

# COMPLIANCE POLICY OF THE BANK

## 1. PREAMBLE

The compliance process in Indian banking industry has not received the required attention and has remained weak. RBI has reported a number of instances of non-compliance and lack of interpretation of regulatory guidelines in the course of inspection. In order to keep pace with increasing complexity and sophistication in banking business, it is need of the hour to formulate a comprehensive compliance policy.

Earlier in the Banks, compliance processes and organizational structure for their effective implementation were shaped as per RBI guidelines and the banks' own Standards of Internal Governance. Thereafter, certain compliance processes were put in place in accordance with the recommendations of the Ghosh Committee Report 1992.

These arrangements have not kept pace with the increasing complexities and sophistication in the banking business e.g. compliance functions were not fully cognizant of the compliance risk arising out of compliance failures causing high economic costs and the reputational risk. Therefore, in present scenario, management of Compliance Risk is one of the key facets of prevailing Integrated Risk Management.

RBI in 2007, has circulated Draft Guidelines on Compliance Functions & Compliance Policy and advised the banks to have a separate department to formulate Compliance Functions for the Bank. Head of this Department shall be the Bank's Chief Compliance Officer, who shall assist the top management in managing Bank's compliance risks effectively.

The Compliance Policy aims at managing compliance risk and also oversees its implementation besides ensuring that compliance issues are resolved effectively and expeditiously with the assistance of compliance staff.

**The first Compliance Policy of the Bank** was approved by the Board vide resolution no.17889 dated 22.09.2007. In accordance with RBI draft policy & in continuation with our earlier Compliance Policies, a comprehensive & exhaustive policy has been developed.

## 2. OBJECTIVES

The objectives of compliance policy of the bank are:

- ✓ To introduce, standards and procedures relating to compliance functions, which are in line with international and national practices.
- ✓ To propagate Compliance Function as an integral part of Governance, Internal Control and Risk Management Process.

- ✓ To enlighten all constituents for initiating preventive measures for mitigating compliance risk. To prevent Material Financial Loss or Loss to Reputation, which Bank may suffer owing to failure to comply with Laws, Regulations, Rules, Relating to Regulatory Organizations; Standards and Code of Conducts applicable to Banking Activity.
- ✓ To Frame bank-wide compliance functions, which would help Senior Management and the Board of Directors in recognising the legal and reputation risks in the Bank which required to be monitored for mitigating compliance risk.
- ✓ To introduce a healthy compliance culture within the organization so that compliance functions are effectively complied with.

### **3. COMPLIANCE FUNCTIONS & COMPLIANCE RISKS:**

- 3.1 The compliance function is an integral part of governance in consonance with the internal control. The significance of compliance function lies in identifying, evaluating and addressing legal and reputational risks. It has to ensure strict observance of all statutory guidelines issued through various legislations such as Banking Regulation Act 1949; Reserve Bank of India Act 1934; Foreign Exchange Management Act 2000; Prevention of Money Laundering Act 2002; Negotiable Instrument Act, 1881; Right to Information Act' 2005; Insurance Regulatory & Development Authority Act, 1999, Securities and Exchange Board of India Act, 1992, Securities Contracts (Regulation) Act, 1956 and the Companies Act, 2013 with amendments made from time to time in these Acts, other regulatory guidelines issued from time to time, Standards and Codes prescribed by The Banking Codes and Standards Board of India (BCSBI), Indian Banks Association (IBA), Foreign Exchange Dealers Association of India (FEDAI), Primary Dealers Association of India (PDAI) Fixed Income Money Market Dealers Association of India (FIMMDA) etc; and Bank's Internal Policies and Fair Practices Code.
- 3.2 Apart from above Laws, Rules and Standards, Compliance also generally cover matters such as observing proper Standards of Market Conduct, Managing Conflicts of Interest and Treating Customers Fairly.
- 3.3 Compliance functions are one of the key elements in the Bank's Corporate Governance Structure, which have to be adequately enabled and made sufficiently independent so that it is capable of identifying, evaluating & addressing Legal/Reputation Risks.
- 3.4 The Basel Committee on Banking Supervision (BCBS) paper on Compliance Function in banks defines Compliance Risk as "the risk of legal or regulatory sanctions, material financial loss, or loss of reputation, a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities".

