

**PIRAMAL ENTERPRISES LIMITED**

## **Compliance Policy**

Dated: 9th November 2023

FOR INTERNAL USE ONLY

**Policy owner:** **Compliance Function (Company-wide)**

**Policy location:** Mumbai, India

**Version:** V 4.0 – Review of Policy

**Approved on**

**Date:** 9th November 2023

**Approved by:** Board

**Supersedes:** V 3.0 - Review of Policy

## 1.1. Background

Piramal Enterprises Limited (“PEL”/ “Company”) a non-deposit taking Non-Banking Finance Company (NBFC-ND) registered with Reserve Bank of India and engaged in various financial services businesses. It provides both wholesale and retail funding opportunities across sectors to the customers.

While undertaking the financial services business, the Company is required to comply with all statutory provisions contained in various legislations such as Reserve Bank of India Act, Companies Act, Prevention of Money Laundering Act etc. as well as observe other regulatory guidelines issued from time to time; standards and codes prescribed by industry associations/self-regulatory organisations/stock exchanges and also internal policies and Fair Practices Code of the Company.

Reserve Bank of India (RBI) vide its Circular “Compliance Function and Role of Chief Compliance Officer (CCO) – NBFCs” dated April 11, 2022 (hereinafter referred to as the “Circular”) requires NBFC- Middle Layer to put in place Board approved Compliance Policy as per the framework given in the said Circular by October 1, 2023.

The Basel Committee on Banking Supervision paper on Compliance and the circular defines Compliance risk as “the risk of legal or regulatory sanctions, material financial loss, or loss of reputation an 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 business activities” (together, “*compliance laws, rules and standards*”).

The Compliance Policy sets forth the framework for effective and efficient management of Compliance risk at the Company. The contents of the policy are applicable to all employees of the company and are aimed at making them familiar with the policy/ processes/ procedures directly relating to compliance risk management.

The Compliance Policy deals with the regulatory compliance associated with RBI and other regulatory authorities. The compliance with rules and regulations of the SEBI and Stock Exchanges are monitored by the Secretarial Department. The Board related matters pertaining to Companies Act are managed by Secretarial Department.

Compliance is an integral part of a well-managed business, capable of creating value through enhanced reputation and stakeholder confidence. The Compliance Policy is therefore approved by the Board of Directors for effective management of the compliance risk of the Company.

## 1.2. Objective

The objectives of this policy are to:

- Lay down the compliance philosophy
- Put in place governing principles and processes for managing compliance risk.

### **1.3. Key principles and Compliance Philosophy**

The Compliance Policy among others sets out basic principles to be followed by the staff of the Company for ensuring an effective and efficient compliance environment. These key principles, help to achieve the Company's vision, helping customers, communities, and people.

Compliance is most effective in the Company that emphasizes standards of honesty and integrity. It concerns everyone in the organization and should be viewed as an integral part of the business. The Company should hold itself to high standards when carrying on business and, at all times, strive to observe the spirit as well as the letter of the applicable law.

### **1.4. Ownership of Compliance and sharing of compliance responsibility**

Compliance starts at the top. The Board / Audit Committee of Board (ACB) is responsible for overseeing the management of compliance risk and implementation of the compliance policy and processes across the Company.

The Senior Management of the Company are responsible for managing the compliance risk and implementing the compliance policy. The Chief Compliance Officer (CCO) will support the Senior Management of the Company to enable it to function effectively.

Effective compliance management is an important component in the Company's business environment. Compliance is the responsibility of every individual in the Company. This implies demonstration of a strong commitment to compliance, good corporate governance, and responsible corporate behaviour. To fulfil this responsibility, it is required of all stakeholders to:

- Possess a good understanding of the relevant compliance requirements applicable to the discharge of their duties.
- Ensure adherence to the applicable compliance laws, rules, and standards.

Employees may consult the Compliance Function for assistance with any questions regarding the Compliance Policy or any aspect of compliance responsibility.

### **1.5. Compliance culture and Independence**

The Company promotes awareness of compliance requirements and ethical values to maintain an appropriate compliance culture throughout its businesses. The compliance culture should be enhanced through various forms of communication and interactions across the Company, e.g. awareness sessions, trainings, discussions on compliance requirements at management meetings, and other required programs.

Independence of the Compliance Function is critical to objectively assess and express views on the policies and practices of other functions/businesses in relation to compliance.

Compliance Function in the Company is independent of the business function. The Chief Compliance Officer (CCO) report to Audit Committee of the Board to enable clear independence. The CCO and Compliance Function shall have the authority to communicate with any staff member and have access to all records or files that are necessary to enable her / him to carry out entrusted responsibilities in respect of Compliance issues.

