

# COMPLIANCE POLICY

**The Catholic Syrian Bank Ltd**

(Regd. Office: Thrissur)

Operational Risk Management Department

Head Office, Thrissur.

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## 1. Introduction

As part of its ongoing efforts to address bank supervisory issues and enhance sound practices in banking organisations, Reserve Bank of India in tandem with the recommendations of Basel Committee on Banking Supervision, has issued guidelines on the 'compliance function' in banking organisations.

The Compliance Function envisages strict observance of all statutory provisions contained in various legislations such as Banking Regulation Act, Reserve Bank of India Act, Foreign Exchange Management Act, Prevention of Money Laundering Act etc. as well as to ensure observance of other regulatory guidelines issued from time to time; standards and codes prescribed by IBA, FEDAI, FIMMDA etc; and also bank's internal policies and fair practices code.

Compliance laws, rules and standards generally cover matters such as observing proper standards of market conduct, managing conflicts of interest, treating customers fairly, and ensuring the suitability of customer advice. They also include specific areas such as the prevention of money laundering and terrorist financing, and may extend to tax laws that are relevant to the structuring of banking products or customer advice.

Compliance laws, rules and standards have various sources, including primary legislation, rules and standards issued by legislators and supervisors, market conventions, codes of practice promoted by industry associations, and internal codes of conduct applicable to the staff members of the bank will be the important sources for compliance laws, rules and standards. These rules and standards may go beyond what is legally binding.

## 2. Objective of Compliance Function

The purpose of the compliance function is to assist the bank in managing its compliance risk, which can be defined as "the risk of legal or regulatory sanctions, material financial loss, or loss to 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"; (together, '*compliance laws, rules and standards*').

Compliance risk is sometimes also referred to as integrity risk, because a bank's reputation is closely connected with its adherence to principles of integrity and fair dealing and embrace broader standards of integrity and ethical conduct.

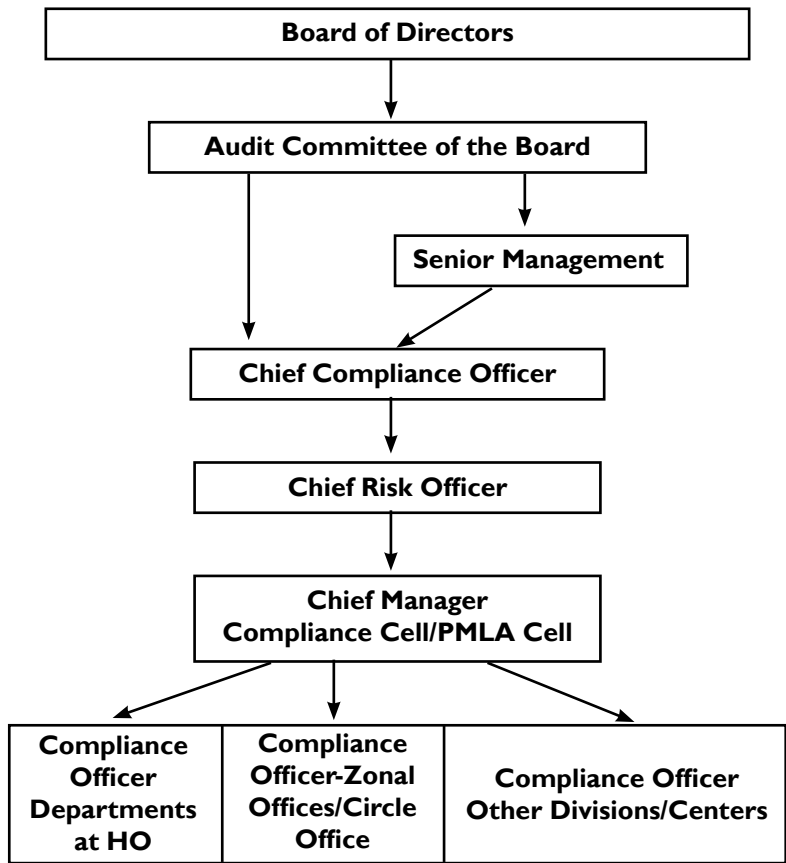
## 3. Compliance Function and its relevance in the Bank

The compliance area is critically important in identifying, evaluating, and addressing legal and reputational risks. A group/enterprise-wide compliance program will help the bank to look at and across business lines and activities of the organization as a whole and to consider how activities in one area of the firm may affect the legal and reputational risks of other business lines and the entire group/ enterprise.

