



**GREEN
CLIMATE
FUND**

Meeting of the Board
1 – 4 July 2018
Songdo, Incheon, Republic of Korea
Provisional agenda item 12

GCF/B.20/09
8 June 2018

Risk management framework: compliance risk policy

Proposal by the Risk Management Committee

Summary

Through decision B.17/11, the Board adopted the first set of components of the updated risk management framework and requested the Secretariat to “continue the development of the risk management framework and its remaining components”. At its nineteenth meeting, the Board, through decision B.19/04, adopted the second set of components of the risk management framework, which comprised three risk policies covering investment, non-financial, and funding risks.

To uphold and commit to achieving the highest standards of integrity, ethics and transparency in the conduct and governance of all its activities, and to minimize reputational risks that GCF may encounter, a compliance risk policy is essential in providing a framework to deal with such risks. This document presents the Risk Management Committee proposal on the compliance risk policy which forms an important part of the risk management framework.

I. Introduction

1. The Governing Instrument for the GCF, in section IX: Fiduciary standards, paragraph 63, states, “The Board will agree on, adopt, and ensure the application of best practice fiduciary principles and standards to the Fund’s entities, the trustee’s function related to the Fund, and to all operations, project and programmes financed by the Fund, including the implementing entities.”
2. Through decision B.BM-2015/06, the Board adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework as the internal control framework for GCF and requested the Executive Director to implement the internal control framework.
3. At its tenth meeting, the Board, through decision B.10/06 paragraph (o), in the context of accreditation, authorized the Executive Director to recruit a fiduciary compliance specialist with anti-money laundering and countering the financing of terrorism skills. The Board also noted through decision B.10/07, the “need for ongoing monitoring of compliance with the Fund’s fiduciary standards, environmental and social safeguards, and gender policy”.
4. At its twelfth meeting, the Board, through decision B.12/31, affirmed the importance and urgency for GCF to have adequate policies addressing fraud, corruption, and other prohibited practices and policies addressing anti-money laundering and countering the financing of terrorism.
5. Through decision B.13/36, the Board requested the Secretariat to develop the necessary methodologies and internal procedures and to enhance the Secretariat’s risk management capacity.
6. Through decision B.14/01, the Board noted that the Head of the Independent Integrity Unit (IIU) would develop the full set of policies relating to prohibited practices, anti-money laundering and countering the financing of terrorism and present these to the Board for its consideration as early as feasible in 2017 as a matter of urgency. Furthermore, the Board requested the Accreditation Committee, in consultation with the Head of the IIU, to consider the best way to integrate such policies in the interim fiduciary standards, and present to the Board a proposal for its consideration as early as feasible in 2017 as a matter of urgency.
7. At its eighteenth meeting, the Board, through decision B.18/10, adopted the Anti-Money Laundering and Countering the Financing of Terrorism Policy and requested the Head of the IIU, under the supervision of the Ethics and Audit Committee, to develop the standards for the implementation of the policy on Anti-Money Laundering and Countering the Financing of Terrorism for the consideration by the Board by its twentieth meeting.
8. Through decision B.17/11, the Board adopted the first set of components of the updated risk management framework (RMF) and requested the Secretariat to “continue the development of the risk management framework and its remaining components”.
9. At its nineteenth meeting, the Board, through decision B.19/04, adopted the second set of components of the RMF, which comprised three risk policies covering investment, non-financial, and funding risks.
10. In order to uphold and commit to achieving the highest standards of integrity, ethics and transparency in the conduct and governance of all its activities as expected of an international organization, and to minimize reputational risks that GCF may encounter, a proper compliance framework is required for GCF. It should be noted that this document is a principles-based policy and does not go into details of the roles and responsibilities of every individual unit, office, or division in managing compliance risk. The independent units remain independent of the Secretariat, report directly to the Board and act in accordance to their respective terms of reference.

11. This document presents an important element in the RMF, the policy governing compliance risk management for GCF.

II. Actions taken

12. To fulfil the risk-related mandate given by the Board, the Secretariat continued with the development of the remaining components of the RMF with the support of Oliver Wyman, an internationally reputable consulting firm.

