



Saurashtra Gramin Bank

Compliance Policy

Version Control

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References

Institution	Circular Ref no.	Date
Reserve Bank of India	DBS.CO.PP.BC.6/11.01.005/2006-07	April 20, 2007
NABARD	NB.DoS.HO.POL/.1265/J.1/2008	June 30, 2008
Reserve Bank of India	DBS.CO.PPD. 10946/11.01.005/2014-15	March 04, 2015
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Contents

Point no	Particular	Page No.
1	Introduction	3
2	Scope of Policy	4
3	Compliance Risk and significance of Compliance Function	4
4	Responsibility of the Board and Senior Management	5
4.1	➤ Responsibility of the Board of Directors	5
4.2	➤ Responsibility of Senior Management	5
5	Compliance Policy	6
5.1	➤ Compliance Structure	7
5.2	➤ Staffing of Compliance Department	7
5.3	➤ Reporting of Change in Compliance officer to NABARD/RBI	7
5.4	➤ Function of Compliance Department	8
5.5	➤ Reporting Structure	10
5.6	➤ Co-ordination with Compliance Function	10
5.7	➤ Access to information	11
5.8	➤ Annual Audit of Compliance Functions	11
6	Compliance Programme	11
7	Compliance testing	12
8	Promoting a compliance culture	12
9	Review of Policy	12

PREAMBLE

The Banks in India already have certain compliance processes in place in accordance with the recommendations of the Ghosh Committee report of 1992. These processes and the organizational structures, through which they operate, have been primarily shaped by the existing RBI guidelines to banks, as also by the banks' own standards of internal governance. However, as the present arrangements in the banks show, its evolution as an institutional arrangement has not kept pace with the increasing complexities and sophistication in the banking business. In a number of banks, compliance function is yet to be fully cognizant of the "compliance risk" and the reputational risk arising out of compliance failures causing huge economic costs. Consequently, there is a critical need for the management of that risk as one of the key facets of integrated risk management or enterprise wide risk management framework.

Compliance function in bank is one of the key elements in the banks' corporate governance structure. The compliance function in banks has to be adequately enabled and made sufficiently independent. The Basel Committee on Banking Supervision (BCBS) document (April 2005) essentially articulates this perception. This policy seeks to introduce certain principles, standards and procedures relating to compliance function consistent with the BCBS document and keeping in view the operating environment in India. This policy also intends to articulate that the compliance function is an integral part of governance along with the internal control and risk management process. For the compliance function to be effective, it must be supported by a healthy compliance culture within the organization.

In this policy, a set of minimum guidelines have been laid down. Considering scale of operations, risk profiles and organizational structures, Bank is going to implement its compliance functions and set priorities for the management of the compliance risks in Bank.

Compliance and Compliance function in Bank**1. Introduction:**

The Compliance Function has to ensure 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 RBI, NABARD, BCSBI, IBA, FEDAI, FIMMDA, IRDA, SEBI 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 typically 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. For the reasons mentioned above, these are likely to go beyond what is legally binding and embrace broader standards of integrity and ethical conduct. It will be the responsibility of Bank's Compliance Officer in the Bank to assist the top management in managing effectively the compliance risks faced by the Bank.

Reserve Bank of India (vide circular DBS.CO.PP.BC.6/11.01.005/2006-07 dated April 20, 2007) and NABARD (vide circular No. NB.DoS.HO.POL/.1265/J.1/2008 dated June 30, 2008), advised on compliance function in banks. It has been observed that certain supervisory concerns continue to recur, necessitating the need for tighter compliance regimes in banks in accordance with the above circular. Further, with the advent of Risk Based Supervision approach, some additional aspects are required to be overseen more incisively. Accordingly, RBI re-iterated the contemporary relevance of their circular issued in 2007, the additional concerns and other aspects which need review and testing from the compliance perspective, are summarized vide RBI circular DBS.CO.PPD. 10946/11.01.005/2014-15 dated 04/03/2015. In view of the increased focus on compliance and for better control, Bank has replete compliance policy with compliance testing and review structures.

2. Scope of the Policy:

This policy will apply to all offices, departments and employees of the Bank.

3. Compliance Risk and significance of Compliance Function:

The BCBS paper on Compliance and the Compliance Function in Banks (April 2005) defines Compliance risk 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”).

The compliance area is critically important in identifying, evaluating, and addressing legal and reputational risks. Given the significance of these risks, a strong Group/enterprise-wide compliance programme is a necessity. A group/enterprise-

wide compliance programme helps 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 programme could help management and the Board in understanding where the legal and reputational risks in the organization are concentrated, provides comparisons of the level and changing nature of risks, and identifies those control processes that most need enhancement. The compliance function must therefore ensure 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. Responsibility of the Board and Senior Management

Compliance starts at the top. It will be most effective in a corporate culture that emphasizes standards of honesty and integrity and one in which the Board of directors and senior management lead by example.

