

CFPB Bulletin 2013-06**Date:** June 25, 2013**Subject:** Responsible Business Conduct: Self-Policing, Self-Reporting, Remediation, and Cooperation

The Bureau considers many factors in the exercise of its enforcement discretion. These include, for example: (1) the nature, extent, and severity of the violations identified; (2) the actual or potential harm from those violations; (3) whether there is a history of past violations; and (4) a party's effectiveness in addressing violations. This guidance is being provided to inform those subject to the Bureau's enforcement authority that in addition to these and other factors, there are activities they can engage in both before and after the conduct in question has occurred that the Bureau may favorably consider in exercising its enforcement discretion. Specifically, a party may proactively self-police for potential violations, promptly self-report to the Bureau when it identifies potential violations, quickly and completely remediate the harm resulting from violations, and affirmatively cooperate with any Bureau investigation above and beyond what is required. If a party meaningfully engages in these activities, which this bulletin refers to collectively as "responsible conduct," it may favorably affect the ultimate resolution of a Bureau enforcement investigation.

The purpose of this guidance is to encourage activity that has concrete and substantial benefits for consumers and contributes significantly to the success of the Bureau's mission. Depending on its form and substance, responsible conduct can improve the Bureau's ability to promptly detect violations of the federal consumer protection laws, increase the effectiveness and efficiency of enforcement investigations, enable the Bureau to pursue a larger number of worthy investigations with its finite resources, provide important evidence in enforcement investigations and cases, and help more consumers in more matters promptly receive financial redress and additional meaningful remedies for any harm they experienced.

Depending on the nature and extent of a party's actions, the Bureau has a wide range of options available to properly account for responsible conduct in enforcement investigations. For example, the Bureau could resolve an investigation with no public enforcement action, treat the conduct as a less severe type of violation, reduce the number of violations pursued, or reduce the sanctions or penalties sought by the Bureau in an enforcement action. It must be emphasized, however, that in order for the Bureau to consider awarding affirmative credit in the context of an enforcement investigation, a party's conduct must substantially exceed the standard of what is required by law in its interactions with the Bureau.

In the Bureau's consideration of a party's conduct in these areas it must be stressed that what best protects consumers is ultimately central to the Bureau's exercise of its enforcement discretion. Self-policing, self-reporting, remediation, and cooperation with the Bureau's investigation are unquestionably important in promoting the best interests of consumers, but so

too are vigorous, consistent enforcement of the law and the imposition of appropriate sanctions where the law has been violated.

In addition, this guidance, and its description of activities that may warrant favorable consideration, is not adopting any rule or formula, or making a promise to any person about any specific case. The Bureau is not in any way limiting its discretion and responsibility to evaluate each case individually on its own facts and circumstances. There is no consistent formula that can be applied to all enforcement actions to accomplish the goal of protecting consumers. Similarly, there is no formula that can be applied to account for cooperation based on a party's actions related to the activities set forth above. Indeed, there may be circumstances where the misconduct is so egregious, or the harm inflicted so great, that no amount of cooperation or other mitigating conduct could justify a decision not to bring an enforcement action, or even to forgo seeking the imposition of a civil money penalty. In short, the fact that a party may argue it has satisfied some or even all of the elements set forth in this guidance will not foreclose the Bureau from bringing any enforcement action or seeking any remedy if it believes such a course is necessary and appropriate.

Factors Used to Evaluate and Acknowledge Responsible Conduct

As noted previously, the Bureau principally considers four categories of conduct when evaluating whether some form of credit is warranted in an enforcement investigation: self-policing, self-reporting, remediation, and cooperation during the Bureau's enforcement investigation. However, if a party engages in another type of activity particular to its situation that is both substantial and meaningful, the Bureau may take that activity into consideration.

Listed below are some of the factors the Bureau will consider in determining whether and how much to take into account self-policing, self-reporting, remediation, and cooperation. This list is not exhaustive, and some of the factors identified may relate to more than one category of responsible conduct. Finally, the importance of each factor in a given case, and the way in which the Bureau evaluates each factor, will depend on the circumstances.