A group/enterprise-wide compliance program will also help the management and the board in understanding where the legal and reputational risks in the organization are concentrated, provide comparisons of the level and changing nature of risks, and identify those control processes that most need enhancement.

The compliance function thus aims at ensuring that controls and procedures capture the appropriate information to allow senior management and the board to better perform their risk management functions on a group-wide basis.

**4.Organisation Structure**



**4.1 Board of Directors**

In recognition of the various aspects of the Bank’s compliance risk, the Board will approve and annually review this policy. It will ensure that an appropriate compliance policy is always in place to manage compliance risk and also oversee its implementation. It will also ensure that compliance issues are resolved effectively and expeditiously by senior management with the assistance of compliance staff.

Corporate culture emphasizes standards of honesty and integrity and the board of directors will lead by example. In order to ensure that the activities of the compliance function are subject to independent review, the compliance function and the audit function of the bank will be kept separate.

## **4.2 Audit Committee of the Board (ACB)**

The ACB is given the task of overseeing the implementation of the compliance policy and reviewing the compliance function on a quarterly basis.

## **4.3 Senior Management**

The bank's senior management will be responsible for identifying and managing the compliance risk through all levels of the organization. Whenever breaches are identified senior management will take appropriate remedial or disciplinary action. With the assistance of the compliance Cell the Senior Management will

- at the close of each financial year, assess the main compliance risk issues facing the bank and the plans to manage them.
- at the close of each financial year, report to the Board of Directors through ACB on the bank's management of its compliance risk, in such a manner as to assist board members to make an informed judgment on whether the bank is managing its compliance risk effectively; and
- report promptly to the board through ACB on any material compliance failure (e.g. failure that may attract a significant risk of legal or regulatory sanctions, material financial loss, or loss to reputation).

## **4.4 Chief Compliance Officer**

The Chief Compliance Officer (presently DGM HR, Dev.&C) will be the head of the Compliance Cell. He will be the nodal point of contact between the bank and the regulator. He will assist the top management in managing effectively the compliance risks faced by the bank. He will have the freedom to call for any report/data from any department or from any senior executive. He will have the overall responsibility for coordinating the identification and management of the bank's compliance risk and supervising the activities of other compliance function staff. His functions will be subject to review by ACB/Board at least on yearly basis.

The Chief Compliance Officer will be a participant in the quarterly informal discussions held with RBI.

The Chief Executive Officer of the bank will not remove the Chief Compliance Officer, except with the specific approval of the Board of Directors of the bank. The Board through ACB will 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 will also similarly be kept informed of the name of the Chief Compliance Officer as also any change thereof, as and when it takes place.

## **4.5 Compliance Cell & PMLA**

The Compliance Cell will consist of Chief Compliance Officer, Chief Manager (PMLA) and officers of PMLA Department. The cell will be attached to PMLA Department.

Chief Manager PMLA will coordinate the functions of compliance function related to identifying, analyzing, reporting compliance risk. For matters related to compliance function, the Chief Manager PMLA will report to the Chief Compliance Officer through Chief Risk Officer.

## **4.6 Compliance Officers at various Departments/Controlling Offices**

To assist the Compliance Cell in the matter of collecting data/reports from various departments/divisions, each department, division and controlling office of the Bank will have a compliance officer. As compliance function is closely related to operational risk, officers already designated as Operational Risk Managers in various departments, will function as compliance officers. In all Zonal Offices and controlling offices where there are no Operational Risk Managers, an officer each will be designated as compliance officer.

Compliance function staff/ Officers who are located in controlling offices will report to the Compliance Cell at PMLA regarding matters of Compliance. These units will co-operate closely with the Chief Compliance Officer. There will be utmost co-ordination among the compliance officers of various departments and controlling offices to enable the Chief Compliance Officer to perform the assigned responsibilities effectively.

## **5. Functional Requirements of Compliance Cell**

The bank's compliance function will be independent. The staff in the Compliance Cell at the Head Office as also Compliance Officers at Departments and controlling offices will primarily focus on compliance functions. The compliance staff may be assigned some other duties without giving room for conflict of interest. Under no circumstances, the compliance staff will be assigned audit/inspection duty as it gives rise to serious conflict of interest.

Apart from the basic qualifications, the Compliance staff will preferably have a fair knowledge of law, accountancy and information technology and also adequate practical experience in various business lines and audit/inspection functions to enable them to carry out their duties effectively.

