

COMPLIANCE for Retail Executives

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AGENDA



- Compliance Landscape – A look at the key regulatory requirements retailers face including:
 - Bio-terrorism Act of 2002 (Requirement for Food Retailers)
 - Patriot Act (Requirement for any organization having their own credit card)
 - California Senate Bill 1386 (Requirement information security)
 - Sarbanes-Oxley (Requirement for any publicly traded company)
 - HIPAA (Requirement for retailers that are self-insured)
 - International Requirements (for any retailer buying or selling international products)
 - Additional State, Local, and Federal Regulations
- Current & Future Challenges Retailers will Face due to Compliance
- Components of Compliance – people, processes, and technology
- Options for Meeting the Challenge
- Cost of Non-compliance
- Questions & Answers

Introduction



Compliance is a Fact of Business

European Data
Protection Directive

C-TPAT

Sarbanes-Oxley

Graham-Leach-Bliley

Insurance Information and
Privacy Protection Model Act

Privacy Act

Homeland
Security Act

ATF

BioTerrorism Act

OSHA

EPA

FERC

Cyber Security Research
and Development Act

Government
Information Security
Reform Act

Child Internet
Protection Act

FIRS

SEC Regulation S-P

Patriot Act

HIPAA

Family Educational
Rights and Privacy Act

IRS

Network Advising
Initiative

The Biggest Challenge

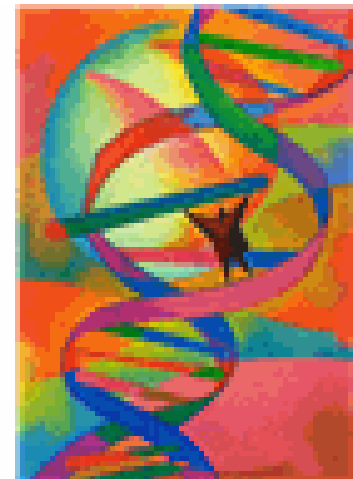


- Nothing is black and white when it comes to compliance and many of the new regulatory requirements. There are many shades of gray!

Processed & Packaged Foods



- Do you . . .
 - Package or combine food components into a product?
 - Package or produce food for animals?
- If so you need to comply with the Bioterrorism Act!
 - 4 Main Parts to the Act
 - Product Detention (303)
 - Record Keeping (306)
 - Facility Regulation (305)
 - Import Notification

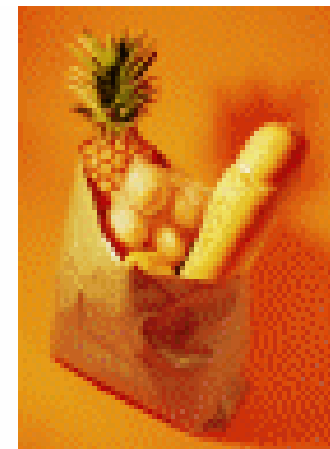


Example



- This was required as of December of 2003.
 - Upon arrival of the FDA at your facility and upon their request you have 4 hours to provide complete records on any food component, product, brand, lot, etc...

One publicly traded company just realized they need to comply with this act.



Outsourced Services

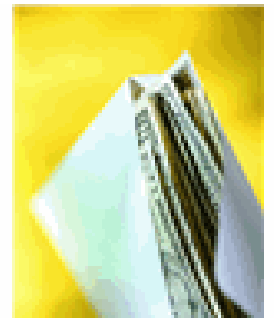


- Do you outsource some of your services?
 - IS services
 - Housekeeping services
 - Landscaping services
- Have you considered the threat of contract labor litigation?
 - Contract labor claiming they should have been employees
- Have you heard of ICE?
 - Immigration and Customs Enforcement
 - In order to protect our borders, ICS and DHS have taken a hard line on illegal immigrant workers both direct and indirect.

Money Orders



- Do you sell or redeem money orders, travelers checks, cash checks, or stored value cards?
- If so, you fall under the definition of a *Money Services Business*.
 - Most likely you are required to comply with the Bank Secrecy Act, Patriot Act and other regulatory acts.



