



**GREEN  
CLIMATE  
FUND**

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**GCF/B.21/15**  
25 September 2018

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# Risk management framework: compliance risk policy

## Proposal by the Risk Management Committee

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### **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 for 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.
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 from an external consulting firm.
13. In the process of developing the compliance risk policy within the RMF, the Office of Risk Management and Compliance (ORMC), 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 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.21/15 titled “Risk management framework: compliance risk policy – proposal by the Risk Management Committee”:

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 detail on 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,<sup>1</sup> its code of conduct and good business practices,<sup>2</sup> or the failure of GCF counterparties to comply with their contractual obligations to GCF.
4. This document, the compliance risk policy (hereinafter “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 (hereinafter “the compliance framework”) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) principles that were adopted by GCF.<sup>3</sup> This document deliberately aims 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.

#### 2.2 Scope of Compliance Risk

6. The scope of compliance risk at GCF includes the following risk types:
  - (a) Internal compliance breach;<sup>4</sup>
  - (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;<sup>5</sup> and

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<sup>1</sup> This includes policies, guidelines administrative instructions and standards. Please refer to the risk appetite statement for the tolerance of GCF for compliance risk.

<sup>2</sup> 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.

<sup>3</sup> Decision B.BM-2015/06.

<sup>4</sup> Please refer to revised risk register adopted through decision B.17/11.

<sup>5</sup> Applies to both GCF and its counterparties, such as the accredited entity/executing entity, national designated authority or delivery partner.

(c) Inappropriate investment activities and violation of fiduciary duty.

7. To further detail the compliance risks and fully define the scope, the Secretariat has developed a list of relevant compliance risk events<sup>6</sup> 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.

## 2.3 Guiding principles

8. The GCF compliance framework has the objectives of establishing and maintaining effective GCF-wide compliance risk management. Taking into consideration the fact that GCF is an evolving and growing organization, policy design is based on the following principles:

- (a) Establishing a risk-based ex ante approach defining controls and monitoring commensurate to the expected impact and likelihood of occurrence of a compliance risk event;<sup>7</sup>
- (b) Promoting a culture of compliance and setting a ‘tone-at-the-top’;
- (c) Allocating roles and responsibilities in line with the three levels of responsibilities framework:
  - (i) **First Level of Responsibility (First Level):** the First Level of compliance risk management and control is with the accountable units, who are the primary owners and managers of compliance risk as part of their standard business operations;
  - (ii) **Second Level of Responsibility (Second Level):** the Second Level is independent from the First Level and ensures risks are appropriately managed given the asymmetric incentives, short-termism and optimism of risk takers. The Second Level is also known as 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 First and Second Levels, and the reviews of the compliance framework for potential deviations from its original intentions.

9. The Third Level will develop and perform scheduled and ad-hoc audits, reviews, and assurance engagements, in order to gain assurance that the design and implementation of policies and procedures by the First and Second Levels are managing the GCF’s risks appropriately.

10. To ensure that the First and Second Levels have non-conflicting interests and are independent of each other, none of the divisions or units within the Secretariat may be assigned First and Second Level responsibilities for the same process.

11. For roles and responsibilities defined in Sections IV and V of this policy, the Secretariat deems most appropriate that:

12. The First Level functions are as follows:

- (a) In investment-related business processes, the First Level responsibilities lie with front risk-taking divisions such as the Private Sector Facility [PSF], Division of Mitigation and

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<sup>6</sup> Compliance risk events refer to the incident that occurs as a result of a breach in a compliance risk.

<sup>7</sup> 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.

