

# **Sattva Holding and Trading Private Limited**

## **FRAUD PREVENTION & DETECTION POLICY**

(Adopted by the Board on 11<sup>th</sup> February, 2022)

Version 3.0

(Version Date: 29th March, 2023)

## **FRAUD PREVENTION & DETECTION POLICY**

### **1. PREAMBLE**

The corporate policy for fraud prevention & detection is established to facilitate the development of controls which will aid in the detection and prevention of fraud against the Company. It is the intent of the Company to promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conduct of investigations.

In order to comply the provisions and guideline of Reserve Bank of India and oversee the best practices of Corporate Governance Fraud Prevention & Detection Policy has been framed, since the Company is a Non-Deposit taking Systemically Important Core Investment Company registered with Reserve Bank of India.

The Policy shall be read in conjunction with Master Direction - Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016 as updated from time to time.

### **2. POLICY OBJECTIVES :**

The "Fraud Prevention Policy" has been framed to provide a system for detection and prevention of fraud, reporting of any fraud that is detected or suspected and fair dealing of matters pertaining to fraud. The policy will ensure and provide for the following:-

- i. To ensure that management is aware of its responsibilities for detection and prevention of fraud and for establishing procedures for preventing fraud and/or detecting fraud when it occurs.
- ii. To provide a clear guidance to management including all employees and others dealing with Company forbidding them from involvement in any fraudulent activity and the action to be taken by them where they suspect any fraudulent activity.
- iii. Prevention of acceleration of the borrowings of the company due to false evidence and misrepresentation of authority
- iv. To conduct investigations into fraudulent activities.
- v. To provide assurances that any and all suspected fraudulent activity will be fully investigated (subject to verification of ID of the compliant). Genuine informant to be protected for any harassment that may be inflicted on them, as per the Vigil Mechanism Policy of the Company.
- vi. In case any informant is providing wrong information to harass and create unwarranted problem for any employee, such employee needs to be protected to boost the morale and appropriate disciplinary action to be initiated against the informant for providing wrong information as per the applicable conduct rules and in case of outsiders (other than employees) appropriate administrative or legal action is to be taken.

### **3. SCOPE OF POLICY :**

The policy applies to any fraud, or suspected fraud involving employees of the Company (all employees

full time, including the management of Company or employees appointed on adhoc/temporary/contract basis) as well as representatives of vendors, lenders, suppliers, contractors, consultants, service providers or any outside agency (ies) doing any type of business with the Company directly or indirectly involved in unlawful / illegal or beyond the approved principles and procedures of the Company.

**4. DEFINITION OF FRAUD :**

"Fraud" may be defined as a willful act intentionally committed by an individual(s) - by deception, suppression, cheating or any other fraudulent or any other illegal means, thereby, causing wrongful gain(s) to self or any other individual(s) and wrongful loss to other(s). Many a times such acts are undertaken with a view to deceive/mislead others leading them to door prohibiting them from doing a bonafide act or take bonafide decision which is not based on material facts."

**5. ACTIONS CONSTITUTING FRAUD :**

While fraudulent activity could have a very wide range of coverage, the following are some of the act(s) which constitute fraud. The list given below is only illustrative and not exhaustive:-

- i. Forgery or alteration of any document or account belonging to the Company
- ii. Forgery or alteration of cheque, bank draft or any other financial instrument etc.
- iii. Misappropriation of funds, securities, supplies or others assets by fraudulent means etc.
- iv. Falsifying records such as pay-rolls, removing the documents from files and /or replacing it by a fraudulent note etc.
- v. Willful suppression of facts/deception in matters of appointment, placements, submission of reports, committee recommendations etc. as a result of which a wrongful gain(s) is made to one and wrongful loss(s) is caused to the others.
- vi. Submitting false/forged documents by the lenders/ vendors/ suppliers/ consultants/while submitting their offer.
- vii. Utilizing Company funds for personal purposes.
- viii. Authorizing or receiving payments for goods not supplied or services not rendered.
- ix. Destruction, disposition, removal of records or any other assets of the Company with an ulterior motive to manipulate and misrepresent the facts so as to create suspicion/ suppression/ cheating as a result of which objective assessment/decision would not be arrived at.
- x. Any other act that falls under the gamut of fraudulent activity.
- xi. Coercion in doing any act beyond the principle, procedures, practices of the company leading to disruption in normal activities having direct or indirect bearing in business activities.

## 6. DETECTION OF FRAUD

The company shall formulate and implement mechanisms to identify the actions culminating into fraud. The mechanisms shall be updated from time to time to cope with the prevalent regulatory as well as industry standards.

