

# COMPLIANCE POLICY

**Compliance Department**

SOFTLOGIC FINANCE PLC

2023

Version 4

## Version Control

### Document properties

<b>Owner</b>	Compliance Division
<b>Version</b>	Version 4.0
<b>Review frequency</b>	Annually
<b>Document ID</b>	COMPLIANCE POLICY/2024/4.0

### Authorization

<b>Drafted by</b>	Compliance Division
<b>Reviewed by</b>	Board Integrated Risk Management Committee
<b>Date</b>	21 <sup>st</sup> September 2023
<b>Approved by</b>	Board Integrated Risk Management Committee
<b>Date</b>	

### Version history

<b>Version</b>	<b>Change reference</b>	<b>Board Approved Date</b>
1.0	Initial Document	27 <sup>th</sup> April 2018
2.0	Review	27 <sup>th</sup> August 2020
3.0	Review	4 <sup>th</sup> June 2022
4.0	Review	21 <sup>st</sup> September 2023

### Distribution and Storage

<b>#</b>	<b>In custody of</b>	<b>Location</b>
1	Compliance Officer	Compliance division

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## **Introduction**

The Compliance management function plays an influential role in the internal control mechanism of the company. At a broader level this function ensures that all the business operations, internal policies and procedures owned by Softlogic Finance PLC are complied with the regulatory requirements and applicable laws. Compliance function is a monitoring role, overseeing the company operations against regulatory priorities. This leaves the compliance department to adapt to new rules, regulations, and laws as and when they are enforced by the regulator. It extends to nurturing a culture within the company that prioritizes compliance and governance as an integral part of the business.

Compliance is everyone's responsibility within the Company and should be viewed as an integral part of the Company's everyday activities. It is the responsibility of all employees in the Company (including the Directors, Senior Management, and Employees) to perform their tasks to the highest standards of honesty, ethics and integrity, within the principles included in this policy and the Code of Conduct that are found to mitigate, control and manage Compliance Risk in order to protect the company.

The Board of Directors must be satisfied that the effective compliance procedures are followed and that the Corporate Management takes appropriate corrective measures when compliance failures are identified.

## **Compliance Risk**

Failing to comply with prevailing regulatory requirements puts a financial institution to bear substantial financial and reputational losses. It is also an Integrity Risk, because the Company's reputation is closely connected with its adherence to the principles of integrity and fair dealing. Hence, Compliance risk is observed as a warning sign which will even determine the continuation of business in the market.

Compliance risk encompasses the risk of legal regulatory sanctions, financial forfeiture, material and reputational losses upon failure to comply with industry laws and regulations and accepted best practices.

## 1. Vision

To foster the most preferred compliance culture within the industry with continued efforts in being an ethical good corporate citizen.

## 2. Mission

- ~~• To develop the best practices and standards ensuring smooth functioning of business processes.~~
- ~~• To create a culture which is more vigilant and proactive when it comes to risk and compliance~~
- ~~• To build up confidence and trust upon the company by the most valued external parties of the institute.~~
- Our mission is to develop best practices and standards for smooth business operations, foster a culture of vigilance and proactivity in risk and compliance, and instill confidence and trust among our valued external stakeholders, all while ensuring sustainable business practices.

## 3. Objectives

- To ensure that the financial institution complies with applicable laws, regulations and rules while preserving the integrity and reputation of the institute.
- To monitor current corporate governance practices and proposing necessary changes as required by applicable laws.
- To facilitate resolution of customer complaints in a prompt manner.
- To promote good corporate citizenship by preserving ethical standards throughout the organization.
- To educate the staff on latest trends of AML (Anti-Money laundering) and CFT (Combating the Financing of Terrorism).

#### **4. Scope of the policy**

The entire scope of the compliance function can be summarized as follows.

1. Complying with laws, rules and standards in all activities as directed by CBSL and other regulatory authorities.
2. Ensuring effective corporate governance within the institute.
3. Assessment of risks arising from operations, customers, and business strategies.
4. Compliance audits and controls.
5. Compliance awareness and training.
6. Identification and mitigation of the compliance risks.

