

CHARTERED FINANCE & LEASING
LTD. (CFL)

("NBFC/ B-13.02480")

COMPLIANCE POLICY

SUMMARY OF POLICY

Particular	Details
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Approver	Board of Directors of Chartered Finance & Leasing Ltd

VERSION HISTORY

VERSION NO.	APPROVAL	VERSION DESCRIPTION	REGULATORY REFERENCE	REMARKS
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1. Introduction

The Reserve Bank of India ("RBI") vide its notification dated October 22, 2021, issued guidelines on 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs', which is effective in a phased manner from October 1, 2022. As per the said guideline all Non-Banking Financial Companies in the Upper Layer ('NBFC-UL') and Middle Layer ('NBFC-ML') would be required, inter alia, to have an independent Compliance Function and a Chief Compliance Officer ('CCO') for a strong compliance risk management framework. Further, the RBI has issued a circular bearing Ref. No. DoS.CO.PPG./SEC.01/11.01.005/2022-23 dated April 11, 2022 on 'Compliance Function and Role of Chief Compliance Officer' ("RBI Compliance Circular") which is applicable to NBFC Upper Layer ("NBFC-UL") and NBFC- Middle Layer ("NBFC-ML").

Under the SBR Framework, CHARTERED FINANCE & LEASING LTD ("CFL" or "Company"), has been classified as NBFC- Middle Layer ("NBFC-ML"). Accordingly, being an NBFC-ML, the Company is required to have an independent compliance function, strong compliance risk management programme and ensure appointment of a senior executive as the Chief Compliance Officer ("CCO"). Further, as per the RBI Circular, such applicable NBFCs/ HFCs are required to have a Board approved policy and being a NBFC-ML has formulated the Compliance Policy considering existing corporate governance framework established in accordance with the internal guidelines on corporate governance, the scale and complexity of operations, overall risk profile and organizational structure of the company.

2. Objectives of the Policy

The Policy has been formulated with the following objectives:

- (a) To ensure that a strong compliance culture embedded within the Company.
- (b) To define role of a Compliance Department i.e. Accounts Team within Company and to define criteria for appointment of Chief Compliance Officer.
- (c) To identify, assess and monitor compliance requirements applicable to the Company.
- (d) To monitor and manage of various Compliance Risks to which the Company is exposed and to ensure adequate reporting of the same within the organization.

3. Scope and Applicability of the Policy

The Policy shall be applicable to all activities of the Company wherein any statutory and regulatory requirement is applicable to it including standards of market conduct, managing conflict of interest, treating customers fairly and ensuring the suitability of customer service.

4. Compliance Philosophy

Compliance Function shall ensure strict observance of all statutory and regulatory requirements for the NBFC, including standards of market conduct, managing conflict of interest, treating customers fairly and ensuring the suitability of customer service.

1. To build an organisation with a strong compliance culture having a general awareness of compliance best practices and the risks associated with non-compliance;

2. Adherence with laws, regulations, rules, codes of conduct etc.;
3. To develop a healthy compliance culture in which compliance is regarded as an integral part of CFL's business and operations; and
4. To ensure that every employee adheres to compliance processes in letter and spirit and the conduct of business is in accordance with the highest standards of personal and professional integrity, honesty and ethical conduct.
5. Treating customers fairly.

5. Compliance Culture and Expectations

The board along with the senior management are expected to set the tone at the top and usher in a strong compliance culture in the organisation. The Company, through its Senior Management, Compliance Department and other relevant departments, periodically and as & when required, shall disseminate various applicable instructions along with important updates within the Company to ensure compliance with the provisions of the law/ regulations/ guidelines by its employees/ representatives.

The responsibility of compliance should be owned by each of the employees of the Company as compliance with laws, regulations, rules and codes of conduct is not only responsibility of the Compliance Department but the Company's entire management and employees. Compliance by the Company's employees at all levels shall be strongly emphasized and, wherever required, proper training in this regard shall be imparted at regular intervals.

Accountability for compliance failure shall also be established wherever required. Accordingly, the culture of ensuring compliance by all in the Company shall be established, promoted, and must prevail all the time at all levels.

6. Compliance Function & Framework

1) Scope & Coverage

Compliance Function shall ensure strict observance of all statutory and regulatory requirements for strict observance of all statutory and regulatory requirements for CFL including RBI, Ministry of Corporate Affairs ('MCA') guidelines, regulations and notifications and shall also include standards of market conduct, managing conflict of interest, treating customers fairly and ensuring the suitability of customer service.

2) Composition and Structure

The Compliance Department shall be headed by the Chief Compliance Officer (CCO) and shall be sufficiently resourced. The Compliance Department shall be independent and its responsibilities have been clearly specified. The Compliance Department activities shall be subject to periodic and independent review. Apart from having a team with basic qualifications and practical experience in business lines / audit & inspection functions, Compliance Department also shall have adequate staff members with knowledge of statutory / regulatory prescriptions, law, accountancy, risk management, information technology, etc.

3) Authority and Access to Information

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.

