

2016 NAREIT

HRForum

September 26-27, 2016 Grand Hyatt Denver • Denver, CO

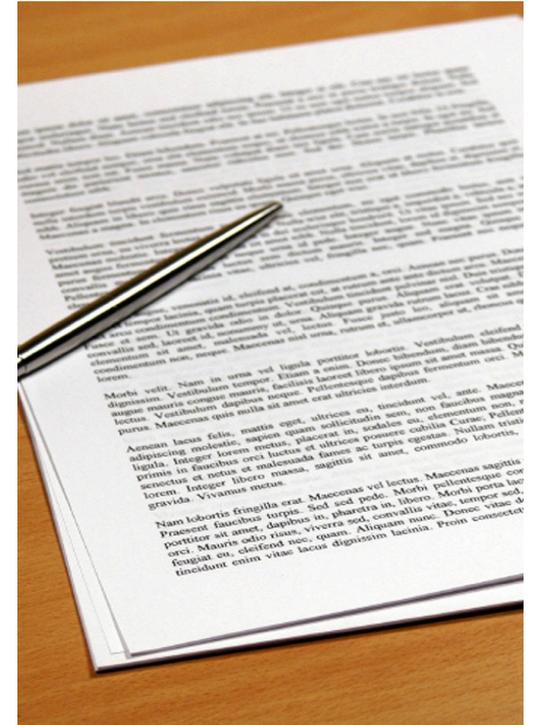
Ethics and Compliance Matters

September 26, 2016



Based on real life

AlphaCo is a financial services company. One of its core contracts is with a large state pension fund under which AlphaCo runs index mutual funds and provides financial counselling to state retirees. Under the contract, AlphaCo is paid a monthly fixed fee per retiree until the state sends an “end service” notice to AlphaCo.



Based on real life

In some cases, retirees close their mutual fund accounts and/or transfer their retirement funds to self-directed IRAs. In other cases, the retirees die and the accounts are closed by the retiree's estate. When these events occur, the state does not always send an "end service" notice promptly, and AlphaCo continues to bill the state.



Polling question

If the state does not send a “stop notice” for a closed account, is it appropriate to continue to bill the state?

1. Yes
2. No

Based on real life, part 2

ABC Realty Company is a mixed-use publicly traded REIT. It's head of operations, Tim Simple, is responsible for awarding contracts for millions of dollars of services (i.e. construction, landscaping, snow removal, etc.) performed on ABC Realty's properties. Tim's long-time trusted friend, Joanne Blow, is President of Reliable Construction Corp.



Based on real life, part 2

Tim awards 80% of the construction and maintenance contracts to Reliable.

Tim likes the relationship with Reliable since he can count on Joanne to ensure the work is done properly. Joanne likes the relationship with ABC because it is business she can count on every year in an otherwise competitive industry.



Based on real life, part 2

Last year, as the 4th quarter approached, Tim and Joanne came to an arrangement for services this year: Joanne offered Tim a 5% discount on services if he increased the number of properties Reliable would maintain. As part of the deal, Tim asked that Joanne provide the discount in the 4th quarter as a lump-sum payment to ABC, and then charge ABC the regular rates throughout the next year. Since the net payment was the same, Joanne agreed.



Polling question

What do you think of the relationship and arrangements between Tim and Joanne? (Choose all that apply)

1. Unless Tim has a financial stake in Reliable, it is acceptable for him to award the business to Reliable.
2. Given their close friendship, Tim's award of business to Joanne presents a potential conflict of interest.
3. The discount payment in the 4th quarter is problematic.
4. The discount payment is acceptable, since the net cost to ABC is exactly the same.



Polling question

Are you more or less ethical than the average person?

1. Less
2. More

Ethics vs. Compliance

Compliance → violations of laws or regulations

Ethics → doing the right thing, values

Both → legal and reputational harm

Negative Outcomes



- Lawsuits
- Government investigations
- Penalties, fines, judgments, loss of contracts
- **Talent flight**
- **Decline in competitiveness**

Positive Outcomes

- Ability to attract and retain best talent
- Higher productivity
- Loyal clients/customers
- Increased share value/company value



Shift in Emphasis

- From *rules based*
 - Avoid litigation and penalties
- To *values based*
 - Foster a culture of integrity

Key Components

- Risk assessment
- Code and policies
- Training and communications
- Processes and systems
- Appropriate incentives
- Speak-up line (hotline) and other channels
- Prompt, effective investigations
- Data analysis
- Living it every day

Risk Assessment

- Identify key legal and reputational risks
 - Distinct from business risks/enterprise risk management
- Based on industry, location, laws
- Magnitude of risk
 - Probability, potential harm

