

## **CD EQUIFINANCE PRIVATE LIMITED**

### **FRAUD MONITORING POLICY**

<b>Details</b>	<b>Date</b>
Reviewed, Adopted and Implemented on	February 7, 2025
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Next Review on	FY 2025-2026

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## **1. Background:**

RBI vide their circular 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 for NBFCs.

## **2. 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: -

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

## **3. Scope:**

This policy will be applicable to CD Equifinance, employees of the companies and vendors empanelled with CD Equifinance Reporting System and Timelines.

CD Equifinance will put in place a reporting system for recording frauds without any delay and also have should fixed staff accountability in respect of reporting of fraud cases on RBI portal.

CD Equifinance will ensure to strictly adhere to the timeframe fixed in this Direction for reporting of fraud) failing which, CD Equifinance may be liable for penal action as prescribed under the provisions of Chapter V of the Reserve Bank of India Act, 1934 (The RBI Act).

CD Equifinance will specifically nominate an official who will be responsible for submitting all the returns and reporting referred to RBI directions.

In case no frauds are detected, CD Equi finance required to submit 'Nil' cases report to Frauds Monitoring Cell/Regional Offices of Department of Non-Banking Supervision of the Bank.

CD Equi finance will ensure that enough precautions is taken to ensure that the cases reported by them are duly received by Frauds Monitoring Cell/Regional Offices of Department of Non-Banking Supervision as the case may be.

## **4. Classification of Fraud in CD EQUIFINANCE:**

In order to have uniformity in reporting, Frauds has been classified by RBI as under mainly based on the provisions of the Indian Penal Code:

- Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property
- Unauthorized credit facilities extended for reward or for illegal gratification.
- Negligence and cash shortages
- Cheating and forgery

- Irregularities in foreign exchange transactions
- Misappropriation and criminal breach of trust

Any other type of fraud not coming under the specific heads as above

## 5. Reporting of Frauds to RBI:

### a) Frauds involving Rs. 1 lakh and above:

- Fraud reports should be submitted in all cases of fraud of Rs. 1 lakh and above perpetrated through misrepresentation, breach of trust, manipulation of books of account, fraudulent encashment of FDRs, unauthorized handling of securities charged under CD Equifinance, misfeasance, embezzlement, misappropriation of funds, conversion of property, cheating, shortages, irregularities, etc.
- Fraud reports should also be submitted in cases where central investigating agencies have initiated criminal proceedings Suo moto and/or where the CD Equifinance has been directed that they be reported as frauds.
- CD Equifinance should also report frauds perpetrated in their subsidiaries and affiliates/joint ventures. Such frauds should, however, not be included in the report on outstanding frauds and the quarterly progress reports referred to in Paragraph.
- Where the amount involved in **fraud is Rs. 1 crore** and above, the reports in the prescribed format will be sent within three weeks from the date of detection of the fraud to “Central Fraud Monitoring Cell Department of Banking Supervision, Reserve Bank of India, 10/3/8, Nrupathunga Road, P.B. No. 5467 Bengaluru – 560001 “And to the Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the Registered Office of the CD Equifinance.
- Where the amount involved in fraud is less than Rs. 1 crore, CD Equifinance will prepare report in **FMR – 1 format** to be sent to the Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the Registered Office of the applicable NBFC falls, **within three weeks (21 days) form the date of detection of the fraud.**
- CD Equi finance will furnish **case-wise quarterly progress reports** on frauds involving Rs. 1 lakh and above in the format given in FMR- 3 only to Regional Office of the Bank, Department of Non-Banking Supervision under whose jurisdiction CD Equifinance falls **within 15 days** of the end of the quarter to which it relates.
- CD Equifinance will initiate the fraud cases closure only where the actions are complete and prior approval is obtained from the respective Regional Offices of DNBS. CD Equifinance action will be considered complete when -
  - The fraud cases pending with CBI/Police/Court are 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.
  - CD Equifinance has reviewed the systems and procedures, identified as the causative factors, and plugged the lacunae and the fact of which has been certified by the appropriate authority (Board / Audit Committee of the Board).

- CD Equifinance will pursue vigorously with CBI for final disposal of pending fraud cases especially where they have completed staff side action. All possible assistance should be extended by the CD Equifinance 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 will be undertaken by CD Equifinance.
- For limited statistical / reporting purposes, CD Equifinance will close those fraud cases involving amounts up to Rs. 25.00 lakh, where: (a) 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 (b) the trial in the courts, after filing of charge sheet / challan by CBI / Police, has not started, or is in progress.

**b) Frauds involving Rs.1 crore and above:**

- In respect of frauds involving Rs. 1 crore and above, in addition to the requirements given above, CD Equifinance will report the fraud by means of a D.O. letter addressed to the:

“Chief General Manager-in-charge of the Department of Banking Supervision, Reserve Bank of India, Frauds Monitoring Cell, Central Office Bengaluru.”

- A copy endorsed to the Chief General Manager-in-charge of the Department of Non-Banking Supervision, Reserve Bank of India, Central Office within a week of such frauds coming to the notice of the applicable NBFC.
- The letter will contain brief particulars of the fraud such as amount involved, nature of fraud, modus operandi in brief, name of the branch/office, names of parties involved (if they are proprietorship/ partnership concerns or private limited companies, the names of proprietors, partners and directors), names of officials involved, and whether the complaint has been lodged with the Police.
- CD Equifinance will send a copy of the D.O. letter to the Regional Office of the Bank, Department of Non-Banking Supervision under the jurisdiction the Registered Office of the CD Equifinance comes.
- CD Equifinance will also report Frauds committed by unscrupulous borrowers including companies, partnership firms/proprietary concerns and/or their directors/partners by various methods including the following:
  - Fraudulent discount of instruments.
  - Fraudulent removal of pledged stocks/disposing of hypothecated stocks without the NBFC's knowledge/inflating the value of stocks in the stock statement and drawing excess finance.
  - Diversion of funds outside the borrowing units, lack of interest or criminal neglect on the part of borrowers, their partners, etc. and also due to managerial failure leading to the unit becoming sick and due to laxity in effective supervision over the operations in borrowable accounts on the part of the NBFC functionaries rendering the advance difficult of recovery.
- In respect of frauds in borrowable accounts, additional information as prescribed under Part B of FMR – 1 should be furnished.