Self-policing:

This concept, which can also be described as self-monitoring or self-auditing, reflects a proactive commitment by a party to use resources for the prevention and early detection of potential violations of consumer financial laws. The Bureau recognizes that a robust compliance management system appropriate for the size and complexity of a party's business will not always prevent violations, but it will often facilitate early detection of potential violations, which can limit the size and scope of consumer harm. Questions the Bureau will consider in determining whether to provide favorable consideration for self-policing activity that detects violations or potential violations of federal consumer financial laws include:

1. What is the nature of the violation or potential violation and how did it arise? Was the conduct pervasive or an isolated act? How long did it last? Was the conduct significant to the party's profitability or business model?
2. How was the violation or potential violation detected and who uncovered it? What compliance procedures or self-policing mechanisms were in place to prevent, identify, or limit the conduct that occurred and to preserve relevant information? In what ways, if any, were the party's self-policing mechanisms particularly noteworthy and effective?
3. If the party's self-policing functions have previously been the subject of supervisory examination by the Bureau or other regulators, what have been the results of such examination? How, if at all, has the party changed its self-policing following such examination? If the party's self-policing functions have not previously been the subject of supervisory examination, how do those functions measure up to customary supervisory expectations?
4. If the party is a business entity, what was the "tone at the top" of the business about compliance? Was there a culture of compliance? How high up in the chain of command did people know of or participate in the conduct at issue? Did senior personnel participate in, or turn a blind eye toward, obvious indicia of misconduct or deficiencies in compliance procedures?

Self-reporting:

Each category of responsible conduct is important to the Bureau and can significantly affect the Bureau's decision about whether a party should receive favorable consideration. Of the four categories, however, prompt and complete self-reporting to the Bureau of significant violations and potential violations is worth special mention. While no substitute for effective self-policing, self-reporting substantially advances the Bureau's protection of consumers and enhances its enforcement mission by reducing the resources it must expend to identify potential or actual violations that are significant enough to warrant an enforcement investigation and making those resources available for other significant matters. Prompt self-reporting of serious violations also represents concrete evidence of a party's commitment to responsibly address the conduct at issue. For these reasons, the Bureau puts special emphasis on this category in its evaluation of a party's overall conduct. Questions the Bureau will examine in determining whether to provide favorable consideration for self-reporting of violations or potential violations of federal consumer financial laws include:

1. Did the party completely and effectively disclose the existence of the conduct to the Bureau, to other regulators, and, if applicable, to self-regulators? Did affected consumers receive appropriate information related to the violations or potential violations within a reasonable period of time?
2. Did the party report the conduct promptly to the Bureau? If it delayed, what justification, if any, existed for the delay? How did the delay affect the preservation of relevant information, the ability of the Bureau to conduct its investigation, or the interests of affected consumers?

3. Did the party proactively self-report, or wait until discovery or disclosure was likely to happen anyway, for example due to impending supervisory activity, public company reporting requirements, the emergence of a whistleblower, consumer complaints or actions, or the conduct of a Bureau investigation?

Remediation:

When violations of federal consumer financial laws have occurred, the Bureau's remedial priorities include obtaining full redress for those injured by the violations, ensuring that the party who violated the law implements measures designed to prevent the violations from recurring, and, when appropriate, effectuating changes in the party's future conduct for the protection and/or benefit of consumers. Remediation may be viewed positively even when the party believes that it may have identified a potential rather than an actual violation. Questions the Bureau will examine in determining whether to provide favorable consideration for remediation activity regarding violations of federal consumer financial laws include:

1. What steps did the party take upon learning of the misconduct? Did it immediately stop the misconduct? How long after the misconduct was uncovered did it take to implement an effective response?

2. If the party is a business, were there any consequences imposed on the individuals responsible for the misconduct?

3. Did the party take prompt and effective steps to preserve information, identify the extent of the harm to consumers, and appropriately recompense those adversely affected? In situations where the harm caused by the violation goes beyond the amounts the victims may have paid to the party, did the party identify and implement additional ways to completely redress the harm?

4. What assurances are there that the misconduct is unlikely to recur? By the time of the resolution of the Bureau matter, did the party improve internal controls and procedures designed to prevent and detect a recurrence of such violations? Similarly, have the party's business practices, policies and procedures changed to remove harmful incentives and encourage proper compliance?

Cooperation:

Unlike self-policing and remediation, which may occur with or without Bureau involvement, cooperation relates to the quality of a party's interactions with the Bureau after the Bureau becomes aware of a potential violation of federal consumer financial laws, either through a party's self-reporting or the Bureau's own discovery efforts. In order to receive credit for cooperation in this context, a party must take substantial and material steps above and beyond what the law requires in its interactions with the Bureau. Simply meeting those obligations will not be rewarded by any special consideration. Questions the Bureau will examine in determining whether to provide favorable consideration for cooperation in a Bureau investigation include:

