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## COMPLIANCE CHARTER – Version II

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<b>Drafted by</b>	Compliance Department
<b>Reviewed by</b>	Board Integrated Risk Management Committee (BIRMC)
<b>Approved by</b>	Board of Directors
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## ❖ Introduction

The purpose of this Compliance Charter is to establish and define the mission, responsibilities, and authority of the Compliance Department (CD) in Lanka Credit and Business Finance PLC (LCB Finance). The document outlines:

- The formal mission statement for the management and supervision of compliance risk, including operational risk.
- The role and responsibilities of the Compliance Department.
- The relationship of the Compliance Department with other risk management functions, including its independence, authority, and accountability.

The Head of the Compliance Department reports functionally to the Board Integrated Risk Management Committee (BIRMC) and administratively to the CEO/Executive Director.

### 1. Mission

Compliance risk is defined as the risk of legal or regulatory sanctions, financial loss, or reputational damage resulting from failure to adhere to laws, regulations, policies, procedures, and guidelines from the Central Bank of Sri Lanka (CBSL).

Operational risk refers to the potential loss arising from inadequate or failed internal processes, systems, people, or from external events. This also includes litigation risks related to the company or its customers.

The Compliance Department assists the BIRMC in managing compliance risk by identifying, assessing, advising, and reporting on potential compliance risks facing the company.

### 2. Responsibilities of the Management

- The BIRMC is responsible for overseeing the company's compliance risk management as per CBSL's directives on Corporate Governance.
- Management is tasked with communicating and implementing the Compliance Charter within the company.
- The management must report any significant compliance failures to the Board of Directors and submit an annual compliance report.

### **3. Authority**

The Compliance Department has the authority to:

- Access all relevant company functions, policies, procedures, records, and staff necessary for fulfilling its mission.
- Request information or explanations from staff and management regarding compliance activities within a reasonable timeframe (no later than seven workdays).

However, the Compliance Department is not authorized to:

- Perform operational duties or approve transactions except those related to compliance activities.

### **4. Responsibilities of the Compliance Department with Respect to Compliance Functions**

The Compliance Department's responsibilities include:

- Ensuring compliance with the CBSL regulations, guidelines, and internal policies.
- Assisting the BIRMC and management in identifying and assessing potential compliance risks.
- Providing guidance and advice to management and staff on compliance matters.
- Educating staff on compliance and ethics, and acting as a point of contact for compliance queries.
- Assessing and improving the company's internal regulations related to compliance risk.
- Reporting to the BIRMC and management on compliance weaknesses and recommending corrective actions.
- Addressing conflicts of interest, corruption, fraud, money laundering, terrorist financing, and complaints related to the company's operations.
- Liaising with external bodies such as regulators, auditors, and rating agencies.

The heads of departments and branch managers are responsible for maintaining controls in their areas related to compliance and operational risks.

### **5. Continuity, Independence, and Objectivity**

The Compliance Department is a permanent and independent function within the company, directly reporting to the BIRMC. The department must maintain impartiality and objectivity in its operations and avoid conflicts of interest.

- Monthly and annual reports are submitted to the BIRMC and management. A copy may be provided to the Audit Committee.
- The Compliance Department may meet with the Audit Committee when necessary.

## **6. Relationship with Internal Audit Function**

The Internal Audit Department will inform the Compliance Department of any significant audit findings regarding compliance failures. In turn, the Compliance Department will keep the Internal Audit Department informed about major compliance or operational risks and deficiencies.

## **7. Relationship with Other Risk Management Functions**

The Compliance Department will coordinate with other risk management functions such as credit risk management, operational risk management, and asset and liability management. This ensures proper coverage of compliance and operational risks without overlap of responsibilities.

## **8. Standards**

The Compliance Department adheres to best practices, such as reporting to regulatory and statutory bodies, ensuring compliance with internal policies like the Code of Conduct and the Financial Customer Protection Framework of CBSL. The Compliance Charter will be updated as needed, with approval from the BIRMC and the Board of Directors.

## **9. Approval Sought**

Approval should be obtained from the Board of Directors of the company through BIRMC by the Compliance Department.

## **10. Recommendation**

Recommended to the Board of Directors for adoption

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**Head of Compliance**

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**CEO/ Executive Director**