

COMPLIANCE POLICY

Introduction

The Compliance Policy of Usha Financial Services Limited ("the Company") ensures fulfilment of compliance function in the company. The Compliance Function envisages strict observance of all statutory provisions contained in various legislations such as Banking Regulation Act, Reserve Bank of India Act, Companies 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 other regulators etc; and also NBFC 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. 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 NBFC products.

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 NBFC will be the important sources for compliance laws, rules and standards. These rules and standards may go beyond what is legally binding.

Objective of Compliance Function

The purpose of the compliance function is to assist the NBFC 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 NBFC 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 NBFC activities"; (together, 'compliance laws, rules and standards')

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

Compliance Function and its relevance in the NBFC

The compliance area is critically important in identifying, evaluating, and addressing legal and reputational risks. A group/enterprise-wide compliance program will help the NBFC 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 boards 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.

Board of Directors

In recognition of the various aspects of the NBFC 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.

Chief Compliance Officer

The Chief Compliance Officer will be the head of the Compliance Cell. He will be the nodal point of contact between the NBFC and the regulator. He will assist the top management in managing effectively the compliance risks faced by the NBFC. 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 NBFC compliance risk and supervising the activities of other compliance function staff.

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

Functional Requirements of Compliance Cell

The NBFC compliance function will be independent. The staff in the Compliance Cell at the Head Office as also Compliance Officers at Department will primarily focus on compliance functions. The compliance staff may be assigned some other duties without giv-



ing 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.

In order to keep the compliance staff up-to-date with developments in the areas of NBFC 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 NBFC industry as well as in the areas of corporate governance, risk management, supervisory practices etc. Compliance officer will have access to all information they require and have the right to conduct investigation and report the findings to Directors.

Functions and responsibilities of Compliance Cell

The Compliance Cell will

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.
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 NBFC.
3. Advise and assist the Board of Directors 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.
4. Identify compliance failures in the NBFC using the internal audit and 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 NBFC.



5. At frequent intervals, interact with Legal Department, Accounts Department and Audit/Inspection Department of the NBFC to take stock of the latest developments.
6. Bring to the notice of RBI any discomfort conveyed to the NBFC on any issue by other regulators.
7. Monitor/ensure timely submission of regulatory returns by the head offices through appropriate mechanism like maintenance of manual calendar until capabilities for generation of regulatory reports from a central pool is in place.
8. Monitor and test compliance by performing sufficient and representative compliance testing and report the results to the Board of Directors.
9. Consider ways to measure compliance risk (e.g. by using performance indicators) and use such measures to enhance compliance risk assessment.
10. Conduct compliance reviews/investigations, whenever required. The authority to use external experts for the purpose of investigation, if required.
11. Recommend to Senior Management to procure software-based solutions that make available the regulatory instructions and also provide regular updates.
12. Place before the Board and circulate to all the functional heads an Annual Report on compliance requirements. 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.

Policy Review:

The Board may review the Compliance Policy from time to time as may be required. Changes, if any, shall be effective only upon approval by the Board. Any other regulatory changes shall stand updated in the policy from time to time.