In addition, to enable independence, the following aspects -were ensured:

- The Compliance Function -is functionally independent with no business or operational responsibilities, so that there is no conflict of interest.
- The roles and responsibilities of the Compliance Function and Internal Audit of the Company kept separate.

## **1.6. Communication & Coordination**

Both upstream and downstream communications are important for effectively managing compliance risks. The Compliance Function shall be responsible for identifying and communicating relevant compliance requirements, clarifications and regulatory requirements to all business teams and also keeping the Senior Management abreast of key changes on a timely basis. All communications, especially circulars and inspection related, received from the regulators shall be forwarded to the concerned team for further action within the Company.

In order to effectively and efficiently manage compliance risk, the Compliance Function should work in close coordination with other functions. Internal Audit should keep the Compliance Function informed of audit findings related to compliance. Audit findings will serve as a feedback mechanism to assess areas of compliance breaches and failures. The Chief Compliance Officer shall be the focal point between the Company and regulators.

## **1.7. Regulatory Relationship and dissemination of guidelines**

Cordial regulatory relationships with all regulators are one of the key elements of the compliance culture and the Company would like to achieve and maintain the same. This shall be done by engaging proactively with the regulators. All queries / clarifications sought by the regulators shall be promptly replied / clarified by the Company. The regulatory relationship management shall be the responsibility of the Chief Compliance Officer and shall be the focal point between the Company and regulators.

All correspondence received from the regulator requiring actions from the Company shall be sent to the relevant business/functional heads by Compliance Function and the response would be submitted within given time to the regulators.

The Compliance Function will act as nodal point for coordination of the inspection by regulators having jurisdiction over the Company. All the requirements of the regulatory inspection will be provided by Compliance Function with the help of concerned Business / Support functions.

The Compliance Function shall, with the help of other business/support functions ensure timely and accurate submission of responses to the regulatory inspection observations including Risk Mitigation Plan (RMP) / Monitorable Action Plan (MAP) points.

Any change in the regulatory environment, e.g. introduction of new/revised guidelines or regulations by the regulator or change in the Company's internal codes/guidelines etc, should be tracked by Compliance Function. It should then communicate the change and the actions to be taken to the concerned business and support functions.

## **1.8. Roles and responsibilities**

Compliance is the responsibility of every individual in the Company and therefore each one has a role to play to ensure effective management of compliance risk.

The roles and responsibilities for management of Compliance risk are detailed below.

### **1.8.1. Audit Committee of the Board (ACB)**

The key compliance related responsibilities of ACB include:

- Ensuring that an appropriate Compliance Policy is in place in the Company to manage compliance risk and also overseeing its implementation.
- Ensuring that compliance issues are resolved effectively by Senior Management with the assistance of Chief Compliance Officer
- Reviewing the reports received from the Chief Compliance Officer on compliance risk management activities and prescribing the periodicity for review of compliance risk.
- Reviewing the Compliance Policy annually.

### **1.8.2. Senior Management**

Senior Management, with the assistance of the Chief Compliance Officer, should:

- Carryout an exercise at least once a year to identify and assess the main compliance risks facing the Company and manage them. Report promptly to the Board/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)
- Ensure that appropriate remedial or disciplinary action has been/is being taken if material breaches are identified.
- Review the mitigation plans on various compliance risks identified, monitor the timely resolution of compliance issues arising out of various internal and external inspections, audits and compliance breaches, and assist in creating a compliance conscious culture.

### **1.8.3. Chief Compliance Officer/Compliance Function**

The Company has appointed a Chief Compliance Officer (CCO) to manage the compliance risk of the Company. The Company will adhere to the extant RBI guidelines regarding appointment and tenure of CCO. The Chief Compliance Officer should preferably have fair knowledge on compliance and also adequate practical experience in various business lines and audit/inspection functions to carry out duties effectively. He/she should also attend to the compliance of directions from all the regulators having jurisdiction over the Company and/or its activity.

The key compliance related responsibilities of the Chief Compliance Officer/Compliance Function include:

- Acting as a nodal point of contact between the Company and the regulators and ensuring
- compliance of regulatory/ supervisory directions given by RBI in a time-bound and sustainable manner
- Monitoring adherence of all applicable regulations and compliance of the Company's internal policies and fair practices code
- Disseminating regulatory guidelines/instructions to Business teams and Support functions
- Arranging for response/clarifications to the queries/information requests by the regulators and coordinating regulatory inspection
- Playing central role in identifying, assessing and documenting the compliance risks with regard to the business activities and issuing instructions for mitigating the same

