

# Broad Scope & Perspectives on Compliance (Regulatory, Internal Systems and Legal)

## Interactive Session

by

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# Agenda

- Business of Banking & Realms of Risk
- Lines of Defence
- Short video on Compliance
- What is Compliance?
- How the term “Compliance” came into usage
- Compliance- Concurrent Audit- Internal Audit- External Audit- RBI Inspection
- Further reading
- Websites
- Q&A

# Business of Banking & Realms of Risk

Accepting deposit for the purpose of lending & investment

Banks are highly leveraged

Banking is essentially a business of 'Risk management'

## Credit Risk

Loss of funds out of lending

Liability arising out of contingents e.g. guarantee or settlement risk

## Market Risk

Loss of funds out of adverse market (forex/ capital/ debt market) movement

## Operational Risk

Loss arising out of inadequate or failed or non adherence of processes

**Legal Risk out of inadequate/ invalid documents and want of enforcement**

**Compliance Risk out of penalties, sanctions by authorities & regulators**

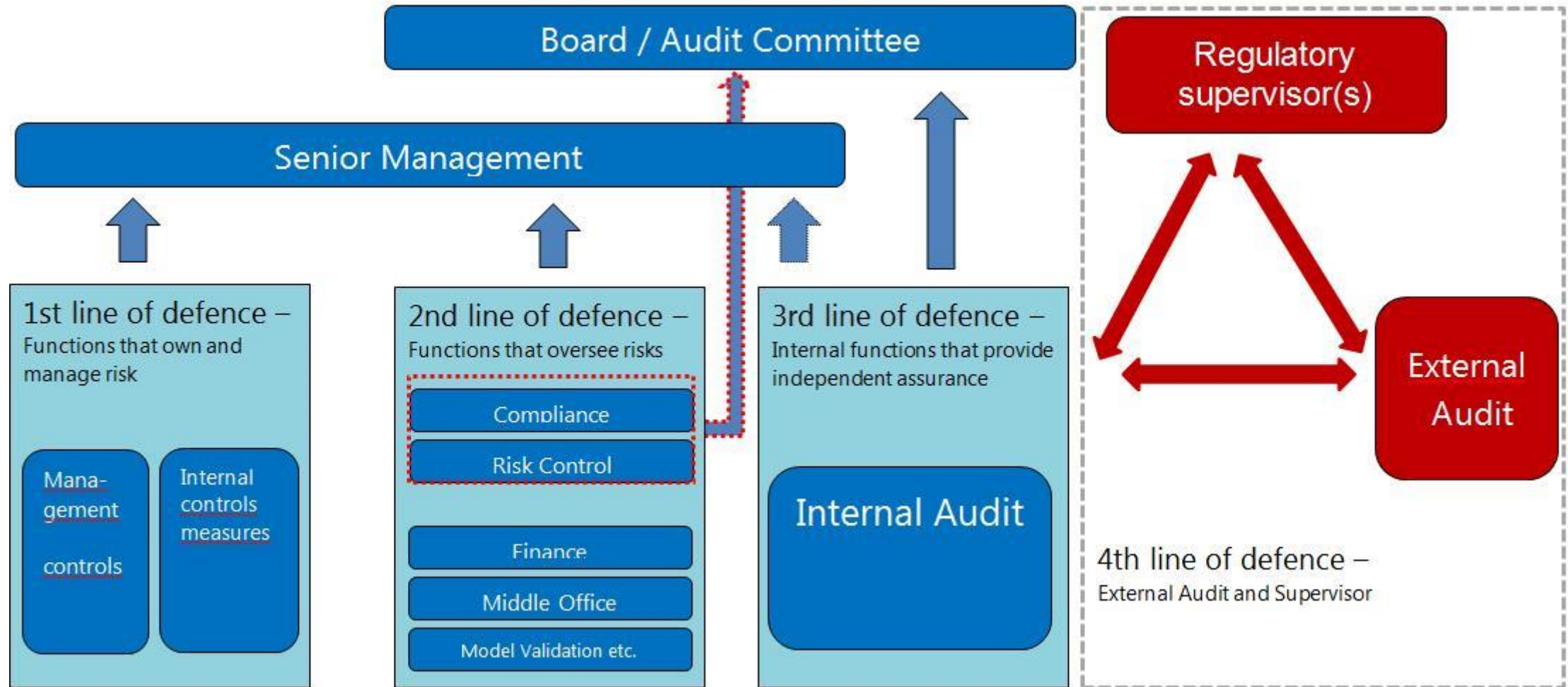
## Step In Risk

Risk arising out of partnering

## Reputational Risk

Risk arising out of adverse authorities, media, stakeholders etc

# Lines of Defence



# What is Compliance?

- Compliance (with something) means the practice of obeying rules or requests made by people in authority
- In other words, it is describes the ability to act according to an order, set of rules or request

In the context of financial services businesses compliance operates at two levels:

- Level 1- compliance with the external rules that are imposed upon an organisation as a whole (laws, regulations, sanctions, codes etc)
- Level 2 - compliance with internal systems of control that are imposed to achieve compliance with the externally imposed rules (policies, procedures etc)

# How the term “Compliance” came into usage

- Origin in USA from the beginning of 20th century in the wake of rapid industrialization
- Started with public safety with FDA (1906) & went into other activities including financial services- FCPA (1977), Sentencing Guidelines for organizations (1991)
- Investment banks started “Compliance” post Barings Bank fall in 1995
- Global organizations establish Compliance functions and Compliance Programs
- Companies Act (2000), BIS Paper on Compliance Function in banks (2005), RBI Guidelines (2007, 2015), SEBI Regulations (2015)
- Responsibility in the 1st place shifted from Government to corporates
- Compliance sought to be pre fact rather than near real time or post fact
- Globally Compliance and Ethics programs are getting integrated into risk management and general counsel oversight
- Boards expect material incidents are brought to its attention and assurance provided
- Scope of Compliance and role of Compliance Function will expand in future with further economic liberalization and growth

# Compliance- Concurrent Audit- Internal Audit- External Audit- RBI Inspection

Aspect	Compliance	Concurrent Audit	Internal Audit	External Audit	RBI Inspection
<b>Stance</b>	Proactive	Reactive	Reactive	Reactive	Reactive
<b>Timing</b>	Pre fact	Near real time	Post fact	Post fact	Post fact
<b>Coverage</b>	Expected 100%	Could be 100%	Could be 100%	Limited	Limited
<b>Line of Defence</b>	<b>1st/ 2nd</b>	<b>2nd</b>	<b>2nd</b>	<b>3rd</b>	<b>4<sup>th</sup></b>
Business Proximity	Sit within the business	Close to business	Outside of business	Outside party-	Regulator- Distant
Prevention/ Detection/ Reporting	Pre fact	Post fact	Post fact with some time lag	Post fact with quarterly gap	Post fact

