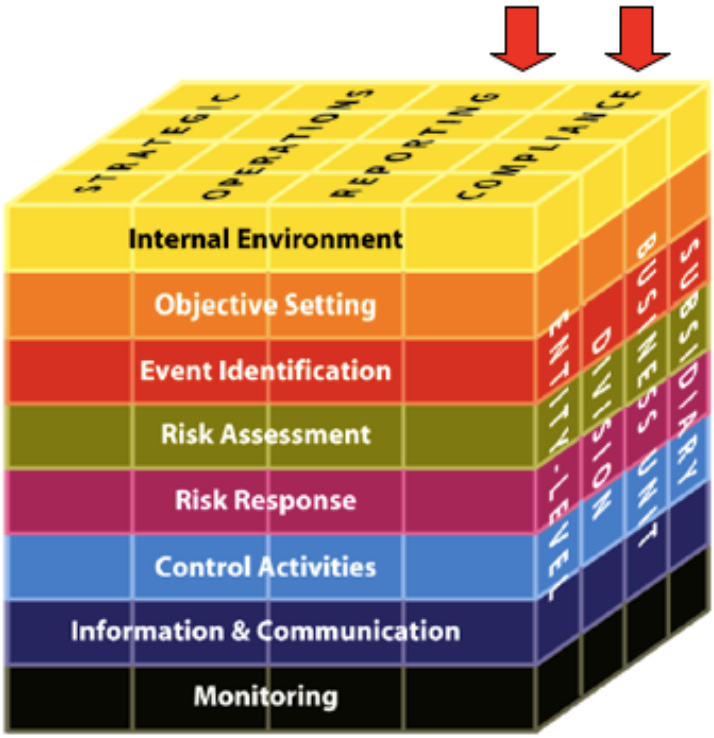
reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements."

5) COSO's Enterprise Risk Management Framework:

a) focuses on compliance with laws and regulations with these core features:

i) Identify ii) Assess iii) Control iv) Measure v) Risk Tolerances (1) Compliance Ratings vi) Monitor vii) Report viii) Train	

b) states, "ethics pays".

i) The section on **Integrity and Ethical Values states: "**An entity's strategy and objectives and the way they are implemented are based on preferences, value judgments, and management styles. Management's integrity and commitment to ethical values influence these preferences and judgments, which are translated into standards of behavior. Because an entity's good reputation is so valuable, the

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standards of behavior must go beyond mere **compliance with law**. Managers of well-run enterprises increasingly have accepted the view that

(1) ethics pays and

(2) ethical behavior is good business."

6) Synchronized compliance will solve interconnected compliance risks as of October 2008, i.e.,

- **misrepresentations** per the Emergency Economic Stabilization Act of 10-3-08.
- **compliance risks** per the Federal Reserve's Supervisory Letter 08-8 of 10-16-08.
- **illegal acts, regulatory compliance risks**, and **ethical issues** per the PCAOB's Rulemaking Docket 026 of 10-21-08: "Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk; Proposed Conforming Amendments to PCAOB Standards."
- Each issue is defined below:

a) **Misrepresentation** is a key term per the Emergency Economic Stabilization Act (EESA), i.e.,

i) **Misrepresentation** or any suspected fraud or malfeasance under the EESA is to be reported to the Attorney General per Section 104.

ii) **Misrepresentations** or violations of the representations and warranties of the $250 billion TARP Capital Purchase Program are reportable events to the Attorney General per Section 104.

iii) **Misrepresentations** on the development and sale of financial products expose federal financial regulators to investigations by the FBI per Section 127.

iv) **Misrepresentations** on the advertising of the Federal Deposit Insurance Corporation brand is a violation per Section 126.

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b) **"Illegal Acts"** per Section 10a; 15 U.S.C. § 78j-1 Audit Requirements of the Securities Exchange Act of 1934 is a fundamental legal term. It sets clear performance standards for auditors and Boards of Directors. It is cited by the PCAOB in its Rulemaking Docket 026: Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk; Proposed Conforming Amendments to PCAOB Standards, dated 10-21-08.

i) Illegal Acts means "an act or omission that violates any law, or any rule or regulations having the force of law."