13. In the process of developing the compliance risk policy within the RMF, the Office of Risk Management and Compliance (ORMC), together with Oliver Wyman, gathered feedback on the policy from relevant divisions within the Secretariat as well as the independent units. The compliance risk policy was developed under the guidance of the Risk Management Committee (RMC).

14. Following the review of the compliance risk policy of the RMF, the RMC decided to present the policy to the Board for its consideration.

III. Objective of the risk management framework

15. The purpose and use of the RMF is to provide:

- (a) Greater clarity on the risks inherent in individual decisions and the day-to-day functioning of GCF, enabling the Board to make appropriate trade-offs;
- (b) Greater consistency in decisions across the organization, tied together by the Board's views on what are the key risks, how much risk is acceptable and how the risks should be managed;
- (c) A more assured path towards achieving the mandate of GCF (with well-understood likelihood and impact of risks); and
- (d) Faster decision-making enabled by clarity and consistency (e.g. the RMF provides clarity to accredited entities (AEs) and the Secretariat on what funding proposals should include from a risk perspective, resulting in more comprehensive and higher quality funding proposals developed with less back and forth).

IV. Recommended action by the Board

16. It is proposed that the Board adopt the draft decision as set out in annex I.

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.20/09 titled “Risk management framework: compliance risk policy – proposal by the Risk Management Committee”:

- (a) Adopts risk management framework component VIII – compliance risk policy, as set out in annex II.

Annex II: Compliance risk policy

I. Introduction

1. In order to uphold and commit to achieving the highest standards of integrity, ethics, and transparency in the conduct and governance of all its activities as expected of an international organization, and to minimize reputational risks that GCF may encounter, a proper compliance framework is required for GCF. It should be noted that this document is a principles-based policy and does not go into details of the roles and responsibilities of every individual unit, office, or division in managing compliance risk.
2. This document presents an important element of the risk management framework (RMF), the policy governing compliance risk management for GCF.

II. Objective and scope

2.1 Objective

3. Compliance risk within GCF is defined as the risk posed by the failure of GCF to comply with its internal policies,¹ its code of conduct, and good business practices,² or the failure of GCF counterparties to comply with their contractual obligations to GCF, including compliance with applicable regulations and international standards.³
4. This document, the compliance risk policy (hereafter “the policy”), outlines the roles and responsibilities across major activities for the compliance risks relevant to GCF. The policy provides a framework to deal with compliance risks. The policy is aligned with the fit-for-purpose compliance framework (hereafter “the compliance framework”) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) principles that were adopted by GCF.⁴ This document is deliberately outlined to be aspirational as the underlying framework and capabilities are built in the context of GCF business.
5. The staff of GCF, its governing bodies, and every other person working for GCF (i.e. covered individuals) are required to adhere to this policy to protect GCF, and its reputation, from being misused in compliance-related incidents by ensuring they discharge their responsibilities in a manner that enables the full implementation of this policy.
6. Note that this policy covers and defines roles and responsibilities to manage compliance risk within the Secretariat only and does not cover any of the independent units which remain independent of the Secretariat. Nothing in this policy will be interpreted as amending or contradicting the mandates granted to the independent units by the Board.⁵

2.2 Scope of compliance risk

¹ This includes policies, guidelines, administrative instructions and standards. Please refer to the risk appetite statement for GCF’s tolerance for compliance risk.

² Upholding and committing to achieving the highest standards of integrity, ethics, and transparency—including honesty, truthfulness, fairness, and incorruptibility—in the conduct and governance of all its activities, as is currently practiced by other peer international organizations.

³ This includes, for example, sanctions lists published by international organizations, such as the United Nations and European Union or the multilateral development banks cross-debarment lists or evaluations of the Financial Action Task Force.

⁴ Decision B.BM-2015/06.

⁵ In the event of such a conflict, the terms of reference of the independent units will prevail over this policy.

7. The scope of compliance risk at GCF includes the following risk types:
- (a) Internal compliance breach;⁶
 - (b) Regulations, financial sanctions, and embargo breaches and engagement in prohibited practices, including anti-money laundering and countering the financing of terrorism (AML/CFT) – considered an external compliance breach;⁷ and
 - (c) Inappropriate investment activities and violation of fiduciary duty.
8. To further detail the compliance risks and fully define the scope, the Secretariat has developed a list of relevant compliance risk events⁸ with responsible control oversight functions assigned within the Secretariat. The comprehensive list of the compliance risk events and assigned control oversight functions are outlined in the compliance risk categorization overview (a continuously updated internal document).

