

CIBC MELLON



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Risk Culture at CIBC Mellon:

Governance, Confidence and Client Focus

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BY KELLY HASTINGS

Chief Risk Officer



BY BEN KENTON

Chief Internal Auditor



BY TANIA NARCISO

Chief Compliance Officer



BY MARIAN AQUILINA

Vice President, Operational Control

Integrity, risk awareness and ethical conduct are key pillars of CIBC Mellon's corporate culture. As an operational transaction-processing organization, we know that careful attention to organizational risk, governance, transparency, and personal accountability are critical to helping affirm to clients that we are upholding the trust placed in us. Clients take confidence from CIBC Mellon's strong risk and internal control framework provides for independent identification, assessment, monitoring and reporting of risks on an enterprise-wide basis.

For more information on CIBC Mellon's business continuity planning and thought leadership regarding COVID-19, we are pleased to provide you with the following resources:

[CIBC Mellon Statement on Preparations Regarding the 2019 Coronavirus \(COVID-19\)](#)

[Business Continuity Considerations: Pandemic Preparedness](#)

Our commitment to upholding a strong risk management framework

CIBC Mellon plays a critical role in supporting clients, providing a solid infrastructure for Canada's capital markets, and recognizing that its financial stability through market cycles is essential. To this end, CIBC Mellon is committed to maintaining a strong balance sheet that is highly liquid and characterized by superior asset quality. CIBC Mellon has a strong capital structure that can support its risk-taking activities and absorb potential losses. CIBC Mellon has a risk appetite statement that defines the level and type of risk it is willing to accept. The risk management framework is designed to ensure that the business remains aligned with its risk appetite statement.

PRACTICING A HIGH DEGREE OF DILIGENCE THROUGHOUT COVID-19

A significant contributor to CIBC Mellon's ability to serve its clients successfully is the robust control and risk governance we have in place. As we face this unprecedented environment, our commitment to practicing proper governance and adhering to our controls have not changed.

Key components of CIBC Mellon's risk management framework include:

- 1** Confirm appropriate limits are in place to govern CIBC Mellon's risk taking activities across all risk types.
- 2** Incorporate risk appetite principles into a strategic decision-making processes.
- 3** Monitor and report key risk metrics to Senior Management and the Board of Directors.
- 4** Provide a continuous and forward-looking capital planning process to support CIBC Mellon's risk taking activities.

CIBC Mellon monitors its risk across a wide array of risk categories. Often the main focus of managing operational risks in a given organization is to prepare for and react to significant events – however, while institutions must be well prepared for these high-profile events, the majority of operational risk comes from day-to-day business processing. These operational risks must be managed considering the processes, people and systems that are part of the risk framework.

CIBC Mellon's Risk Management Framework promotes the identification, measurement, management, monitoring and escalation of all credit, market, information and operational risks across the enterprise. This allows all business units, including CIBC Mellon's governance partners and risk management group, to assure the Board of Directors, shareholders, and regulators that there is a strong risk management structure at CIBC Mellon.

The structure of the framework, in conjunction with the oversight provided by the Governance partners, the Risk Committees and Management, ensures that CIBC Mellon manages risk to remain aligned with the risk appetite statement.



Governance Committees

CIBC MELLON BOARD OF DIRECTORS

CIBC Mellon's Board of Directors builds and reinforces risk culture, along with reviewing and approving CIBC Mellon's risk appetite statement.

OPERATIONAL RISK COMMITTEE (ORC)

The ORC is responsible for completing a formal review of the operational risk management practices in each Business Unit.

ASSET AND LIABILITY COMMITTEE (ALCO)

ALCO is responsible for setting the risk tolerance and associated market risk limits.

CIBC MELLON CREDIT RISK COMMITTEE

The CIBC Mellon Credit Risk Committee recommends the counterparty and group limits in the Capital Markets Limits Policy which is approved annually by the Board of Directors.

MARKET STRATEGY COMMITTEE

The Market Strategy Committee focuses on CIBC Mellon's portfolio management strategies.

INFORMATION MANAGEMENT COMMITTEE

The Information Management Committee (IMC) has responsibility for information risk management.

