Reporting lines may impact the stature, authority, and independence of a chief compliance officer,\(^1\) which can, in turn, affect the CCO’s ability to successfully implement an effective ethics and compliance program. When a company is deciding to whom the CCO should report—\(^2\) a decision that may be influenced by a variety of factors, including available resources and corporate culture—it may wish to consider the advantages and drawbacks of the following potential reporting structures.

- **CCO Leads a Stand-Alone Function and Reports to the CEO:** A direct reporting line to the CEO can bolster a CCO’s stature and authority and ensure that he or she is considered a member of senior management. Independence concerns\(^3\) stemming from reporting to the head of the business could likely be addressed by establishing a dotted reporting line from the CCO to the board of directors or an appropriate committee of the board.

- **Combined General Counsel/CCO Reports to the CEO:** While reporting directly to the CEO places a GC/CCO among the ranks of senior management and can bolster his or her stature and authority, such an arrangement could be perceived as signaling a lesser commitment to ethics and compliance than a structure with a dedicated compliance function. The GC/CCO will necessarily need to split time between compliance and legal issues and may focus more on what the company may do under the law than what an ethical company should do.\(^4\) On the other hand, many compliance issues concern conformance with applicable laws and regulations, and integrating the compliance and legal functions can help ensure efficient, consistent advice to employees. An integrated function also may help support claims that compliance-related advice and investigations are protected from disclosure by the attorney-client privilege.

- **CCO Reports to the General Counsel:** This reporting structure has many of the same advantages and drawbacks as one featuring a combined GC/CCO. However, separating the GC and CCO roles allows a dedicated CCO to devote all of his or her time to implementing an effective ethics and compliance program, although it may reduce the CCO’s stature and authority a bit because he or she would not report directly to the CEO, may not be considered a member of senior management, and may have his or her advice and guidance filtered by the GC.

- **CCO Reports to a Senior Executive Other Than the CEO or General Counsel (e.g., CFO):** This reporting structure has many of the same advantages and drawbacks as those in which the CCO reports to the CEO, although it could result in slightly reduced stature and authority for the CCO by suggesting that the CCO is not on the same level as the other executives who report directly to the CEO.

- **CCO Reports to Internal Audit:** Reporting to internal audit could bolster the independence of the CCO and may take advantage of natural synergies between the activities of internal audit and the compliance function. On the other hand, it would likely result in the CCO’s not being

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1. Companies—particularly larger companies and those with a significant risk profile—should seriously consider making the CCO a full-time position with no other assigned duties or responsibilities.
2. The CCO’s reporting lines bear on his or her authority and stature within the company. Because many strategic and operational business decisions implicate ethics and raise compliance issues, it is important that the CCO be integrated and accepted as a full member of the senior management team.
3. Independence empowers the CCO to raise and address potential ethics and compliance issues free from the influence of those who have an interest in the outcome, such as, for example, the business line implicated in an issue or members of senior management whose primary focus is the company’s financial success.
4. This dichotomy may not be an issue if the GC/CCO has a strong background in ethics and compliance.
considered a member of or trusted adviser to senior management, reducing his or her stature and authority. Such a reporting structure could also create an independence issue in the event that internal audit sought to formally evaluate the ethics and compliance program.

- **CCO Reports Solely to the Board or a Board Committee:** Reporting exclusively to the board of directors or an appropriate committee of the board would bolster the independence of the CCO, although sufficient independence could likely be accomplished under other reporting structures via a dotted reporting line to the board. Reporting exclusively to the board may also result in the CCO’s not being considered a member of or trusted adviser to senior management, reducing his or her stature and authority. It also may not be practical for the board to supervise the CCO’s day-to-day activities.