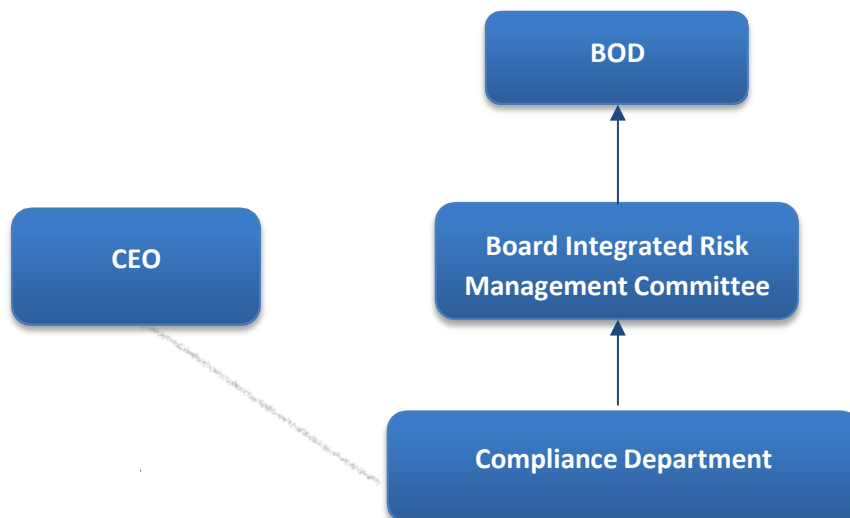
Employees at all levels, without limitations, as well as the parties acting for or on behalf of the Company are responsible to comply with this Compliance policy. Employees are urged to consult with the Company's Compliance Department and be aware of any significant developments from the Regulators and the Regulatory changes and seek guidance when in doubt at all times.

#### **5. Definition**

Compliance function is defined in this context as adherence to laws, regulations, rules, self-regulatory organization's standards and codes of conduct and clear responsibility to encourage the management to evaluate business strategies in light of the relevant regulations. Further, there is an advisory role in identifying and defining regulatory risks and their implications to the business.

Compliance as an integral part of the business, which assists the entire workforce to understand the importance of integrating regulatory requirements into day-to-day operations and procedures. This is ensured by establishing procedures to monitor the effective integration of regulatory requirements into operating systems which comes under the broad purview of the compliance department.

## 6. Department structure and composition



## 7. Governing Bodies & Stakeholders

### 1. Central Bank of Sri Lanka (CBSL)

- 1.1 Department of Supervision of Non-Bank Financial Institutions
- 1.2 The Financial Intelligence Unit (FIU)
- 1.3 Resolution & Enforcement Department
- 1.4 Department of Foreign Exchange
- 1.5 Payment and Settlement Department

### 2. Credit Information Bureau of Sri Lanka (CRIB)

### 3. Colombo Stock Exchange (CSE)

### 4. Security Exchange Commission (SEC)

### 5. The Financial Ombudsman Sri Lanka.

### 6. Inland Revenue Department.



## **8. Types of Compliance Risks and Their effects**

Compliance typically covers three areas, in which compliance risks are assessed.

### **8.1. Institutional Compliance**

This includes issues of governance, internal structure and decision-making process, principles of procurement, principles of corporate social responsibility (CSR), disclosure policies, sustainability, and reporting & adherence to the internal procedures/instructions.

### **8.2. Operational Compliance**

This includes the assessments of integrity risk & reputation risk in the institution's transactions in particular, certain principles such as Anti Money laundering (AML), Counter Terrorist Financing (CTF), Data Protection & Know your customer (KYC) as well as compliance issues in relation to the development of new products or business practices.

### **8.3. Conduct of Compliance**

This includes risks in terms of conflict of interest, insider dealing issues related to professional conduct of the staff of the institute.

## **9. Responsibilities at Various Levels**

### **9.1 Responsibilities of the Board of Directors**

The Board of Directors (BOD) is responsible for overseeing the management of the Institution's compliance risk. The BOD shall approve the compliance policy.

### **9.2 Responsibility of the CEO/Managing Director**

The CEO/Director is responsible for ensuring the implementation and the management of the compliance risks reported to the BOD through the Board Integrated Risk Management Committee (BIRMC).

