

# TEACHER RETIREMENT SYSTEM OF TEXAS COMPLIANCE CHARTER

## MISSION

The TRS Compliance function is an independent monitoring, advisory, review, and reporting activity established within TRS Legal & Compliance to assist TRS in fulfilling its mission and fiduciary responsibilities by complying with laws, regulations, and TRS policies, for which oversight has been assigned. The function strives to ensure, promote, and support an organizational culture that builds compliance awareness into the daily business processes for TRS. TRS Compliance will accomplish this mission by monitoring business activities, policies, and procedures, and by establishing an infrastructure that provides additional assurance to management that program areas are in compliance.

## I. OBJECTIVES AND SCOPE OF WORK

### A. Compliance Objectives

The compliance objectives of TRS Compliance include:

- Provide independent objective compliance monitoring and training to ensure compliance with laws, regulations, and TRS policies, for which oversight has been assigned;
- Ensure the highest standards of ethical conduct through the implementation, monitoring, and periodic review of the Employee Ethics Policy, TRS Personal Trading Policy, Fraud, Waste, and Abuse Policy, Code of Ethics for Contractors, and Board of Trustees Ethics Policy;
- Identify potential areas of compliance vulnerability and risk, and assist with development, implementation of risk management, and mitigation for resolution of problematic issues, and provide guidance on how to avoid or address similar situations in the future;
- Obtain regular updates from management regarding compliance matters, and collaborate with other departments and offices to direct compliance issues to appropriate channels for investigation and resolution;
- Ensure that compliance issues and concerns within TRS are being appropriately evaluated, investigated, and resolved;
- Respond to alleged violations of rules, regulations, policies, and standards of conduct by evaluation, investigation, and recommending resolution;
- Review the findings and recommendations of any examinations by investment, ethics, or HIPAA oversight agencies;

- Report on a regular basis, and as directed or requested, to the Audit, Compliance, and Ethics Committee of the Board of Trustees on the operation and progress of compliance efforts; and
- Ensure proper reporting of violations or potential violations to the Board of Trustees, Executive Director and duly authorized enforcement agencies as appropriate and/or required.

#### B. Consulting and Advisory Objectives

The objectives of TRS Compliance is to provide assessments and advice for improving policies, procedures and practices that will advance the goals and objectives of TRS. To improve effectiveness, the objectives are assessments and advice on front-end projects so that risk may be identified and internal controls may be designed at the beginning of a project; advice or assessments may be provided on short notice, however, to assist with compliance in unexpected or last-minute situations. The objectives may also involve providing advice to TRS Contractors or other entities with which TRS has contracted. Examples include participating in various committees in an ex-officio capacity, providing routine advice on policies, and providing input to management relevant to establishment of controls.

#### C. Scope

TRS Compliance helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate, monitor, and improve the effectiveness of compliance and ethics activities. The primary scope of TRS compliance is to establish, coordinate, and maintain the TRS Compliance program, including the Ethics Compliance program, the Investment Compliance program, and the HIPAA Compliance program, and to serve as a resource to staff and Trustees relating to compliance and ethical matters.

## **II. AUTHORITY**

TRS Compliance operates as an organizational unit within Legal & Compliance. The Chief Compliance Officer has certain direct reporting responsibility to the Executive Director and the Audit, Compliance, and Ethics Committee of the Board, as set forth in TRS policies and the Bylaws of the Board of Trustees. Section 3.1.1. of the Bylaws identifies certain responsibilities of TRS Compliance, including monitoring, reviewing, and reporting on compliance with laws, regulations and TRS policies.

Sections 1.7(b), 9.9, and Appendix E (General Authority Resolution) of the Investment Policy Statement sets forth the specific authority of the Chief Compliance Officer to monitor compliance with the requirements therein. It specifically authorizes the Chief Compliance Officer to require certifications regarding compliance violations; execute and deliver compliance-related disclosures, reports, filings, and certifications on behalf of TRS; to

develop, disseminate and collect disclosure forms to monitor policy requirements; and to use information systems and data from internal and external sources for compliance monitoring. It permits hiring external parties to obtain assistance regarding compliance monitoring and requires the Chief Compliance Officer to participate in the determination as to whether certain violations of the Investment Policy Statement are material, the appropriateness of the remedy, and whether to report them to the Board.

Neither the Chief Compliance Officer nor TRS Compliance staff are authorized to trade securities, transfer funds, or execute financial transactions on behalf of TRS. Compliance duties are not considered operational duties.

### **III. ACCESS**

To fulfill the TRS Compliance mission and objectives, the Chief Compliance Officer and Compliance staff, as appropriate, have unrestricted access to all TRS divisions, departments, personnel, activities, confidential and non-confidential data and records, information systems, physical property, and contractors relevant to the performance of compliance activities, subject to applicable state and federal laws. Further, TRS Compliance should be provided the necessary assistance of personnel in units of the organization where compliance activities are performed, as well as other specialized services from within or outside the organization. In addition, TRS Compliance should be provided timely reports from management on actions proposed and taken pertaining to compliance-related issues.

