

# **POLICY FOR COMPLIANCE FRAMEWORK**

Al-Dar Asset Management Co. K.S.C. (Closed)

## **SCOPE:**

### **Scope of Affected Areas by the Policy**

- a. This Compliance Policy applies to all ADAM's stakeholders; i.e. directors, officers and employees and to contractors, agents and consultants
- b. This Compliance Policy also applies to ADAM's business operations and activities, and all products and services are also subject to review and assessment by this Policy Document.
- c. This Compliance Policy will cover all new and existing business activities.
- d. It will provide a uniform practical approach to ensure compliance with all laws, regulations, industry and internal codes of conduct which impact on the day to day activities at ADAM.
- e. This Policy will ensure consistency in ADAM's approach to regulatory compliance and that there is consistency between laws, by-laws, regulations and codes of business practices as they are integrated into ADAM's policies, procedures and processes.
- f. Existing requirements and procedures for approval of new products and services, transactions, will take into account the assessment and recommendations of the Compliance Policy Document.

## **PURPOSE:**

This Policy Document sets out the Main parameters covering ADAM's Compliance Management system. This Policy covers the Compliance Management function and will remain in line with the basic parameters of ADAM's Strategic Plan and Board's approved relevant mandates. This Policy that is given here is presented in its broader sense and may not be limited to specific phrases or to existing practices, as they could be subject to future changes.

### **Section I - Policy Goals**

This Policy Manual seeks to:

- a. Establish an Enterprise-wide Compliance Culture;
- b. Ensure that all ADAM's stakeholders understand and commit themselves to the Company's legal obligations, i.e. compliance with legislations, compliance with internal policies, procedures and guidelines in addition to its compliance with its legal and contractual commitments and obligations;
- c. Maintain and raise the level of awareness of ADAM's regulatory obligations by the provisions of this Policy for an Effective Compliance Management System, a support system for employees' education, and specialist advice and regulatory updates;
- d. Develop and deploy appropriate practices and processes to ensure compliance with ADAM's regulatory obligations;
- e. Monitor ADAM's compliance with its regulatory obligations;
- f. Take appropriate corrective action with a view to preventing recurrence of incidents of non-compliance, violations or breaches.

## Section II - Policy Objectives

To meet the aforementioned goals, this Policy has identified these objectives:

- a. Define the prerequisites for an effective Company-wide Compliance Management system for ADAM in a structured, systematic and transparent manner;
- b. Provide a uniform and practical approach to ensure compliance; i.e. compliance risk registers, compliance reviews and management reporting;
- c. Uphold good regulatory compliance practices;
- d. Provide risk treatments in respect to compliance which will be commensurate with the regulatory and compliance risks facing ADAM; and
- e. Define the minimum Standards and Controls that need to be adhered to in order to cover risks relating to regulatory environment.

## POLICY FRAMEWORK

### Section I - Key Elements

This Policy Document is based on the following three elements for an effective Compliance Management System:

- **Structural elements:** effecting ADAM's commitment to and support of the establishment and implementation of an effective Compliance System;
- **Operational elements:** effecting the process for identification, implementation and reporting of the effectiveness of the Compliance Management System; and
- **Maintenance elements:** effecting the process of education, monitoring and review of existing processes at Company-wide level.

### Section II - Key principles applying to ADAM's Compliance Culture are:

- a. Respect of the role of regulatory agencies
- b. Transparency and Accountability
- c. Ethics and integrity
- d. "Risk-taking" is within ADAM's parameters of overall board approved "risk management policy"; and, Risk awareness, given that non-compliance is a "risk", is in lieu of "risk avoidance".
- e. All ADAM's stakeholders; i.e. Directors, Executive Officers, Managers, employees and clients, are each responsible for and liable to complying with all relevant legislations, laws, regulations, standards, codes and internal policies applicable to their business and support areas.

