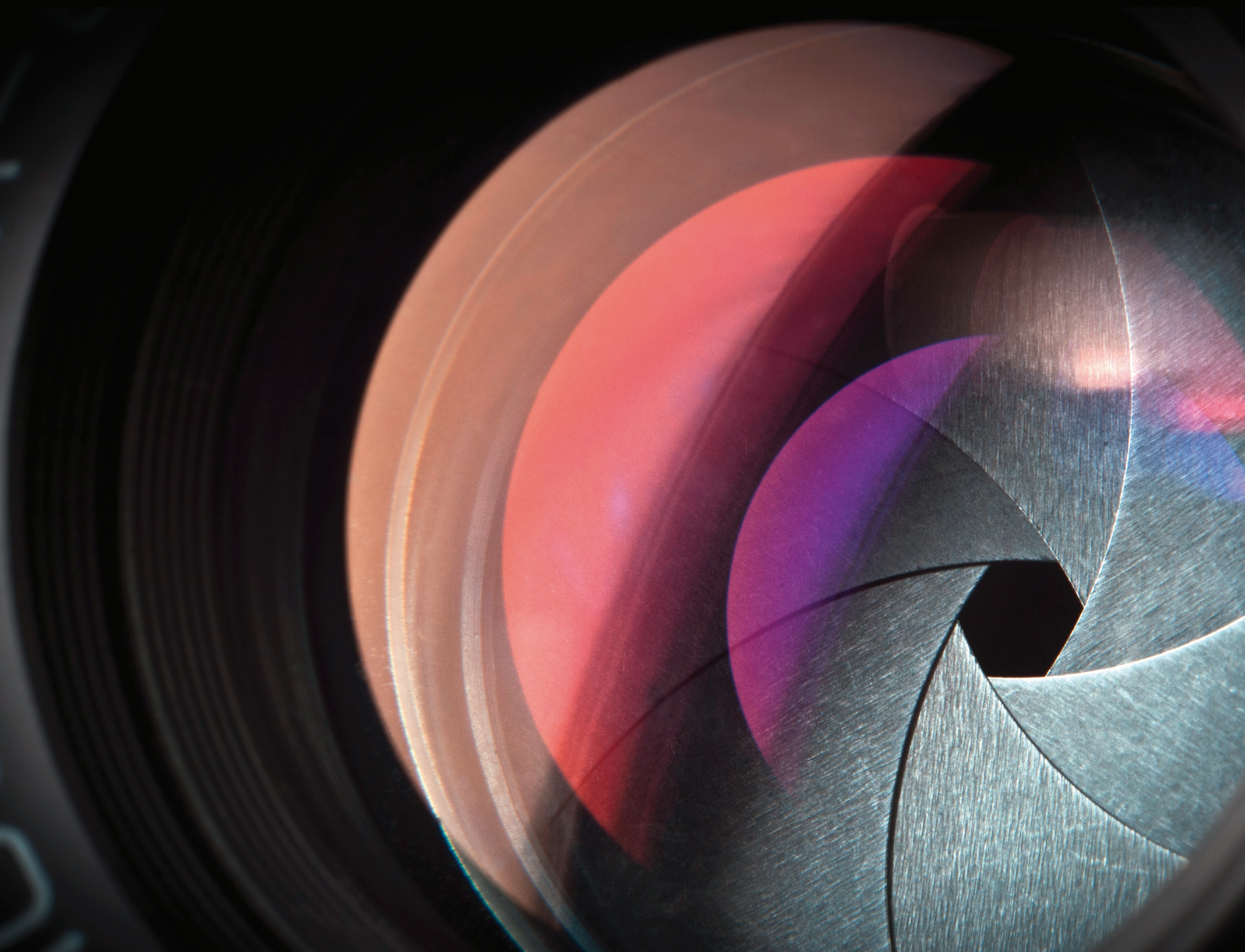


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CMS Compliance Barometer 2016

Representative Study with German Companies



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Summary of Results

Companies are significantly expanding their compliance activities

With regard to compliance, German companies are more professionally organised, with more staff and better structures in place than last year. Yet the number of companies that feel their compliance system will adequately protect them against risks has fallen sharply. That is the result of this year's "CMS Compliance Barometer", a study which has now been conducted for the second time. Compared to last year, the CMS Compliance Index has risen significantly by 3.8 points and is currently standing at 67.9 out of a possible total of 100 points.

The Compliance Index measures the degree to which large companies have implemented robust compliance systems. In light of a number of recent compliance scandals which have become the focus of public attention, this year's increase in the index can be seen as a clear indication that companies are taking compliance much more seriously and implementing specific measures to address this.

More companies with compliance departments

A growing number of companies are setting up departments which focus exclusively on compliance issues. In 2015, 28 per cent of the companies surveyed had a dedicated compliance department; this measure has risen to 36 per cent in 2016. Yet for many who have assumed compliance responsibilities, it is mostly a part-time job. In three out of four companies, staff in other functional areas, mostly from legal or controlling, carry out compliance duties.