2.3 Guiding principles

9. The GCF compliance framework and policy have the objectives of establishing and maintaining effective GCF-wide compliance risk management, and the policy design is guided by the following principles:
- (a) Taking into consideration the fact that GCF is an evolving and growing organization;
 - (b) Implementing a risk-based ex ante approach defining controls and monitoring in relation to the expected impact and likelihood of occurrence;⁹
 - (c) Setting a culture of good compliance and tone from the top at senior management level;
 - (d) Allocating roles and responsibilities by level under the three levels of responsibilities framework:
 - (i) **First Level of Responsibility (First Level):** The first responsibility of compliance risk management and control is with the accountable units, who are the primary owners and managers of the compliance risk events as part of their standard business operations;
 - (ii) **Second Level of Responsibility (Second Level):** For each risk, there is a Second Level independent of the First Level to ensure risks are managed given asymmetric incentives, short-termism and optimism of risk takers. The Second Level is also called the control oversight function; and
 - (iii) **Third Level of Responsibility (Third Level):** The Third Level focuses on the review of the actions and interactions of the risk taker and risk controller, and the review of the compliance framework for potential deviations from its original intentions.
10. The divisions or units within the Secretariat may either be given some First Level responsibilities or some Second Level responsibilities, but not both for a single process. This ensures that the First and Second Levels are non-conflicting interests and independent of each other.
11. The First Level functions are identified as follows:

⁶ Includes internal Anti-Money Laundering and Countering the Financing of Terrorism Policy breaches.

⁷ Applies to both GCF and its GCF counterparties, such as the accredited entity/executing entity, national designated authority, or delivery partner.

⁸ Compliance risk events refer to the incident that occurs as a result of a breach in a compliance risk.

⁹ Please refer to the compliance risk assessment manual (an internal manual on conducting the compliance risk assessment developed by the compliance function for the Secretariat staff) for further definition of impact and likelihood of occurrence.

- (a) In investment-related business processes, the First Level responsibilities lie with front office units (e.g. risk-taking units such as Private Sector Facility (PSF), Division of Mitigation and Adaptation (DMA), or Division of Country Programming (DCP)); and
- (b) In administrative business processes, the First Level responsibilities lie with all Secretariat functions. Depending on the relevant process, either all of the Secretariat functions are considered the First Level or only part of the Secretariat functions that execute these processes is considered the First Level.
12. Second Level responsibilities lie with a control oversight function (e.g. due diligence units like Office of Risk Management and Compliance (ORMC), Office of Governance Affairs, or Division of Support Services),¹⁰ which will be the main oversight function for a particular compliance risk.
13. Third Level responsibilities mainly lie with the Office of the Internal Auditor.
14. The independent units serve as the accountability mechanisms of the GCF and are not a part of the three levels of responsibilities. They remain independent of the Secretariat, report directly to the Board and act in accordance to their respective terms of reference.
15. For risk types where the compliance function is designated as the control oversight function, the compliance function serves as the Second Level for these particular risks. For risk types where the compliance function is not designated as a control oversight function, the compliance function serves a broader advisory role to the First Level and other Second Level functions with regards to their roles and responsibilities towards these particular risks.
16. The Office of the General Counsel plays a broader legal advisory role across all compliance risk events of GCF. In addition, it provides advice on legal implications related to assuring the integrity of the organization, including anti-corruption and anti-bribery actions, and provides legal assistance on practices to monitor and support anti-money laundering practices.
17. The Senior Management Team (SMT) may choose other divisions and/or units for these responsibilities over time.