Detections of fraud shall be plausible through adopted mechanisms such as:

- a. The Detection tools-such as log maintenance, attendance, 2 factor authentication, Tracking User Ips.
- b. Maker Checker Concept, identifying forced access, attempted access to Unauthorized areas, tracking unusual activities, quarterly operations review.

*Note: The company has no petty cash model and all the expenses or reimbursements are made from the bank account to enable strengthening of fraud detection*

## 7. REPORTING OF FRAUD :

### a. Reporting to the Principal Officer

- i. Any employee (full time, or employees appointed on adhoc/ temporary/ contractbasis), representative of lenders, vendors, suppliers, contractors, consultants, service providers or any other agency(ies) doing any type of business with Company as soon as he / she comes to know of any fraud or suspected fraud or any other fraudulent activity must report such incident(s). Such reporting shall be made to the Principal Officer of the Company, appointed by the Board of Directors. The reporting of the fraud normally should be in writing. In case the reporter is not willing to furnish a written statement of fraud but is in a position to give sequential and specific transaction of fraud/suspected fraud, then the officer receiving the information/Nodal Officer should record such details in writing as narrated by the reporter and also maintain the details about the identity of the official /employee / other person reporting such incident. Reports can be made in confidence and the person to whom the fraud or suspected fraud has been reported must maintain the confidentiality with respect to the reporter and such matter should under no circumstances be discussed with any unauthorized person.
- ii. All reports of fraud or suspected fraud shall be handled with utmost speed and shall be coordinated by Principal Officer, failing which it may loose significance and cause loss and damage to the company.
- iii. Officer receiving input about any suspected fraud, Principal Officer(s) shall ensure that all relevant records documents and other evidence is being immediately taken into custody and being protected from being tampered with, destroyed or removed by suspected offenders of fraud or by any other official under his influence.

### b. Reporting of Frauds to Reserve Bank of India (the Bank)

- i) Fraud reports should be submitted in all cases of fraud of ₹ 1 lakh and above perpetrated through misrepresentation, breach of trust, manipulation of books of account, fraudulent encashment of FDRs, unauthorised handling of securities charged to the Company, misfeasance, embezzlement, misappropriation of funds, conversion of property, cheating, shortages, irregularities, etc. utilizing the relevant RBI form (FMR-1) and stating the appropriate

reason for such fraud therewith

Fraud reports should also be submitted in cases where central investigating agencies have initiated criminal proceedings suo moto and/or where RBI has directed that they be reported as frauds.

- ii) Where the amount involved in fraud is ₹ 1 crore and above, the reports in the prescribed format (FMR-1) shall 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 RBI under whose jurisdiction the Registered Office of the Company falls.

- iii) Where the amount involved in fraud is less than ₹ 1 crore, reports in the format given in FMR – 1 shall be sent to the Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the Registered Office of the Company falls, within three weeks (21 days) from the date of detection of the fraud.

- iv) Case-wise quarterly progress reports on frauds involving ₹ 1 lakh and above shall be furnished to the Bank in the format given in FMR – 3 only to Regional Office of the Bank, Department of Non-Banking Supervision under whose jurisdiction the Registered Office of the Company falls within 15 days of the end of the quarter to which it relates.

- v) The Company shall close the fraud cases only where the actions are complete and prior approval is obtained from the respective Regional Offices of DNBS. The action would be considered complete when

- (a) the fraud cases pending with CBI/Police/Court are finally disposed of;
- (b) the examination of staff accountability has been completed;
- (c) the amount of fraud has been recovered or written off;
- (d) insurance claim wherever applicable has been settled; and
- (e) the Company 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).

- vi) For limited statistical / reporting purposes, the Company shall close those fraud cases involving amounts upto ₹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.

- vii) In respect of frauds involving ₹ 1 crore and above, in addition to the requirements given above, the Company shall 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”

And;

A copy shall be 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 Company. The letter shall 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. A copy of the D.O. letter should be endorsed to the Regional Office of the Bank, Department of Non-Banking Supervision under whose jurisdiction the Registered Office of the Company is functioning.

