

Managing Compliance Risk

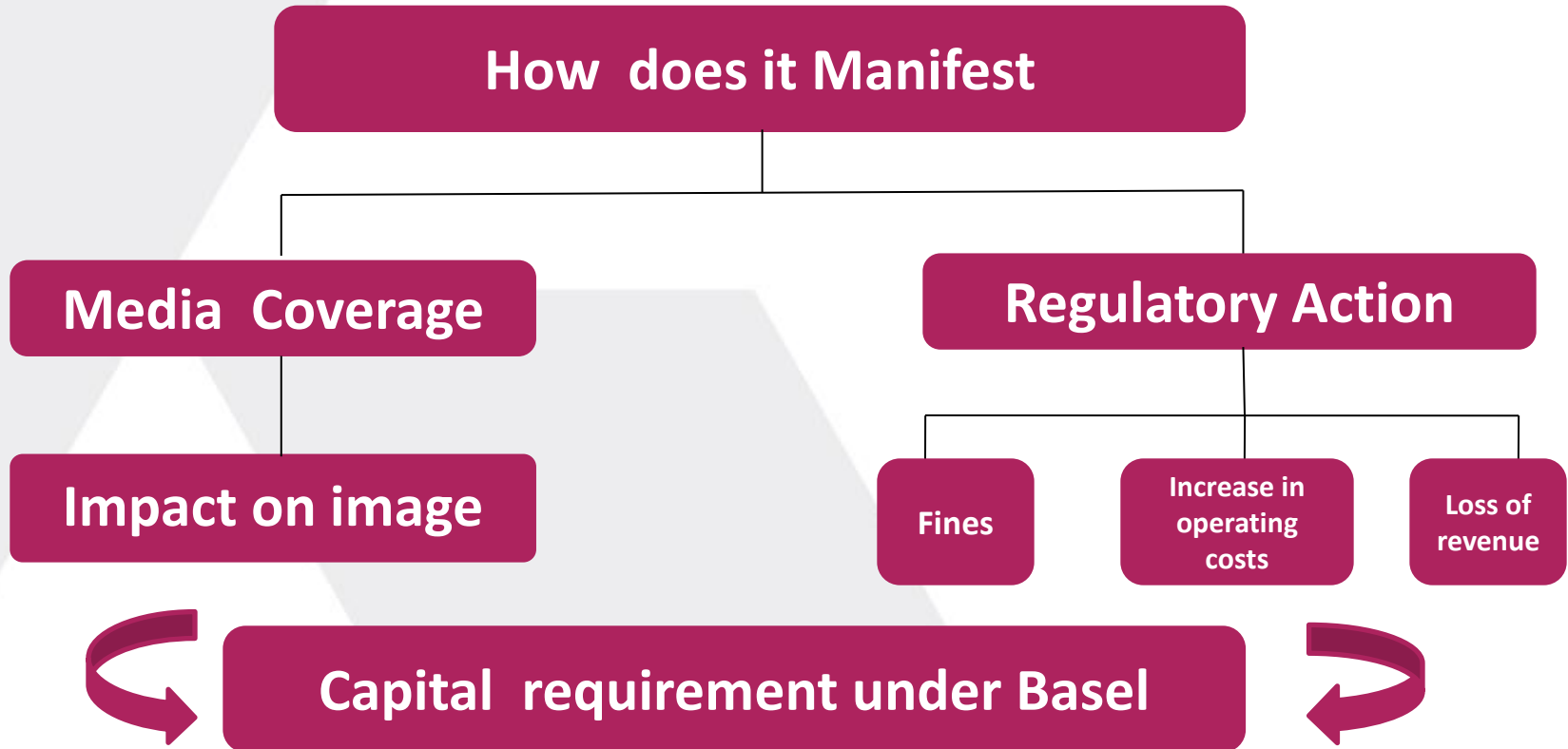
Role of Board, CEO & Senior Management

CAFRAL – Conference of Heads of Compliance

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Compliance Risk

- Basel Committee 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.



Some Recent Examples

- **Libor Fixing**
- **Terrorist Financing**
- **Derivatives**
- **Money Laundering**
- **False Disclosures**
- **Cobra Post**

Reputational Damage

- **Sub – Prime Crisis**
- **Executive Compensation – Golden Handshake**
- **Participating in Tax Evasion**
- **Mishandling of Customer Complaints**

What is Compliance All About...

- **Adhering to rules of the land**
- **Universe includes**
 - Statutes such as RBI Act, FEMA , BR Act, PMLA, Labour Act, Land usage laws, IT Act , Companies Act, NI Act , Industrial Disputes (Banking and Insurance) Act etc.
 - State level regulations such as Stamp Act, Shop & Establishment Act etc.
 - Regulations issued by RBI , SEBI, IRDA, PFRDA, FMC etc. and Overseas Regulators
 - Standards and Codes prescribed by IBA, BCSBI, FEDAI, FIMMDA, AMFI
 - Stock Exchange guidelines
 - Codes of practice promoted by industry associations

Culture of Compliance

- It goes beyond having good policies and procedures, dedicated compliance function etc.
- When every employee of the organization is concerned about compliance, the culture can be said to have set in
- Compliance culture is vital to create an organization that is “built to last”

Where to start-some principles / thoughts

- Integrating Compliance into the fundamental business activities so that it becomes an integral part of doing business and not an interruption to business
- **Key actions**
 - Revisiting and refining processes for embedding compliance into operations
 - Defining roles and responsibilities of all concerned
 - Building common control framework
- Using the examination procedures of the regulators as a guide for self assessment
- Aim is to make compliance the most effective corporate culture that emphasizes standards of honesty and integrity
- Leveraging analytics

Organisation Actions

- **Drawing list of applicable laws and preparation of checklist**
- **Use of Dashboards to monitor exceptions**
- **Inculcating Compliance Culture through :**
 - Incentives
 - Training
 - Communication

Role of Board of Directors

- Exercising oversight on issues of business integrity and compliance by examining:
 - Who are the senior level officials critical for identification and resolution of compliance issues
 - What are the key issues that need to be addressed
 - When the Board should be informed and when they should proactively intervene
 - How the issues are addressed from a systemic perspective consistent within their fiduciary responsibilities

Role of CEO & Senior Management

- Reinforcing the tone set by the Board
- Assisting the Board to make informed judgment on whether the Bank is managing compliance risk effectively
- Integrating compliance function in the decision making, before the event not ex-post

Role of Business Heads

- Ensuring Compliance as first line of defence
- Setting ethical standards for conduct of business
- Alignment of processes with the fundamental tenets of Compliance

Role of CCO

- Upholds and propagates the culture of Compliance
- To apprise Senior Management and Board of Compliance issues proactively and not only when a problem occurs
- As the focal point of contact with the regulator, through frequent dialogue, Senior Management should be sensitized about regulatory expectations

Thank You