(1) Auditors and Boards of Directors are obligated to investigate illegal acts. If material, Boards must remediate the illegal acts. Failure to remediate then requires the auditor to report the material illegal acts to the SEC and either:

(a) depart from a standard report of the auditor, when made, or

(b) warrant resignation from the audit engagement.

(2) Searching the PCAOB's web site for enforcement cases on "illegal acts" reports 2 enforcement cases.

c) "**Compliance risk**" is a core definition and theme in the Federal Reserve's Supervisory Letter SR 08-8, dated 10-16-08, Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles.

i) "**Compliance risk** is the risk of legal or regulatory sanctions, financial loss, or damage to reputation resulting from failure to comply with laws, regulations, rules, other regulatory requirements, or codes of conduct and other standards of self-regulatory organizations applicable to the banking organization (applicable rules and standards)."

ii) "**Compliance risk** does not lend itself to [risk appetites and] similar processes for establishing and allocating overall risk tolerance, in part because **organizations must comply with applicable rules and standards."**

iii) Effective **compliance risk** management programs incorporate controls designed to maintain compliance with

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(1) applicable rules and standards, including

(2) consumer protection guidance issued by supervisory authorities and

(3) safety and soundness regulations.

(a) Note from ISG Metrics: For further clarification, safety and soundness regulations are defined for all federally insured firms in the following letter dated 9-16-08 from the General Accountability Office to Congressional Committees for the Department of Homeland Security: GAO-08-1075R – Federal Legal Requirements for Critical Infrastructure IT Security.

(i) An enforcement option for failing to comply with safe and sound regulations is the termination of federal deposit insurance.

iv) "The Federal Reserve's expectations for all supervised banking organizations are consistent with the principles outlined in a paper issued in April 2005 by the Basel Committee on Banking Supervision, entitled *Compliance and the compliance function in banks* (Basel compliance paper). The principles in the Basel compliance paper have become widely recognized as **global sound practices for compliance risk management** and oversight, and the Federal Reserve endorses these principles."

v) "The Federal Reserve strongly encourages large banking organizations with complex compliance profiles to ensure that the necessary resources are dedicated to fully implementing effective firmwide **compliance risk** management programs and oversight in a timely manner."

vi) "The board should exercise reasonable due diligence to ensure that the compliance program remains effective by at least annually reviewing a report on the effectiveness of the program. The board may delegate these tasks to an appropriate board-level committee."

d) **Compliance risks, illegal acts, ethical values and ethical behavior** are central issues per the following sections of the PCAOB's Rulemaking Docket 026: Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk; Proposed Conforming

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Amendments to PCAOB Standards. The columns below represent the Paragraph # (A), Page # (B), and relevant issue (C) from the PCAOB's Rulemaking Docket 026.

A	B	C
7	APPENDIX 2 – PROPOSED AUDITING STANDARD – AUDIT PLANNING AND SUPERVISION **Planning Activities** Page A2–3 – Standard Page A2–4 – Standard	The nature and extent of planning activities that are necessary depend on the size and complexity of the company, ○ Matters affecting the industry in which the company operates, such as financial reporting practices, economic conditions, **laws and regulations,** and technological changes; ○ **Legal or regulatory** matters of which the company is aware;
9	APPENDIX 3 – PROPOSED AUDITING STANDARD *Obtaining an Understanding of the Company and Its Environment* Page A3–4– Standard	The auditor's understanding of the company should include the following: a. Relevant industry, **regulatory**, and other external factors;
11	Industry, **Regulatory**, and Other External Factors Page A3–4– Standard	Industry, regulatory, and other external factors that are relevant to the auditor's understanding of the company include industry factors such as the competitive environment and technological developments; the **regulatory** environment, including the applicable financial reporting framework6/ and the legal and political environment;7/ and other external factors such as general economic conditions. See AU sec. 317, ***Illegal Acts*** *by Clients*, for additional direction regarding the auditor's consideration of laws and regulations relevant to the audit.