TECHNOLOGY GATING COMMITTEE

The Technology Gating Committee (TGC) ensures adherence to technology risk-related policies and oversight of End User Computing (EUCs).

BUSINESS ACCEPTANCE COMMITTEE

All business for new clients and all new business for existing clients must be approved through the Business Acceptance Committee (BAC) to ensure new business meets our standards, and protects our reputation for stakeholders and clients.

EXECUTIVE STEERING COMMITTEE

The Executive Steering Committee's primary focus is to ensure that there is an appropriate assessment of all new initiatives.

OPERATIONAL TAX GOVERNANCE COMMITTEE

The Operational Tax Governance Committee is responsible for regulatory, financial, reputational, and other tax related risks.

AML COMMITTEE

The AML Committee ensures adherence to regulation.

VENDOR MANAGEMENT COMMITTEE

The Vendor Management committee provides a review of material vendor agreements.

TRUSTEE GOVERNANCE COMMITTEE

The Trustee Governance Committee provides oversight of all relationships where CIBC Mellon acts as a Trustee.

CORPORATE SOCIAL RESPONSIBILITY STEERING COMMITTEE

The Corporate Social Responsibility Steering Committee deepens relationships with clients, prospects and charitable organizations through corporate social responsibility.

OVERVIEW OF CIBC MELLON'S RISK MANAGEMENT PROGRAM

CIBC Mellon's Risk Management Program focuses on collaboration with peers and partnering groups to support risk management excellence and risk awareness throughout the organization. The program implements risk coverage over all levels of the company through multiple lines of defence. The key components of the Risk Governance Program help us foster and reinforce a strong risk culture. These components include the Risk and Control Self-Assessment (RCSA), the Operational Risk Event report (ORE), and the evaluation of risk through the Operational Risk Committee's strategic review of the business units.

Three Lines of Defence





Line One – Business Units

Our business units are accountable for the management of all risks present in their operations. The businesses are the risk owners and are responsible for identifying, mitigating, monitoring and reporting all risks as appropriate, and making risk management a fundamental responsibility in their line of business.

Every business unit at CIBC Mellon has a designated governance officer (DGO) who is a senior manager with a clear view into the operations of the business units they oversee. All employees are responsible for personally monitoring and reporting risk to their DGO. The DGO is also responsible for completing the Risk and Control Self-Assessment (RCSA). The RCSA is one of the key components of the Risk Management Program, and is a tool used by business units as an inventory and assessment of all business risks, and the controls in place to mitigate each risk. The RCSA process is overseen by the Risk Management Department and Operational Control.



Line “1B” – Operational Control

CIBC Mellon’s Operational Control group is a reflection of the company’s commitment to reinforcing a strong risk culture across all operational business units. Operational Control validates that the controls used by the business units in their daily processes are designed appropriately and working effectively. By strengthening the level of personal responsibility and collaboration, the group works to achieve risk management excellence and risk awareness. This is key to maintaining both our high standards of governance and our clients’ trust.



Operational Control carries out four main areas of activity: control testing, facilitation of the Operational Loss Process Review, risk and audit support, and control and risk awareness training.

Control Testing

Operational Control develops and executes on defined test plans and works with business units to highlight areas of concern within each unit, helping to drive consistent and effective control standards across the company. The group is also responsible for working with our internal and external auditors to produce the CIBC Mellon System and Organizational Controls (SOC1) Report. This report provides assurances regarding the strength of internal CIBC Mellon controls that may be relevant to clients' financial statements. The SOC1 Report is provided to clients and their auditors to affirm that our internal controls have the necessary design and operational effectiveness to achieve the controls' stated objectives.

Facilitation of the Operational Loss Review Process

Operational Control analyzes errors, near-misses and significant events to seek the root cause of the issue and work with the business to implement appropriate control measures to mitigate future recurrence. Operational Control reviews these events for trends and monitors action plans, working collaboratively with business units.

Risk and Audit Support

Operational Control partners with business units to review the accuracy and completeness of Risk and Control Self- Assessments (RCSA), provide audit and regulatory support and embed an effective risk culture throughout the company.