Adaptation [DMA], Division of Country Programming [DCP]) or Office of Portfolio Management; and

- (b) In administrative business processes only the part of the Secretariat functions that execute these processes is considered the First Level.
- (i) The specific roles and responsibilities will be outlined in procedural documents developed by the Secretariat.
13. Second Level responsibilities lie with Office of Risk Management and Compliance [ORMC], Office of Governance Affairs, or Division of Support Services,<sup>8</sup> depending on the particular compliance risk. In addition, the Office of the General Counsel plays a broader legal advisory role across all compliance risk events at GCF.
14. Third Level responsibilities primarily rest with the Office of the Internal Auditor. In addition, the Independent Evaluation Unit (IEU)<sup>9</sup> and the Independent Integrity Unit (IIU)<sup>10</sup> play important roles in the Third Level within the scope of their respective terms of reference (TOR).
15. The First and Second Levels shall collaborate with the Third Level and upon request, provide timely information to facilitate the implementation of its respective responsibilities under this policy.
16. The Senior Management Team (SMT) may re-assign responsibilities to other divisions and/or units over time.

### III. Definition of terms

17. The following are definitions of the key terms applicable for this policy:
- (a) **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; and
- (ii) The various components of the 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; and
  - 3) **Gap analysis of compliance-related policies:** outlines relevant internal policies in place to manage compliance risk events at GCF.

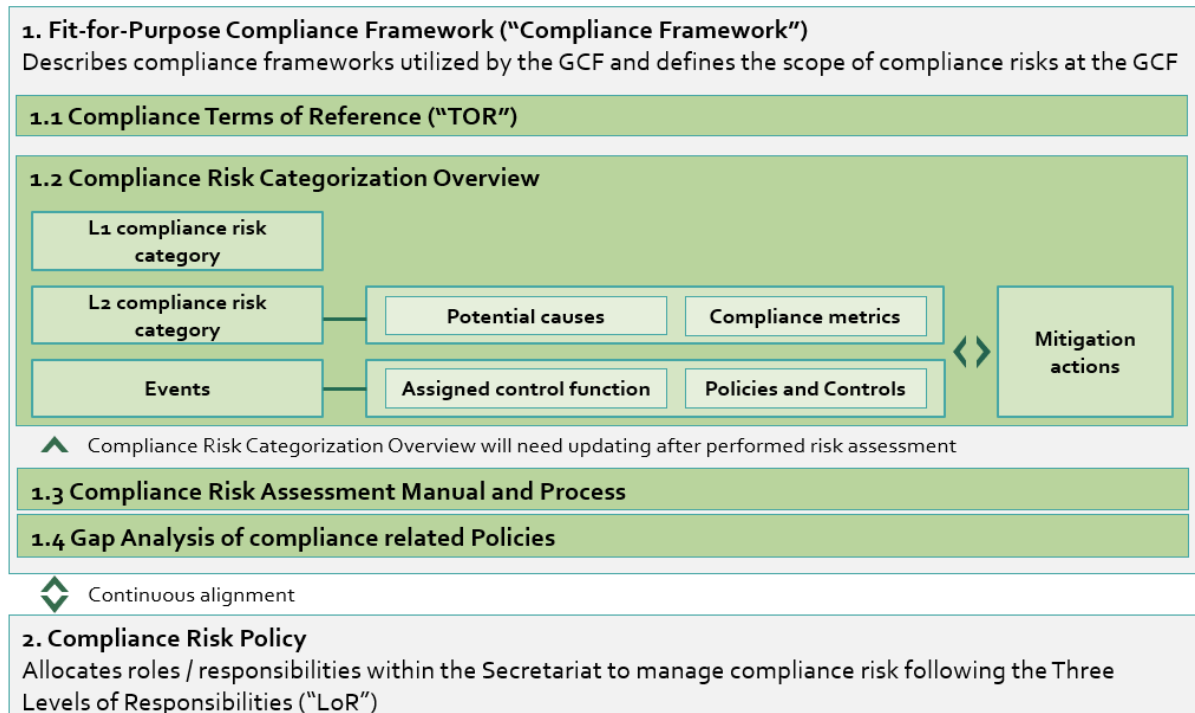
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<sup>8</sup> Human Resources, Finance or Procurement.

<sup>9</sup> Decision B.BM 2015/06.

<sup>10</sup> See paragraph 26(d).