### Section III - Key assumptions applying to the Policy Document:

- a. This Policy for an Effective Compliance Management System shall be used as an essential tool in internal and external communication in relation to ADAM's Compliance Culture;
- b. The Board of Directors, if in agreement with the contents given herein, shall approve the Policy prior to implementation;
- c. Executive Management will be commissioned with developing procedures for the implementation of this Policy;
- d. The Chairman shall approve any changes/ updates of this Policy; and
- e. This Policy shall constitute an integral part of ADAM's COMPLIANCE MANUAL document.

### Section IV - Guiding Principles

This Policy is guided by the following documents:

- a. ADAM's Strategic Plan, approved by its Board
- b. ADAM's Risk Management Policy
- c. Compliance Management System Framework
- d. Risk Limit and Risk Tolerance Policy for Compliance risk
- e. Compliance Risk Profile based on self-assessment findings (under construction)

### Section V - OUTLINE OF THE POLICY

#### 1. Definitions:

**Compliance:** Ensuring that the requirements of applicable laws, regulations, industry codes and organizational standards are met.

**Non-Compliance:** a breach by an organization of applicable laws, regulations, codes or organizational standards.

**Compliance function:** AN independent function that identifies, assesses, advises on, monitors and reports on the institution's compliance risk.

**Compliance risk:** it is the risk of legal or regulatory sanctions, financial loss, or loss to reputation an institution may suffer as a result of its failure to comply with all applicable laws, regulations, and codes of conduct and standards of good practice.

*Source (BIS)*

## **Section VI - Policy Statement**

Based on its commitment to conducting its business activities lawfully and in a manner that will enhance its achievement of the goals of its Strategic Plan by means of ensuring compliance, ethics and individual accountability, ADAM's has established a compliance function that is responsible for implementing an effective program for compliance to form a functional and integral part of its management process, with its primary concern to focus on the identification, assessment and management of significant compliance areas and the risks of non-compliance.

## **Section VII - Compliance Risks**

There are a number of risks and consequences associated with non-compliance such as:

- Fines and penalties
- Payment of legal costs
- Personal liability of board members and of the management
- Risks to reputation
- Loss of clients and to business

## **PROCEDURE**

### **Section I - Grounds for the Establishment of an Effective Compliance Management System at ADAM:**

In order to establish an effective compliance management system, ADAM's:

- a. has established the Compliance Department that will be responsible for implementing this Policy and carrying out the Compliance Management System;
- b. has appointed a Compliance Officer;
- c. has tasked the C&RMD with the duties and responsibilities, attached hereto;
- d. has approved the Policy for Management of Compliance;
- e. has maintained a detailed list of all Regulatory legislations and statutes which impact its operations;
- f. will provide education and training as part of its implementation of its Compliance Management System, detailing individual responsibilities, reporting and communication mechanisms;
- g. will review processes and procedures to ensure statutory obligations are integrated into the Company's day to day operations;
- h. will ensure the effectiveness of its Compliance Management System by conducting regular reviews in addition to internal compliance audits;
- i. will introduce a process of continuous improvement with the reporting of non-compliance matters and recognition for high compliance standards;
- j. will promote an ethical and positive compliance culture in relation to the law;

- k. will report on a quarterly basis (and any other time during the quarter as necessary) to the CEO, and to the Executive Management, when needed, on violations, breaches, non-compliance risks and complaints and related actions undertaken or proposed; and
- l. will report on an annual basis (and any other time during the year as necessary) to the Board through the Audit/Committee on proposed improvements on the Compliance Management System to more closely align with the best practices as defined by COSO's Internal Controls and Risk Management Frameworks, in addition to the *Basel recommendation paper on the Compliance and compliance function for banks*.