4.1. Responsibility of the Board of Directors

4.1.1. Supervision of Compliance Function

The Board will be responsible for ensuring that an appropriate compliance policy is in place in the Bank to manage compliance risk and also overseeing its implementation. It has to ensure that compliance issues are resolved effectively and expeditiously by senior management with the assistance of compliance staff. The Board may delegate these tasks to the Audit Committee of the Board (ACB) or a specific Board level Committee constituted for the purpose, if necessary.

4.1.2. Review of Compliance Function

The Board will review compliance function on a quarterly basis. A detailed annual review will also be placed before the Board/ ACB or the Board level Committee. Compliance failure may be reviewed by Board/Management committees and appropriate remedial measures may be taken.

4.1.3. No conflict of Interest and independence of compliance functions

In order to ensure that there is no potential for any conflict of interest and that the activities of the compliance function are subject to independent review, the compliance function and the audit function of the Bank will necessarily be kept separate.

4.2. Responsibility of Senior Management

4.2.1. The Bank's senior management will be responsible for establishing a written compliance policy that will contain the basic principles to be followed by the management and staff, and will explain the main process by which compliance risk will be identified and managed through all levels of the organization.

4.2.2. The senior management will ensure that appropriate remedial or disciplinary action is taken if breaches are identified.

4.2.3. Senior management will, with the assistance of the compliance staff:

- a) at least once in a year, identify and assess the main compliance risk which the Bank is facing and to formulate the plans to manage them.

- b) Submit to the Board quarterly and annual reviews as prescribed in Para 4.1.2 above, 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
- c) Report promptly to the Board of directors or the 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).

5. **The Compliance Policy:**

A robust compliance system in a Bank consisting of a well-documented Compliance Policy, outlining the compliance philosophy of the Bank, role and set up of the Compliance Department, composition of its staff and their specific responsibilities.

Broadly, the policy will provide for the following aspects:

- i. Setting up of an independent Compliance Department at the Head Office with a senior executive heading it with adequate support staff and its role and responsibilities specified.
- ii. Compliance structure in controlling offices and branches specifying the role and responsibility of each functionary in the compliance units.
- iii. Measures to ensure independence of the compliance function
- iv. Focus of the compliance function 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.
- v. Monitoring of and monitoring mechanism for the compliance testing procedure.
- vi. Reporting requirements including reporting of monitoring results, compliance risk assessment, change in the compliance risk profile etc. by compliance function to the senior management and the Board of Directors or ACB or the committee of the Board as the case may be.
- vii. Right of the compliance function to have access to information necessary to carry out its responsibilities and for pointing out / looking into possible breaches of compliance policy.
- viii. Relationship between Compliance Officer and heads of other functional departments.
- ix. Independence of the compliance functions from audit function and clarity on their respective roles.
- x. Mechanism for dissemination of information on regulatory prescriptions and guidelines among operational staff and periodic updating of operational manuals to incorporate changes in regulatory and legal etc., prescriptions.
- xi. Approval process for all new processes and products by the Compliance Department prior to their introduction.
- xii. Right of the compliance function to freely disclose its findings and views to senior management, Board/ ACB or the committee of the Board.

5.1. The Compliance structure:

Considering our branch network, size and complexity of the business, Compliance Department is established at Head office who will report to General Manager (O) directly. Every departmental head / In-charge at Head Office and Regional office(s) will be responsible for compliance function of their respective department/office. Similarly, every Branch In-charge will be responsible for compliance at branch level and will report to respective Regional Managers who will be responsible for compliance function in the Region and branches under their control. Accordingly, each Departmental Head/each Regional Manager will act as Compliance Officer (HO Dept)/ Regional Compliance Officer of their department / Region. Each Departmental and Regional Compliance Officer will report to the Compliance Officer (HOD - Compliance) on issues related to regulatory/statutory compliance.

5.2. Staffing of Compliance Department

5.2.1. Executive or senior staff member of the cadre not less than in the rank of Senior Manager or equivalent designated as Compliance Officer with overall responsibility for coordinating the identification and management of the Bank's compliance risk and supervising the activities of other compliance function staff. Appropriate succession planning may be resorted to, for ensuring that the post of compliance officers does not remain vacant for long period.

5.2.2. The Compliance Officer in Bank shall be appointed for a minimum fixed tenure of not less than 3 years with provision for one more reappointment. However, in exceptional cases, the Board / Board Committee may relax the minimum tenure by one year, provided appropriate succession planning is put in place. During such tenure, Compliance officer may be removed / transferred only with the approval of the Board and through an internal administrative procedure for his/her act of negligence in discharging compliance function or for serious acts of omission and commissions in other financial or administrative matters, which are established and recorded in a transparent manner.