**Figure 1: Compliance framework**



(b) **Compliance function:**

- (i) The compliance function<sup>11</sup> is within the Secretariat and is mainly responsible for two roles:
- 1) Defining controls and monitoring for potential compliance risk events before the risk event occurs, when it is designated as the control oversight function for the particular risk type; and
  - 2) Advising various divisions and units within the Secretariat.

(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; and
- (ii) The control oversight responsibility is designated to the most appropriate function identified as an outcome of the compliance risk assessment.<sup>12</sup>

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

- (i) The controls management process within the policy is structured based on the key investment-related and administrative business processes of GCF;
- (ii) The key investment-related processes<sup>13</sup> include:
- 1) Accreditation and entity relationship management;

<sup>11</sup> Part of the Office of Risk Management and Compliance.

<sup>12</sup> 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.

<sup>13</sup> Please note the list of investment-related business processes is not exhaustive and is subject to developments.



- 2) Readiness<sup>14</sup> and Project Preparatory Facility (PPF) proposals, concept notes and funded activity<sup>15</sup> proposal reviews;
  - 3) Disbursements for all funding requests;
  - 4) Readiness, PPF and funded activity monitoring; and
  - 5) New financial instrument development.
- (iii) The key administrative business processes<sup>16</sup> include:
- 1) Procurement;
  - 2) Contract handling;
  - 3) Data handling;
  - 4) Staff recruitment and management; and
  - 5) Knowledge management.

#### **IV. Managing compliance risks**

18. To ensure effectiveness and efficiency in carrying out activities necessary to manage the compliance risks referred to in paragraph 6, the Second Level has the authority to:

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

19. Furthermore, the heads of each divisions and/or units have the authority to perform the aforementioned tasks (i.e. paragraphs 18 (a)–(c)) for their respective staff.

#### **V. Roles and responsibilities – Compliance Risk Management**

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

- (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) Internal and external communication; and
- (h) Systems and information communication technology infrastructure.

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<sup>14</sup> Includes readiness and preparatory support and national adaptation planning.

<sup>15</sup> A funded activity is defined as a GCF-funded investment or payment for a climate mitigation or adaptation project or programme.

<sup>16</sup> Please note the list of administrative business processes is not exhaustive.

21. In addition, IEU – in its Third Level capacity within the context of this policy – may upon request, provide to the Board and Senior Management of the Secretariat, assessments and evaluation reports of the effectiveness and efficiency of risks identified, assessed and mitigated.

## 5.1 Risk identification

22. 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 annual<sup>17</sup> compliance risk assessment<sup>18</sup> and in alignment with the risk control self-assessment.<sup>19</sup>

23. 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.

24. The SMT shall be solely responsible for the assignment of control oversight functions for newly identified compliance risk events, and may request advice from the compliance function in the allocation of roles.

## 5.2 Risk assessment

25. The First Level shall conduct the compliance risk assessment in close consultation with the relevant Second Level to assess the impact and likelihood of occurrence.<sup>20</sup>

26. The Second Level shall provide oversight of 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.

27. The compliance function shall consolidate the results of the compliance risk assessment into the overall compliance risk matrix<sup>21</sup> of GCF.

## 5.3 Controls management – investment-related business processes

### 5.3.1. First Level – accreditation and entity relationship management

28. DCP shall collect information, including, where available, written policies or descriptions, on the internal controls management practices of each accredited entity (AE) with regard to the following checks:

- (a) AML/CFT;
- (b) Other prohibited practices;
- (c) Counterparty due diligence;<sup>22</sup>

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<sup>17</sup> The timing and process for the compliance risk assessment may be subject to change during the initial set-up phase.

<sup>18</sup> Refer to the compliance risk assessment manual for details on processes and procedures.

<sup>19</sup> Refer to the internal controls manual for details on processes and procedures (part of the GCF risk management framework).

<sup>20</sup> Refer to the compliance risk assessment manual for definitions on impact and likelihood of risk.

<sup>21</sup> The compliance risk matrix summarizes the compliance risk assessment across all compliance risk events.