# Compliance- External & Internal

## External

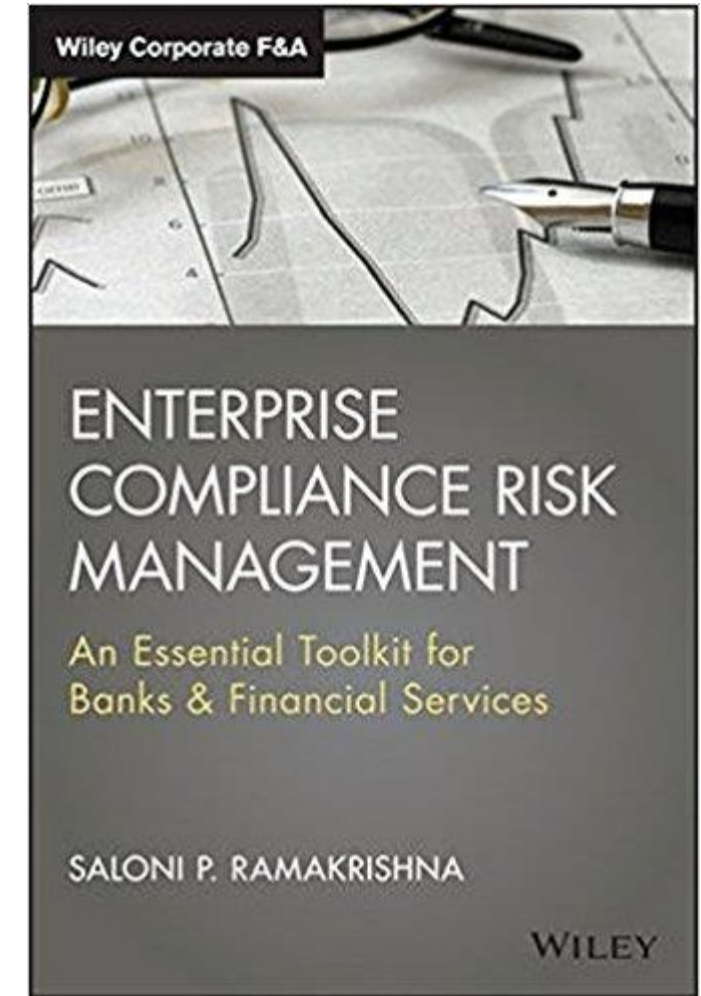
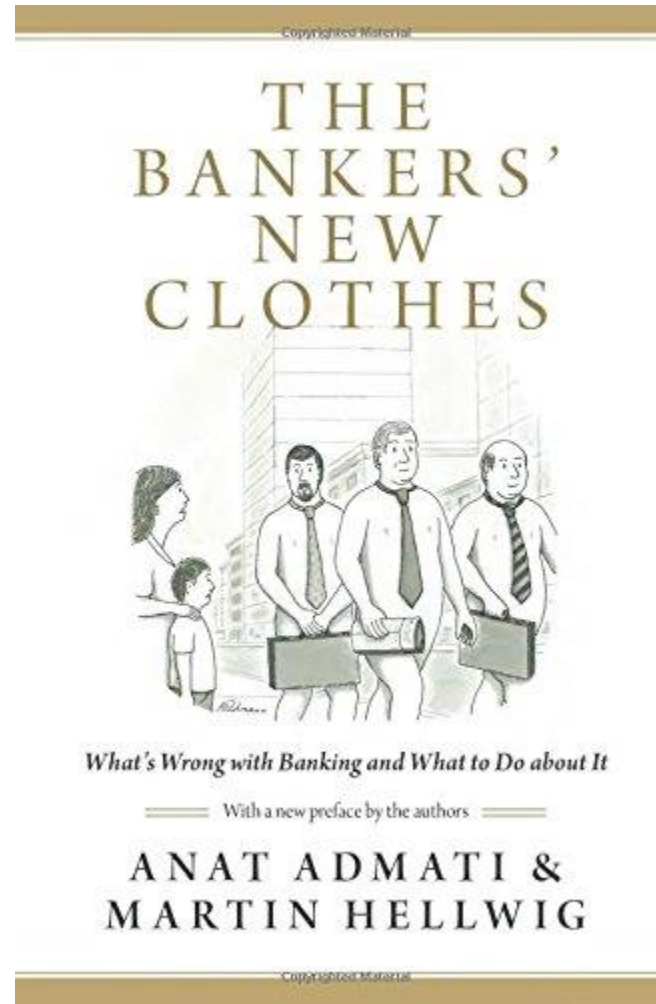
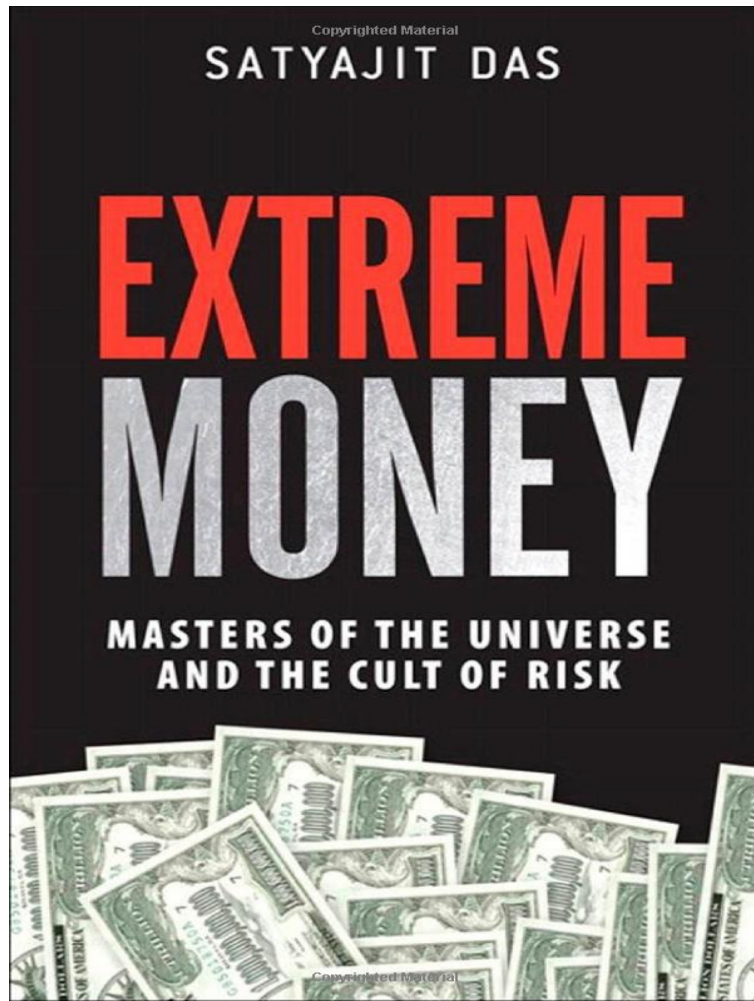
- General laws: Contract, TP, Penal Code, IBC, Competition Act etc
- Labour laws: ID, EPF, Minimum Wages, Gratuity, Contract Labour etc
- Entity specific laws: Companies Act, SEBI Act etc
- Banking specific laws: BR Act, RBI Act, RDBF, SARFESI etc
- Activity specific laws: PMLA, PSSA, CICA etc
- Regulations: RBI, SEBI, BCSBI, IRDA, TRAI, CCI etc
- Guidelines: IBA, FIMMDA, FEDAI, PDAI, AMFI etc
- International: Sanctions, Treaties, Foreign laws (e.g. FCPA, FATCA) etc
- Agreements with outside parties
- Employee agreements- collective and individual

## Internal

- Bank's policies, code of conduct & procedures
- Employee agreements- collective and individual



# Further Reading



# Websites

<https://www.bis.org/>

<https://www.rbi.org.in/>

<https://www.int-comp.org/>

<https://bankcompliance.in/>

<https://dewal.in/>

**Thank You**

For further queries, please email on:  
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