- 3.5 The activities of the bank are not limited to the banking sector, besides RBI Directions, the bank has to comply the guidelines of other regulators such as IRDA, SEBI etc. such compliance functions are attended by the specific & designated officers. For example, a bank which is acting as a corporate agent for distribution of other companies' insurance products may receive direction from IRDA, which shall be a part of the compliance functions. The Chief Insurance Executive designated by the bank shall ensure that same are acted upon. Similarly the directions of FIU & Money Laundering shall be attended to by Principal Officer.
- 3.6 If any discomfort is conveyed to the bank by RBI, The Chief Compliance officer shall bring it to the notice of ED/CMD besides advising the concerned department to initiate remedial steps. However, if discomfort conveyed by any other regulators, the specific designated Nodal officer, shall bring to the notice of Chief Compliance Officer & ED/CMD, besides informing Board/ACB/RBI.

## **4. COMPLIANCE STRUCTURE:**

### **4.1 COMPLIANCE DEPARTMENT & JOB PROFILE:**

- 4.1.1 The Compliance Department having formal status shall be set up at the Head Office of the bank. A senior official of the rank General Manager/ Deputy General Manager would be designated as Chief Compliance Officer with overall responsibility for coordinating the identification and management of the bank's compliance risk and supervising the activities of compliance department & compliance function of the bank.
- 4.1.2 The Chief Compliance Officer shall ensure that Compliance Department is be provided with adequate & well-qualified staff. Apart from the basic qualifications, the Compliance staff shall preferably have fair knowledge of Law, Accountancy and Information Technology and also adequate practical experience in various business lines and audit/inspection functions to carry out their duties effectively.

Though other duties shall not be normally assigned to the compliance staff, yet, under no circumstances, the compliance staff shall be assigned audit / inspection duty as it gives rise to serious conflict of interest. However, **Compliance Testing of the RBI/ Internal guidelines shall be carried out by the staff of Compliance Department. However, for conducting Compliance Testing of Specialized Areas like Forex, Investment, Risk Management, IT etc. where Compliance Department does not have staff having relevant expertise, the Chief Compliance Officer may depute official(s) having requisite skills & experience in the respective areas. The Audit of Compliance Department would be conducted**

**independently by the Inspection Department on annual basis.**

- 4.1.3 The Chief Compliance Officer must ensure that Compliance staff are be imparted regular and systematic education / training in respect of new products and services introduced in the banking industry, corporate governance, risk management, supervisory practices etc. to keep their knowledge up-to-date with developments in the areas of banking laws, rules and standards.
- 4.1.4 Every departmental head / In-charge at Head Office and controlling office(s) shall be responsible for compliance function in his department/office. Similarly, every Branch In-charge shall be responsible for compliance at branch level and shall report to respective Zonal Managers who shall be responsible for compliance function in his Zone and branches under its control. Accordingly, each Departmental Head/each Zonal Manager and shall act as Compliance Officer(HO Deptt)/Zonal Compliance Officer of their department /zone. Each Compliance Officer would report to the Chief Compliance Officer on issues related to regulatory/ statutory compliance.
- 4.1.5 Compliance Department shall ensure that system of designating of compliance officers in each Head Office Department/Zonal office and branches put in place. These compliance officers shall have distinct compliance functions to be undertaken by them.
- 4.1.6 Besides these Compliance officers so appointed at HO Departments/Zonal offices, specific designated officers would be appointed by the management, such as:
- Chief Insurance Executive
  - Principal Officers for Anti Money Laundering/FIU
  - Compliance Officers for SEBI etc.

These compliance/designated/nodal officers shall mainly focus on Other Codes prescribed / suggested by such Self-Regulatory Organizations/ Government Policies & Bank's Internal Policies.

- 4.1.7 Compliance Department shall frame bank-wide mechanism through compliance functions, which would help Senior Management and the Board of Directors in understanding associated and steps required to monitor the same.
- 4.1.8 Compliance Department shall ensure that all HO Departments & Zonal offices have their Compliance Manuals which cater to implementation of Compliance Laws, Rules & Standards through Policies & Procedures and Internal Codes of Conduct and Practice.