Code of Conduct and Policies

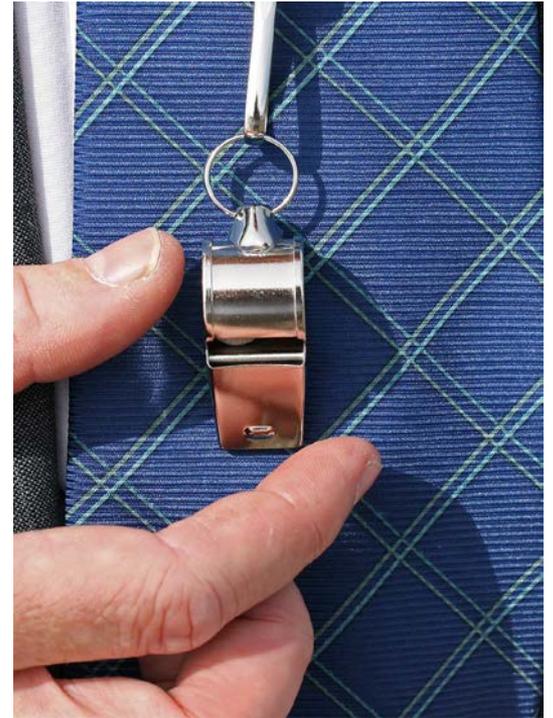
- Address key risks
- Clear language
- Values and action focused
- Examples and resources

Training and Communications

- Based on risks, targeted by role
- Engaging
- Practical
- Ongoing
 - Short-form learning
 - Refresher training

“Speak-up” Channels

- Hotline/helpline/whistleblower line
 - Phone
 - Web
- Managers
- HR
- Other



Prompt, Effective Investigations



- Unbiased
- Prompt
 - Time to close is growing (now 46 days)
- Action taken when violations occur
- Essential to willingness to speak up

Incentives

- Compensation
- Performance review
 - KPIs and targets
 - Growing: Ethics as a factor in performance rating



Living it Every Day



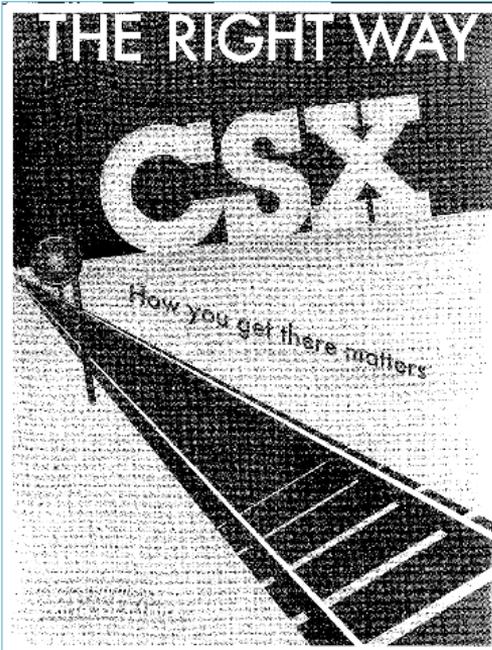
- Board of Directors
- Executives
- Senior leaders
- *Middle managers*
- *Line managers*

Legal Trends

- Whistleblower bounties
 - 10% to 30% of fines and penalties
- Credit for having a solid program
 - Increased focus on culture
- DOJ and SEC targeting individual wrongdoers
 - “Yates Memo”

Key Mistakes

- “Tick-box” approach
 - Meet minimum requirements
 - Cheapest options
- Rules-based Code and policies
 - Legalistic, dense, hard to understand



Our Vision, Purpose and Core Values

At CSX, our vision, purpose and core values are the guiding principles that drive our success. Our vision is to be the world's most efficient, most innovative and most customer-focused rail carrier. Our purpose is to provide the most reliable, most efficient and most customer-focused rail service in North America.

Vision
To be the world's most efficient, most innovative and most customer-focused rail carrier.

Purpose
To provide the most reliable, most efficient and most customer-focused rail service in North America.

Core Values
At CSX, we believe that the best way to achieve our vision is to do so in a way that is safe, efficient, reliable and customer-focused. We are committed to the highest standards of safety, efficiency, reliability and customer service. We are committed to the highest standards of safety, efficiency, reliability and customer service.

It Starts With Our Customers

- Provide service that meets their needs
- Grow as we understand and meet their needs
- Increase revenue and efficiency
- Develop strong relationships with our customers

It Starts With Our Employees

- Every employee is a key player
- Increase our productivity and efficiency
- Increase our customer service
- Increase our safety and efficiency

Safety Is a Way of Life

- Don't take any shortcuts
- Take time to do it right
- Communicate with each other
- Safety is everyone's responsibility

Workplace Safety

At CSX, we are committed to providing a safe and secure work environment for all our employees. We are committed to the highest standards of safety, efficiency, reliability and customer service. We are committed to the highest standards of safety, efficiency, reliability and customer service.