### **9.3 Responsibility of the Corporate Management**

Members of the Corporate Management are responsible for the effective management of the institute's Compliance Risk and to ensure that the procedures are in place, to adhere to in the areas for which they are responsible. They also shall ensure that the policies are followed by all the employees of the institution. This includes the responsibility for ensuring that appropriate remedial or disciplinary action is taken if breaches are identified.

### **9.4 Responsibility of the Board Integrated Risk Management Committee (BIRMC)**

The Committee shall have an overall company wide risk management oversight and to assist the BOD in fulfilling its statutory, fiduciary, and regulatory responsibilities. Thus, BIRMC functions as the apex body in managing overall risks including the compliance risk in the institution in an integrated manner, as per the Risk management Policy.

## **10. Compliance Function**

Compliance function has evolved as a part of its ongoing efforts to address the institute's supervisory issues and to enhance sound practices in the financial institute. The Institution has established its Compliance functions for the management of its Compliance risk (within its Operational risk function) as set out above in the organization's structure showing the reporting line.

## **11. Independence of the function and authority**

Compliance function of the institute has been established and shall be independent to fall in line with the requirements of the Central Bank of Sri Lanka (CBSL)

Independence contains 4 related elements that are stated below.

1. The Compliance function has a formal status in the institute.
2. The Compliance Officer has overall responsibility for coordinating the management of the institute's compliance risk.
3. The Compliance Officer is not engaging in any other positions where there is a possible conflict of interest in carrying out institute's compliance responsibilities.

4. The Compliance Officer has access to information and personnel, necessary to carry out his/her responsibilities.

The Concept of Independence does not mean that Compliance Officer cannot work closely with the management and the staff in other business units of the institution. Indeed, a corporative working relationship between the Compliance Officer and the other business units including internal audit and integrated risk management etc. shall help to identify and manage compliance risks at an early stage.

The Compliance Officer appointed by the Board of Directors shall have the authority to access any information/records/ personal of any of the business units of the institution, including Internal Audit Units, the Management and the appointed External Auditors of the institute for the purpose of discharging his/her responsibilities where necessary.

The Compliance Officer is further free to report to the Board of Directors, Corporate Management, Sectional Heads, any expression of independent view on incidents of breaches, or non-compliance.

### **Compliance Function as a Second Line of Defense**

In the Three Lines of Defense model, ~~Management Control~~ **Front Line Associates (FLAs)** are the First Line of Defense in Compliance Risk Management and Control. The Compliance Function lies in the Second Line of Defense, and independent assurance of compliance by Internal Audit in the third line. Each of these three “lines” plays a distinct role within the organization’s wider governance framework. **Front Line Associates (FLAs) typically serve as the company's primary line of defense. Their pivotal role is underscored by the fact that, regardless of the robustness of the company's policies and procedures, it ultimately hinges on the FLAs' comprehension and implementation as they facilitate the onboarding of customers into the financial system on behalf of the organization.** As second line of defense, the compliance function monitors various specific compliance risks, conducts independent reviews, lays down controls and mitigation and thereby ensures compliance with applicable rules, regulations and laws. The Third Line of Defense by Internal Auditors and External Auditors provide the Board and Corporate Management with comprehensive assurance based on the highest level of independence and objectivity within the organization, through the conduct of Regular and Periodical Audits.

**12. Terms of Reference of the Compliance Officer (Duties/Functions)**

- 12.1 Develop policies & procedures designed to eliminate or minimize the risk of breach of regulatory requirements and damages to the institute's reputation and to ensure these policies and arrangements are adhered to in letter & spirit.
- 12.2 Promote throughout the business the belief that Compliance is not a negative process but a positive contribution to the success of the institution, so that the principles and importance of compliance are clearly understood by the staff at all levels.
- 12.3 Secure early involvement in the design & structuring of new products and systems, to ensure that they conform to local regulatory requirements, internal compliance and ethical standards.
- 12.4 Maintain regular contact and good working relationship with regulators based upon clear and timely communication and mutual understanding of the regulators' objectives.
- 12.5 Ensure that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards.
- 12.6 Promote across the compliance network, best practices developed in the area of compliance.
- 12.7 Understand and apply all new legal and regulatory developments relevant to the business of the Institution.
- 12.8 Represent the compliance function on relevant internal and external committees.
- 12.9 Ensure that compliance policies and procedures are clearly communicated to the Management & the members of the staff.
- 12.10 Provide timely reports to the management, including corporate management, which will highlight regulatory developments, changes in the law and other developments as far as they give rise to compliance issues relevant to the Company's business.
- 12.11 Highlight serious or persistent compliance problems and where appropriate, work with the management to ensure that they are rectified within an acceptable time frame.
- 12.12 Liaise with the Company's Audit function to ensure that:
  - (a) Internal Auditors are familiar with local regulatory and ethical requirements, so that they are able to ensure that compliance issues are properly addressed.