Example

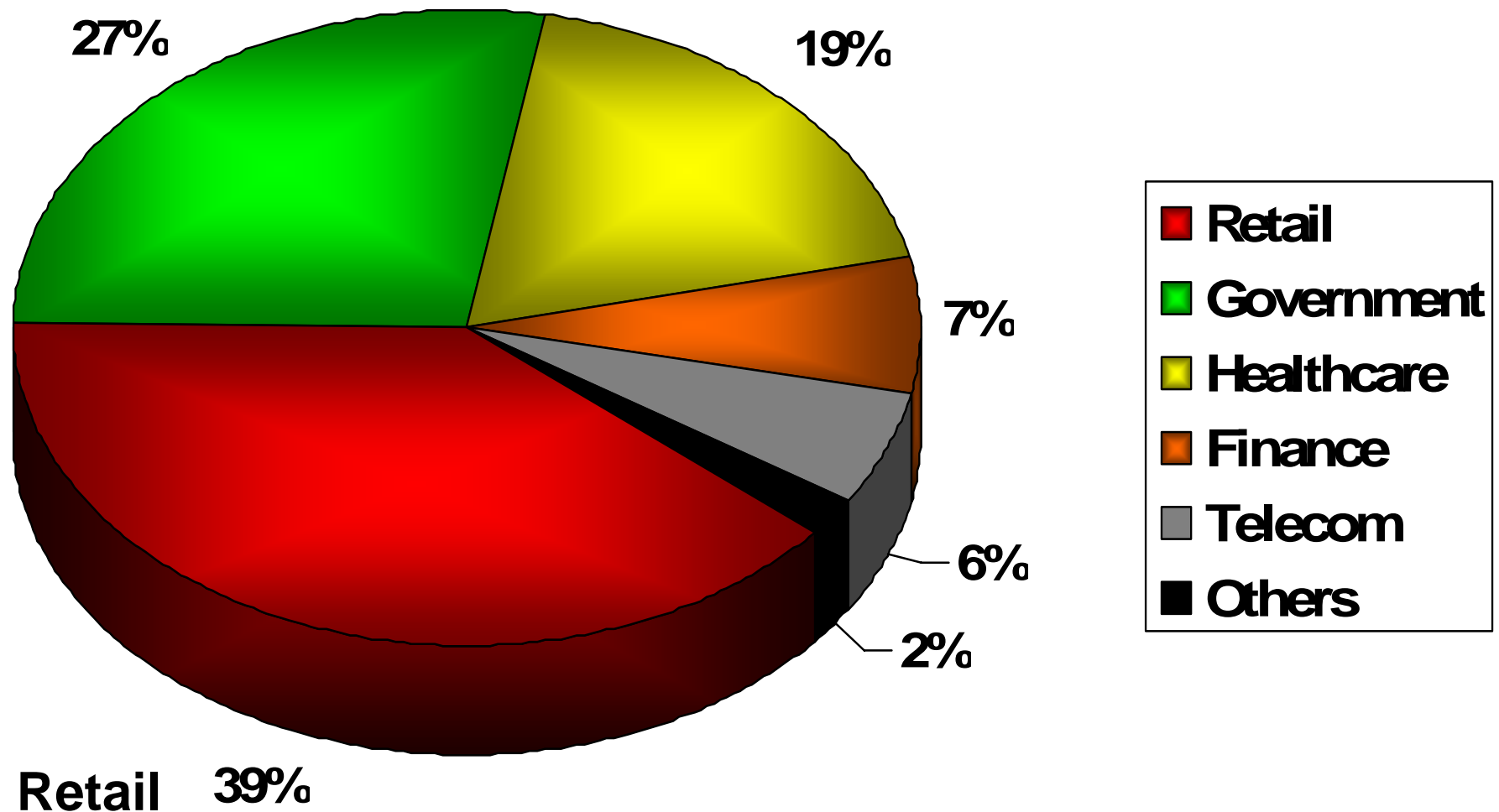


- Several Combination food-snack retailers, including those that sell gas often provide money order services. This multi-billion dollar entity was unaware of the requirements to comply with these regulations.
- After review, it was decided that the sales of money orders yielded less profits than the risk of selling them.
 - They decided to rapidly phase out this offering.