## **Section II - Responsibilities**

- a. All management are considered to have the responsibility on a day-to-day basis to ensure that their staff in their respective area practice pro-active compliance management.
- b. As advised by ADAM's Board of Directors and implemented by its Senior Management, ADAM's Employees Handbook regards it to be the responsibility of all employees to familiarize themselves with the laws and regulations and Company rules that apply to their responsibilities and to ensure compliance with relevant statutory obligations.
- c. The responsibility of ensuring effective implementation of the Compliance Management System at ADAM is shared among the following parties (commensurate with their roles, functions and span of control):

### **II.1. The Board of Directors**

- a. The Board retains the ultimate responsibility for regulatory compliance and for determining the appropriate level of compliance that the Board is willing to accept in conduct of ADAM's business activities. The Board's competent ad hoc Committee will provide assurances concerning the management of regulatory compliance risks within the Company.
- b. The Board has among its many primary responsibilities is the establishment and monitoring of internal control systems and risk management. In addition, ADAM is required to include in its management report details of the processes in place for managing, reviewing and communicating risks. Risks associated with non-compliance with the laws and regulations are encapsulated in these requirements.

### **II.2. Board's Ad hoc Committee(s)**

- a. The Board's Ad hoc Committee; i.e. Audit/ Compliance Committee, is delegated by the Board with the overall oversight responsibility of the regulatory compliance activities of the Company and approving appropriate compliance procedures and measurement methodologies across the Company.

- b. In addition to its other Board approved responsibilities and duties, this Board Ad hoc Committee is responsible for reporting higher level regulatory compliance risk exposures to the Board.

### **II.3. The General Manager**

The CEO is responsible to the Board and the Board ad-hoc committee(s) for ADAM's overall compliance in accordance with this Policy and supporting procedures.

### **II.4. The Executive Management**

- a. The Executive Management is responsible for the development of procedures to ensure appropriate implementation of this Policy to ensure the Compliance Management System is effectively and efficiently achieving its goals and objectives.
- b. The Executive Management is responsible for the identification, analysis, and treatment and reporting of regulatory compliance risks and compliance risk violations and breaches.
- c. The Executive Management is responsible for ensuring, maintaining, reporting and signing off of all regulatory compliance information which is ultimately presented to the Board ad hoc Management Committee

### **II.5. Head of Compliance Department**

#### **II.5.a In regards Risk Management**

1. The Compliance officer & is responsible for the administrative day-to-day management of the Compliance Management System implementation and operations in addition to his/her managing of the duties and responsibilities for the effective management of the Compliance Management System, and based on ADAM's Risk Management Policy.
2. The Compliance officer shall conduct an annual self-assessment to ensure the Compliance Management System is effective and it is achieving its goals as established herein and by ADAM's Strategic Plan.
3. The Compliance officer shall ensure that non-compliance issues are adequately investigated and all misuses are appropriately reported in a timely manner.

## II.5.b In regards Risk Management

The Compliance officer is responsible for *three key functions* in relation to his/her management of the Compliance Management System:

<b>Compliance Risk Management:</b>	Identification, measurement/ evaluation, management, monitoring and reporting
<b>Regulatory Reporting:</b>	Managing regulatory reports in a timely and accurate manner
<b>Regulatory Coordination:</b>	Facilitating and coordinating communications with primary regulatory agencies (e.g. onsite and off site communication, regulatory inspections.. etc)

To this end, the Compliance officer shall be responsible for coordinating the regulatory compliance function within ADAM by fulfilling the following duties and responsibilities:

1. Provide the Management of ADAM with reporting, guidance, policy and regulatory advice in relation to compliance matters;
2. Establish and maintain a Central Depository Manual of laws and regulatory directives, and to ensure that any changes to that are appropriately collected, communicated and responded to, when needed, across ADAM;
3. Ensure that as new laws/ regulations are added/ removed or as new regulatory risks are identified or existing ones are removed or changed in character, that the Central Compliance Database and Manual are updated and reported monthly;
4. Conduct regular assessments on the impact and exposure of the legislation to each area;
5. Conduct compliance audit, reviews, checks or investigation regularly/ irregularly based on the Compliance Review Calendar and upon recommendations by Internal Auditor and as advised by the General Manager or the Board's ad hoc Committee
6. Facilitate the development and continuous improvement of a Company-wide Compliance Management System;
7. Ensure that customer complaints are attended to and resolved in a timely and satisfactory manner;