**c) Cases on Attempted Frauds:**

- All individual cases involving Rs. 25 lakh or more should be continued to be placed before the Audit Committee of applicable NBFC's Board.
- The report containing attempted frauds which is to be placed before the Audit Committee of the CD Equifinance that cover inter alia the following viz.
  - The modus operandi of the attempted fraud;
  - How the attempt did not materialize in the fraud or how the attempt failed / was foiled;
  - The measures taken by the applicable NBFC to strengthen the existing systems and controls;

- New systems and controls put in place in the area where fraud was attempted
- In addition to the above, yearly consolidated review of such cases detected during the year containing information regarding area of operations where such attempts were made, effectiveness of new process and procedures put in place during the year, trend of such cases during the last three years, need for further change in process and procedures, if any, etc. as on March 31 every year (starting from the year ending March 31, 2013) within three months of the end of the relative year.

**d) Quarterly Returns:**

• **Report on Frauds Outstanding –FMR-2**

- CD Equifinance will submit a copy of the Quarterly Report on Frauds Outstanding in the format given in FMR – 2 to the Regional Office of the Bank, Department of Non-Banking Supervision under whose jurisdiction the Registered Office of the CD Equifinance falls irrespective of amount within 15 days of the end of the quarter to which it relates.
- Part – A of the report covers details of frauds outstanding as at the end of the quarter. Parts B and C of the report give category-wise and perpetrator-wise details of frauds reported during the quarter, respectively. The total number and amount of fraud cases reported during the quarter as shown in Parts B and C should tally with the totals of columns 4 and 5 in Part – A of the report.
- CD Equifinance will furnish a certificate, as part of the above report, to the effect that all individual fraud cases of ₹ 1 lakh and above reported to the Bank in FMR – 1 during the quarter have also been put up to the applicable NBFC's Board 8 and have been incorporated in Part – A (columns 4 and 5) and Parts B and C of FMR – 2.

• **Progress Report on Frauds – FMR -3**

- CD Equifinance will furnish case-wise quarterly progress reports on frauds involving Rs.1 lakh and above in the format given in FMR-3 to the Central Office of the Department of Banking Supervision of the Bank, Fraud Monitoring Cell, Bengaluru where the amount involved in fraud is Rs.1 crore and above and to Regional Office of the, Department of Non-Banking Supervision of the Bank under whose jurisdiction the Registered Office of the applicable NBFC falls where the fraud amount involved in fraud is less than Rs. 1 crore within 15 days of the end of the quarter to which it relates.
- In the case of frauds where there are no developments during a quarter, a list of such cases with a brief description including name of branch and date of reporting will be furnished in FMR – 3 as mentioned in item (i) above

**6. Reporting to the Board:**

a. **Reporting of Frauds:**

- CD Equifinance will ensure that all frauds of Rs.1 lakh and above are reported to their Boards promptly on their detection.
- 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.

b. **Quarterly Review of Frauds**

- Information relating to frauds for the quarters ending March, June and September will be placed before the Board of Directors during the month following the quarter to which it pertains.

- 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.
- 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.

c. **Annual Review of Frauds**

- CD Equifinance will 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 will be preserved for verification by the Bank's inspecting officers.
- The main aspects which will be taken into account while making such a review may include the following:
  - Whether the systems in the NBFC are adequate to detect frauds, once they have taken place, within the shortest possible time.
  - Whether frauds are examined from staff angle
  - Whether deterrent punishment is meted out, wherever warranted, to the persons found responsible.
  - 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;
  - Whether frauds are reported to local Police, as the case may be, for investigation.

**The annual reviews should also, among other things, include the following details:**

- Total number of frauds detected during the year and the amount involved as compared to the previous two year.
- 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)
- Modus operandi of major frauds reported during the year along with their present position.
- Detailed analyses of frauds of Rs. 1 lakh and above.
- Estimated loss to the CD Equifinance during the year on account of frauds, amount recovered and provisions made.
- Number of cases (with amounts) where staff are involved, and the action taken against staff.
- Time taken to detect frauds (number of cases detected within three months, six months and one year of their taking place)
- Position with regard to frauds reported to Police.
- Number of frauds where final action has been taken by the CD Equifinance and cases disposed of on Preventive/punitive steps taken by the CD Equifinance during the year to reduce/minimize the incidence of frauds.
- Timely reporting of frauds to the concerned authorities.

## **7. Guidelines for Reporting Frauds to Police**

CD Equifinance will follow the following guidelines for reporting of frauds such as unauthorized credit facilities extended by the CD Equifinance for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities:

- a. In dealing with cases of fraud/embezzlement, CD Equifinance 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 CD Equifinance staff/officers.
  - Cases of fraud committed by employees of CD Equifinance, when it involves the NBFC funds exceeding Rs. 10,000/

## **8. Annual Review**

The Policy shall be reviewed by the annually and updated if there is any change in regulation, master direction, circular, notification etc. issued by statutory authorities, the interpretation of statutory regulations shall prevail.