In order to keep the compliance staff up-to-date with developments in the areas of banking laws, rules and standards, regular and systematic education and training will be given to them. They will be adequately trained in new products and services introduced in the banking industry as well as in the areas of corporate governance, risk management, supervisory practices etc.

Compliance officers will have access to all information they require and have the right to conduct investigation and report the findings to the Chief Compliance Officer.

## 6. Functions and responsibilities of Compliance Cell

### *The Compliance Cell will*

- 6.1 Act as the focal point for receipt and dissemination of all regulatory and internal guidelines/instructions. It will ensure that appropriate instructions get promptly issued within the organization, the instructions are actually received at each office, and the instructions are implemented.
- 6.2 Play the central role in the area of identifying the level of compliance risk in each business line, products and processes and issue instructions to operational functionaries. The Chief Compliance Officer will be a signatory to the evaluation of products and the policy / procedure formulation for outsourcing contracts in the bank.  
He will be a member of the 'New Product Evaluation Committee' of the bank and all products will be approved by him. He will ensure that all new products are subjected to intensive monitoring for the first six months of introduction by the concerned departments and that the indicative parameters of compliance risk are adequately monitored.
- 6.3 Advise and assist the senior management on compliance laws, rules and standards. It will provide written guidance to staff on the appropriate implementation of compliance laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines.
- 6.4 Identify compliance failures in the bank using the internal audit and concurrent audit as a feedback mechanism. Synopsis of all audit reports will be marked to Chief Compliance Officer and similarly, all reviews by compliance department will be marked to internal audit department. It will go through the synopsis of all audit/inspection reports and rectification reports regularly to enable it to identify compliance failures in the bank
- 6.5 At frequent intervals, interact with Legal Department, Accounts Department (for matters relating to SLR, CRR, Taxation, Disclosures etc) PMD (with regard to compliance of KYC, AML norms IRDA regulations etc) IBD (with regard to FIMMDA, FEDAI, RBI regulations) and Audit/Inspection Department of the bank to take stock of the latest developments.
- 6.6 Attend to the compliance of directions from other regulators (IRDA, SEBI etc. (For example, when acting as a corporate agent for distribution of other companies' insurance products it may receive direction from IRDA, which will be a part of the compliance function).
- 6.7 Bring to the notice of RBI any discomfort conveyed to the bank on any issue by other regulators.
- 6.8 Monitor/ensure timely submission of regulatory returns by the controlling offices through appropriate mechanism like maintenance of manual calendar until capabilities for generation of regulatory reports from a central pool is in place.
- 6.9 Monitor and test compliance by performing sufficient and representative compliance testing and report the results to the senior management.
- 6.10 Consider ways to measure compliance risk (e.g. by using performance indicators) and use such measures to enhance compliance risk assessment.
- 6.11 Conduct compliance reviews/investigations, whenever required. The authority to use external experts for the purpose of investigation, if required, is left to the discretion of the Chief Compliance Officer.

- 6.12 Recommend to Senior Management/ACB to procure software-based solutions that make available the regulatory instructions and also provide regular updates.
- 6.13 Circulate instances of compliance failures among staff along with preventive instructions at least once a year
- 6.14 Place before the Board and circulate to all the functional heads an Annual Report on compliance failures/breaches. Although normal reporting line of Compliance Cell will be to senior management, the cell will also have the right of direct access to the Board of Directors or to ACB, bypassing normal reporting lines.
- 6.15 Disclose in annual report of the bank non-compliance of any regulatory guidelines and administrative actions taken against the bank along with corrective steps taken to avoid recurrence of the lapses.

## **7. The Compliance Programme**

The responsibilities of the compliance function will be carried out under a compliance programme as mentioned below. The compliance programme will be risk-based and subject to oversight by the Chief Compliance Officer to ensure appropriate coverage across businesses and co-ordination among risk management functions.

### ***1. Reports from Departments/Zonal Offices to Compliance Cell***

<b>Sl.No.</b>	<b>Name of the Report / Return / Certificate</b>	<b>Department/Zonal Offices</b>	<b>Periodicity*</b>
1.	Synopsis of Audit / Inspection	Inspection	Monthly
2.	Compliance of submission of Legal Compliance Certificate	Vigilance	Quarterly
3.	Compliance of KYC / AML regulations	PMLA Cell	Quarterly
4.	Compliance of maintenance of CRR, SLR and other regulatory requirements of RBI	Accounts	Quarterly
5.	Certificate of Submission of Returns to RBI/ Government and observance of regulatory norms	All Departments and Zonal Offices	Quarterly
6.	Compliance of SEBI / FIMMDA / CCIL/ NDS/PDO guidelines	TIM	Quarterly
7.	Compliance of Tax Laws (Income Tax and Service Tax)	Accounts	Quarterly
8.	Compliance of norms relating to Banking Regulations Act and Companies Act with regard to conduct of meetings, dissemination of information / instructions, maintenance of records, corporate governance etc.	Board & Shares	Quarterly