Information Security



Security professionals were asked what industry has the weakest information security practices.



Information Security



- Nearly 100 million credit card accounts have been put at risk so far this year.
 - Are you compliant with the new VISA security Standard?
- Sarbanes-Oxley internal controls include access control.
- CA SB 1386
 - This regulation requires a state agency, or a person or business that conducts business in California, that owns or licenses computerized data that includes personal information of CA residents, as defined, to disclose in specified ways, any breach of the security of the data, as defined, to any resident of California whose unencrypted personal information was, or is reasonably believed to have been, acquired by an unauthorized person.

Example



- A security breach was identified in January of this year. What was thought to be a routine hack ended up being industrial/economic espionage.
 - Copies of product cost structures were obtained
 - Vendor pricing was included in this data
 - Vendors included California Based Businesses
 - An automated routine was installed by the hacker to send specific data outside of the enterprise.

Intellectual Property



- Many retailers invest significantly into their brand, image, product design, and marketing programs and initiatives. These are all considered intellectual property and in many cases, directly or indirectly, are represented on the balance sheet.
 - If an organization does not limit access and take measures to protect and safeguard these assets they are not afforded the protection under IP law in place at this time.

Example



- Corporations are comprised of assets which have value, information being one of those assets. Information, often known as intellectual property (IP), is critical to a corporation as it can make the difference between success and failure, or between profit and loss. In fact, it is estimated that 70 percent of the average enterprise's value is held in its information.
 - In 1999, Fortune 1000 companies reported a total of \$45 billion in losses due to corporate espionage. Currently, it is believed that theft of trade secrets exceeds \$100 billion annually.

Import Products



- Do you import some of the products you sell?
- Have you heard of C-TPAT?
 - C-TPAT Customs-Trade Partnership Against Terrorism.
 - Physical Security
 - Internal Management Practices
 - Business Partner Requirements
 - Certification

Building or Refreshing Stores



- How many of the organizations here are building new stores or refreshing current facilities?
 - Have you thought about the number of permits and certificates required to open a new facility?
 - Have you thought of the documentation required to properly account for these assets from an accounting and tax standpoint?
 - Have you had to justify an insurance claim resulting from destruction of a store?

Issues & Opportunities



- The dynamics of the regulatory environment.
- The dynamics of the enterprise.
- The changing face of threats faced by the enterprise.
- Managing the cost of compliance.
- Managing the risk of compliance.
- Create value out of compliance.
- Creating an effective, efficient and elastic compliance framework.

Market Trend



Corporate Response

| Reactive | Strategically Positioned | Proactive |
|---|---|--|
| 55% | 10% | 35% |
| Waiting to be told what to do. Waiting until things are fully defined. | Creating the ability to respond to future changes and new regulatory issues. Supporting world-class business process management. | Building what they think will be needed. (point solution) Not anticipating changes that are likely to happen. |