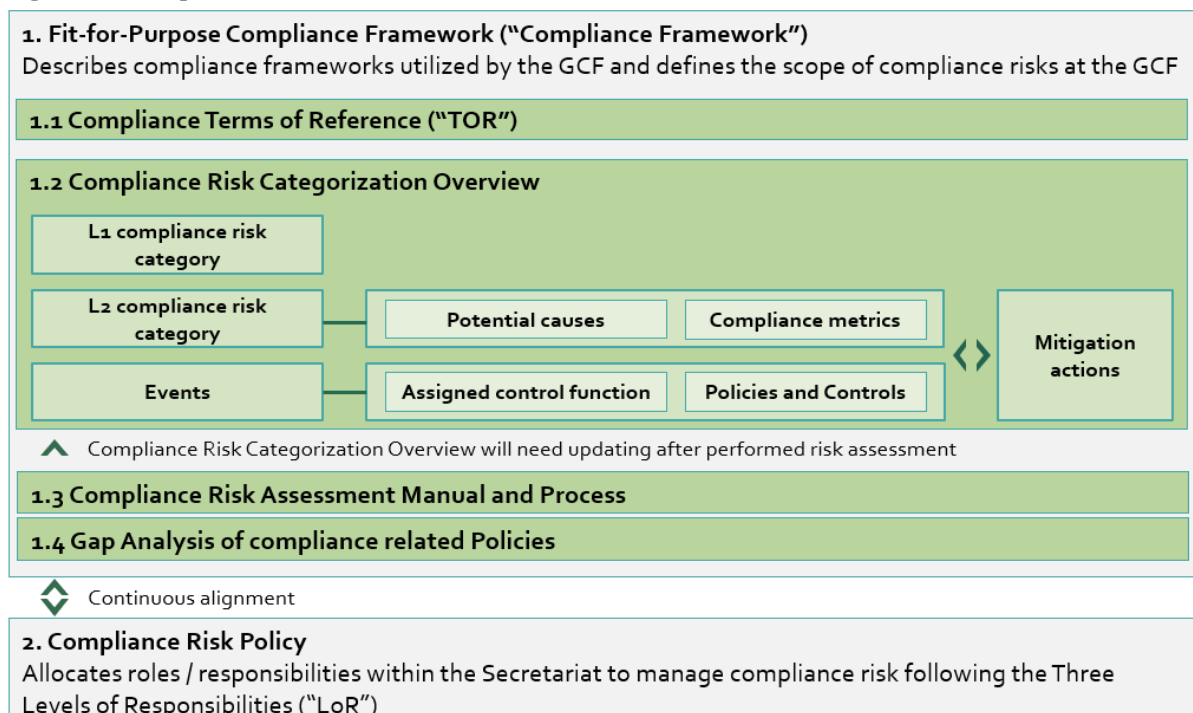
III. Definition of terms

18. The following are definitions of the key terms applicable for this policy:
- (a) **Fit-for-purpose compliance framework:**
- (i) The compliance framework is an overarching framework comprising the compliance-related components necessary to operationalize an effective compliance risk management practice in GCF;
- (ii) The various components of the GCF-wide compliance framework are listed below and highlighted in figure 1:
- 1) **Compliance risk categorization overview:** Outlines all types of compliance risk events that are potentially in scope for GCF and will continue to evolve over time as a growing document;
 - 2) **Compliance risk assessment manual:** Outlines the detailed process of the compliance risk assessment that ensures a risk-based approach to managing compliance risks at GCF;

¹⁰ Office of Portfolio Management, Division of Support Services – Human Resources, Division of Support Services – Finance or Division of Support Services – Procurement may be assigned as a control oversight function.

- 3) **Gap analysis of compliance-related policies:** Outlines relevant internal policies in place to manage compliance risk events at GCF;

Figure 1: Compliance framework



(b) **Compliance function:**

- (i) The compliance function¹¹ is within the Secretariat and is mainly responsible for two roles:
- 1) Define controls and monitoring for potential compliance risk events before the risk event occurs, when it has been designated as the control oversight function for the particular risk type;
 - 2) Advise various divisions and units within the Secretariat on compliance-related activities on a day-to-day basis;
- (ii) The compliance function may at times serve as a Second Level for particular risk categories, depending on whether it is designated as a control oversight function;

(c) **Control oversight function:**

- (i) The control oversight function is the Second Level within the three levels of responsibilities framework for compliance risk. It is responsible for supporting the First Level in identifying, assessing, mitigating and monitoring compliance risk events;
- (ii) The relevant function to become the control oversight function is evaluated through the compliance risk assessment;¹²

(d) **Investment-related and administrative business process:**

¹¹ Part of the Office of Risk Management and Compliance.