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15	**Company Objectives, Strategies, and Related Business Risks** Page A3–6– Standard Page A3–7– Standard	The following are examples of business risks that might be relevant to the auditor's consideration of the company's, strategies and related business risks – **Regulatory** requirements (a potential related business risk might be, for example, that there is increased legal exposure). Note: Some relevant business risks might be identified through other risk assessment procedures, such as obtaining an understanding of the nature of the company and understanding industry, **regulatory**, and other external factors.
19	**Selection and Application of Accounting Principles** Page A3–8– Standard	The auditor should obtain an understanding of the following matters, if applicable, in obtaining an understanding of the company's selection and application of accounting principles: ○ Financial reporting standards and **laws and regulations** that are new to the company and when and how the company will adopt such requirements
26	**Control Environment** Page A3–11– Standard	Auditor should address: whether sound integrity and **ethical values**, particularly of top management, are developed and understood;
30	**Information System Relevant to Financial Reporting and Communication** Page A3–12– Standard Page A3–13– Standard	*Business Processes.* A company's business processes are the activities designed to: (b) Ensure **compliance with laws and regulations** relevant to the financial statements;
33	*Communication.*	*Communication.* The auditor should obtain an understanding of how the company

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	Page A3–14– Standard	communicates financial reporting roles and responsibilities and significant matters relating to financial reporting including – ○ Communications to external parties, including **regulatory** authorities and shareholders.
52	**Inquiries Regarding Fraud Risks** Page A3–19– Standard	Auditor should include the following: ○ whether and how management communicates to employees its views on **business practices and ethical behavior**;
65	**Further Consideration of Controls** Page A3–24– Standard	Controls that address fraud risks include (a) specific controls designed to mitigate specific risks of fraud, e.g., controls to address risks of misappropriation of specific assets and (b) controls designed to prevent, deter, and detect fraud, e.g., controls to promote a culture of honesty and **ethical behavior.25/** Such controls also include those that address the risk of management override of other controls.
24	**APPENDIX 5 – PROPOSED AUDITING STANDARD** **Accumulating and Evaluating Identified Misstatements** Page A5–7– Standard	If the auditor becomes aware of information indicating that fraud or another **illegal act** has occurred or might have occurred, he or she also must determine his or her responsibilities under AU sec. 316, AU sec. 317, ***Illegal Acts by Clients,*** **and Section 10A of the Securities Exchange Act of 1934, 15 U.S.C. § 78j-1.**
	APPENDIX 8 – PROPOSED CONFORMING AMENDMENTS TO PCAOB STANDARDS Page A8–11– Conforming Amendments	AU sec. 317, "Illegal Acts by Clients" SAS No. 54, "Illegal Acts by Client" (AU section 317, "Illegal Acts by Clients"), is amended as follows – a. The last sentence of paragraph .13 is replaced with – **An illegal payment of an otherwise immaterial amount could be material if there is a reasonable possibility that it could lead to a material contingent liability or a**

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		material loss of revenue.
	AU Section 317 ***Illegal Acts by Clients*** **(Source: SAS No. 54.** **See** section 9317 **for interpretations of this section.** **Effective for audits of financial statements for periods beginning on or after January 1, 1989, unless otherwise indicated)**	**The Auditor's Consideration of Financial Statement Effect** **.13** In evaluating the materiality of an illegal act that comes to his attention, the auditor should consider both the quantitative and qualitative materiality of the act. For example, section 312, *Audit Risk and Materiality in Conducting an Audit*, paragraph .11, states that **"an illegal payment of an otherwise immaterial amount could be material if there is a reasonable possibility that it could lead to a material contingent liability or a material loss of revenue."**
	APPENDIX 9 *Additional Discussion of Proposed Auditing Standards and Conforming Amendments* Page A9–9–Additional Discussion	The interim standard requires the auditor to consider the collective effect on the control environment of strengths and weaknesses in the various control environment factors.9/ The proposed standard replaces that requirement with a new requirement to assess the following matters as part of obtaining an understanding of the control environment: • Whether management's philosophy and operating style promote effective internal control over financial reporting; • Whether sound integrity and **ethical values,** particularly of top management, are developed and understood; and • Whether the board or audit committee understands and exercises
	Proposed Auditing Standard – Consideration of Materiality in Planning and Performing an Audit Page A9–28–	AU sec. 312.19 discusses establishing an overall materiality level based on the smallest aggregate level of misstatement that would be considered material to any of the individual financial statements. The proposed standard establishes a responsibility for the auditor to consider whether, for particular accounts or disclosures, misstatements in