The Holistic Approach



- What is the approach? *PROMISE*
- *PROMISE*

Process & Procedures

Roles & Responsibilities

Organization & Operations

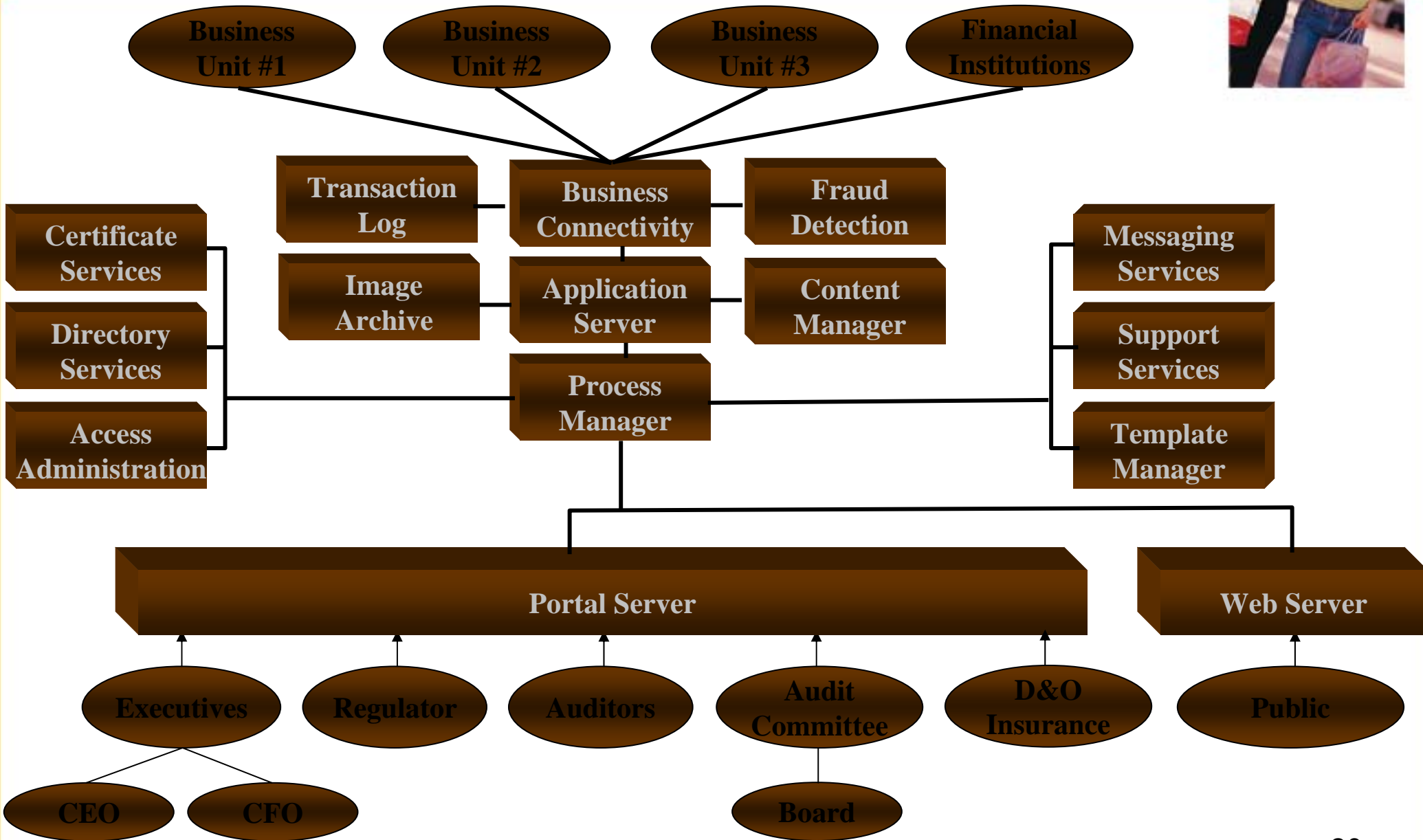
Management & Measures

Information & Infrastructure

Systems & Software

Employee Relations & Education

Compliance Framework



Options



- You have none!
 - Compliance is a requirement.
 - It is a fact of business.
 - It will not go away.
 - It will become more taxing for global organizations.
 - If not addressed properly the implications are so significant, it could be a CLM.

What is a CLM?