8. Oversee the implementation and continuous improvement of compliance structures and processes in place throughout ADAM;
9. Liaise with primary regulatory agencies, i.e. CBK, KSE and other external related bodies;
10. Ensure that throughout ADAM, compliance risks are identified and assessed and appropriate controls developed to reduce the current risks to levels acceptable to the Board;
11. Act as the Contact Point for all divisions around ADAM wishing to communicate with the regulatory agencies; and
12. Be the contact point for all reports of non-compliance concerns or questions in relation to regulatory compliance issues.

## **II.6 Advisers**

- a. The Compliance officer, may seek the specialist advice of certain function holders around ADAM, and if needed from outside the Company (upon appropriate approvals), who could have specialist knowledge in relation to an identified regulatory risk area and who may have a thorough understanding of ADAM's policies or procedures, operations, client agreements or regulations, standards and guidelines applicable to that area. For example, ADAM's Legal Counsel, Heads of Operations, Treasury, HRD or any other Risk management disciplines, could act as the designated Compliance Adviser for the laws that ADAM must comply with or to a specific compliance or non-compliance issue that may arise at any time or for further consultation on a specific field of knowledge.

## **II.7 Managers; i.e. Heads of Departments or Units**

- a. Managers assume the responsibility for ensuring effective implementation and maintenance of this Policy, and that all employees adhere to the laws, regulations, policies and guidelines that are associated with their designated duties and business or support areas.
- b. Managers are then responsible for the regular reporting of the status of controls, compliance and breaches and their plans for corrective and improvements actions to the Executive Management and the Compliance officer.
- c. Managers are responsible for ensuring that as new laws/ regulations are added/ removed or as new regulatory risks are identified or existing ones are removed or changed in character, that their Compliance Database is updated and reported monthly on the compliance risks within their area.

- d. Managers are also responsible for thoroughly reviewing the compliance risk profile of their units at least once a year as part of business planning and budgeting exercise; this review will consider the completeness of the risks identified, the accuracy of assessments, the continued operations of identified controls and accountabilities and to coordinate the same with the Compliance officer.
- e. Managers, in their respective areas, will be held accountable for violations, breaches or negligence of applicable policies, laws and regulatory requirements and a disciplinary action will be considered and taken accordingly, in concurrence with the Human Resources Division.

## **II.8 Employees of ADAM**

- a. Every ADAM employee has a responsibility to ensure that his/ her own activities and those of other colleagues comply with all applicable laws;
- b. All employees are required to familiarize themselves and comply with all relevant legislations;
- c. All ADAM employees are expected to familiarize themselves with internal policies concerning regulatory compliance with specific areas of legislation that affect their division area;
- d. All ADAM employees are required to perceive breaches and violations as against their personal standards and professional ethics;
- e. All ADAM employees must report any breaches, violations, risks, incidents and complaints, as appropriate;
- f. All ADAM employees must refer to the relevant internal policy before they act if uncertain as to what is the regulatory compliance action on a given case or situation;
- g. All ADAM employees must receive/ seek and apply the training and practices communicated to them by the Management; and
- h. All ADAM employees, in their respective areas, will be held accountable for any violation, breach or negligence of applicable policies, laws and regulatory requirements and a disciplinary action will be considered and taken accordingly.

## **POLICY ADMINISTRATION**

### **Section I - Approval**

The Chairman of the Board approves this Policy Document upon submission by the Compliance officer and recommendations of Board's ad-hoc committee(s)/ CEO.