¹² The compliance risk assessment involves preparing a comprehensive list of all relevant compliance risk events to be assessed for their respective risk levels. This assessment is then reviewed by the compliance function, upon which mitigation actions and controls can be assigned to effectively mitigate the risk.

- (i) Controls are measures introduced following assessment and/or occurrence of a risk event in order to reduce the possibility of future occurrences and/or to promptly detect and correct events that have occurred. Examples of controls may include relevant policies,¹³ enforcement of disciplinary action, or increased monitoring intensity and/or frequency;
- (ii) The controls management process within the policy is structured based on the key investment-related and administrative business processes of GCF;
- (iii) The key investment-related processes¹⁴ include:
 - 1) Accreditation and entity relationship management;
 - 2) Readiness¹⁵ and project preparatory facility (PPF) proposals, concept note and funded activity¹⁶ proposal reviews;
 - 3) First disbursement for all funding requests;
 - 4) Readiness, PPF and funded activity monitoring; and subsequent disbursements for all funding requests;
- (iv) The key administrative business processes¹⁷ include:
 - 1) Procurement;
 - 2) Contract and data handling;
 - 3) Staff recruitment and management;
 - 4) Knowledge management; and
 - 5) New financial instrument development.

IV. Managing compliance risks

19. To ensure effectiveness and efficiency in carrying out activities necessary to manage compliance risks referred to in paragraph 7, the compliance function has the authority to:

- (a) Request and receive all relevant and necessary documents and paper or electronic data (need-to-know);
- (b) Inquire into all relevant and necessary personnel within the Secretariat on compliance-related issues; and
- (c) Ensure that compliance issues are factored into relevant business decisions.

20. Furthermore, the heads of relevant divisions and/or units involved in managing compliance risks have the authority to perform the aforementioned tasks in paragraph 19(a)–(c) for their respective staff.

V. Roles and responsibilities – compliance risk management

21. The roles and responsibilities for compliance risk management are based on the following key functional compliance activities:

¹³ See footnote 1.

¹⁴ Please note the list of investment-related business processes is not exhaustive and is subject to developments.

¹⁵ Includes readiness and preparatory support and national adaptation planning.

¹⁶ A funded activity is defined as a GCF-funded investment or payment for a climate mitigation or adaptation project or programme.

¹⁷ Please note the list of administrative business processes is not exhaustive.

- (a) Risk identification;
- (b) Risk assessment;
- (c) Controls management (investment-related business processes, administrative business processes);
- (d) Monitoring and reporting;
- (e) Risk mitigation;
- (f) Training and communication;
- (g) Systems and ICT infrastructure; and
- (h) Advisory and inquiries.

22. Most of the roles and responsibilities for the above-mentioned key functional compliance activities are commonly defined across administrative business processes. However, controls management for investment-related business processes is differentiated by business process only for the First Level. It is therefore separately defined in further detail in sections 5.3.1 to 5.3.4 below. This will be kept consistent with the processes as described in the Operations Manual. The Second Level roles and responsibilities are the same for each investment-related business process and are therefore defined separately in section 5.3.5 below.

23. This policy uses modal verbs (e.g. may, must, will, shall) to outline the roles and responsibilities in this section. This language should not be construed as an indication that a role or responsibility must be implemented at a certain point in time as the policy is drafted to describe an ideal state of operations to be implemented sometime in the future.

5.1 Risk identification

24. The First Level shall work with the Second Level to define its key business processes and sub-processes, identify current and potential compliance risk events, and map them into compliance risk categories, as a part of the annual¹⁸ compliance risk assessment¹⁹ and in alignment with the risk control self-assessment.²⁰

25. The compliance function shall maintain the list of compliance risk events in its compliance risk categorization overview which forms part of the compliance framework and work with the First and Second Levels to update the compliance risk categorization overview on a regular basis.

26. The compliance function shall advise the SMT, on the assignment of control oversight functions for newly identified compliance risk events.

5.2 Risk assessment

27. The First Level shall conduct the compliance risk assessment in close consultation with the compliance function (and other Second Level functions where applicable) and assess the impact and likelihood of occurrence.²¹

¹⁸ The timing and process for the compliance risk assessment may be subject to change during the initial set-up phase.

¹⁹ Refer to the compliance risk assessment manual for details on processes and procedures.

²⁰ Refer to the internal controls manual for details on processes and procedures (part of the GCF risk management framework).