<sup>22</sup> Counterparty due diligence is a process to identify and verify the true identity of the counterparty as defined in the Anti-Money Laundering and Countering the Financing of Terrorism Policy. This would enable GCF to assess and evaluate the extent of money laundering/terrorism financing risk associated with the proposed counterparty.

- (d) Sanctions management;<sup>23</sup> and
- (e) Other similar checks under all applicable internal policies, to ensure appropriate compliance risk management for all relevant compliance risk events as outlined in the compliance risk categorization overview.

29. When applicable, DCP shall regularly request each AE to provide a self-assessment of its compliance with the GCF accreditation requirements,<sup>24</sup> in accordance with the initial monitoring and accountability framework for AEs.<sup>25</sup> 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.

30. DCP, in conjunction with the relevant Second Level function(s) where applicable, shall define and maintain controls for compliance risk events based on compliance risk assessment results, to ensure compliance with prohibited practices policies, the AML/CFT Policy<sup>26</sup> 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**

31. DCP shall define and maintain controls for compliance risk events with regard to the development and review of readiness and PPF proposals.

32. PSF and DMA shall define and maintain controls for compliance risk events with regard to the development and review of concept notes and funded activity proposals.<sup>27</sup>

33. DCP, PSF and DMA shall perform these functions, in conjunction with the Second Level, based on the results of the compliance risk assessment and any other assessment<sup>28</sup> to ensure compliance with the investment framework, fiduciary standards and other GCF internal policies.

34. In addition, DCP, PSF and DMA shall implement the defined controls and report the results of implementation to the Second Level.

35. 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**

36. The business unit<sup>29</sup> in conjunction with the relevant Second Level function, shall define and maintain controls for compliance risk events with regard 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 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.

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<sup>23</sup> This refers to financial sanctions and debarment lists.

<sup>24</sup> Some accreditation master agreements may not have this requirement.

<sup>25</sup> Decision B.11/10.

<sup>26</sup> Decision B.18/10.

<sup>27</sup> This includes proposals submitted through request for proposal, simplified approval process and enhanced direct access.

<sup>28</sup> For readiness and Project Preparation Facility proposals, this includes results from the financial management capacity assessment.

<sup>29</sup> The Division of Mitigation and Adaptation, Private Sector Facility or Division of Country Programming.

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

37. The Office of Portfolio Management (OPM), in conjunction with the Second Level, shall define and maintain controls for compliance risk events with regard to the monitoring of readiness, PPF, and funded activities and subsequent disbursements 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 be responsible for collecting data and information necessary to implement these controls.

#### 5.3.5. **Second Level –investment-related business processes**

38. 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 control insufficiencies to the compliance function.

### 5.4 Controls management – administrative business processes

39. The First Level, in conjunction with the Second Level, shall define and maintain controls for compliance risk events with regard to the administrative business processes for GCF, based on the compliance risk assessment results to ensure compliance with relevant policies.<sup>30</sup> 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 control insufficiencies to the compliance function.

### 5.5 Monitoring and reporting

41. 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 commenced on the funded activity, in accordance with the relevant clauses of the AMA.

42. 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, which are

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<sup>30</sup> See footnote 1.

the main risk metrics to be tracked by GCF as defined by the Second Level as part of the compliance risk assessment.<sup>31</sup>

43. OPM, will regularly monitor compliance with current readiness, PPF and funded activities through necessary reports provided by the AE, and inform the Second Level, as required, of any compliance breaches, non-compliance or potential risk events. Furthermore, OPM will inform IIU of compliance breaches, non-compliance and potential risk events within the prohibited practices policy.

44. The Second Level will also review compliance-related issues raised by OPM and other First Level functions, and execute follow-up actions as necessary, receiving support from the compliance function or the IIU (for compliance issues included in the TOR for the IIU) as needed.

45. The compliance function shall compile, and monitor compliance key risk indicators defined by the Second Level and review periodic compliance reports as well as any notifications of compliance breaches, and recommend actions if required.

