

# October 1, 2023: Implementation of Compliance Function by NBFC-ML

RBI vide its [circular](#) dated **April 11, 2022** introduced certain principles, standards & procedures for **Compliance Function** including appointment of **Chief Compliance Officer (CCO)**, to enhance Corporate Governance standards.

What is Compliance Risk?	Scope of Compliance Function	Broad Contours- Compliance Framework	Appointment & Tenure of CCO
Risk of legal or regulatory sanctions, material financial loss or loss of reputation, as a result of an NBFC's failure to comply with laws, regs, rules & codes of conduct.	<b>Strict observance of -</b> <ul style="list-style-type: none"> <li>❑ all statutory &amp; regulatory requirements,</li> <li>❑ standards of market conduct,</li> <li>❑ managing conflict of interest,</li> <li>❑ treating customers fairly,</li> <li>❑ ensuring the suitability of customer service.</li> </ul>	<ul style="list-style-type: none"> <li>❑ Formulation of a board-approved <b>Compliance Policy</b>,</li> <li>❑ Compliance Department shall be <b>headed by the CCO</b>,</li> <li>❑ Formulation of a Compliance Programme to identify &amp; assess major compliance risks,</li> <li>❑ CCO &amp; Compliance Function to have the authority in respect of Compliance related issues,</li> <li>❑ No <b>dual hatting</b> i.e., the CCO shall not be given any responsibility which brings conflict of interest,</li> <li>❑ Compliance dept. staff shall have adequate knowledge and experience,</li> <li>❑ Compliance Function shall be subject to regular <b>internal audit</b>,</li> <li>❑ Examination of compliance rigor shall be a part of RBI's supervisory risk assessment process.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Tenure</b>- Not less than <b>3 years</b>,</li> <li>✓ <b>Removal</b>-shall be transferred / removed before completion of the tenure only in exceptional circumstances,</li> <li>✓ <b>Rank</b>- Senior Executive not below 3 levels from CEO</li> <li>✓ <b>Skills</b>- Knowledge about Risk Management,</li> <li>✓ <b>Stature</b>- Independent,</li> <li>✓ <b>Conduct</b>- Clean track record,</li> <li>✓ <b>Selection process</b>- On basis of well defined selection process,</li> <li>✓ <b>Reporting requirements</b>- Prior intimation to the RBI and "Fit &amp; Proper" certification,</li> <li>✓ <b>Reporting Lines</b>- direct reporting lines to the MD &amp; CEO and / or Board / Board Committee.</li> </ul>
Responsibilities of Compliance Function			
<ol style="list-style-type: none"> <li>1. Assist the Board to implement the compliance policy,</li> <li>2. Identify the compliance risk,</li> <li>3. Monitor &amp; test compliance by performing compliance testing,</li> <li>4. Ensure compliance of regulatory/ supervisory directions given by RBI in both letter and spirit,</li> <li>5. Compliance with other regulators too,</li> <li>6. Constitution of a Compliance Department.</li> </ol>			