- 4.1.9 Risk Management Department at Head Office shall continue to play the central role in the area of identifying the level of compliance risk in each business line, products and processes. Henceforth, after analyzing the risk in Risk Assessment Committee of the Concerned HO Department, all new products & processes shall be approved by the **CRMC/ORMC** wherein, compliance risk besides other risk shall be analyzed and appropriate risk mitigating checks and balances if required shall be put in place before launching a product/process.
- 4.1.10 Once the product / process is approved, Compliance Officer of the concerned Department shall ensure that the operative & regulatory guidelines are disseminated amongst the operational units i.e. Zonal Offices/branches.
- 4.1.11 The concerned department will monitor the prescribed procedure for initial six months & in case any deviation is found the same should be informed to Compliance Department along with steps proposed & to CRMC/ORMC/Chief Compliance Officer.
- 4.1.12 **Compliance Department shall finalize ways to measure compliance risk by using specific indicators such as compliance testing results conducted by it, observations by RBI in Risk Assessment Report (RAR), adherence to timelines to Risk Mitigation Plan (RMP), delay in submission of regulatory returns to RBI if any.**

**Compliance Department shall ensure that "Instances of Compliance Failures based on compliance testing results" are communicated to the concerned departments.**

- 4.1.13 **Compliance Department shall formulate & update "Compliance Risk Assessment Templates" for concerned HO Departments on annual basis.**
- 4.1.14 **Consolidated report of "Compliance Risk Assessment" based on "Compliance Risk Assessment Templates" to be placed before Board/ ACB on annual basis.**
- 4.1.15 In addition to above, Compliance Department shall;
- Serve as a reference point for the bank's staff from controlling offices for seeking clarifications/ interpretations of various Regulatory and Statutory Guidelines.
  - Frame compliance structure in controlling offices and branches specifying the role and responsibility of each functionary in the compliance units.

- Submit to the top management details of compliance failures so as to take appropriate steps in managing effectively, the compliance risks that bank may face.

4.1.16 In addition to handle the above, Compliance Department shall also have Right to:

- Access to information on compliance function, which is necessary to carry out its responsibilities and for pointing out / looking into possible breaches of compliance policy.
- Freely disclose its findings and views of the Compliance Function to Senior Management, Board / ACB or the Committee of the Board.

**4.1.17 Compliance Department shall download the regulatory /statutory notifications/ circulars/ guidelines applicable to the bank from the websites of the following institutions/ organizations on daily basis and disseminate to the concerned department for implementation:**

- 1. Reserve Bank of India (RBI)**
- 2. Ministry of Finance, GoI**
- 3. Securities & Exchange Board of India (SEBI)**
- 4. Indian Banks' Association (IBA)**
- 5. Central Vigilance Commission (CVC)**
- 6. Insurance Regulatory & Development Authority (IRDA)**
- 7. Financial Intelligence Unit (FIU)**
- 8. Banking Codes and Standards Board of India (BCSBI)**
- 9. Deposit Insurance and Credit Guarantee Corporation (DICGC)**
- 10. National Bank for Agriculture and Rural Development (NABARD)**
- 11. National Housing Bank (NHB)**
- 12. Clearing Corporation of India Ltd. (CCIL)**

**The concerned Department(s) shall ensure implementation of guidelines disseminated by the Compliance Department and submit the status of implementation of guidelines to Compliance Department on below format within 15 days of receipt of the said guidelines:**

<b>Reference &amp; Subject</b>	<b>Brief of the Guideline</b>	<b>Steps taken/ to be taken by the Department to ensure implementation in Bank with tentative timelines</b>

**Compliance Department shall place the list of important guidelines along with action taken/ to be taken by the bank to ensure implementation in Bank with tentative timelines before Board on monthly basis.**

#### **4.2 CHIEF COMPLIANCE OFFICER (CCO):**

- 4.2.1** The Chief compliance officer not below the rank of Dy. Gen. Manager shall be appointed for a fixed tenure. The Chief Compliance Officer shall hold this status as head of Compliance Department and shall continue unless he is transferred to perform some other assignments or removed through an internal administrative procedure in which his negligence in discharging compliance function or his serious acts of omissions and commissions in other financial or administrative matters is established and recorded in a transparent manner with the prior approval of the Board.
- 4.2.2** The Chief Compliance Officer shall be the nodal point of contact between the Bank and the Regulator (RBI). However, activities of the Bank are not limited to the banking sector and the directions are also received from other regulators such as IRDA, SEBI etc. These directions, can constitute part of compliance functions of the Bank. To ensure proper compliance of such other, regulators, the Nodal Compliance Officers/Designated Officer for the concerned function shall be appointed to primarily carry out the compliance of their domain and shall report the compliance to Chief Compliance Officer. The mechanism of designating & reporting is listed herewith:

Regulator	Designate Officer	Report to CCO through	Appointing Authority
SEBI- Compliance Officer	A.G.M. (Accounts)	Through GM (Accounts)	ED/CMD
FIU – Principal Officer	G.M.(Inspection)		ED/CMD
IRDA – Chief Insurance Executive	G.M.(Insurance)		ED/CMD
RBI – (DCM) – Currency Mgt Nodal Officer	G.M.(Reconciliation)		ED/CMD
RBI – (DBS & CM) Chief Security Officer	A.G.M. (Chief Security Officer)	Through GM (Security)	ED/CMD
RBI – (DBS) Incharge (Fraud Monitoring)	CM (Vigilance)	C.V.O.	ED/CMD

For example, Compliance Officer (Share Department) shall ensure compliance of guidelines issued by SEBI, and shall report the compliance to Chief Compliance Officer through GM

(Accounts). In case of discomfort conveyed to the bank on any issue by other regulators, it shall be the duty of the concerned Compliance/designate Officer to that specific regulator to bring it to the notice of the Reserve Bank of India and Chief Compliance Officer of the Bank.

**4.2.3** The Chief Compliance Officer may be removed / transferred only with the approval of Board & Audit Committee of the Board shall be kept informed of any change in the Chief Compliance Officer as also the reason for the change in the incumbent. The Reserve Bank of India shall also be kept informed of the name of the Chief Compliance Officer as also any change thereof, as and when it takes place.

**4.2.4** For formation / introduction of existing /new /amended guidelines issued by the regulators from time to time and their implementation, Chief Compliance Officer shall ensure appointment of Compliance Officers at various levels as under:

S. No.	Nomenclature of the compliance officer so appointed	Name of the Office at which Nodal Compliance Officer shall be appointed	Nodal Compliance Officer by Designation
1.	Compliance Officer- Head Office	Each HO Department	Departmental Head
2.	Zonal Compliance Officer- Zonal Office	All Zonal Offices	Zonal Manager
3.	Compliance Officer - Branch	All Branches	Branch Incharge
4.	Compliance Officer - Training	Training Centre	Principal Training Centres
5.	Compliance Officer - RRB	RRB	Chairman of RRB

## 5. ROLES & RESPONSIBILITIES

The focus of the compliance function shall be on compliance of various regulatory / statutory functions, government policies, standards and codes prescribed by self-regulatory organisations, Bank's internal policies and prevention of money laundering and funding of illegal activities. As Compliance starts at the top, the most effective Corporate Culture is one that emphasizes Standards of Honesty and Integrity, wherein the Board of Directors and Senior Management lead by setting an example.

### 5.1 The Board of Directors shall:

- Ensure that an appropriate compliance policy is in place in the bank to manage compliance risk and shall be overseeing its implementation.



- Ensure that compliance issues are resolved effectively and expeditiously by Senior Management with the assistance of Chief Compliance Officer.
- Ensure that there is no potential for any conflict of interest and that the activities of the compliance function are subject to independent review.
- Review compliance functions itself or through ACB on a quarterly basis and annual review of status in implementation of compliance functions.
- Invite Chief Compliance Officer to the meetings of the Board/ACB, wherein quarterly/Annual review is undertaken.

**5.2** The bank's **Senior Management** with the participation of the **Chief Compliance Officer** shall:

- Establish a written compliance policy that would contain the basic principles to be followed by the management and staff, and would explain the main process by which compliance risk would be identified and managed through all levels of the organization.
- Ensure that appropriate remedial action is taken if breaches are identified. The disciplinary action on such breaches shall remain within the scope of in terms of "Discipline & Appeal Regulations".
- Ensure that Compliance Department identifies & compiles list of compliance failure and the concerned departments to formulate plans to mitigate such failures.
- Submit to the Board/ ACB/ Board Committee through Chief Compliance Officer quarterly and annual reviews, to assist board members to make an informed judgment on whether the bank is managing its compliance risk effectively
- Ensure that the Chief Compliance Officer is necessarily a participant in the Quarterly Informal Discussions held with RBI.

