

JALAN CHEMICAL INDUSTRIES PVT LTD

POLICY FOR MONITORING OF FRAUDS

(Formulated in terms of the Master Direction - Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016'; approved and adopted by the Board of Directors at their meeting held on 31.03.2024)

Our Company, M/s. Jalan Chemical Industries Pvt Ltd, is an Investment and Credit Company "NBFC-ICC", as defined in Para 5.1.19 of Chapter II of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ("the Directions") issued by the Reserve Bank of India on 19th October, 2023. The Company is engaged in the business of providing finance by way of making loans and trading/investments in securities.

The RBI vide their Master Direction DNBS.PPD.01/66.15.001/2016-17 dated September 29, 2016 has issued guidelines on classification of frauds, approach towards monitoring of and reporting system for frauds -Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016, ("the Directions").

Chapter – III of the Directions inter-alia stipulates as under:

Classification of Frauds

1. In order to have uniformity in reporting, frauds have been classified as under mainly based on the provisions of the Indian Penal Code:
 - a. Misappropriation and criminal breach of trust
 - b. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property
 - c. Unauthorised credit facilities extended for reward or for illegal gratification.
 - d. Negligence and cash shortages
 - e. Cheating and forgery
 - f. Irregularities in foreign exchange transactions
 - g. Any other type of fraud not coming under the specific heads as above.



2. 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. However, the following cases where fraudulent intention is not suspected / proved, at the time of detection, will be treated as fraud and reported accordingly:
 - (a) Cases of cash shortages more than ₹10,000/- and
 - (b) Cases of cash shortages more than ₹ 5000/- if detected by management / auditor inspecting officer and not reported on the occurrence by the persons handling cash.
3. Applicable NBFCs having overseas branches/offices should report all frauds perpetrated at such branches/offices also to the Bank as per the format and procedure detailed under Chapter IV.

Chapter – VI of the Directions inter-alia stipulates as under:

Reports to the Board

1. Reporting of Frauds

- (i) Applicable NBFCs should ensure that all frauds of Rs. 1 lakh and above are reported to their Boards promptly on their detection.
- (ii) Such reports should, among other things, take note of the failure on the part of the concerned officials, and consider initiation of appropriate action against the officials responsible for the fraud.

2. Quarterly Review of Frauds

- (i) Information relating to frauds for the quarters ending March, June and September shall be placed before the Board of Directors during the month following the quarter to which it pertains.
- (ii) These should be accompanied by supplementary material analysing statistical information and details of each fraud so that the Board would have adequate material to contribute effectively in regard to the punitive or preventive aspects of frauds.
- (iii) All the frauds involving an amount of Rs. 1 crore and above should be monitored and reviewed by the Audit Committee of the Board (ACB) of NBFCs. The periodicity of the meetings of the Committee may be decided according to the number of cases involved. However, the Committee should meet and review as and when a fraud involving an amount of Rs. 1 crore and above comes to light.



3. Annual Review of Frauds

- (i) Applicable NBFCs should conduct an annual review of the frauds and place a note before the Board of Directors for information. The reviews for the year-ended December should be put up to the Board before the end of March the following year. Such reviews need not be sent to the Bank. These shall be preserved for verification by the Bank's inspecting officers.
- (ii) The main aspects which shall be taken into account while making such a review may include the following:
 - (a) Whether the systems in the NBFC are adequate to detect frauds, once they have taken place, within the shortest possible time;
 - (b) Whether frauds are examined from staff angle;
 - (c) Whether deterrent punishment is meted out, wherever warranted, to the persons found responsible;
 - (d) Whether 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;
 - (e) Whether frauds are reported to local Police, as the case may be, for investigation.
- (iii) The annual reviews should also, among other things, include the following details:
 - a) Total number of frauds detected during the year and the amount involved as compared to the previous two years;
 - b) Analysis of frauds according to different categories detailed in Chapter IV and also the different business areas indicated in the Quarterly Report on Frauds Outstanding (vide FMR - 2);
 - c) Modus operandi of major frauds reported during the year along with their present position;
 - d) Detailed analyses of frauds of ₹ 1 lakh and above;
 - e) Estimated loss to the NBFC during the year on account of frauds, amount recovered and provisions made;



- f) Number of cases (with amounts) where staff are involved and the action taken against staff;
- g) Time taken to detect frauds (number of cases detected within three months, six months and one year of their taking place);
- h) Position with regard to frauds reported to Police;
- i) Number of frauds where final action has been taken by the NBFC and cases disposed of;
- j) Preventive/punitive steps taken by the NBFC during the year to reduce/minimise the incidence of frauds;
- k) Timely reporting of frauds to the concerned authorities.