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**The Right Way:
How You Get There Matters**

CSX Code of Ethics



Using Good Judgment, Making Good Decisions

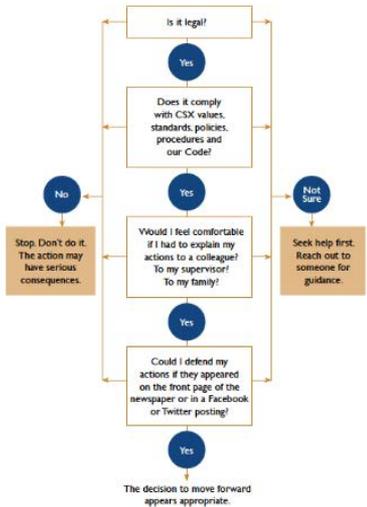
We count on you to comply with our Code and all applicable laws and policies governing the work you do for CSX. You also have a responsibility to:

- Seek help if you're ever unsure of the right course of action.
- Remember that no one, at any level of the company, has the authority to tell you to do something illegal or unethical.
- Raise concerns about any violations of our Code that you see or suspect.
- Never retaliate against anyone who makes a good faith report of suspected misconduct.
- Cooperate fully and honestly in any internal investigations of misconduct.

A bad decision can result in serious harm to employees or our company. Violations of our Code or company policies may result in disciplinary action up to and including termination of employment. A decision tree can be a useful tool anytime you're facing a difficult situation.

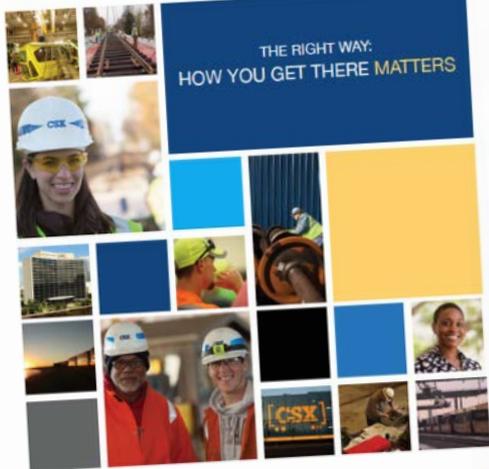


Ethical Decision Tree





THE RIGHT WAY:
HOW YOU GET THERE MATTERS



CSX CODE OF ETHICS



OUR RESPONSIBILITIES TO ONE ANOTHER

We believe that every individual is unique and deserving of equal opportunity, inclusion and respect.

Diversity and Respect	15
A Harassment-Free Workplace	16
Safety, Health and Security	18
Preventing Workplace Violence	19
Drug & Alcohol	20
Security Awareness	20
Protecting Privacy	22

DIVERSITY AND RESPECT

We value the unique contribution that each person brings to CSX. We accomplish more when our teams include people with diverse backgrounds and ideas who can work together in an environment where everyone can contribute and fully utilize their talents.

We offer employment, training, compensation and advancement based on qualifications, merit and business needs, regardless of race, color, religion, pregnancy, childbirth or related medical conditions, age, national origin, physical or mental disability, veteran status, sexual orientation, gender identity, genetic information or any other basis protected by applicable federal, state or local law.

We are committed to fostering a culture where people, regardless of their differences, feel respected, safe and valued. You can help us reach our goals by making your own commitment to diversity and inclusion.

TO STAY ON TRACK:

- Treat others with respect.
- Demonstrate your commitment to diversity and inclusion.
- Value the contributions of others and listen to their points of view.
- Respect cultural differences.
- Report any acts of discrimination that you see, and do not retaliate against anyone who reports a concern.
- If you supervise third parties, let them know that they are expected to act in a manner consistent with our sense of fair treatment and equal opportunity.

WATCH OUT FOR:

- Discrimination against anyone, including fellow employees, customers, suppliers or any other stakeholders.
- Comments, jokes or materials, including e-mails, which others might consider offensive.

TO LEARN MORE:

- [Equal Employment Opportunity Policies](#)
- [Equal Opportunity for Persons with Disabilities Policies](#)
- [Vietnam-Era Veterans, Disabled Veterans and the Disabled Policies](#)

Key Mistakes

- Managers don't reinforce values
 - KPIs over doing the right thing
- Retaliation
 - Major reason employees don't speak up

Key Mistakes

- Reluctance to communicate
 - Fear of consequences
 - Lost opportunity to reinforce values

Key Mistakes

- Inadequate investigations
 - Ignore anonymous investigations
 - Punt on he-said/she-said allegations
 - Biased investigations
 - Poorly executed (insufficient skill/resources)

Key Mistakes

- Poor data analysis
 - Just report number of allegations, percent substantiated
 - Better: Look for trends
 - By topic
 - By location
 - By business unit



Polling question

How would you describe your company's ethics and compliance program?

1. We don't really have one
2. Bare bones to basic
3. Fairly good
4. Excellent

HR Role

- Overlap in responsibilities & competence
 - Policies
 - Training (content, frequency, effectiveness)
 - Incentives and performance management
 - Receiving concerns/allegations
 - Conducting investigations

HR Role

- Collaboration is critical
 - Avoid “turf battles”
- Keep your eye on the prize – being a great company/place to work

Thank You