The Chief Compliance Officer may allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish TRS Compliance objectives.

The Chief Compliance Officer has free and unrestricted access to the chair of the Audit, Compliance, and Ethics Committee of the Board, and the Executive Director.

### **IV. INDEPENDENCE AND OBJECTIVITY**

#### **A. Organizational Placement**

TRS Compliance operates as an organizational unit within Legal & Compliance. The Chief Compliance Officer has certain direct reporting responsibility to both the Executive Director and to the Audit, Compliance, and Ethics Committee of the Board of Trustees. In addition, the Chief Compliance Officer may report on compliance matters to other committees of the Board. The Chief Compliance Officer is considered a Key Employee for purposes of the Employee Ethics Policy. This reporting structure provides TRS Compliance with independence.

The Chief Compliance Officer is also Compliance Counsel for TRS. As a licensed attorney, the Chief Compliance Officer must adhere to the Texas Disciplinary Rules of Professional Conduct. These standards are designed to result in trust, accountability, integrity, and professional objectivity, among other behaviors. In addition, the Chief Compliance Officer consults the guidance issued by the Texas Ethics Commission, the Office of the Texas Attorney General, and various federal regulatory agencies overseeing financial entities.

#### B. Independence

In carrying out her responsibilities, the Chief Compliance Officer will:

- Ensure objectivity and independence;
- Remain free of actual or perceived conflicts of interest;
- Discharge professional responsibilities with due care, competence and diligence;
- Have access to all functions, records, property, and personnel necessary to complete her responsibilities; and
- Have full and free access to the Board, the Audit, Compliance, and Ethics Committee, and the Executive Director.

To ensure independence in monitoring investment compliance, the Chief Compliance Officer does not have authority to trade securities or transfer funds on behalf of TRS.

#### C. Potential Impairment of Independence

The Chief Compliance Officer should discuss any potential issues regarding impairment of independence or conflicts of interest with the Executive Director, as necessary.

### V. **RESPONSIBILITIES AND ACCOUNTABILITY**

TRS Compliance staff is responsible for establishing and maintaining appropriate internal controls and procedures designed to assure compliance with applicable laws, regulations, and TRS policies, and are accountable to the Chief Compliance Officer who may be accountable to the Executive Director or the Board of Trustees to:

- Establish and maintain the TRS Compliance program, which consists of developing, monitoring, and reporting on compliance with ethics, confidentiality, investment, HIPAA, and other applicable policies and procedures.
- Provide interpretive guidance on the Investment Policy Statement.
- Establish and monitor compliance standards and procedures for TRS operations and activities within the scope of TRS Compliance, or as requested, to ensure adherence to

- applicable laws, directives from the Board of Trustees, and standard business practices; advise and inform affected personnel regarding compliance monitoring processes.
- Respond to alleged violations of rules, regulations, or policies, and conduct by evaluation or recommending the initiation of an investigation.
  - On a periodic basis, review and assess the effectiveness of the policies and procedures within the TRS Compliance program.
  - Train staff on the compliance requirements of the policies within the scope of TRS Compliance.
  - Provide input into TRS policies, procedures, and legislation developed by management.
  - Participate in an advisory capacity in the planning, design, development, and implementation of TRS initiatives, as related to compliance services or as requested.
  - Serve as a resource to TRS staff relating to compliance and regulatory matters.
  - Coordinate with other departments and offices including Legal & Compliance, Internal Audit, Enterprise Risk Management, Organizational Excellence, and Investment Management, to make recommendations for improving internal controls and risk mitigation relating to compliance at TRS.
  - Participate in internal investigations, as appropriate, and advise or recommend on corrective actions.
  - Interface with regulators, oversight bodies, and legislators, as appropriate.
  - Interface with TRS contractors and other third-party service or product providers.
  - Coordinate and work with third-party compliance services.
  - Coordinate with fiduciary counsel, as appropriate.
  - Prepare and present written and oral reports to TRS management, the Audit, Compliance, and Ethics Committee, the Policy Committee, other Board committees, and Board of Trustees on compliance issues.
  - Manage the TRS Ethics and Fraud Hotline.
  - Coordinate with Internal Audit regarding any complaints to the State Auditor's Office.
  - Report immediately any known incident of fraud in accordance with TRS' Fraud, Waste and Abuse Policy.
  - Participate on applicable committees such as the Information Security Advisory Team, Fraud Prevention Oversight committees, and the Technology Project Oversight Council.
  - Participate in the TRS Risk Oversight Committee (ROC) and provide support to the development of the Enterprise Risk Management program.
  - Attend Executive Committee meetings and provide updates, advice or guidance on compliance-related matters
  - Participate in the development of and take an active role in applicable Enterprise Data Governance Council initiatives.
  - Attend Internal Investment Committee (IIC) meetings in the Investment Management Division.
  - Participate in other committees as developed and as applicable.

- Participate in professional compliance, regulatory or risk management organizations by attending meetings, joining the governing boards, presenting speeches and papers, and networking with other professionals.

The TRS Compliance Charter shall be reviewed periodically, but no less frequently than every three years, and updated as required.