**5.3** Besides supervising and monitoring the functions of Compliance Department as mentioned above, **Chief Compliance Officer** shall;

- Ensure that the compliance policy of the Bank is framed and approved by the Board of Directors. The policy shall be reviewed annually.
- Report to the CMD/ED of the Bank but have the right to report directly to the Board of Directors or ACB or the Committee of the Board appointed for the purpose.
- **Monitor timely submission of regulatory returns by the Bank through the "Return Submission Monitoring Portal (RSMP)"**

**which indicates the details of regulatory returns to be submitted by each HO Department along with due dates of submission.**

- Also ensure submission of the prescribed quarterly Compliance Certificate by all the HO Departments/Zones and also make sure that the HO Departments/Zones rectify the irregularities pointed out in these Compliance Certificate.
- Special designated compliance officer for IRDA/ SEBI/ CVC/ Fraud/ FIU & money laundering etc. would report directly to ED/CMD & compliance would be apprised to Chief Compliance Officer.
- In case no Quarterly informal discussions is held with RBI, Chief Compliance Officer should meet the Chief General Manager, DBS at Regional Office of RBI, to discuss compliance issues.
- The Chief Compliance officer by the virtue of his post would be member of all important committee of GM which would meet at frequent intervals. In case such meetings are not held, Chief Compliance Officer may interact with Law Department, Risk Management Department, Accounts Department, P&D Department, Inspection Department & Credit Monitoring Department to take stock of latest development.

#### **5.4 Compliance Officers at HO Departments shall:**

- Identify and submit the details of compliance function of their Department along with risk perceptions to Compliance Department. Respective GM shall approve the identified compliance functions for departments under their realm.
- Work as extended arms of HO Compliance Department.
- Ensure independence of the compliance function.
- **To ensure implementation of guidelines disseminated by the Compliance Department and submit the status of implementation of guidelines to Compliance Department within 15 days of receipt of the guideline as per clause 4.1.17.**
- Focus on Compliance Functions of the Department on Regulatory Compliance, Statutory Compliance, Compliance with Fair Practice Codes and other Codes prescribed / suggested by Self-Regulatory Organizations, Government Policies, Bank's Internal Policies and Prevention of Money Laundering and Funding of Illegal Activities etc. which are applicable.
- **Update the Compliance Manual of the Department on annual basis.**

- Report compliance risk assessment on compliance template, change in the compliance risk profile, etc. due to change in compliance functions to Compliance Department.
- Ensure that all the new products/process/incentive schemes shall be discussed in the ORMC/CRMC meeting for the Risk Assessment wherein the following Compliance Certificate is to be placed for new products/process introduced.

<b>COMPLIANCE CERTIFICATE</b>
We have examined the related statutory /regulatory /internal guidelines and also the provisions contained in the various agreements, wherever applicable; and certify that the proposed product /process /activity is strictly in accordance with the various guidelines stated above.

- Once the product / process is approved, Nodal Compliance Officer (Head of Department) of the concerned Department shall disseminated guidelines amongst the operational units i.e. Zonal Offices, Offices /branches. A copy of such circulars shall be sent to all concerned offices and Chief Compliance Officer immediately.
- Closely watch all new products / processes for the first six months of introduction to ensure that the indicative parameters of compliance risk are adequately monitored & in case of any variance, he shall report the same to ORMC/CRMC/Compliance Officer with the proposed steps taken for mitigation.
- To ensure that appropriate remedial action is taken, if any breaches/ incidence of non-compliance is noticed/ identified to avoid recurrence.
- To immediately report to the Chief Compliance Officer on exception basis of any non-compliance/advisory/stricture passed and penalty imposed by any regulatory/ statutory bodies on any breaches of compliance.

**5.5 Zonal Compliance Officers (ZCOs)** shall be responsible for the following under their jurisdiction:

- To implement Compliance Functions introduced from time to time in the branches /offices under their jurisdiction.
- To review the effectiveness of implementation of Compliance Functions.
- To appoint Compliance Officers at branches under their custody.