- viii) The Company shall 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 NBFC falls irrespective of amount within 15 days of the end of the quarter to which it relates.
- ix) The Company shall furnish a certificate, as part of the above report, to the effect that all individual fraud cases of ₹ 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 Part – A (columns 4 and 5) and Parts B and C of FMR – 2 or any other form as may be updated from time to time.
- x) The Company shall furnish case-wise quarterly progress reports on frauds involving ₹ 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 ₹ 1 crore and above and to Regional Office of the Reserve Bank of India, Department of Non-Banking Supervision, under whose jurisdiction the Registered Office of the Company falls where the fraud amount involved in fraud is less than ₹ 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, and other relevant details shall be furnished in FMR – 3 as mentioned in above.
- xi) The Company shall submit a quarterly return in FMR-4 for the frauds detected during the quarter and even in case of no frauds are detected to Frauds Monitoring Cell/Regional Offices of Department of Non- Banking Supervision of RBI as specifically instructed by the RBI. At the same time enough precautions have been taken by the Company 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.

xii)

**c. Reporting of frauds to Board:**

- i) The Company shall ensure that all frauds of ₹ 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 requires initiation of appropriate action against the officials/parties

- responsible for the fraud.
- iii) 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.
  - iv) The Company 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.

**d. Reporting of frauds to Audit Committee**

- i) All the frauds involving an amount of ₹ 1 crore and above should be monitored and reviewed by the Audit Committee of the Board (ACB) of the Company. 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 ₹ 1 crore and above comes to light.
- ii) All individual cases involving ₹ 1 lakh or more should be continued to be placed before the Audit Committee of the Board.
- iii) The report containing attempted frauds which is to be placed before the Audit Committee of the Board should 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 Company 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.
  - In case no frauds are attempted during a financial year, a no Fraud Attempted report shall be furnished to the ACB

**e. Reporting of frauds to Police:**

The following cases should invariably be referred to the State Police

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

**8. BASELESS / MALICIOUS ALLEGATION:**

- i) If it appears to the Principal Officer in consultation with the Board of Directors of the Company, that a complaint has no basis or it is not a matter to be pursued under this Policy, it may be dismissed at that stage and the decision documented.
- ii) Malicious allegation by the Complainant/reporter may result in disciplinary action against him/her along with penalties as may be determined by the board.

**9. INVESTIGATION PROCEDURE:**

- a. The Principal Officer of the Company will be appointed by the Board of Directors of the Company and the details of whom shall be displayed on the website of the Company.
- b. The "Principal Officer" shall, refer the details of the Fraud/suspected fraud to the Board of Directors for further appropriate investigation and needful action.
- c. This input would be in addition to the intelligence, information and investigation of cases of fraud being investigated by the Committee formed by the Board in this regard from time to time and case to case basis and such committee shall be dissolved once the committee submit its report to the Board. Such committee shall consist of Principal Officer or Board member (in cases the accused is the principal officer), who shall chair the committee and two other senior management personnel of the Company. In case of investigation on Principal Officer, the Board shall appoint any of the Board member as the Chairman of the Committee.
- d. After completion of the investigation, due & appropriate action, which could include administrative action, disciplinary action, civil or criminal action, Banning Business or Black listing of the lenders/vendors/contractors/suppliers/or closure of the matter if it is proved that fraud is not committed etc. depending upon the outcome of the investigation shall be undertaken.
- e. The Committee formed by the Board shall apprise "Principal Officer" of the results of the investigation undertaken by them.

**10. RESPONSIBILITY FOR FRAUD PREVENTION :**

- a. Every employee(full time, adhoc, temporary, contract, trainees under probation), representative of lenders, vendors, suppliers, contractors, consultants, service providers or any other agency(ies) doing any type of business with the Company, is expected and shall be responsible to ensure that there is no fraudulent act being committed in their areas of responsibility/control. As soon as it is learnt that a fraud or suspected fraud has taken or is likely to take place they should immediately appraise the same to the concerned authority as per the procedure.
- b. The board of Directors or any other personnel delegated by them shall bear the responsibility of prevention and for implementing the Fraud Prevention Policy of the Company. It is the responsibility of all controlling officers to ensure that there are mechanisms in place within their area of control to:-
  - i. Developing Access Controls within the organization
  - ii. Two-factor authentications wherever possible
  - iii. Familiarize each employee with the types of improprieties that might occur in their area.
  - iv. Educate employees about fraud prevention and detection.
  - v. Create a culture whereby employees are encouraged to report any fraud or suspected



fraud which comes to their knowledge, without any fear of victimization.

- vi. Promote employee awareness of ethical principles subscribed to by the Company as per the prevailing policy.
- c. Due amendments may be made in the general conditions of contracts/agreements wherein all lenders/ service providers/ vendors/ consultants etc. shall be required that they would adhere to the Fraud Prevention Policy of Company.

**11. ADMINISTRATION AND REVIEW OF THE POLICY :**

The Board of Directors of the company shall be responsible for the administration, interpretation, application and revision of this policy in consultation with the ACB.

\*\*\*