4) Internal Audit & Independent Review

The activities of the Compliance Function shall be subject to regular audit by the Internal Audit Department. Compliance Risk shall be included in the Risk Assessment Framework of the Internal Audit function. The CCO shall be kept informed of audit findings, which shall serve as a feedback mechanism for assessing the areas of Compliance breaches and failures.

7. Roles & Responsibilities of Compliance Function

- I. Compliance Function shall be responsible for implementation of the Compliance Policy. It shall ensure overall oversight and be responsible for undertaking the following key activities at the minimum:
 - i. Assist the Board and the Senior Management in overseeing the implementation of Compliance Policy, including Standard Operating Procedures ('SOPs'), Compliance Manuals, internal codes of conduct, etc.
 - ii. Play the central role in identifying the level of Compliance risk in the organisation. The Compliance risks in existing / new products and processes shall be analysed and appropriate risk mitigants put in place.
 - iii. Subject all new products to intensive monitoring for at least the first six months of introduction to ensure that the indicative parameters of Compliance risk are adequately monitored.
 - iv. It shall monitor and test compliance by performing appropriate Compliance Testing, and the results of such Compliance Testing shall be reported to the Senior Management along with the instances of compliance failures among staff, along with the required remediation plan.
 - v. The Compliance Function will be responsible for compliance with regulatory/ supervisory
- II. Directions given by RBI in both letter and spirit in a time-bound and sustainable manner. Further, they will be responsible for forming an effective Compliance Program where all Risk Mitigation Plan (RMP) / Monitorable Action Plan (MAP) points are complied with within the timelines prescribed, as per RBI's expectations.
 - i. Attend to compliance with directions from regulators other than RBI under whose supervision CFL operates. Further, discomfort conveyed to the NBFC on any issue by other regulators, and action taken by any other authorities / law enforcement agencies, shall be brought to the notice of RBI.
 - ii. The Compliance Function will set up a mechanism for dissemination of information on new/changes to RBI related regulatory guidelines among concerned departments/functions.
 - iii. The Compliance Function shall serve as a reference point for the employees from operational departments for seeking clarifications / interpretation of various RBI guidelines and circulars.

It shall be responsible for educating and guiding the employees in discharging their respective compliance obligations.

- iv. The Compliance Department will also co-ordinating with employees from operational departments seeking clarifications / interpretation of various regulatory and statutory guidelines other than of RBI.
- v. Compliance to RBI inspection reports shall be communicated to RBI necessarily through the office of the Compliance Function.
- vi. Responsibilities of Other Departments
 - (a) The Board shall be responsible for compliance with the applicable provisions of the Companies Act 2013, and the Rules thereunder.
 - (b) The Board shall also take care of various other listing and disclosures related requirements prescribed by the Securities and Exchange Board of India, wherever required.
 - (c) The Accounts Team shall be responsible for compliance with the Accounting Standards and Accounting Rules.
 - (d) The IT Team shall be responsible for the laws and requirements relating to the Information Technology framework, IT Security, IT Audit etc.
 - (e) The Board shall be responsible for adherence with various legal requirements applicable to the business of the Company including but not limited to the Indian Contracts Act, 1872, the Transfer of Property Act, 1882, the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002, the Indian Stamp Act, 1899 etc.
 - (f) The Accounts Team shall be responsible for compliance with the provisions of the Income Tax Act, 1961 & the Rules thereunder, the Central Goods and Services Tax Act, 2017 etc.
 - (g) The Accounts Team shall be responsible for compliance with various applicable provisions of the Gratuity Act, Labour Act, Prevention of Sexual harassment at Workplaces etc.
 - (h) The accounts Department shall be responsible for compliance with the respective Shops & Establishment Act, branch/ estate/ office related administrative compliances etc.

The departments of the Company shall ensure that their respective departments ensure compliance with the applicable laws, statutory requirements, rules/ regulations mentioned, even if those have not been specifically mentioned in the above sub- paragraphs. Further, the Compliance Department shall ensure overall oversight on the compliance matters of the Company.

8. Chief Compliance Officer (CCO)

8.1 Appointment and Tenure of CCO

- i. **Tenure:** The CCO shall be appointed for a minimum fixed tenure of not less than 3 years. However, in exceptional cases, the Board / Board Committee may relax the minimum tenure by one year, provided appropriate succession planning is put in place;
- ii. **Removal:** The CCO shall be transferred / removed before completion of the tenure only in exceptional circumstances, with the explicit prior approval of the Board / Board Committee, after following a well-defined and transparent internal administrative procedure;
- iii. **Rank:** The CCO shall be a senior executive of the NBFC with a position not below two levels from the MD. However, in the case of NBFCs-ML, this requirement can be relaxed by one level further. If the NBFC considers necessary, the CCO can also be recruited from the market;