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	Additional Discussion Page A9–29– Additional Discussion	amounts less than the materiality level for the financial statements as a whole could influence the judgment of a reasonable investor. In those circumstances, the auditor is required to establish separate materiality levels for such accounts or disclosures. The formulation in the proposed standard is more consistent with the principle of considering the perceptions of investors when making materiality judgments because it recognizes that, in certain circumstances, misstatements in some accounts might have more significant consequences than in other accounts. The following are examples of situations in which a lower materiality threshold might be needed: • **Laws, regulations**, or the applicable financial reporting framework affect investors' expectations about the measurement or disclosure of certain items, e.g., related party transactions and compensation of senior management. • Significant attention has been focused on a particular aspect of a company's business that is separately disclosed in the financial statements, e.g., a recent business acquisition. • Certain disclosures are particularly important to investors in the industry in which the company operates.
	APPENDIX 10 *Comparison of Requirements to the Standards of the International Auditing and Assurance Standards Board*1/	In obtaining an understanding of the control environment, ISA 315 requires the auditor to evaluate whether (a) management, with the oversight of those charged with governance, has created and maintained a culture of honesty and **ethical behavior;** and (b) the strengths in the control environment elements collectively provide an appropriate

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	Page A10–3– Comparison Page A10–3– Comparison	foundation for the other components of internal control, and whether those other components are not undermined by control environment weaknesses. The proposed standard requires an additional assessment related to the control environment, but the requirement is aligned more closely with Auditing Standard No. 5.

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7) ISG Metric's assists financial companies in achieving the highest ethical standards with accountability and transparency through synchronized compliance on the interconnected federal regulations and Operational Risk Ratings. The process includes:
   a) calibrating an organization's compliance with:
      i) the interconnected regulations that include misrepresentations per EESA, safety and soundness regulations, consumer protection regulations and regulations by the Securities and Exchange Commission,
      ii) publicly available information, and
      iii) full compliance per the publicly defined compliance scale of CAMELS or CAMEL. A CAMELS 1 rating equals full compliance and a 5 rating equals critically deficient compliance.
         (1) CAMELS Ratings are cited in the Federal Reserve's Supervisory letter 08-8.

COSO's Enterprise Risk Management	
Risk Tolerances	
1 1 1	Substantial Compliance
2 2 2	Satisfactory Compliance
3 3 3 3	Significant Non-Compliance
4 4 4 4	Significant Deficiencies
5 5 5	Critically Deficient
CAMELS Rating Scale	Operational Risk Ratings

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(2) Risks are converted into comparable Operational Risk Ratings and posted online for transparency.

(a) www.operationalriskratings.com

b) a full risk assessment through Operational Risk Profile Reports. These analyze the risks described herein per the Basel II operational risk framework on fiduciary breaches, external fraud and process management. Current reports are available online for a wide cross section of federal financial firms.