Sl.No.	Name of the Report / Return / Certificate	Department/Zonal Offices	Periodicity*
9.	Compliance of Dissemination of information regarding various laws and its amendments to branches/offices and observance of regulatory norms in giving legal opinion / clearance.	Law	Quarterly
10.	Compliance of dissemination of information regarding various laws like IT ACT, Cyber Laws, etc and its amendments to branches/offices and observance of regulatory norms related to technological issues	IT	Quarterly
11.	Compliance of regulations of RBI, FEMA, FEDAI, Government and BR Act.	IBD	Quarterly
12.	Compliance of regulatory norms related to Non Banking Assets and Premises	PDD	Quarterly

\* Reports/certificates/returns should reach the Compliance Cell (ORMD) within 15 days from the close of the month (in the case of monthly items) and within 20 days from the close of the quarter (in the case of quarterly items)

## **2. Reports from Compliance Cell to Senior Management**

Based on the reports/certificates received from various heads of Departments/Zonal Offices Compliance Cell will identify compliance failures and major failures if any will be reported to Chairman.

Name of the Report	Contents@	Periodicity**
Monthly Compliance Report to MD & CEO	i) Compliance systems and procedures within the Bank, ii) Compliance failures, if any during the month, iii) Consequential losses and regulatory action iv) Steps taken to avoid recurrence of the failures	Monthly

\*\* Will be submitted within 20 days from the close of the month.

@ Report for the month of June, September, December and March should include details of compliance failures reported by various departments and Zonal Offices besides the details extracted from inspection synopsis every month

### 3. Reports from Compliance Cell to ACB

Within 30 days from the close of every quarter (June, September, December) a brief report on the compliance position will be placed before the ACB. This report will show a consolidated position of all major items appearing in the monthly reports submitted to MD & CEO.

Name of the Report	Contents	Periodicity \$
Quarterly Compliance Report to ACB	i) Compliance systems and procedures within the Bank, ii) Compliance failures, if any during the quarter, iii) Consequential losses and regulatory action iv) Steps taken to avoid recurrence of the failures	Quarterly (June, September, and December)

\$ As there is an yearly return in the month of March from the Compliance Cell to the Board through ACB, the cell need not submit a separate quarterly return for the quarter ending March.

### 4. Reports from Compliance Cell to Board through ACB

Name of the Report	Contents	Periodicity ^
Annual Compliance Report to Board	i) Compliance failures, if any during the preceding year and consequential losses and regulatory actions as also steps taken to avoid recurrence of the same. ii) List of all major regulatory guidelines issued during the preceding year and steps taken by the bank to ensure compliance. iii) Independence of compliance function iv) Scope of compliance procedures and processes, v) System of internal control to minimize compliance risk. vi) Compliance with fair practices codes and adherence to standards set by self-regulatory bodies and accounting standards.	Yearly. (As on 31st March every year.)

Name of the Report	Contents	Periodicity ^
	vii) 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.  viii) Strategy for the next year including restructuring of compliance department, if necessary, posting/transfer/training of staff	

^ Will be submitted within 30 days from close of the year.

The code of conduct for employees envisages working towards earning the trust of the society by dealing with customers in a fair manner and conducting business operations consistent with rules and regulations. Instances of major compliance failures on the part of employees will be reported by the Compliance Cell to the Staff Department for taking appropriate action.

The activities of compliance function will be subject to annual review by the internal audit. More emphasis for Compliance risk will be given in the risk assessment methodology of the internal audit function and the audit programme will cover the adequacy and effectiveness of the bank's compliance function including testing of controls commensurate with the perceived level of risk.

In future bank may choose to carry on business in various jurisdictions for a variety of legitimate reasons. In such cases, it will be ensured that applicable laws and regulations in all such jurisdictions and that the organization and structure of the compliance function and its responsibilities are consistent with local legal and regulatory requirements. It will also be ensured that compliance responsibilities specific to each jurisdiction are carried out by individuals with the appropriate local knowledge and expertise, with oversight from the head of compliance in cooperation with the bank's other risk management functions.

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