- iv. **Skills:** The CCO shall have a good understanding of the industry and risk management practices, knowledge of regulations, legal requirements, and have sensitivity to Supervisory expectations;
- v. **Stature:** The CCO shall have the ability to exercise judgment independently. She / He shall have the freedom and authority to interact with regulators / supervisors directly and ensure compliance;
- vi. **Conduct:** CCO shall have a clean track record and unquestionable integrity;
- vii. **Selection Process:** Selection of the candidate for the post of the CCO shall be made based on a well-defined selection process and recommendations made by a committee constituted by the Board / Board Committee for the purpose. The Board / Board Committee shall take final decision in the appointment of CCO.
- viii. **Reporting Requirements:** A prior intimation to the Senior Supervisory Manager, Department of Supervision, Reserve Bank of India, shall be provided before appointment, premature transfer, resignation, early retirement or removal of the CCO. Such information shall be supported by a detailed profile of the candidate along with the 'Fit and Proper' certification by the MD of the NBFC, confirming that the person meets the prescribed supervisory requirements and rationale for changes, if any. 'Fit and Proper' criteria may be examined based on the requirements spelt out in this Circular;
- ii. **Reporting Line:** The CCO shall have direct reporting lines to the MD and / or Board / Board Committee. In case the CCO reports to the MD, the Board / Board Committee shall meet the CCO at quarterly intervals on a one-to-one basis, without the presence of the senior management, including MD. The CCO shall not have any reporting relationship with the business verticals. Further, the performance appraisal of the CCO shall be reviewed by the Board / Board Committee.

8.2 Roles & Responsibility of the CCO

The responsibilities of the CCO shall be as under:

- a. To assist the Board, the ACB and the Senior Management in overseeing implementation of Compliance Policy by reviewing/ approving various procedures, compliance manuals, internal codes of conduct for this purpose.
- b. To play central role in identifying compliance risks in the Company and proper mitigation/ management of the risk identified.
- c. To conduct compliance reviews/ investigations, whenever and wherever necessary.
- d. To ensure compliance with regulatory/ supervisory directions given by the RBI in both letter and spirit in a time-bound and sustainable manner.
- e. The CCO shall be the nodal point of contact between the Company and the regulatory/ supervisory authorities shall necessarily be a participant in the structured or other regular discussions held with the RBI. Further, compliance to RBI inspection reports shall be communicated to the RBI necessarily through the Compliance Department.
- f. There shall not be any 'dual hatting,' i.e., the CCO shall not be given any responsibility which brings elements of conflict of interest, especially any role relating to business.
- g. The CCO shall generally not be a member of any committee which conflicts her / his role as CCO with responsibility as a member of the committee, including any committee dealing with purchases / sanctions.

- h. The CCO shall, based on representations made by respective HODs, the CCO shall submit a Quarterly Compliance Certificate to the Board/Audit Committee highlighting the areas of key non-compliances in respect of RBI requirements and MCA regulations and any significant/material breaches with respect to other regulators and agencies.

9. Responsibility of the Board and Senior Management

- a. The Board / Audit Committee shall ensure that an appropriate Compliance Policy is put in place and implemented. The implementation of the policy shall be supervised by the Audit Committee, in a time-bound manner.
- b. The Board/Audit Committee shall perform an Annual Review of Compliance Risk.
- c. The Senior Management shall carry out an exercise, at least once a year, to identify and assess the major Compliance Risk facing the organisation and formulate plans to manage it.

The annual review, to be carried out by the Senior Management, shall ensure coverage of at least the following aspects:

- i. Compliance failures, if any, during the preceding year and consequential losses and regulatory action, as also steps taken to avoid recurrence of the same;
- ii. Listing of all major regulatory guidelines issued during the preceding year and steps taken to ensure compliance;
- iii. Compliance with fair practices codes and adherence to standards set by self-regulatory bodies and accounting standards; and
- iv. Progress in the rectification of significant deficiencies and implementation of recommendations pointed out in various audits and RBI inspection reports.
- v. The Senior Management shall submit to the Board / Audit Committee a review at the prescribed periodicity and a detailed annual review of Compliance; and
- vi. The Senior Management shall report promptly to the Board / Audit Committee on any material Compliance failure while ensuring that appropriate remedial or disciplinary action is taken.

10. Compliance Risk Assessment

“Compliance risk” is the risk of legal or regulatory sanctions, financial loss, or loss to reputation an organization may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its activities. Compliance risk management is the process of the identification of the risks that a business can face in relation to its legal compliance, and developing internal policies and procedures to better manage the risks associated with non-compliance. The importance of compliance risk assessment lies in analyzing the compliance risks and taking precautionary steps to avoid and control such risks.

The Accounts team shall in co-ordination with the Compliance department, carry out the Compliance risk assessment in order to identify and assess major Compliance risks faced by the company and prepare a plan to manage the risks.

11. Review & Amendments

This policy shall be reviewed by the Board of Directors annually, to align the same with the prevalent regulatory and business requirements.

In the event that any term, condition or provision of this Policy being held to be a violation of any Applicable Law, statute or regulation, the same shall be severable from the rest of this Policy and shall be of no force and effect, and this Policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy. Further, the regulatory/statutory guidelines as prescribed shall prevail in the event of any amendments or requirements not incorporated in the policy.

Notwithstanding anything contained herein, any subsequent amendment in statutory Act or Master Directions or rules made thereunder or any other applicable law in this regard, shall automatically apply to this Policy. Accordingly, this policy shall be duly revised to incorporate any amendments.