

**JALAN CHEMICAL INDUSTRIES PRIVATE LIMITED**

**Fraud Risk Management & Prevention Policy**

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### **1. Background:**

In compliance with the guidelines issued by RBI on Master Direction - Fraud Risk Management in NBFCs Directions 2024, doc vide RBI/DOS/2024-25/120 DOS.CO.FMG.SEC.No.7/23.04.001/2024-25, the Fraud Risk & Prevention Policy has been crafted with the aim of setting up a framework for preventing, detecting, investigating and reporting fraud incidents within Jalan Chemical Industries Private Limited (referred to as "JCIPL" or "the Company").

### **2. Scope of the Policy:**

This policy is applicable to any instances of fraud, whether confirmed or suspected, involving employees, external agencies and individuals with a business relationship with Jalan Chemical Industries Private Limited. JCIPL shall ensure that the principles of natural justice are strictly adhered to before classifying / declaring an account as fraud.

### **3. Objectives of the Policy:**

This policy aims to instill a proactive approach within the company for identifying, analyzing and managing the risk of fraud. The company will maintain a zero-tolerance stance toward fraud across all levels and will implement measures to prevent fraud.

The Policy is designed to achieve the following objectives:

- Establishing procedures and controls that facilitate fraud detection and prevention.
- Providing guidance to JCIPL employees on fraud prevention, identification and detection.
- Developing internal controls.
- Promptly documenting and reporting fraud incidents.
- Offering essential training to JCIPL staff to enhance their awareness and capabilities in fraud prevention.

### **4. Fraud Risk Management Structure:**

The effectiveness of a risk management system depends on putting in place appropriate and effective risk management architecture. In pursuance of RBI guidelines, necessary role centres have been created in the organization structure to facilitate discharge of risk management function.

- Board of Directors: The Board of Directors will provide strategic guidance for implementing a Fraud Risk Management Framework
- Risk Management Committee (RMC)

### **5. Actions constituting Fraud:**

Fraud is defined as a deliberate act carried out by an individual through deception, suppression, cheating or any other illegal means, leading to wrongful gain for oneself or others and causing wrongful loss to others.

Examples of fraudulent activities include:

- Misappropriation of funds or assets.
- Improper handling or reporting of financial transactions.
- Soliciting or accepting material benefits from customers or service providers.
- Criminal breach of trust and misappropriation.
- Fraudulent cashing of forged instruments, manipulation of financial records or using fictitious accounts.
- First-Party Fraud: Willful default by borrowers without the intention to repay.
- Unauthorized extension of credit for illicit gains.
- Negligence of duty leading to frauds.
- Cheating and documents forgery.
- Fraudulent transactions involving foreign exchange;
- Fraudulent electronic banking/digital payment related transactions committed on NBFCs; and



- Any other fraudulent activities not covered by the above categories.

Cases involving "negligence and cash shortages " or "irregularities" are treated as fraud if there is suspicion or proof of fraudulent intent.

#### **6. Fraud Detection & Control:**

Fraud detection involves identifying actual or potential instances of fraud. This can be accomplished through onsite inspections of processes, employees and documents.

The frauds can be prevented by taking control measures as below:

- I. Performing thorough background checks and verifying documents of customers and other business associates of JCIPL
- II. Periodic training programs for all employees on real life scenarios, recent fraud cases and Fraud Detection & Prevention
- III. Implementing preventive internal controls through appropriate process changes

#### **7. Fraud Monitoring:**

JCIPL shall set-up an appropriate organizational structure for institutionalization of fraud risk management within their overall risk management functions.

The Senior Management on periodic basis, shall share Fraud reports, if any and dashboards with internal management and stakeholders. All potential fraud/suspected reports will be reported to the RMC.

#### **8. Staff Accountability:**

In all fraud cases, staff accountability will be mandatorily explored. It is required to :

- (a) Confirm whether there was any lapse/mala-fide intent on part of employee which led to fraud and
- (b) If so then to take action against the staff concerned.

JCIPL shall put in place a transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases/suspicious activities in accounts(s) are examined and concluded appropriately under Whistle Blower Policy

#### **9. Fraud Reporting:**

JCIPL shall issue an extensive Show Cause Notice (SCN) to the individuals, organizations and promoters as well as the executive directors and full-time employees against whom the fraud allegations are under investigation. The Show Cause Notice shall capture the details about the transactions, acts and occurrences which constitute the basis for the declaration and reporting of fraud.

A minimum of 21 days shall be provided to the show caused Persons/Entities to respond.

#### **Special Committee:**

A Special Committee to Monitor and Follow-up (SCMF) shall be formed in line with regulatory guidelines which state that Base layer NBFCs shall constitute a committee, headed by one Whole-Time Director or equivalent rank Official to oversee the effectiveness of the fraud risk management in the Company and to review and monitor cases of frauds.



**(a) Reporting to the Board:**

In addition to the actions set out by the policy above, the Senior Management shall also notify the RMC/Board of Directors of the Company as follows:

- a) Information relating to frauds for the quarters ending March, June, September and December shall be placed before the Board of Directors during the subsequent month of the following quarter.
- b) Irrespective of the quantum, all instances of Fraud will be reported to the Managing Director / Executive Committee.
- c) Where the quantum of the fraud exceeds Rs.1,00,000/- (Rupees One Lakh), the fraud shall be promptly reported to the Managing Director and Board after the same are proved in the preliminary investigation.
- d) In addition to the above, JCIPL shall conduct an annual review of the frauds and place a note before the Board.

**(b) Reporting to Regulator via XBRL:**

- a) FMR-1 for reporting new frauds of ₹ 1lakh and above within three weeks (21days) from the date of detection
- b) FMR-3/FUA for reporting the developments in respect of frauds already reported (as and when basis)
- c) FMR-4 (Quarterly Reporting of Theft, Robbery, Dacoity and Burglary); If there are no incidents to Report, then 'Nil' submission to be done in the XBRL
- d) Paper based Monthly Certificate to be submitted by 7th of every month in the prescribed format

**(c) Reporting under Legal Governance:**

As a general rule, the following cases should invariably be referred to the State Police:

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

The said activity would be taken up by internal/external Legal Counsel for further processes and updates through Risk Management Committee.

**10. Fraud Governance:**

**Closure of Frauds:**

Prior approval from the respective Regional Offices of RBI/SSM concerned is required for closure of fraud cases

**a) Statistical Closure:**

Fraud cases involving amount upto ₹ 25lakhs may be closed for limited statistical/reporting purposes where:

- 1) the investigation is on or challan / charge sheet not filed in the Court for more than three years from the date of filing of First Information Report (FIR) by the CBI / Police; or
- 2) the trial in the courts after filing of charge sheet/challan by CBI/Police has not started or is in progress.



**b) Other Closure:**

JCIPL shall close the fraud cases after completing the following actions

- Cases pending with CBI/Police/Court have been finally disposed of;
- The examination of staff accountability has been completed;
- The amount of fraud has been recovered or written off;
- Insurance claim wherever applicable has been settled ;and
- the systems and procedures have been reviewed, causative factors have been identified and lacunae plugged
- JCIPL shall provide all possible assistance to the Police/CBI/Court for investigation/trial and vigorous follow up with the police authorities and/or court for final disposal of fraud cases shall be undertaken.

**11. Policy Governance and Review:**

This policy will be reviewed annually or whenever there is an amendment to RBI guidelines.

The policy shall be approved by the Board on the recommendation of the Risk Management Committee of the Board.

