

## IDFC Limited - Policy For Monitoring Of Frauds

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## IDFC Policy For Monitoring Of Frauds

<b>Rationale</b>	<p>RBI vide their circular DNBS(PD)CC.No.59/03.10.42/2005-06 dated October 26, 2005 has issued guidelines on classification of frauds, approach towards monitoring of and reporting system for frauds for deposit taking NBFCs.</p> <p>RBI has now vide its circular no. DNBS.PD.CC. No. 256 /03.10.042 / 2011-12 dated March 2, 2012 have extended the same guidelines to NBFCs-ND-SI also with immediate effect. In view of the foregoing, IDFC is required to follow the said guidelines. On February 18, 2016, RBI has revised the threshold for reporting of frauds and submission of quarterly progress report on frauds to the Central Fraud Monitoring Cell, Department of Banking Supervision from Rs. 25 lakh to Rs. 1 crore. All other instructions are unchanged.</p>
<b>Objectives</b>	<p>The Policy on monitoring of Fraud has been framed to provide a system for detection and prevention of frauds, reporting of frauds that is detected or suspected and fair dealing of matters pertaining to frauds. This policy will ensure and provide for the following :-</p> <ol style="list-style-type: none"> <li>i. To establish procedures for detection and timely reporting of frauds to senior management for review and necessary action.</li> <li>ii. To develop and evolve of system for detection and prevention of fraud and for establishment of procedures for preventing fraud.</li> <li>iii. To provide clear guidance to employees on the process for dealing with matters related frauds.</li> <li>iv. To facilitate in conduct of investigation into fraudulent act or frauds detected.</li> </ol>
<b>Scope</b>	<p>This policy will be applicable to any fraud or suspected fraud involving investee companies, employees as well as other parties involved in frauds</p>
<b>Definition of fraud</b>	<p>The definition of fraud is as per the RBI circular dated October 26, 2005 which is based mainly on the provisions of the Indian Penal Code which includes -</p> <ol style="list-style-type: none"> <li>a) Misappropriation and criminal breach of trust;</li> <li>b) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property;</li> <li>c) Unauthorized credit facilities extended for reward or for illegal gratification;</li> <li>d) Negligence and cash shortages (includes intention to cheat/defraud is suspected/ proved);</li> <li>e) Cheating and forgery;</li> <li>f) Irregularities in foreign exchange transactions (includes intention to</li> </ol>

	<p>cheat/defraud is suspected/ proved); and</p> <p>g) Any other type of fraud not coming under the specific heads as above;</p> <p>Cases of 'negligence and cash shortages' and 'irregularities in foreign exchange transactions' referred to in items (d) and (f) above are to be reported as fraud, if the intention to cheat / defraud is suspected / proved.</p> <p>However, the following cases where fraudulent intention is not proved, at the time of detection, will be treated as fraud and reported accordingly :</p> <p>(a) cases of cash shortages more than Rs.10,000/- and</p> <p>(b) cases of cash shortages more than Rs.5,000/- if detected by management / auditor / inspecting officer and not reported on the occurrence by the persons handling cash</p>
<b>Regulatory Reporting</b>	<p>A reporting system for frauds is prescribed by RBI as per <b>Annexure A</b></p> <p>It may be noted that IDFC is not required to submit 'Nil' reports to Frauds Monitoring Cell / Regional Offices of Department of Non-Banking Supervision.</p>
<b>Annual Report Disclosure</b>	<p>IDFC shall disclose the amount related to fraud, reported for the year in its balance sheets</p>
<b>Reporting &amp; Review by Board</b>	<p><u>Detected Frauds:</u></p> <ul style="list-style-type: none"> <li>➤ All frauds of Rs. 1 lakh and above shall be reported to the Board promptly on their detection.</li> <li>➤ Information relating to frauds shall be furnished on quarterly basis, if any</li> <li>➤ Undertake and update the Board on the annual review of the frauds</li> </ul>
<b>Reporting, monitoring and review by ACB</b>	<p><u>Detected Frauds:</u></p> <ul style="list-style-type: none"> <li>➤ All frauds of Rs. 25 lakh and above shall be reviewed by the ACB promptly on their detection</li> <li>➤ All frauds of Rs. 25 lakh and above shall be monitored and reviewed by the ACB on a quarterly basis</li> </ul> <p><u>Attempted Frauds:</u></p> <ul style="list-style-type: none"> <li>➤ All attempted frauds of Rs. 25 lakh and above shall be reported to the ACB</li> <li>➤ Annual consolidated review of all attempted frauds of Rs. 25 lakh and above within three months of end of the financial year</li> </ul>
<b>Responsibility</b>	<p>Fraud Risk Officer is responsible for policy implementation. The Group Operational Risk Committee (GORC) shall be responsible for monitoring and review of Frauds and shall report to Audit committee</p> <p>The Head - Compliance of IDFC Limited shall be the Fraud Risk Officer for the purpose of this Policy.</p>
<b>Dispensation</b>	<p>Any dispensation requires approval from Audit Committee on the recommendation of Fraud Risk Officer</p>
<b>Amendment</b>	<p>This Policy may be amended from time to time by the Audit Committee on the recommendation of the Group Operational Risk Committee.</p> <p>Changes required due to business exigencies or due to regulatory / audit</p>