Compared to the previous year, there has not only been an increase in the number of companies who now have compliance guidelines such as a code of conduct or other specific measures in place – two thirds of the companies (69 per cent) have also implemented training programmes to reinforce expected standards of behaviour. Last year's study indicated only 46 per cent of the companies surveyed were providing such training. This is a further indication of a more professional overall approach to compliance management.

Companies plan for crisis situations

Particularly when it comes to crisis management, companies look better prepared than last year. 88 per cent of companies surveyed now have clear policies in place which assign responsibilities for managing and resolving suspected incidents and established violations (2015 figure: 79 per cent). Procedures and check lists for crisis situations are in place in 78 per cent of the companies, in addition, half of the companies surveyed have drawn up procedural and behavioural guidelines for dealing with investigating authorities (so-called "dawn raid guidelines"). The number of companies conducting internal investigations has also risen significantly – from 51 per cent in 2015, to 62 per cent in 2016. Compared to the previous year, companies have more often sought external assistance for their investigations – almost half of the companies carry out their internal investigations with the help of external consultants.

SMEs underestimate compliance risks

At the same time, companies' risk awareness has grown considerably compared to the previous year: Only 49 per cent of the companies surveyed (2015 figure: 63 per cent) feel that their current compliance system provides adequate protection against risks, despite their increased efforts in this area. Companies participating in the study continue to see data privacy as the greatest compliance risk.

28 per cent of those surveyed listed data protection as the greatest risk to their business (2015 figure: 22 per cent). While anti-trust issues and corruption continue to be of secondary importance to SMEs in terms of compliance, major corporations still regard corruption, anti-trust violations and the potentially ruinous fines imposed as the more serious risks. SMEs continue to assign a lower risk factor to the areas of corruption and anti-trust law, although in practice, both often harbour the greatest risks. Therefore, it would be prudent for SMEs to carefully re-evaluate their risk analysis and prioritisation processes. Specialist areas such as data security and industrial espionage are increasingly on the radar of many companies: 22 per cent of respondents now classify data security and industrial espionage as among the three most serious risks, while this measure was a mere 6 per cent in 2015.

Compliance awareness deficits persist among employees and management

In a year-on-year comparison, companies believe they now face increased compliance requirements. Study participants list increasing statutory regulation, the growing relevance of special issues, ever-stricter liability standards and higher expectations of business partners among the future challenges faced by their compliance

organisations. The relationship with business partners is a key area where compliance is seen to be growing in relevance: 68 per cent of the companies believe it is more important than ever for them to be able to document to business partners that they have their own functioning compliance system. Foreign business partners are also increasingly expecting to see evidence that a proper compliance system is in place.

For many compliance officers, their co-workers pose the greatest challenge: 86 per cent of respondents indicate that the greatest internal challenge they face is the establishment of genuine awareness and acceptance of compliance, both among rank-and-file employees and top management. Only 31 per cent of the companies polled describe their employees as having a high level of compliance awareness. Compliance must first be anchored in the minds of the employees. Besides the firm and sustainable establishment of compliance rules the success of any compliance system depends to a large degree on employees being made aware of the parameters of compliant behaviour and that compliance rules are followed on a daily basis. The survey respondents also take a more critical view this year when it comes to the subject of compliance awareness at management level: The recorded level of compliance awareness among managerial staff actually declined vs. the prior year, from 88 per cent to 81 per cent.

We trust that this second edition of the CMS Compliance Barometer will give you insights that will help you in your work and we welcome any suggestions on the study, as well as your personal view with regard to compliance developments.

