

Financial services risk insights

Compliance function in banks and role of
chief compliance officers - Volume II

October 2020



Background

Bank governance has been a key area of focus given multiple failures in the form of steep non-performing asset (NPA) provisions due to underwriting across banks and the recent bail out of a large private sector bank. The Reserve Bank of India (RBI) has been focusing on strengthening governance across the custodians of the second and third line of defence through different directions and also through, what some may refer to as the fourth line of defence, the statutory auditors through the long form audit report amendment addressed in the 5 September 2020 guidelines. The RBI released guidelines on 11 September 2020 on **compliance function in banks and the role of chief compliance officer (CCO)**. While the RBI has released guidelines around compliance function in banks in 2007 and 2015, the practices followed by different banks with respect to compliance as a governance function have been divergent. Therefore, the RBI felt the need to release a guideline to establish consistencies across banks. The requirements for a robust compliance system remain the same in the form of:



Effective compliance culture



Strong compliance risk management programme



Independent CCO, appointed through an unbiased and effective process

However, the RBI has explicitly articulated certain requirements around the compliance function.



Thematic changes suggested by the RBI and its implications



Compliance policy – These policies are too broad and do not necessarily address all compliance principles. Some of the themes to be addressed are covered as below:

- a. Compliance philosophy
- b. Compliance culture covering tone at the top, training on regulatory and conduct risks
- c. Accountability
- d. Incentive structure
- e. Effective communication and related challenges
- f. Structure and role of compliance function
- g. Role of CCO
- h. Processes for identifying, assessing, monitoring, managing and reporting on compliance risk throughout the bank
- i. Specific disincentive structure for compliance breaches
- j. Specific quality assurance programme assessing the efficacy of all aspects of a compliance function, with a specific independent review to be conducted at least once in three years
- k. Top executives/non-executive chairman/chairman and audit committee of the board (ACB) to quality check all regulatory reports



Tenure of CCO – Shall be for a minimum of three years. Removal before term shall be only in exceptional circumstances with prior approval of the board and with detailed documentation in place.



Qualifications for a CCO – Designation should not be more than two levels below a CEO

- a. Shall not be more than 55 years
- b. At least 15 years of experience in banking or financial services
- c. Minimum five years in audit/legal/compliance/risk management/finance functions
- d. Good understanding of the banking industry and its regulations





CCO shall not hold any other position within a bank **except the role of an anti-money laundering officer**, subject to availability of bandwidth.



Where a CCO has already been appointed, the bank may follow a process for re-appointment of the CCO, within a period of six months and are free to appoint the current incumbent, should he meet all the expectations of the RBI directive.



CCO shall report directly to the board/ACB/MD/CEO. Where the CCO shall report to the MD/CEO, ACB shall meet the CCO quarterly on a one-to-one basis, without the presence of the senior management, including the MD/CEO.



Duties and responsibilities of the compliance function

- a. Apprise stakeholders within the bank on regulatory expectations and the interpretation of the same
- b. Conduct annual compliance risk assessment and submit it to the ACB and the internal audit team
- c. Report any exceptions with respect to the compliance risk assessment exercise that was conducted
- d. Perform periodic compliance testing and report results to different stakeholders within the bank including board/ACB/MD/CEO
- e. Address any risk assessment report findings by the regulator
- f. The compliance function shall subject themselves to Internal audit

Conclusion

This guideline is a deviation from the usual practice of keeping the regulations principle based and the corollary thereby is that the regulator wanted to explicitly call out the expectations. Some of the key focus areas for banks based on the guidelines are:

- 1 Need for an annual compliance risk assessment
- 2 Need for a robust compliance testing framework with adequate sample representation
- 3 Independent review of the compliance function by an external agency at least once in three years
- 4 Initiatives around verifying the validity of regulatory reporting

Acknowledgements

Author

Vivek Ramji Iyer

Partner, Financial Services – Risk

E: vivek.iyer@in.gt.com

For media queries, please contact:

Rohit Nautiyal

E: rohit.nautiyal@in.gt.com

Editorial review

Charu Sharma

Design

Himani Kukreti

References

RBI Circular – Compliance function in Banks and role of CCO dated September 11, 2020

Contact us

To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI

National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110001
T +91 11 4278 7070

NEW DELHI

6th floor
Worldmark 2
Aerocity
New Delhi 110037
T +91 11 4952 7400

AHMEDABAD

7th Floor,
Heritage Chambers,
Nr. Azad Society
Nehru Nagar
Ahmedabad - 380015

BENGALURU

5th Floor, 65/2, Block A,
Bagmane Tridib, Bagmane
Tech Park, C V Raman Nagar
Bengaluru - 560093
T +91 80 4243 0700

CHANDIGARH

B-406A, 4th Floor
L&T Elante Office Building
Industrial Area Phase I
Chandigarh 160002
T +91 172 4338 000

CHENNAI

7th Floor, Prestige Polygon
471, Anna Salai, Teynampet
Chennai - 600 018
T +91 44 4294 0000

DEHRADUN

Suite no. 2211, 2nd floor Building
2000, Michigan Avenue,
Doon Express Business Park Subhash
Nagar, Dehradun - 248002
T +91 0135 2646 500

GURGAON

21st Floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122002
T +91 124 462 8000

HYDERABAD

7th Floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500016
T +91 40 6630 8200

KOCHI

6th Floor, Modayil Centre point
Warriam road junction
M. G. Road
Kochi 682016
T +91 484 406 4541

KOLKATA

10C Hungerford Street
5th Floor
Kolkata 700017
T +91 33 4050 8000

MUMBAI

11th Floor, Tower II,
One International Center
S B Marg, Prabhadevi (W)
Mumbai - 400 013
T +91 22 6626 2600

MUMBAI

Kaledonia, 1st Floor,
C Wing (Opposite J&J office)
Sahar Road, Andheri East,
Mumbai - 400 069

NOIDA

Plot No. 19A, 2nd Floor
Sector - 16A
Noida 201301
T +91 120 485 5900

PUNE

3rd Floor, Unit No 309 to 312
West Wing, Nyati Unitree
Nagar Road, Yerwada
Pune- 411006
T +91 20 6744 8800



Follow us @GrantThorntonIN

© 2020 Grant Thornton Bharat LLP. All rights reserved.

"Grant Thornton Bharat" means Grant Thornton Advisory Private Limited, the sole member firm of Grant Thornton International Limited (UK) in India, and those legal entities which are its related parties as defined by the Companies Act, 2013, including Grant Thornton Bharat LLP.

Grant Thornton Bharat LLP, formerly Grant Thornton India LLP, is registered with limited liability with identity number AAA-7677 and has its registered office at L-41 Connaught Circus, New Delhi, 110001. References to Grant Thornton are to Grant Thornton International Ltd. (Grant Thornton International) or its member firms. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.