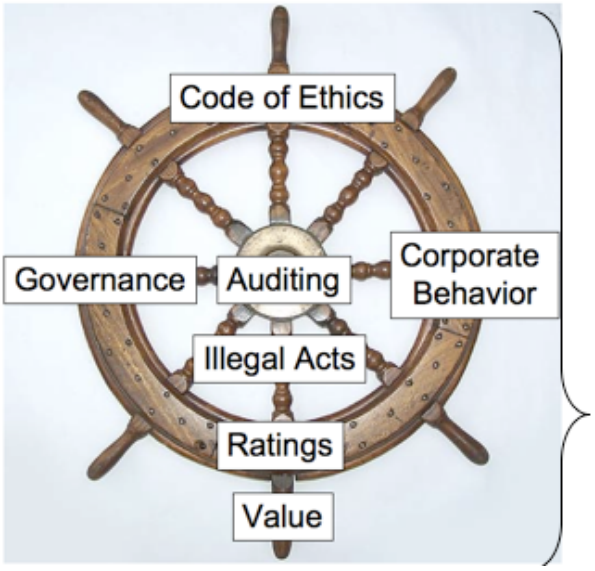
(a) www.operationalriskratings.com

c) The Director Scorecard™. This is a periodic report that calibrates degrees of compliance per Basel II on operational risks that include fiduciary breaches, external fraud and process management risks with the relevant Operational Risk Ratings and CAMELS compliance ratings.

d) full remediation services including legal.

e) helping Boards of Directors achieve the standards cited in the Federal Reserve's Supervisory letter 08-08.

Board Oversight & Synchronized Compliance™ = Value



COSO's Enterprise Risk Management	
Risk Tolerances	
1 1 1	Substantial Compliance
2 2 2	Satisfactory Compliance
3 3 3 3	Significant Non-Compliance
4 4 4 4	Significant Deficiencies
5 5 5	Critically Deficient
CAMELS Rating Scale	Operational Risk Ratings

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Boards, according to the Federal Reserves Supervisory letter 08-08, "should be knowledgeable about the general content of the compliance program and exercise appropriate oversight of the program. Accordingly, the board should review and approve key elements of the organization's compliance risk management program and oversight framework, including firmwide compliance policies, compliance risk management standards, and roles and responsibilities of committees and functions with compliance oversight responsibilities. The board should oversee management's implementation of the compliance program and the appropriate and timely resolution of compliance issues by senior management. The board should exercise reasonable due diligence to ensure that the compliance program remains effective by at least annually reviewing a report on the effectiveness of the program. The board may delegate these tasks to an appropriate board-level committee."

8) **Definitions:**

a) "**Compliance risk**" is a core definition and theme in the Federal Reserve's Supervisory Letter SR 08-8, dated 10-16-08, Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles.

i) "**Compliance risk** is the risk of legal or regulatory sanctions, financial loss, or damage to reputation resulting from failure to comply with laws, regulations, rules, other regulatory requirements, or codes of conduct and other standards of self-regulatory organizations applicable to the banking organization (applicable rules and standards)."

b) **"Illegal Acts"** per Section 10a; 15 U.S.C. § 78j-1 Audit Requirements of the Securities Exchange Act of 1934 is a fundamental legal term. It sets clear performance standards for auditors and Boards of Directors. It is cited by the PCAOB in its Rulemaking Docket 026: Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk; Proposed Conforming Amendments to PCAOB Standards, dated 10-21-08.

i) Illegal Acts means "an act or omission that violates any law, or any rule or regulations having the force of law."

(1) Auditors and Boards of Directors are obligated to investigate illegal acts. If material, Boards must remediate the illegal acts. Failure to

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remediate then requires the auditor to report the material illegal acts to the SEC and either:

(a) depart from a standard report of the auditor, when made, or

(b) warrant resignation from the audit engagement.

c) **Misrepresentation** is a key term per the Emergency Economic Stabilization Act (EESA), i.e.,

i) **Misrepresentation** or any suspected fraud or malfeasance under the EESA is to be reported to the Attorney General per Section 104.

ii) **Misrepresentations** or violations of the representations and warranties of the $250 billion TARP Capital Purchase Program are reportable events to the Attorney General per Section 104.

iii) **Misrepresentations** on the development and sale of financial products expose federal financial regulators to investigations by the FBI per Section 127.

iv) **Misrepresentations** on the advertising of the Federal Deposit Insurance Corporation brand is a violation per Section 126.

d) **Safety and Soundness Regulations** are defined for all federally insured firms in the following letter dated 9-16-08 from the General Accountability Office to Congressional Committees for the Department of Homeland Security: GAO-08-1075R – Federal Legal Requirements for Critical Infrastructure IT Security.

i) An enforcement option for failing to comply with safe and sound regulations is the termination of federal deposit insurance.

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