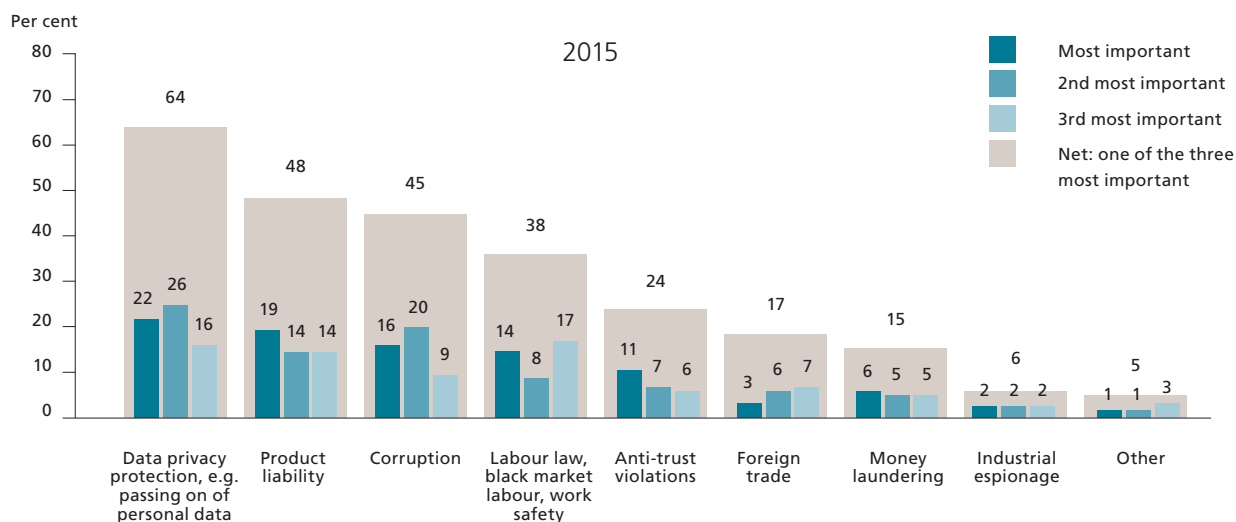
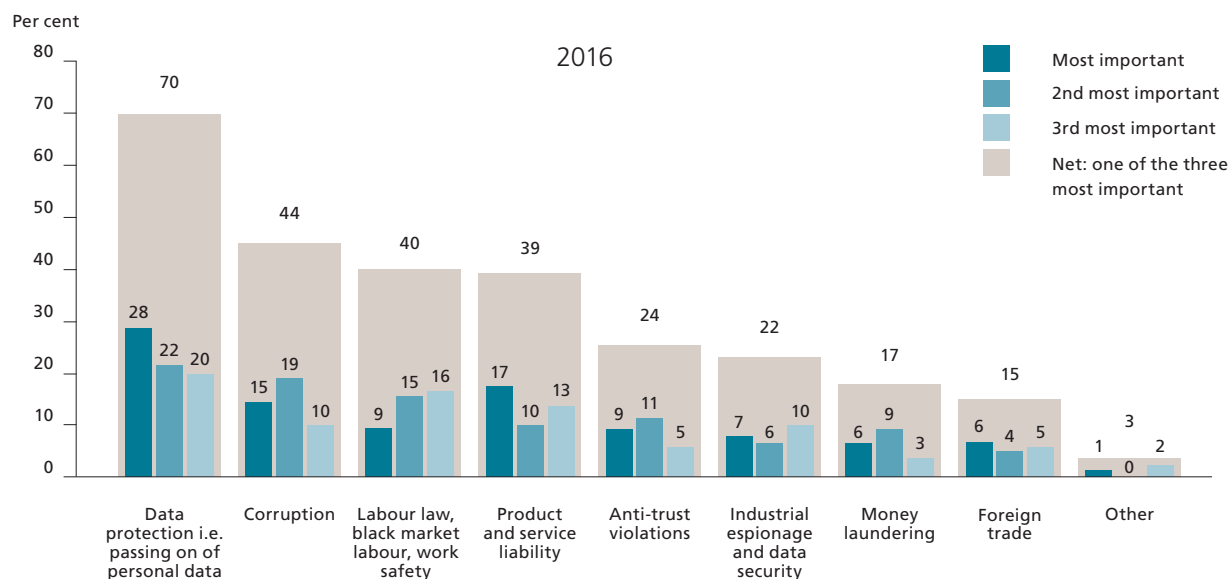
CMS Germany

Compliance & Forensic Services Initiative

Risks and External Challenges



Companies view data privacy as the most serious risk, despite the heavy fines, anti-trust law is seen as a less serious risk, data privacy and industrial espionage are growing in importance



What three risks are most relevant for you as a company?

2016 status

On average, 28 per cent of the companies surveyed responded that data protection (compliance violations relating to personal data) represents the most serious compliance risk. It is mainly the SMEs who view this as the greatest risk to their business. Liability issues associated with goods and services, at 17 per cent, and corruption, at 15 per cent, occupy 2nd and 3rd places on the list of the top three compliance risks. Only 9 per cent of the companies polled deem anti-trust law violations as a particularly relevant risk. This rating is surprisingly low, given the heavy fines imposed across all sectors by the anti-trust authorities.

Year-on-year comparison

While the topic of data privacy has shown another sharp rise in terms of perceived risk, increasing 6 per centage points vs. the previous year, the companies' 2016 assessment of the classic high-risk topics of corruption and anti-trust law has hardly changed vs. the prior year. This raises the question if this is a realistic prioritisation of risk, especially among SMEs. Companies clearly have a much sharper focus this year on the risk areas of data privacy and industrial espionage. The assessment of

these topics by the companies surveyed has jumped by 16 per centage points vs. the prior year. This is also reflected in the current legal advice trends: More and more companies are seeking to protect key business secrets and to take steps to secure their systems against data leaks or data theft.

Are SMEs setting the right priorities?

If you study the developments in compliance risks, it becomes clear that data privacy is considered the most serious risk by companies with fewer than 5,000 employees. There is no doubt that this specific risk area plays a key role today. On the other hand, these results could indicate the SMEs in particular may be underestimating risks that could result in significant liability exposure or even existential threats. This is despite evidence of anti-trust authorities and public prosecutors having pursued cartel arrangements and corrupt practices with the full force of the law in recent years. When companies become larger, the relevant areas of risk are assessed differently: For big companies, the high liability risk areas of corruption and anti-trust law are top of the agenda.



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