²¹ Refer to the compliance risk assessment manual for definitions on impact and likelihood of risk.

28. The Second Level shall provide oversight on the First Level's compliance risk assessment process, ensuring consistent application of the compliance framework, and check the First Level's risk assessment results for quality assurance.

29. The compliance function shall consolidate the results of the compliance risk assessment into the overall compliance risk matrix²² of GCF.

5.3 Controls management – investment-related business processes

5.3.1 First Level – accreditation and entity relationship management

30. DCP shall collect information on the internal controls management practices of each accredited entity (AE) with regards to the following checks:

- (a) AML/CFT;
- (b) Counterparty due diligence;²³
- (c) Sanctions management;²⁴
- (d) Prohibited practices, especially fraud prevention and anti-corruption; and
- (e) Other similar checks under all applicable laws and regulations, to ensure appropriate compliance risk management for all relevant compliance risk events as outlined in the compliance risk categorization overview.

31. Furthermore, DCP shall regularly ask each AE to provide a self-assessment of its compliance with the GCF accreditation requirements when applicable,²⁵ in accordance with the initial monitoring and accountability framework for AEs.²⁶ Furthermore, DCP, in conjunction with the Second Level, shall review and provide input on the control management practices of each AE to ensure that sufficient practices are in place and aligned with those of GCF.

32. DCP, in conjunction with the compliance function (and other Second Level functions where applicable), shall define and maintain controls for compliance risk events based on compliance risk assessment results, to ensure compliance with prohibited practices policies, AML/CFT Policy²⁷ and other internal policies. In addition, DCP shall implement the defined controls, report the results of implementation to the Second Level and be responsible for collecting data and information necessary to implement these controls.

5.3.2 First Level – review of readiness and Project Preparation Facility proposals, concept notes, and funded activity proposals

33. DCP shall define and maintain controls for compliance risk events with regards to the development and review of readiness and PPF proposals. PSF and DMA shall define and maintain controls for compliance risk events with regards to the development and review of concept notes and funded activity proposals.²⁸ DCP, PSF and DMA shall perform these functions, in conjunction with the Second Level, based on the results of the compliance risk assessment

²² The compliance risk matrix summarizes the compliance risk assessment across all compliance risk events.

²³ Counterparty due diligence is a process to identify and verify the true identity of the counterparty as defined in the AML/CFT Policy. This would enable GCF to assess and evaluate the extent of money laundering/terrorism financing risk associated with the proposed counterparty.

²⁴ This refers to financial sanctions and debarment lists.

²⁵ Some accreditation master agreements may not have this requirement.

²⁶ Board decision B.11/10.

²⁷ Board decision B.18/10.

²⁸ This includes proposals submitted through request for proposal, simplified approval process and enhanced direct access.

and other assessment²⁹ to ensure compliance with the investment framework, fiduciary standards, especially on the AML/CFT Policy, Environmental and Social Safeguards and Gender Policy, and other GCF internal policies. In addition, DCP, PSF and DMA shall implement the defined controls and report the results of implementation to the Second Level. Finally, DCP, PSF and DMA will be responsible for collecting the relevant data and information necessary to implement these controls.

5.3.3. First Level – first disbursements

34. The relevant business unit³⁰ and Division of Support Service – Finance, in conjunction with the Second Level, shall define and maintain controls for compliance risk events with regards to the first disbursement of funds based on the compliance risk assessment results, and compliance with the accreditation master agreement (AMA), funded activity agreement (FAA), and readiness/PPF grant agreements. In addition, the relevant business unit and Division of Support Service – Finance shall implement the defined controls, report the results of implementation to the Second Level and be responsible for collecting the relevant data and information necessary to implement these controls.

5.3.4. First Level – readiness, Project Preparation Facility, and funded activity monitoring and subsequent disbursements

35. The Office of Portfolio Management (OPM), in conjunction with the Second Level shall define and maintain controls for compliance risk events with regards to the monitoring of readiness, PPF, and funded activities and subsequent disbursements after the first disbursement based on the compliance risk assessment, to ensure compliance with the AMA, FAA, readiness and/or PPF grant agreements, as appropriate. In addition, OPM shall implement the defined controls and report the results of implementation to the Second Level and also be responsible for collecting data and information necessary to implement these controls.