Control and Risk Awareness Training

Educating employees is key to mitigating risk at the operational level. Operational Control assists business units by coordinating control and risk awareness training to educate staff about risk controls. Additionally, the group identifies and advocates best practices and communicates lessons learned by hosting meetings to review new policies and procedures, trends in operational errors, and support business units as they proactively work to advance their risk culture and practices.

Institutional investors seek the confidence of effective risk management from their asset servicing providers. The features within Operational Control come together to benefit clients by strengthening controls, risk management expertise, and risk culture to contribute to the overall protection of clients' information and accounts. Clients benefit from a well-governed organization with a strong commitment to continuous improvement on the safekeeping of data and the mitigation of risk.

“The breadth of coverage from our multiple lines of defence come together to provide a sound structural risk framework and strengthen CIBC Mellon's risk culture by embedding the core concept of personal responsibility into every line of business.”

Marian Aquilina

Vice President, Operational Control



Line Two – Risk, Compliance, and Control Groups

Although primary risk oversight at CIBC Mellon is the responsibility of Risk Management, all governance partners provide support, guidance and direction to business units on issues that require specialized knowledge and skills. Governance partners within CIBC Mellon include Corporate Compliance, Legal, Finance, Information Technology, Human Resources, Internal Audit and Business Continuity Management. They provide input into new strategic initiatives of the various lines of business and set standards to promote consistency of approach in the management and the reporting of risks that fall under their area of expertise.

All governance groups are represented on the Operational Risk Committee and help oversee risk management activities within the business to provide an appropriate level of assurance that relevant risks are being identified and reported, and that appropriate mitigations are in place given the nature of each risk.

The Risk Management group, in conjunction with Operational Control, oversees the RCSA process. They review each RCSA as it is completed by each DGO, supporting continuity throughout the business. Each business unit has a DGO to self-identify risk and analyze the risk profiles of their own business unit, as these individuals are the most familiar with the day-to-day risks in their respective areas. The RCSA is a working document for each business unit, and is updated by Risk Management and Operational Control with regular reviews to include changes such as new business processes, product launches or updated regulations.

Another key component for the Risk Management Program is the reporting of Operational Risk Events (ORE) overseen by the Risk Management department. Should an error occur, CIBC Mellon's business units are required to complete an ORE report – regardless of whether there is a financial impact, and regardless of the size of the impact. This enables the capture of “near miss” scenarios. ORE reports are used to categorize operational errors, and are then analyzed for patterns and trends to identify and implement additional or new controls to reduce future errors. Any control deficiencies identified must be incorporated into the relevant RCSA, along with the action plan to address the deficiency.

Members of the governance groups also participate on CIBC Mellon's Initiative Committee and Business Committee – this enables them to view and assess relevant risks before any new project is undertaken or a new client is on-boarded. This involvement from the start of the business cycle offers the opportunity for the governance groups to provide valuable input and suggestions regarding controls to reduce risk. Involvement at an early stage also allows the business units to be better informed, so that the RCSA is better able to capture any change to the risk and controls – the availability of better information leads to better controls.

OPERATIONAL RISK COMMITTEE (ORC)

Members of CIBC Mellon's ORC include representatives from Risk Management, Corporate Compliance, Internal Audit and Business Continuity as well as CIBC Mellon's Executive Management Committee. All business units present to this committee, providing information on their inherent risks, control strategies, and emerging risks and trends, which may increase risk. As the third key component of the Risk Governance Program, the formal review of operational risk through this committee supports the appropriate governance group oversight while ensuring business line management maintains accountability for identifying and managing the risks inherent in the products, services and activities for which they are responsible. The committee identifies common areas of concern across all business units by identifying cross-functional risks.



Line Three – Audit

Risk Assurance includes the Internal and External Audit functions, which report to the Audit Committee of CIBC Mellon’s Board of Directors. These functions provide the committee, the Board and CIBC Mellon’s senior management with independent and objective risk assurance and advisory services regarding the adequacy and effectiveness of CIBC Mellon’s risk management, internal control and governance processes. The Internal Audit function conducts risk-based audits examining controls over operational, technology and financial controls, as well as compliance with regulatory provisions. The audit cycle is based on inherent and residual risk assessments. Audit results and the status of remediation of audit observations are reported to senior executives, both parent audit groups and quarterly to the Audit Committee of the Board.