- Career Limiting Move

Non-Compliance



- **Criminal**

- Up to 10 years in prison



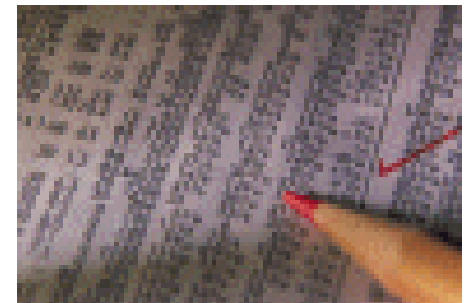
- **Fines**

- up to \$1,000,000 per occurrence

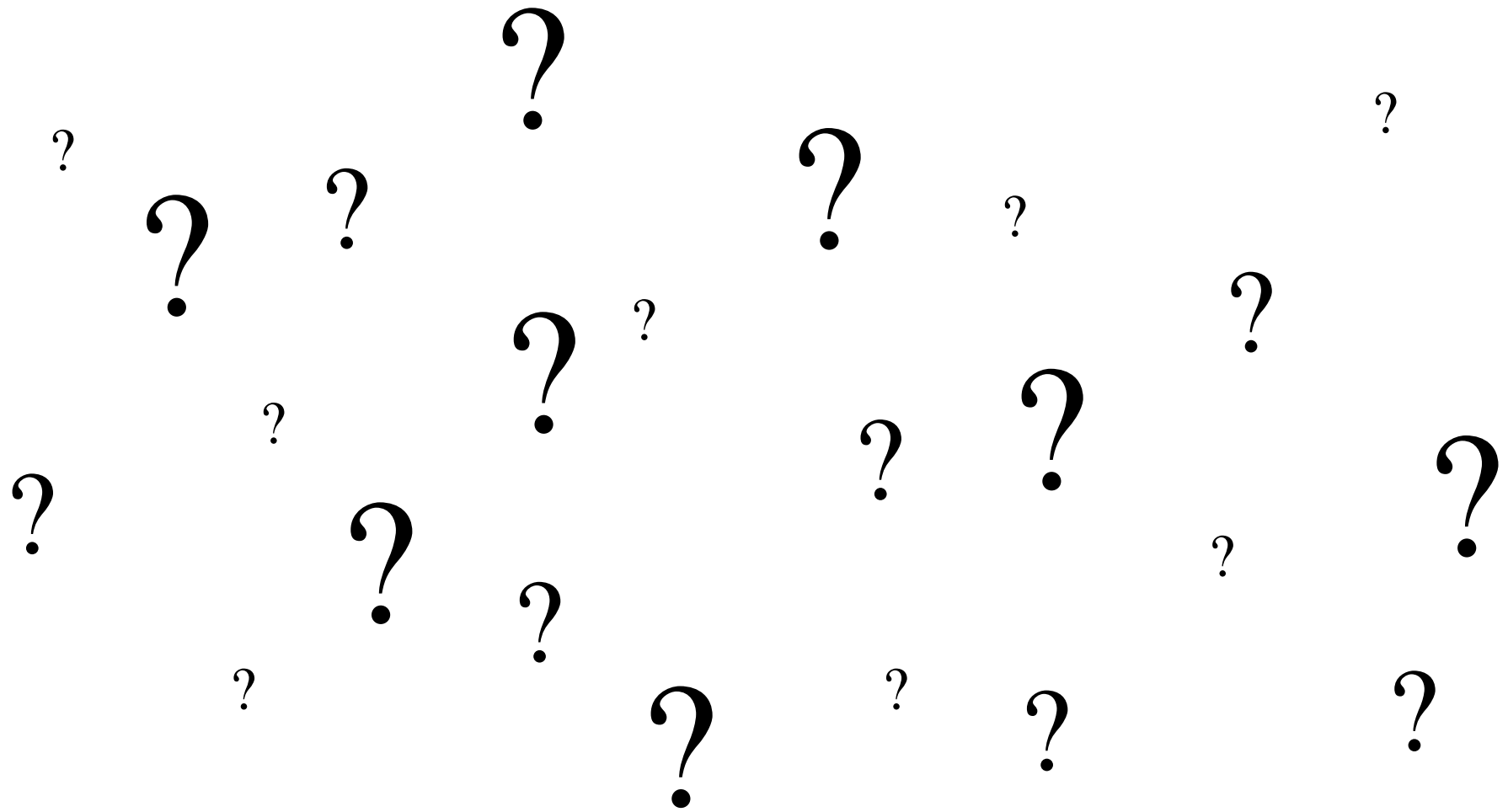


- **Public Opinion**

- A dramatic drop in stock price. (One was 28%)



Questions & Answers



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