5.3.5. Second Level – all investment-related business processes

36. The Second Level shall be responsible for the following activities:

- (a) Providing support in the definition of controls by the First Level;
- (b) Monitoring and tracking progress of controls implementation;
- (c) Providing input on the data and information supporting the implementation of controls for the process, as collected by the First Level; and
- (d) Reporting critical controls insufficiencies to the compliance function.

37. For controls issues reported by the Second Level to the compliance function, the compliance function will work together with the First and Second Levels to implement temporary mitigation actions as necessary until adequate permanent controls are established.

5.4 Controls management – administrative business processes

38. This section applies to key administrative business processes, including procurement, contract and data handling, staff recruiting and management, and new financial instrument development.

39. The First Level, in conjunction with the Second Level, shall define and maintain controls for compliance risk events with regards to the administrative business processes for GCF based

²⁹ For readiness and PPF proposals, this includes results from the financial management capability assessment.

³⁰ The Division of Mitigation and Adaptation, Private Sector Facility or Division of Country Programming

on the compliance risk assessment results, to ensure compliance with relevant policies.³¹ In addition, the First Level shall implement the defined controls, report the results of implementation to the Second Level, and be responsible for collecting the relevant data and information necessary to implement these controls.

40. The Second Level shall be responsible for the following activities:
- (a) Providing support in the definition of controls to the First Level;
 - (b) Monitoring and tracking progress of controls implementation;
 - (c) Providing input on the data and information supporting the implementation of controls for the process, as collected by the First Level; and
 - (d) Reporting critical controls insufficiencies to the compliance function.
41. For critical control insufficiencies identified by the Second Level, the First Level and Second Level, based on advisory and guidance from the compliance function, will implement temporary mitigation actions as necessary until adequate permanent controls are established.

5.5 Monitoring and reporting

42. The First Level shall be informed by the AE of any compliance breaches found in its activities on a regular basis, in accordance with the initial monitoring and accountability framework. In addition, the First Level shall be informed by the AE of any legitimate claims, investigations, or proceedings conducted on the funded activity, in accordance with the relevant clauses of the AMA.

43. The First Level will provide necessary data input to the Second Level for periodic reporting, including data input required to monitor compliance key risk indicators (KRIs), which are the main risk metrics to be tracked by GCF as defined by the Second Level as part of the compliance risk assessment.³²

44. The OPM, with support from the First Level, will regularly monitor compliance with current readiness, PPF and funded activities through necessary reports provided by the AE, and inform the Second Level of any compliance breaches, non-compliance or potential risk events.

45. The Second Level will also review compliance-related issues raised by OPM and First Level functions, and execute follow-up actions as necessary, receiving support from the compliance function as needed.

46. The compliance function shall compile and monitor compliance KRIs defined by the Second Level and review periodic compliance reports as well as any notifications of compliance breaches, recommending actions if required. The compliance function will report material compliance breaches or events to the Head of ORMC, Office of the Executive Director (OED),³³ and the Risk Management Committee (RMC), except for areas related to AML/CFT.³⁴ The compliance function will further report any allegations of integrity violations to the Independent Integrity Unit (IIU) immediately upon becoming aware of them.

³¹ See footnote 1.

³² Refer to the compliance risk assessment manual for details on processes and procedures.

³³ The compliance function will have the option to report directly to OED when necessary.

³⁴ Refer to the RMC terms of reference for its compliance-related responsibilities.

5.6 Risk mitigation

47. When a compliance breach occurs, the First Level, with support from the Second Level, shall develop and implement risk mitigation actions, either developed through the compliance risk assessment or, if a new compliance risk event occurs, developed on an ad hoc basis.

48. The Second Level shall provide advice and guidance on the development of compliance risk mitigation actions, including new controls, improved controls, and strengthened monitoring, to the First Level. The Second Level shall analyse risk alerts when received and ensure that appropriate compliance risk mitigation action is taken, track progress of the implementation of compliance risk mitigation actions, and regularly inform the compliance function of the compliance risk mitigation actions' progress.