	requirements, would be approved by Fraud Risk Officer, appointed under this Policy.
<b>Related Documents</b>	RBI circular DNBS(PD)CC.No.59/03.10.42/2005-06 dated October 26, 2005; DNBS.PD.CC. No. 256 /03.10.042 / 2011-12 dated March 2, 2012; RBI circular (Ref. RBI/2012-13/329 DNBS (PD).CC.No. 315/03.10.42/2012-13) dated December 13, 2012, RBI Master circular no. RBI/2015-16/17 DNBR(PD)CC.No.058/03.10.119/2015-16 dated July 01, 2015 and RBI Circular no. RBI/2015-16/327 DNBR(PD)CC.No.075/03.10.001/2015-16 dated February 18, 2016 .
<b>Document Retention</b>	All information, documents along with the results of Investigation relating thereto, shall be retained by the respective Business Unit / Fraud Risk Officer for a minimum period of 5 (five) years or for such number of years as required under the applicable laws, if any.
<b>Approved by</b>	IDFC Board of Directors.
<b>Policy Owner</b>	The Fraud Risk Officer shall be the Designated Officer for the purpose of this Policy.  Terms of reference for implementation of policy is provided in <b>Annexure B</b>

**ANNEXURE – A**

**Reporting of Frauds to RBI**

<b>Particulars</b>	<b>Reporting to</b>	<b>Form</b>	<b>Time-line</b>	<b>Additional Requirements</b>
Amount involved above Rs. 1 lakh and below Rs. 1 Crore	Regional Office, DNBS, RBI	<a href="#">FMR – 1</a>	Within three weeks from the date of detection.	
Amount involved Rs. 1 Crore and above	(i) Regional Office, DNBS, RBI and (ii) Fraud Monitoring Cell (FMC), DBS, Central Office, RBI	<a href="#">FMR – 1</a>	Within three weeks from the date of detection.	Fraud in borrower account involving an amount of Rs 1 Lakh and above additional info in Part B of FMR-1 to be provided
Quarterly reports on frauds outstanding (All amounts)	Regional Office, DNBS, RBI	<a href="#">FMR – 2</a>	Within 15 days of the end of the quarter	Certificate as part of the FMR-2 report that all individual fraud cases of Rs. 1 lakh and above reported to RBI in FMR-1 during the quarter have also been put up to the Board and have been incorporated in Part – A (columns 4 and 5) and Parts B and C of FMR- 2.
Case wise quarterly progress report on frauds involving Rs. 1 Crore and above	Fraud Monitoring Cell (FMC), DBS, Central Office, RBI	<a href="#">FMR – 3</a>	Within 15 days of the end of the quarter	
Case wise quarterly progress report on frauds involved less than Rs 1 Crore	Regional Office, DNBS, RBI	<a href="#">FMR – 3</a>	Within 15 days of the end of the quarter	
D.O. letter on frauds of Rs. 1 Crore and above	CGM - In Charge, DBS, FMC, Central Office, RBI and <u>copy to:</u>  (i) CGM – In Charge, DNBS, Central Office, RBI (ii) Regional Office, DNBS, RBI	It should be a D.O. letter, however no format prescribed	Within a week of fraud coming to the notice	

### Guidelines for reporting frauds to Police

IDFC is required to follow the following guidelines for reporting of frauds such as investment in securities for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities. As a general rule, the following cases should invariably be referred to the State Police:

- a) Cases of fraud involving an amount of Rs. 1 lakh and above, committed by outsiders on their own and/or with the connivance of IDFC staff/officers; and
- b) Cases of fraud committed by IDFC employees, when it involves IDFC funds exceeding Rs. 10,000/-

## Annexure B - Terms of Reference

- a) To ensure that adequate systems are in place to detect frauds, once they have taken place, within the shortest possible time.
- b) To ensure that adequate process and polices are in place dealing with frauds detected and course of action to be undertaken.
- c) All frauds (including attempted Frauds) would be required to be reported to the Fraud Risk Officer who shall expeditiously deal with the matter in terms of process laid down
- d) All the frauds involving an amount of Rs 25 lakh and above would be monitored and reviewed by the GORC and provide their report to Audit Committee of the Board (ACB) for their review. This would also include undertaking periodic review of frauds.
- e) The periodicity of the meetings of the GORC and ACB may be decided according to the number of cases involved.

However, the GORC should meet and review as and when a fraud involving an amount of Rs 25 lakh and above comes to light and provide a report to ACB for their review

- f) ACB shall have right to outline a detailed procedure for an investigation and may delegate such powers and authorities, as it may deem fit to any other committee and/or officer(s) of IDFC for carrying out any investigation
- g) To ensure that deterrent punishment is meted out, wherever warranted, to the persons found responsible.
- h) To continuously review if frauds have taken place because of laxity in following the systems and procedures and, if so, whether effective action has been taken to ensure that the systems and procedures are scrupulously followed by the staff concerned.
- i) To assess if the frauds detected are reported to local Police, as the case may be, for investigation
- j) In respect of implementation of policy, ACB may perform all such acts as it may deem fit at its sole discretion, including, the following functions:
  - to obtain legal or expert view in relation to Fraud or attempted Fraud;
  - appoint external agency to assist in investigation;
  - seek assistance of Internal Auditor;
  - request any officer(s) of the company to provide adequate financial or other resources for carrying out investigation
  - to call for any information /document and explanation from any employee of IDFC or other person(s) as they may deem appropriate for the purpose of conducting investigation.
  - seek explanation or solicit submission or give reasonable opportunity to respond to concerned personnel on material findings contained in investigation report.