- To collect periodical reporting on various Compliance Functions from Branch Compliance Officers of the branches under their control.
- To submit periodical reporting to HO Department as and when desired by them, with proper maintenance of its records & to submit Compliance Certificate to HO Compliance Department on quarterly basis.
- To immediately report to the Compliance Department on exception basis of any non-compliance/advisory/stricture passed and penalty imposed by any regulatory/ statutory bodies on any breaches of compliance.
- To ensure that appropriate remedial action is taken, if any breaches/incidence of non-compliance is noticed/ identified to avoid recurrence.
- To monitor timely submission of regulatory/statutory returns through an appropriate mechanism, such as a monthly return calendar, which indicates the various returns to be submitted by the department, their due dates and dates of submission.
- To ensure submission of the prescribed quarterly Compliance Certificate and make sure that the department rectifies the irregularities pointed out in this Compliance Certificate.

**5.6 Compliance Officer(Training)** shall be responsible for the following:

- To implement compliance functions introduced by Compliance Department circulated from time to time.
- To review the effectiveness of implementation of compliance functions.
- To assist the top management in managing effectively the compliance risk faced by the bank.
- Guidelines/instructions issued by regulatory/statutory bodies also be deliberated the participants in every programme to enable the staff to be vigilant in compliance.
- To ensure that appropriate remedial action is suggested, if any breaches/incidence of non-compliance is noticed/ identified to avoid recurrence.

**5.7 Compliance Officer (RRB)** shall be responsible for the following:-

- To implement compliance functions introduced/circulated by HO Priority Sector & Lead Bank from time to time.

- To review the effectiveness of implementation of compliance functions in their branches/offices.
- To ensure that proper compliance structure is created and regulatory/statutory instructions are meticulously complied with in all branches of RRBs.
- To immediately report to the Compliance Department on exception basis of any non-compliance/advisory/stricture passed and penalty imposed by any regulatory/ statutory bodies on any breaches of compliance.
- To ensure that appropriate remedial action is taken, if any breaches/incidence of non-compliance is noticed/ identified to avoid recurrence.
- To submit periodical reporting to HO Priority Sector Department on quarterly basis which would include the same in its reporting to HO Compliance Department.

## **6. PRINCIPLES OF COMPLIANCE:**

In addition to the above, following shall, in general, be equally important for effective management of Compliance and Compliance Functions.

### **6.1 Compliance Functionary/ies shall:**

- Be looked at as a friend, philosopher and guide by the business units. There shall be close co-ordination between Compliance and Business Operations functions. The interaction may be formalized by making the Chief Compliance Officer a member of the various strategic and important Inter-Head Office Committees in the bank.
- Have right to access to information necessary to carry out their responsibility and for pointing out / looking into possible breaches of compliance policy.
- Be empowered to conduct compliance reviews / investigations, whenever required. The authority to use external experts for the purpose of investigation, if required, shall be the discretion of the Chief Compliance Officer.
- Be free to report on any irregularities without fear of disfavor from management or other staff members to the Board of Directors / Audit Committee of the Board or a committee of the Board, appointed for the purpose.

## **7. IDENTIFICATION & FINALISATION OF COMPLIANCE FUNCTIONS**

For identification & finalization of Compliance Functions, following procedures shall be adopted:

- 7.1. Compliance Department shall ask all HO Departments to identify the compliance functions of their Department, which shall be analyzed & consolidated at compliance Department and consolidated draft list of compliance functions, so prepared, shall be sent back to all HO Departments for their confirmation that all the compliance functions of their Department have been appropriately incorporated in the list.
- 7.2. Once, the confirmation is received from the concerned HO Department the consolidated list shall be got approved from the Chief Compliance Officer for finalization of Compliance Functions of the Bank & preparation of Compliance Manual.
- 7.3. Final list of Compliance Functions and Compliance Manual shall be circulated among the Compliance Officers for ensuring their effective implementation to mitigate compliance risks and imposition of penalties by regulators for non-compliances.

## **8. REVIEWS & REPORTING MECHANISM:**

- 8.1. The responsibility of the compliance function shall be carried out in a planned way. Generally, Compliance Department shall review, revise and modify the compliance function annually with prior approval of the Board. However, HO Department shall immediately report introduction/withdrawal of compliance functions in their Department to Compliance Department on an on going basis. Depending upon the gravity of non-compliances, Compliance Department shall take decision whether to immediately include newly introduced product /process in the list of compliance functions of the bank or not.