46. The compliance function will report material compliance breaches or events to the Head of ORMC, the Office of the Executive Director (OED)<sup>32</sup> and the Risk Management Committee (RMC), except for areas related to AML/CFT and other prohibited practices.<sup>33</sup> The compliance function shall further report any information or allegations of integrity violations to the IIU immediately upon becoming aware of them and shall seek advice from the IIU in determining mitigation actions where red flags have been identified.

47. Upon request by the Board or the SMT, the IEU – in line with its Annual Work Plan - will conduct and assess any risks identified and the implementation of the control and mitigation activities undertaken in turn by the First and Second Levels.

## 5.6 Risk mitigation

48. 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.

49. 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 progress of the compliance risk mitigation actions.

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.

51. The IIU shall be informed immediately when credible risks of integrity violations, as defined in the TOR for the IIU, are identified or have occurred.

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

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<sup>31</sup> Refer to the compliance risk assessment manual for details on processes and procedures.

<sup>32</sup> The compliance function will have the option to report directly to the Office of the Executive Director when the breach involves the Head of ORMC.

<sup>33</sup> Which will be reported to the Ethics and Audit Committee.

- (a) Registering new compliance risk events into the GCF compliance risk categorization overview;
- (b) Performing root cause analysis,<sup>34</sup> 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 function-related risk mitigation actions developed by the First Level;
- (d) Leading the analysis, in collaboration with the Second Level, of compliance function-related risk incidents (e.g. know your customer, conflicts of interest of staff, gifts and entertainment);
- (e) Providing support services to the IIU as requested when the IIU conducts a formal investigation of integrity violations in accordance with the TOR of the IIU;
- (f) Providing information and other support services as requested by the IEU when conducting an assessment of risks within the context of particular compliance function risk evaluations at any level;
- (g) Reporting material risk incidents or insufficiencies in the implementation of compliance risk mitigation actions to Head of the ORMC, the OED,<sup>35</sup> and the RMC, except for areas related to AML/CFT;<sup>36</sup> and
- (h) Collaborating with other First and Second Level functions, as required.

## 5.7 Training and communication

### 5.7.1. Compliance training

- 53. The First Level must stay up to date on the latest compliance training curriculum.
- 54. The head of each division or unit shall be accountable for ensuring that covered individuals complete the required training programmes.
- 55. The compliance function shall be responsible for the following activities:
  - (a) Delivering compliance function-related training based on the risk-based compliance training curriculum<sup>37</sup> on a regular basis in person, through eLearning course modules and additional ad hoc, incident-based training sessions as necessary to GCF;
  - (b) Developing and maintaining, in conjunction with other Second Level functions, 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 other Second Level functions, 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.

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<sup>34</sup> An analysis method used to identify the root cause of the compliance risk event.

<sup>35</sup> The compliance function will have the option to report directly to the Office of the Executive Director when the breach involves the Head of ORMC.

<sup>36</sup> Refer to the Risk Management Committee terms of reference for its compliance-related responsibilities. Risks related to AML/CFT and other prohibited practices will be reported to the EAC through the IIU.

<sup>37</sup> This has yet to be developed.

56. Division of Support Services – Human Resources 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

57. For communications on *compliance function-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 as necessary.

58. Communications, in conjunction with *relevant Second Level functions*, will develop and maintain both internal and external communication plans for crisis situations as a part of its communications plan<sup>38</sup> and any response plan.<sup>39</sup> 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.

59. The SMT shall support the relevant Second Level function and the communications unit with regard to internal communications on compliance-related matters.

### 5.8 Systems and information communication technology infrastructure

60. The Secretariat will maintain appropriate information communication technology systems and set-ups to implement this policy.

## VI. Administrative provisions

61. This policy will take effect on 3 December 2018 and shall be maintained by the compliance function.

62. 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 that are of a material and/or substantive nature shall be presented to the Board for its consideration and approval.

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<sup>38</sup> Currently being developed by the Secretariat.

<sup>39</sup> Currently being developed by the Secretariat.