### **Section II. Review**

This policy and its related procedures will be reviewed on an annual basis and updated with any relevant changes. Any irregular revisions of the guidelines contained in this Policy must be appropriately reviewed and approved by the Compliance officer and in collaboration with other internal controllers for approval by the Board of Directors.

### **Section III - Participation in Committees**

The Compliance officer will participate in the proceedings of such in-house/ external committees to which its Head has been nominated and to do this in writing or for participation in which specific written approval of the CEO has been obtained.

### **Section IV - Standards of Professionalism**

- a. Compliance officer Personnel are responsible for familiarizing themselves with known Standards of Professionalism and, in turn, to initiate and promote a culture of Professionalism and help establish professional and business ethics and be bound by the same.
- b. This Plan requiring compliance with the law is basically a code of "business ethics" and Best Practices.
- c. Business Ethics sets out the manner and the spirit in which ADAM's business is to be conducted in order that ADAM may enjoy a reputation for a high standard of professionalism, integrity, ethical and compliant conduct.

## **Section V - Record Keeping**

- a. Originals of all letters that may be received from Regulatory Agencies will be kept in a "Master Files" at the Management's Office. Copies of these letters and regulations will be sent immediately to Compliance officer Department, Internal Auditor, Legal Council and the Head of Operations and other concerned area for review/ action.
- b. Records will be retained for a minimum of five years or as stipulated by the Law or as per CBK's directives which ever is higher. The Compliance officer in consultation with ADAM's Legal Counsel will jointly determine if longer periods are needed for specific records such as CBK directors etc..

## **Section VI - Update Report**

The Compliance officer shall report quarterly to the CEO and copies to all Division Heads, as necessary, or on shorter intervals, as needed, a status report showing the position of all matters that are still outstanding with us or with the CBK or KSE, for information and further action.

## **Section VII - Regulatory Reporting**

- a. Produced by reporting divisions within ADAM, the Compliance officer shall be copied upon submission to CBK or KSE to ensure that reporting is done in a timely and adequate manner; he/ she must also ensure that policies and procedures are in place to ensure that the information contained in these reports are accurate and represent true activities of ADAM in line with KSE's and CBK's guidelines and directives and ADAM's Management circulars and to conduct a random sample check for further assurance.
- b. The correctness, accuracy and timely reporting shall be main responsibility of the owner(s) of the report.

## **Section VIII - Policy Dissemination**

This policy and its related procedures will be distributed company-wide on all ADAM employees for dissemination purposes with receipt acknowledged in writing by individual employees for responsibility and accountability.

## **REFERENCES:**

### **Section I - Regulatory Environment at ADAM**

This Policy identifies the following Regulatory Sources that govern ADAM's business operations and activities:

- a. *Law No. 32 of 1968* regarding the Currency, the Central Bank of Kuwait and the Organization of the Banking Profession,
- b. Commercial Companies Law of Kuwait,
- c. Resolutions of the Ministry of Commerce & Bylaws,
- d. Regulations and directives of the Central Bank of Kuwait,
- e. Resolutions of the Kuwait Stock Exchange and those of host countries where our Representative offices (if any) operate
- f. ADAM's Articles and Memorandum of Association
- g. ADAM's Risk Management Policy
- h. ADAM's Policy for an Effective Compliance Management System.
- i. ADAM's respective policies and directives
- j. Other laws and regulations in regards to ADAM's operations inside and outside Kuwait
- k. Enterprise Risk Management — Integrated Framework by COSO (The Committee of Sponsoring Organizations of the Treadway Commission)
- l. Internal Control - Integrated Framework - by COSO
- m. Basel Recommendation Paper on Compliance and the Compliance Function in Banks,
- n. Standards of Practice by the CFA Institute; and
- o. Other International business codes of industry practices and professional codes of ethics, where applicable; and Known business practices

### **Section II - This Policy is guided by the following documents:**

- f. ADAM's Strategic Plan, approved by its Board
- g. ADAM's Risk Management Policy
- h. Compliance Management System Framework