1. Did the party cooperate promptly and completely with the Bureau and other appropriate regulatory and law enforcement bodies? Was that cooperation present throughout the course of the investigation? Did the actor identify any additional related misconduct likely to have occurred?
2. Did the party take proper steps to develop the truth quickly and completely and to fully share its findings with the Bureau? Did it undertake a thorough review of the nature, extent, origins, and consequences of the misconduct and related behavior? Who conducted the review and did they have a vested interest or bias in the outcome? Were scope limitations placed on the review? If so, why and what were they?
3. Did the party promptly make available to the Bureau the results of its review and provide sufficient documentation reflecting its response to the situation? Did it provide evidence with sufficient precision and completeness to facilitate, among other things, enforcement actions against others who violated the law? Did the party produce a complete and thorough written report detailing the findings of its review? Did it voluntarily disclose material information not directly requested by the Bureau or that otherwise might not have been uncovered? If the party is a business, did it direct its employees to cooperate with the Bureau and make reasonable efforts to secure such cooperation?

The Bureau intends and expects that this guidance will encourage parties subject to the Bureau's enforcement authority to engage in more self-policing. When potential violations of the consumer financial laws arise, the Bureau intends and expects that parties will engage in more self-reporting to the Bureau, more prompt and complete remediation of harm to victimized consumers, and more cooperation with the Bureau in its enforcement investigations. Such an outcome, the Bureau believes, would benefit both consumers and providers of consumer financial products and services.

Excerpts from CFPB Supervision and Examination Manual

Monitoring and Corrective Action – Examination Objectives

Monitoring is a compliance program element that seeks, in an organized and risk-focused way, to identify procedural or training weaknesses in an effort to provide for a high level of compliance by promptly identifying and correcting weaknesses. Monitoring and testing is generally more frequent and less formal than compliance audit coverage and reporting, may be carried out by the business unit, and does not require the same level of independence from the business or audit programs to determine whether, considered together, they are adequate and comprehensive.

Examiners review of compliance monitoring and testing should determine whether:

1. Monitoring is scheduled and completed and leads to timely corrective actions where appropriate.
2. The supervised entity is determining that transactions and other consumer contacts are handled according to the entity's policies and procedures.
3. Monitoring and testing consider the results of risk assessments or other guides for prioritizing reviews.
4. Monitoring addresses deficiencies identified in internal or external audits, and the board's or management's directives on resolving the deficiencies.
5. Findings are escalated to management and to the board of directors if appropriate.

Monitoring and Corrective Action – Examination Procedures

Examiners should review monitoring, testing, and corrective action reports; sample supporting documents; and interview individuals responsible for compliance monitoring, testing, and corrective action. Examiners should:

1. Determine the chief compliance officer's role in the compliance monitoring element of the compliance program.
2. Request and review the monitoring and testing schedule for the current year or next 12 months, and review the currency of reviews in process against the current schedule.
3. Request and review the risk assessments or other documents that led to the monitoring and testing program plan, including any fair lending risk assessments.

4. Discuss with the compliance officer or monitoring manager the coverage of service providers that have contact with consumers.
5. Determine whether and to what extent monitoring includes calculation tools, the content of consumer disclosures and notices, marketing materials, and scripts or guides for employee contacts with consumers.
6. Request and review all compliance monitoring, testing and corrective action reports completed during a specific period of time. Include reports related to fair lending compliance, such as fair lending “self-evaluations.” (But do not request reports of fair lending “self-tests” that meet the strict requirements set forth in 12 CFR 1002.15.)
7. Review reports for indications of systemic weaknesses, repeat violations of law and resulting risks or harms to consumers, or other matters of significant concern such as potential discriminatory effects of policies or procedures or particular business units with continuing or high levels of non-compliance.
8. Review a sample of reports and supporting documents covering potential unfair, deceptive, or discriminatory practices or related matters that pose heightened risks to consumers for thoroughness of review, accuracy of findings, and appropriateness of recommendations.
9. Determine whether monitoring results in corrective action that is timely and appropriate in size and scope.
10. Draw a preliminary conclusion regarding the strength, adequacy, or weakness of the monitoring and corrective action element of the compliance program, and select areas for further review either because of lack of coverage by the monitoring program or to confirm monitoring or corrective action findings.

Section		Regulation	
Section Description		Business Area	
Population		Sample	
Test Objective		Scope Period	
Tester		Test Date	

Selection #	Last Name	Account Number	Transaction Date	Test Attribute 1	Test Attribute 2	Test Attribute 3	Attachments
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							

Comments:

{a}	
{b}	
{c}	

Exceptions

{1}	
{2}	
{3}	

Guidance

{i}	
{ii}	
{iii}	