- 8.2. Compliance officers shall report quarterly status of compliance under their jurisdiction on the compliance functions to their next higher authority/appointing authority i.e.:-

Branch Compliance Officers shall report to respective Zonal Compliance Officer-, Compliance Officer (**RRB**) shall report to HO Priority Sector Department, Compliance Officer (**Training**), Zonal Compliance Officers, HO Compliance Officers shall report to the Chief Compliance Officer/Compliance Department who in turn shall place the quarterly consolidated status note before the CMD/ Board or the Sub Committee of the Board appointed for the purpose.

- 8.3. An Annual Report on compliance failures/breaches based on adverse findings, reported by the auditors shall be compiled along with remedial measures to be taken and placed before the Board/ACB/Board Committee and thereafter shall be circulated to all the Compliance Officers.
- 8.4. Non-compliance with any Regulatory Guidelines and Administrative Actions initiated against the bank and or corrective steps taken to avoid recurrence of the lapses should be disclosed in the annual report of the banks.

- 8.5. Compliance Department shall place Annual Review Note (along with revised/modified list of compliance functions to be followed in the next financial year) before the Board, ACB or the Sub Committee of the Board appointed for the purpose. The note shall also include the changes taken place in the compliance risk assessment.

The Annual review should broadly cover the following aspects:

- Compliance failures, if any during the preceding year and consequential losses and regulatory action as also steps taken to avoid recurrence of the same.
  - List of all major regulatory guidelines issued during the preceding year and steps taken by the bank to ensure compliance.
  - Scope of compliance procedures and processes.
  - System of internal control to minimize compliance risk.
  - Compliance with Fair Practices Codes and adherence to Standards set by Self-Regulatory Bodies and Accounting Standards.
  - Progress in rectification of significant deficiencies pointed out in the Internal Audit, Statutory Audit and RBI Inspection Reports and position of implementation of recommendations made therein/Strategy for the next year.
  - Restructuring of Compliance Department, posting / transfer / training of staff during the year.
- 8.6. Apart from the exhaustive Annual Review, the Chief Compliance Officer shall put up a monthly report on the position of Compliance Functions to the CMD/ ED and quarterly to the Board. Since quarterly notes are being placed before the Board covering position of compliance function, there is no need to place a monthly note to CMD/ED on those months.

## **9. MONITORING & TESTING MECHANISM:**

- 9.1. Periodical reports/ confirmations submitted by Zonal Compliance Officers and HO Compliance Officers shall be subject to testing by the Compliance Department.**
- 9.2. Results of Compliance Testing conducted by the Compliance Department shall serve as a feedback mechanism for the department to review the control mechanisms and take remedial measures to avoid recurrence of such failures/ breaches.**

- 9.3. During Management Audit of HO Departments & Zonal Offices, the auditors **shall use** specific checklist introduced by Compliance Department.
- 9.4. Auditors to prepare separate report on compliance functions and submit as a part of Management Audit.
- 9.5. Bank has been placed under Risk Based Supervision (RBS) under Supervisory Program for Assessment of Risk & Capital (SPARC) Framework from supervisory cycle 2016-17. Under Tranche-III of RBS framework, RBI has introduced templates of RBI guidelines for the assessment of compliance. RBI revises these templates on annual basis. Chief Compliance Officer shall put in an exhaustive Compliance Testing framework to help identify potential breaches/ failures and take remedial measures by respective HO Departments.**
- 9.6. Compliance Testing Framework:**

**Compliance Department shall conduct comprehensive compliance testing of all applicable guidelines listed by the RBI in Tranche-III as on 31st March of previous year and those issued by the RBI during current financial year.**

**Compliance Testing shall be conducted at HO/ZO/Office/Branch level with the help of data extracted from the CBS system. HO IT Department shall nominate specific official for the purpose of providing required data as and when desired by Compliance Department for above purpose.**

**Compliance Testing results shall be communicated to the concerned departments for initiating necessary steps to fill the control gaps and avoid breaches/failures in future. Consolidated results of compliance testing shall be placed before Board/ACB on annual basis.**

**Compliance Department shall finalize ways to measure compliance risk by using specific indicators such as results of Compliance Testing conducted by it, observation by RBI in Risk Assessment Report (RAR), adherence to timelines to Risk Mitigation Plan (RMP) timelines, delay in submission of regulatory returns to RBI if any.**

**Department wise Compliance Risk measured shall be put before Board/ACB on annual basis.**

## **10. REVIEW OF COMPLIANCE POLICY:**

Compliance Policy shall be reviewed by Board annually.