The Internal Audit function conducts risk-based audits examining controls over operational, technology and financial controls, as well as compliance with regulatory provisions.



Ben Kenton

Chief Internal Auditor

OUR COMMITMENT TO PROTECTING OUR CLIENTS, COLLEAGUES AND COMPANY

The breadth of coverage from our multiple lines of defence come together to provide a sound structural risk framework and strengthen CIBC Mellon’s risk culture by embedding the core concept of personal responsibility into every line of business. The purpose of CIBC Mellon’s Risk Governance Program is to deliver value to clients by providing assurance that our risks are being appropriately identified, measured, managed and reported. By fostering a secure control environment and reinforcing risk awareness and risk culture across CIBC Mellon, we are not only protecting our company, employees, and our reputation but also serving our clients’ interests and the many stakeholders in Canada’s capital markets who we work with every day.

MEASURING RISK CULTURE

Financial institutions are increasing their focus on risk culture, often defined as the desired attitudes and behaviours relative to risk taking. CIBC Mellon has put in place a Risk Culture Dashboard designed to demonstrate oversight and governance of risk culture by:

1. Defining threshold levels for measuring behaviours within CIBC Mellon;
2. Ensuring appropriate indicators are in place to support the alignment between CIBC Mellon’s vision and values, established processes and activities and behaviours of individuals and groups;
3. Ensuring monitoring and reporting of risk culture indicators to the Leadership Team and the Boards of Directors.

RISK CULTURE DASHBOARD

In order to take our best practices into focus for the future, CIBC Mellon conducted a thorough review of its risk culture metrics, including an internal audit team which worked across the company to assess, measure and understand the degree to which risk management considerations, awareness and actions are reflected in the culture of business units across the company. With the purpose of fostering a collaborative environment that values transparency, CIBC Mellon monitors and leverages these metrics to senior management and the Board - reinforcing a corporate culture that is in tune with risk awareness.

The Dashboard is reviewed and updated annually, in conjunction with the Risk Appetite Statement. It includes metrics which will be measured at the end of each fiscal year to assess risk culture across four areas:

1. Leadership – direction given by senior management to employees (tone at the top).
2. Communication – communication flow within the organization.
3. External Environment – relationship with regulators and clients.
4. Organizational Structure – governance and risk management framework embedded within the Business Units.

Our Risk Culture Dashboard brings together a central view on business measurements specifically related to the ongoing measurement of our risk culture. The Risk Culture Dashboard has been designed to demonstrate oversight and governance of risk culture by defining threshold levels for measuring behaviours within CIBC Mellon, ensuring appropriate indicators are in place to support the alignment between CIBC Mellon's vision and values, established processes and activities and behaviours of individuals and groups, and safeguarding the monitoring and reporting of risk culture indicators to the Leadership Team and all way up to the Board of Directors.

The focus on Risk Appetite and Risk Culture measures have helped ensure that we are successful in managing and measuring risk, and putting in place appropriate governance and controls that our clients would expect of us.



KEY THEMES OFTEN INCLUDED IN AN ORGANIZATION'S DASHBOARD INCLUDE:



Leadership: The direction given by senior management to employees (tone, at the top) in understanding and achieving the vision, values and goals of the organization



Communication: The communication flow existing within the organization, the methods applied in receiving employee feedback and the communication channels used in resolving escalated issues



External Environment: Evaluating the organization's external relationships with regulators, meeting its regulatory requirements and clients, and ethically providing optimal service.



Organizational Structure: The Governance and Risk Management framework embedded within all levels of the organization and aligned with the business strategy.

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In an evolving regulatory environment with rapid technological advances coming to the surface of the financial industry, organizations are placing more emphasis on reiterating a comprehensive and stable risk culture.

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Kelly Hastings
Chief Risk Officer

For more information

To learn more, contact your Relationship Executive, Service Director or Corporate Communications at corporate_communications@cibcmellon.com or call us at 416-643-5000.

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