Chapter – VII of the Directions inter-alia stipulates as under:

Guidelines for Reporting Frauds to Police

1. Guidelines for Reporting Frauds to Police

Applicable NBFCs should follow the following guidelines for reporting of frauds such as unauthorised credit facilities extended by the applicable NBFC for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities:

- (a) In dealing with cases of fraud/embezzlement, applicable NBFCs should not merely be actuated by the necessity of recovering expeditiously the amount involved, but should also be motivated by public interest and the need for ensuring that the guilty persons do not go unpunished;
- (b) Therefore, as a general rule, the following cases should invariably be referred to the State Police:

Cases of fraud involving an amount of Rs. 1 lakh and above, committed by outsiders on their own and/or with the connivance of applicable NBFCs staff/officers;

Cases of fraud committed by employees of applicable NBFCs, when it involves the NBFC funds exceeding Rs. 10,000/-.

Having regards to the above Directions and other regulations, the Company has framed this policy.



Objective

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:

- i. To establish procedures for detection and timely reporting of frauds to senior management for review and necessary action.
- ii. To develop and evolve system for detection and prevention of fraud and for establishment of procedures for preventing fraud.
- iii. To provide clear guidance to employees on the process for dealing with matters related frauds.
- iv. To facilitate in conduct of investigation into fraudulent act or frauds detected.

Scope

This policy will be applicable to any fraud or suspected fraud involving investee companies, employees as well as other parties involved in frauds.

Definition of fraud

The definition of fraud is as per the aforesaid Master Directions which is based mainly on the provisions of the Indian Penal Code which includes: -

- a. Misappropriation and criminal breach of trust;
- b. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property;
- c. Unauthorized credit facilities extended for reward or for illegal gratification;
- d. Negligence and cash shortages (includes intention to cheat/defraud is suspected/ proved);
- e. Cheating and forgery;
- f. Irregularities in foreign exchange transactions (includes intention to cheat/defraud is suspected/ proved); and
- g. Any other type of fraud not coming under the specific heads as above:



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.

However, the following cases where fraudulent intention is not proved, at the time of detection, will be treated as fraud and reported accordingly: -

- a. cases of cash shortages more than Rs.10,000/- and
- 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

Regulatory Reporting

A reporting system for frauds is prescribed by RBI as per **Annexure A** (These returns have been converted into online based filing vide RBI Circular dated 18th February, 2022)

Annual Report Disclosure

The Company shall disclose the amount related to fraud reported for the year in its balance sheets.

Reporting & Review by Board

- Detected Frauds:
 - All frauds of Rs. 1 lakh and above shall be reported to the Board promptly on their detection.
 - Information relating to frauds shall be furnished on quarterly basis, if any
 - Undertake and update the Board on the annual review of the frauds

Reporting, monitoring and review by Audit Committee (AC)

- Detected Frauds:
 - All frauds of Rs. 25 lakh and above shall be reviewed by the AC promptly on their detection
 - All frauds of Rs. 25 lakh and above shall be monitored and reviewed by the AC on a quarterly basis
- Attempted Frauds:
 - All attempted frauds of Rs. 25 lakh and above shall be reported to the AC



- Annual consolidated review of all attempted frauds of Rs. 25 lakh and above within three months of end of the financial year

Responsibility

Fraud Risk Officer is responsible for policy implementation and shall report to Audit committee.

The Company Secretary of JCIPL shall be the Fraud Risk Officer for the purpose of this Policy.

Dispensation

Any dispensation requires approval from Audit Committee on the recommendation of Fraud Risk Officer.

Amendment

This Policy may be amended from time to time by the Audit Committee.

Document Retention

All information, documents along with the results of Investigation relating thereto, shall be retained by the 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.

Policy Owner

The Fraud Risk Officer shall be the Designated Officer for the purpose of this Policy.

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 Audit Committee of the Board (AC) for their review.



- e. The periodicity of the meetings of the AC may be decided according to the number of cases involved.

However, the AC should meet and review as and when a fraud involving an amount of Rs 25 lakh and above comes to light.

- f. AC 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 JCIPL 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, AC 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 JCIPL 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.



ANNEXURE – A

Reporting of Frauds to RBI (These returns have been converted into online based filing vide RBI Circular dated 18th February, 2022)

Particulars	Reporting to	Form	Time-line	Additional Requirements
Amount involved above Rs. 1 lakh and below Rs. 1 Crore	Regional Office, DNBS, RBI	FMR – 1	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	FMR – 1	Within three weeks from the date of detection.	Fraud in borrower account involving an amount of Rs5 Lakhs and above additional info in Part B of FMR-1 to be provided
Quarterly reports on frauds outstanding (All amounts)	Regional Office, DNBS, RBI	FMR – 2	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 FMR- 2.
Casewise quarterly progress report on frauds involving Rs.1 Crore and above	Fraud Monitoring Cell (FMC), DBS, Central Office, RBI	FMR – 3	Within 15 days of the end of the quarter	



Casewise quarterly progress report on frauds involved less than Rs 1 Crore	Regional Office, DNBS, RBI	FMR – 3	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 copy to: (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

JCIPL 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 JCIPL staff/officers; and
- b) Cases of fraud committed by JCIPL employees, when it involves JCIPL funds exceeding Rs. 10,000/-