5.2.3. Apart from the basic qualifications, the Compliance staff will preferably be having 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 in new products and services introduced in the banking industry as well as in the areas of corporate governance, risk management, supervisory practices etc. may be considered.

5.2.4. Staffing of compliance department may be accorded adequate priority in order to ensure that the compliance wings discharge their functions without human resource constraints. The Board, Audit Committee of the Board or any other Board Committee as the case may be, will be kept informed of any change in the **Compliance Officer** as also the reason for the change in the incumbent.

5.3. Reporting of Change in Compliance officer to NABARD/RBI:

The Reserve Bank of India/NABARD will be kept informed of the name of the Compliance Officer as also any change thereof, as and when it takes place.

5.4. Function of Compliance Department

- a) The staff in the Compliance Department at the Head Office as also Compliance Officers at controlling offices and branches will primarily focus on compliance functions 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. However, being small sized Bank with limited branch network, the compliance staff may be assigned some other duties while ensuring that there is no conflict of interest. Under no circumstances, the compliance staff will be assigned audit/inspection duty as it gives rise to serious conflict of interest in view of the fact that all products and processes are expected to be cleared by the Compliance Department and its audit needs to be carried out independently by separate set of staff.
- b) The Compliance Department at the Head Office will 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 / formulate proposals for mitigation of such risk. It will periodically circulate the instances of compliance failures among staff along with preventive instructions.
- c) Compliance function shall vet the guidelines / circulars issued, for compliance with regulatory guidelines, before they are disseminated amongst the operational units. The compliance function will incorporate a robust mechanism to:
 - i. Ensure that regulatory guidelines / instructions are promptly issued / disseminated within the organization.
 - ii. monitor compliance with the regulatory guidelines/ instructions
- d) The Compliance function shall on a proactive basis identify, document, assess the compliance risks associated with banks' business activities and products. The compliance risks in all new products and processes will be thoroughly analysed and appropriate risk mitigants by way of necessary checks and balances will be put in place before launching. The Compliance Officer will be a member of the 'new product' committee/s to ensure that the new products / processes have clearance from all perspectives including compliance. All new products will be subjected to intensive monitoring for the first six months of introduction to ensure that the indicative parameters of compliance risk are adequately monitored.
- e) The compliance function shall advise and assist the senior management on compliance laws, rules and standards, including keeping them informed on developments by establishing 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.
- f) The Compliance Department will serve as a reference point for the Bank's staff from operational departments for seeking clarifications/ interpretations of various regulatory and statutory guidelines
- g) The compliance function will monitor and test compliance by performing sufficient and representative compliance testing and the results of such compliance testing will be reported to the senior management. It will also consider ways to measure compliance risk (e.g. by using performance indicators) and use such measurements to enhance compliance risk assessment.

h) Dissemination of Information

Compliance Department will 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. Deposit Insurance and Credit Guarantee Corporation (DICGC)
9. National Bank for Agriculture and Rural Development (NABARD)
10. National Housing Bank (NHB)
11. Clearing Corporation of India Ltd. (CCIL)

(*Above list is indicative and not exhaustive and the Compliance Department will use other sources to disseminate the information as per various regulatory as well as other requirements.)

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

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

Compliance Department will submit the list of important guidelines along with action taken/ to be taken by the Bank to ensure implementation in Bank with tentative timelines for perusal of the Board on quarterly basis.

- i) The compliance department will also attend to the compliance of directions from other regulators (IRDA, SEBI etc) in those cases where the activities of the Bank are not limited to the banking sector. For example, a Bank which is acting as a corporate agent for distribution of other companies' insurance products may receive direction from IRDA, which will be a part of the compliance function. Further, discomfort conveyed to the Bank on any issue by other regulators, will be brought to the notice of the respective regulators/ Reserve Bank of India / NABARD.

5.5. Reporting Structure:

Each Department in the Head Office and Regional offices and the branches will have distinct compliance function and the functions will be undertaken by specifically identified / designated compliance official as prescribed in above point No.5.1 who will report to the Compliance Officer.

The Compliance Officer shall directly report to General Manager (O). The compliance officer will be free to report to senior management on any irregularities without fear of disfavour from management or other staff members. Although its normal reporting line will be to senior management, the compliance officer will also have the right of direct access to the Board of Directors bypassing normal reporting lines. It may be useful for the Board to meet with the head of compliance at least annually, as this will help the Board to assess the extent to which the Bank is managing its compliance risk effectively.

An Annual Report on compliance failures/breaches will be compiled by the Compliance Officer and placed before the Board and circulated to all the functional heads. Non-compliance with any regulatory guidelines and administrative actions initiated against the Bank and or corrective steps taken to avoid recurrence of the lapses will be disclosed in the annual report of the Bank.