(b) Compliance weaknesses identified as a result of audits are followed up.

12.13 Interpret the Code of Ethics/Conduct and report on cases of breaches to the relevant Sectional Heads or where appropriate to a higher level of authority.

12.14 Ensure the diligent fulfillment of all statutory reporting obligations while meeting established deadlines.

12.15 Implementing effective and efficient controls and systems to safeguard against the illicit utilization of the company's products, thereby preventing their involvement in unlawful activities such as money laundering and terrorist financing.

### **13. Relationship with other units of the Company**

**13.1** The Compliance Officer and the Chief Risk officer should share the findings pertaining to breaches which would alter the risk profile of the Company and escalation of such breaches to the appropriate level of authority shall be carried out through Board Risk Committee.

**13.2.** Compliance function & Audit function shall be separate, to ensure that the activities of the Compliance function are subject to independent review. The audit function shall, of course, keep the Compliance Officer informed of any audit finding relating to compliance.

### **14. Responsibilities of the Compliance Function**

A division of responsibilities between departments is acceptable and the allocation of responsibilities to each department shall be clear. There shall also be appropriate mechanisms for cooperation among each department and with the Compliance officer. These mechanisms shall be adequate to ensure that the Compliance Officer can perform his or her responsibilities effectively.

#### **14.1. Advice**

The compliance function shall advise the Corporate Management on compliance laws, rules, and standards.

#### **14.2. Guidance & Education**

The compliance function shall assist the Corporate Management in

- a) Educating staff on compliance issues and acting as a contact point within the company for compliance queries from staff members.
- b) Establishing guidance to the staff on appropriate implementation of compliance laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct, and practice guidelines.

#### **14.3. Identification, measurement and assessment of compliance risk.**

- The compliance function, on a pro-active basis, shall identify, document, and assess the compliance risk associated with the institute's business activities, including the development of new products and business practices.
- The compliance function shall consider ways to measure compliance risk and use such measurements to enhance compliance risk assessment.
- The compliance function shall assess the appropriateness of the company's compliance procedures and guidelines, promptly follow up any identified deficiencies and where necessary, formulate proposals for amendments.
- In addition, any features causing concerns, such as potential reputational impact on the institution, are escalated to the relevant management committees such as CRMC (Corporate Risk Management Committee) /BIRMC (Board Integrated Risk Management Committee).
- The compliance function shall monitor and test compliance by performing sufficient & representative compliance testing.
- The responsibility of the compliance function shall be carried out under a compliance program that sets out its planned activities.
- The process of identifying and reporting the compliance requirements has been adopted through the respective Heads of Departments, representing all areas of the Company, under their purview .

#### **14.4. Sustainable Business Activities**

The compliance department routinely conducts assessments to evaluate the company's active participation in sustainable business endeavors. In strict adherence to the directives furnished by the Department of Supervision of Non-Banking Financial Institutions on Sustainable Business Activities, the company places significant emphasis on its activities that harmonize with and are dedicated to realizing the Sustainable Development Goals established by the United Nations. This endeavor, which aims to achieve the transition of the country towards a green, inclusive, and balanced economy, is detailed in the roadmap published by the Central Bank of Sri Lanka (CBSL).

**Note: The aforementioned evaluations are being conducted subsequent to the relaxation of regulatory constraints.**

#### **15 Risk Based Compliance Framework**

A Risk Based Compliance Framework is set to promote across the compliance network the best practices by formulating the Annual Risk based Compliance program, including the implementation and review of specific policies and procedures, Compliance Risk assessments, Compliance testing and educating staff on compliance matters.