- Assisting the Senior Management in identifying and assessing main compliance risks faced by the Company and formulating plans to manage them.
- Overseeing the compliance activities of all regulated subsidiaries of the Company (PEL)
- Submitting to the ACB a review of the activities of Compliance Function including material compliance failure if any, quarterly Compliance Certificate to Chairman/MD and annual review of Compliance policy
- Ensuring strict compliance of the Anti-Money Laundering regulations in order to prevent / detect money laundering and illegal funding activities.
- The Chief Compliance Officer is a member of the 'new product' committee/s. He/ she will ensure review of all new policies/ products and processes, from a statutory and regulatory compliance standpoint, prior to their introduction. All new products shall be subjected to monitoring for at least the first six months of introduction to ensure that the indicative parameters of Compliance risk are adequately monitored.
- Ensuring proper compliance with directions from regulators other than RBI such as IRDA, SEBI, etc., the Nodal Compliance Officers or Designated Officer for the concerned function shall be responsible for carrying out the compliance of their domain and shall report the non-compliance to the Chief Compliance Officer. The Compliance Function will have oversight to ensure that the company adheres to all applicable statutory and regulatory requirements for the Company. Further, discomfort conveyed to the Company on any issue by other regulators, and action taken by any other authorities / law enforcement agencies, shall be reported to RBI.
- To monitor and test Compliance, Compliance Function will conduct representative Compliance Testing to evaluate the efficacy of the compliance by the business segments/operations units for various regulatory obligations. Compliance Function may seek the help of Internal Audit to test the compliance obligations. The results of such Compliance testing shall be reported to the Senior Management/ACB.

### **1.8.5. All employees**

As set out in the guiding principles of Compliance philosophy, compliance is the responsibility of every individual in the Company. It is the responsibility of every employee to adhere to the requirements of all compliance laws, rules and standards, internal policies and fair practices codes; report compliance findings or non-compliances to the Compliance Function; and share information that may be required to carry out their responsibilities. Employees should attend training and awareness programmes organised on compliance matters and keep abreast of statutory and regulatory compliance requirements related to their respective areas of operation.

### **1.9. Compliance breach management**

Compliance breaches are incidents that may lead to legal or regulatory sanctions, financial loss or damage to reputation or impairment of integrity, as a result of a failure to comply with applicable laws, regulations and standards.

An illustrative list of breaches is as follows:

- Internal crime or fraud (e.g. misappropriation of assets, bribery)
- External crime or fraud (e.g. money laundering by a customer of the Company, theft of information, third party theft and forgery)
- Regulatory sanctions (all events to be reported irrespective of amount)
- Incidents resulting in reputational damage.

### **1.9.1. Sources of information and data on breaches**

Some of the typical sources of information and data on breaches include, but are not limited to:

- Audit reports
- Regulatory Inspection Report
- Notices sent by the regulator to the Bank
- Fraud reports to the RBI
- Media / public domain reports for industry data

### **1.9.2. Analysis of breaches**

The identified compliance breaches should be analysed and resolved in an appropriate manner. The objective of the analysis is to identify areas of weakness which may lead to non-compliances and take necessary actions prevent recurrence of such breaches in the future. Analysis and resolution of breaches shall consist of following considerations:

- Analyzing whether the breach is on account of ignorance of regulatory/internal requirements or wrong interpretation of these requirements.
- Resolving the breach by fulfilling the regulatory/internal requirement
- Taking steps to ensure that such breaches do not recur by putting in place appropriate policy/process and procedure depending on the nature of the breach.

### **1.9.3. Compliance breach reporting**

Instance of compliance breach observed by any employee of the Company should be immediately reported to the Compliance Function. Timely reporting of breaches or potential breaches will help the Company to:

- Identify compliance situations quickly and efficiently.
- Respond quickly to minimize damage and resolve the issues.
- Share lessons learnt within the Company to prevent recurrences.
- Improve the compliance culture based on the lessons learnt.
- Report instances of all material compliance failures which may attract significant risk of legal or regulatory sanctions, financial loss or loss of reputation to the Senior Management/ACB along with actions taken including staff accountability.

## **1.10. Compliance Risk Assessment**

The Company shall 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 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
- Listing of all major regulatory guidelines issued during the preceding year and steps taken to ensure compliance
- Compliance with fair practices codes and adherence to standards set by self-regulatory bodies and accounting standards; and
- Progress in the rectification of significant deficiencies and implementation of recommendations pointed out in various audits and RBI inspection reports.

### **1.11 Training and Education**

Training and education build awareness and understanding of compliance risk management policies, procedures and issues. The Compliance Team should be up-to-date with developments in the areas of regulatory guidelines, rules and standards.

An on-boarding confirmation shall be obtained from the employee that he/she has read and understood the Company's:

- Employee Code of Conduct
- Fair Practices Code

### **1.12. Annual review**

The Compliance Policy must be reviewed at least annually and shall be placed before the Board / ACB for approval.

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