Apart from the exhaustive annual review, a more frequent report on the position of compliance risk, as and when required, will be put up to the Compliance and Risk Management Committee by the Compliance Officer. A brief report on the compliance position may also be placed before the Board on a quarterly basis.

Instances of all material compliance failures which may attract significant risk of legal or regulatory sanctions, financial loss or loss of reputation will be reported to the Board/ACB/Board Committee promptly.

The Compliance Officer will be the nodal point of contact between the Bank and the regulator. In case compliance to NABARD inspection reports is communicated through the Inspection & Audit department of the Bank to NABARD, a copy of the same needs to be endorsed to the Compliance Officer, for information or it may be routed through the Compliance Officer.

5.6. Co-ordination with Compliance Function

Co-ordination among all departments is required to enable the Compliance Officer to perform the assigned responsibilities effectively. The Compliance Department will, at frequent intervals, interact with Credit Department, Finance & Accounts Department, Personnel Department, Audit & Inspection Department etc. of the Bank to take stock of the latest developments.

The compliance functionary will be looked at as a friend, philosopher and guide by the business units. There will be close co-ordination and partnership between Compliance and Business Operations functions. The interaction may be formalized by making the Compliance Officer a member of the various inter-departmental committees in the Bank.

5.7. Access to information

Compliance officers will have access to all information they require and have the right to conduct investigation and report the findings to the Compliance Officer. The Compliance Officer will necessarily be a participant in the quarterly informal discussions held with RBI / NABARD.

Compliance staff will be empowered to conduct compliance reviews/investigations, whenever required. The authority to use external experts for the purpose of investigation, if required, will be left to the discretion of the Compliance Officer.

Inspection/audit findings will serve as a feedback mechanism for the Compliance Department for assessing the areas of compliance breaches/failures. The Compliance

Officer may be an invitee to the meetings of the ACB. A check-list on the compliance aspect may be made part of the inspection report for the inspectors / concurrent auditors to verify the level of compliance. The audit function will keep the Head of compliance informed of audit findings related to compliance.

5.8. Annual Audit of Compliance Functions

The activities of the compliance function will be subject to annual review by the internal audit. Compliance risk will be included 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.

6. The Compliance Programme:

6.1. The responsibilities of the compliance function will be carried out under a compliance programme that sets out its planned activities. The compliance programme will be risk-based and subject to oversight by the head of compliance to ensure appropriate coverage across businesses and co-ordination among risk management functions.

6.2. Risk Based Supervision:

6.2.1. Certain very specific templates oriented towards compliance assessment have been introduced under the RBS framework. Compliance Officer will ensure total compliance with all specified guidelines enlisted in the said template. It will be ensured that regulatory guidelines forming part of such template will be updated on an annual basis. Bank will strive to put in an exhaustive compliance framework encompassing all guidelines emanating from RBI / NABARD, identify potential breaches and remedy them up-front.

6.2.2. Examination of compliance rigor prevalent in bank will be suitably factored in the risk assessment process and will go further in evaluating risk scores of bank.

6.3. The compliance function shall have specific statutory responsibilities (e.g. fulfilling the role of anti-money laundering officer). Bank will carry out an annual compliance risk assessment in order to identify and assess major compliance risks faced by them and prepare a plan to manage the risks. The Annual review will 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.
- ❖ Independence of compliance function
- ❖ 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 NABARD inspection reports and position of implementation of recommendations made therein.
- ❖ Strategy for the next year including restructuring of compliance department, if necessary, posting/transfer/training of staff.

6.4. Compliance with Monitorable Action Plan (MAP)/Risk Mitigation Plan (RMP):

Compliance units of the Bank will specifically devise a time-bound strategy to ensure that compliance on all specified points is achieved within the time frame. Bank will ensure creating an adept compliance scenario, where all MAP/RMP points are complied with well before the commencement of the subsequent supervisory cycle and/or within the periods prescribed for fulfilling the requirements of MAP/RMP. Penal provisions may be invoked for unsatisfactory compliance with MAP/RMP.

7. Compliance testing:

Compliance units in bank will evaluate the compliance risk in each business line at half-yearly intervals for the half-year ended September & March and put up the results to the Board/Management Committee.

8. Promoting a compliance culture

The code of conduct for employees will envisage 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. Due weightage could be given to record of compliance during performance appraisal of staff at various levels. Staff accountability will be examined for all compliance failures. It is important that the need to comply with instructions meticulously is re-emphasized among all the staff in the Bank through continuous and mandatory training to all staff on compliance aspects, appropriate disciplinary measures through staff accountability framework/policies for non-compliance etc. Compliance will not be seen as an activity of the compliance department alone but as a culture that will pervade across the bank.

9. Review of Policy

Compliance department shall submit the policy to the Board for Review at annual intervals. Any instructions/circulars received from regulators in respect of this policy shall form part of this policy and shall be implemented /amended suitably at the time of periodical review.