##### **The Team is responsible for:**

- a) Providing advice to individual business units on applicable laws, directives, standards and regulations as well as providing compliance support.
- b) Monitoring trade transactions and business processes in order to identify any potential compliance risk.
- c) Developing locally & globally acceptable principles, standards and guidelines for Compliance, communicating them & verifying adherence.
- d) Helping to achieve adherence to the company's internal confidentiality regulations.
- e) Implementing any measures arising from the anti-money laundering program ensuring that any occurrences which give reason to suspect money laundering is identified and reported to law enforcement authorities.
- f) Providing regular training & education for staff on applicable regulations, rules and

internal standards.

- g) Coordinating risk, control and monitoring the management of reputational risk.
- h) Verify the level of compliance & maintaining an updated compliance risk indicator.
- i) Carrying out Compliance Audits regularly and report to the Board Integrated Risk Committee of High-Risk Areas.

## **16. Independent Testing, Monitoring and Review**

### **16.1 Role of Internal Audit**

The Internal Audit Function is responsible, in addition to its regular tasks, to assess the quality, appropriateness and effectiveness of the compliance function and the methodology applied by the Compliance Function to ensure compliance with laws, regulations, policies and procedures, and the ability to identify breaches (if any); and report findings to the Board Audit Committee and Senior management with recommended correctives measures as and when required.

### **16.2 Compliance Review, Monitoring and Testing**

The Compliance function will monitor and test Compliance by performing sufficient and represented testing/reviewing based on a Risk based methodology adopted. The summarized High-Risk Reports would be submitted to the CRMC, BIRMC and as required, to the Board of Directors. The reports will cover the Risk assessment the breaches and deficiencies identified, and corrective measures recommended. These will be clearly tracked and monitored for completion. The Annual Compliance Program for monitoring and testing based on Risk Assessment will be presented and be approved by the BIRMC, on an annual basis.

## **17 Involvement in New Products & System Development**

All products/ System developments must have the approval of the Compliance Officer prior to the implementation.

## **18 Record Keeping**

The Company shall retain all documents related to the transactions, and records for a period of at least six years as required by the applicable laws/regulatory requirements of Sri Lanka. The Company shall disclose all required documentation and information upon request to its examiners and other



regulatory bodies as per the legal and regulatory requirements in Sri Lanka.

### **19. Dissemination of Information Pertaining to new Laws and Regulations**

All New Directions and Regulations received by the Head of Compliance would be required to be forwarded to the applicable, respective Business/Unit Heads for further action. The Head of Compliance shall also include the new Laws, Directions and Amendments as part of the Monthly Compliance Report to the Board, and to the Corporate Management, and be updated on the Intranet for all staff viewing.

**20. Approval of Marketing Materials and Communication**

It is an obligation to ensure that all communication and marketing information are factually accurate, credible and in compliance with applicable legal Regulatory and Statutory Requirements. All marketing and communication material including any public notification shall be approved by the Head of Compliance before reaching the public domain.

**21. Accountability for Non-Compliance**

Failure to abide by the Compliance policy leads to loss of confidence in the Company’s integrity and fair dealing and may have severe impact on the shareholders, customers, and other stakeholders as well as have significant adverse publicity and reputational damage. The management will take appropriate corrective action against staff when breaches of laws, rules, standards and the compliance policy are identified that might include “Disciplinary Action”, and “Termination of Employment” in line with the Human Resource Policy of the Company.

**22. Approval of The Policy**

This policy is approved by the Company's Board of Directors. Any amendment to this policy will be subject to the review of the Board Integrated Risk Management Committee, through the CRMC and escalated to the Board of Directors

**23. Communication of the Policy**

The Compliance Policy will be published on the Company Intranet and a cover note will be circulated by the Head of Compliance to all staff notifying that the Policy has been reviewed and updated and that all staff are required to read and understand the contents. Confirmation on adherence to the Policy would be obtained as part of the Compliance Certification from the Heads of the Business Units/Departments.

=====End=====