49. The compliance function shall be responsible for the following activities:

- (a) Registering new compliance risk events into the GCF compliance risk categorization overview;
- (b) Performing root cause analysis³⁵, in conjunction with the First and Second Levels, to understand causes and to prevent future reoccurrences through the development of adequate risk mitigation actions;
- (c) Reviewing and approving compliance risk mitigation actions developed by the First Level;
- (d) Leading the analysis, in collaboration with the Second Level, on compliance risk incidents (e.g., Know Your Customer (KYC), conflicts of interest (COI) of staff, gifts and entertainment);
- (e) Supporting the Second Level with guidance and clarification on compliance risk incidents;
- (f) Providing support services to the IIU as requested when the IIU conducts a formal investigation of compliance risk incidents;
- (g) Reporting material risk incidents or insufficiencies in the implementation of compliance risk mitigation actions to Head of the ORMC, OED,³⁶ and the RMC, except for areas related to AML/CFT³⁷; and
- (h) Collaborating with Division of Support Services – HR as required.³⁸

50. For compliance risk events triggered by readiness, PPF or funded activities, the AE or delivery partner shall be responsible for carrying out necessary risk mitigation actions. OPM, with support from PSF and DMA, shall be responsible for liaising with the AE or delivery partner to monitor risk mitigation actions. When deemed necessary, GCF will intervene and execute further risk mitigation actions. The risk mitigation actions shall be performed in accordance with the AMA, FAA, and readiness and/or PPF grant agreements, as appropriate.

5.7 Training and communication

5.7.1. Compliance training

³⁵ An analysis method used to identify the root cause of the compliance risk event.

³⁶ The compliance function will have the option to report directly to the OED when necessary.

³⁷ Refer to the RMC terms of reference for its compliance-related responsibilities.

³⁸ For example, in the context of employee compliance declarations such as the declaration of compliance and declaration of trustworthiness and reliability (to be developed).

51. The First Level must stay up-to-date on the latest compliance training curriculum which will be risk-based and could include topics as follows:
- (a) Professional conduct and compliance basics (for all staff);
 - (b) Business activity specific topics (for staff performing specific relevant roles); and
 - (c) Compliance tools and processes (for staff performing compliance management activities).
52. The head of each division or unit shall be accountable for ensuring that covered individuals complete the required training programmes.
53. The compliance function shall be responsible for the following activities:
- (a) Delivering compliance training based on the risk-based compliance training curriculum³⁹ on a regular basis in person, as eLearning course modules and additional ad hoc, incident-based training sessions as necessary to GCF, delegating to other functions or individuals as necessary;
 - (b) Developing and maintaining, in conjunction with the Second Level, compliance training toolkits and curricula complete with the training format, frequency and staff, which is approved by OED;
 - (c) Ensuring alignment, in conjunction with the Second Level, in respect of shared tools, processes and expert knowledge;
 - (d) Improving compliance training programmes based on feedback gathered from the First and Second Levels; and
 - (e) Supporting OED in fostering a compliance-aware culture within GCF.
54. Division of Support Services – HR, and Division of Support Services – Procurement shall maintain training history records for all staff and consultants, respectively, as reported by the head of each division and unit.

5.7.2. Internal and external communication

55. For communications on compliance-related matters, the compliance function shall specify the subjects, frequencies and mediums of communication to the staff or external parties and carry out the communication, working with the Communications unit within the Division of External Affairs (Communications) as necessary.
56. Communications, in conjunction with other Second Level functions, will develop and maintain both internal and external communication plans for crisis situations as a part of its communications plan⁴⁰ and any response plan.⁴¹ The details of roles and responsibilities for communications on non-compliance and compliance-related reputational risks will be outlined in the communications plan and any response plan.
57. The SMT shall support the compliance function and Communications with regards to internal communications on compliance-related matters.

5.8 Systems and ICT infrastructure

58. The Secretariat will maintain appropriate ICT systems and set-up to implement this policy.

³⁹ This has yet to be developed.

⁴⁰ Currently being developed by the Secretariat.

⁴¹ Currently being developed by the Secretariat.

VI. Administrative provisions

59. This policy will take effect on 1 October 2018 and shall be maintained by the compliance function.

60. This policy shall be reviewed every two years, but earlier reviews and consequential revisions may occur upon recommendation by the Secretariat or following a request from the RMC or the Board. Any resulting revisions to this policy which are of a material and/or substantive nature shall be presented to the Board for its consideration and approval.
