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Reserve Bank of India (Urban Co-operative Banks - Compliance Function) Directions, 2026

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Introduction

The Compliance function is a critical element of the corporate governance framework of an Urban Co-operative Bank. The provisions set out in these Directions represent minimum standards, based on the principle of proportionality, and the Urban Co-operative Bank shall structure its compliance framework in line with its governance arrangements, scale of operations, risk profile, and organisational structure.

In exercise of the powers conferred by Section 35-A read with Section 56 of the Banking Regulation Act, 1949, and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues Directions hereinafter specified.

Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Urban Co-operative Banks - Compliance Function) Directions, 2026.

2. These Directions shall come into effect immediately upon issuance.

B. Applicability

3. These Directions shall be applicable to Urban Co-operative Banks (hereinafter collectively referred to as 'UCBs' and individually as 'UCB').

   For the purpose of these Directions, 'Urban Co-operative Banks' shall mean Primary Co-operative Banks as defined under Section 5(ccv) as applicable to co-operative societies, read with Section 56 of Banking Regulation Act, 1949.

   Provided that Chapter II, III, IV and VI of these Directions shall be applicable only to UCBs in Tier 3 and Tier 4, except those under All Inclusive Directions, while Chapter V of these Directions shall be applicable only to UCBs in Tier 1 and Tier 2.

Provided that a transition time of six months will be provided to UCBs in Tier 3 and Tier 4, for ensuring compliance with these Directions, as and when they come out of All Inclusive Directions.

Note: The applicability under these Directions is in line with the regulatory structure for UCBs as set out in Reserve Bank of India (Urban Co-operative Banks – Licensing, Scheduling and Regulatory Classification) Guidelines, 2025.

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below:

   (1) *'Compliance Risk'* shall mean the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a UCB may suffer, as a result of its failure to comply with laws, regulations, rules, and codes of conduct, applicable to its activities.

5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949, the Companies Act, 2013, or any statutory modification or re-enactment thereto or other regulations issued by RBI or the Glossary of Terms published by RBI or as used in commercial parlance, as the case may be.

Chapter II - Governance and Oversight

A. Role of the Board

6. The Board / Audit Committee of Board (ACB) shall ensure that an appropriate Compliance policy is put in place and implemented. It shall prescribe the periodicity for review of compliance risk.

B. Role of the Senior Management

7. The senior management shall carry out an annual compliance risk assessment in order to identify and assess major compliance risks faced by the UCB and prepare a plan to manage the risks. It shall submit to the Board / ACB a review at the prescribed periodicity and a detailed annual review of compliance. The annual review shall ensure coverage of at least the following aspects:

   (1) Compliance failures, if any, during the preceding year and consequential losses and regulatory action, as also steps taken to avoid recurrence of the same (appropriate remedial or disciplinary action);

   (2) Listing of all major regulatory guidelines issued during the preceding year, and steps taken to ensure compliance;

   (3) Compliance with fair practices codes and adherence to standards set by self-regulatory bodies and accounting standards; and

   (4) Progress in the rectification of significant deficiencies and implementation of recommendations pointed out in various audits and RBI inspection reports.

C. Compliance Policy

8. The Board-approved Compliance policy shall clearly spell out its compliance philosophy, expectations on compliance culture, structure, and role of the Compliance function, the role of Chief Compliance Officer (CCO), processes for identifying, assessing, monitoring, managing and reporting on compliance risk. The policy shall be reviewed at least once a year.

9. The policy shall ensure coverage of the following aspects:

(1) Measures to ensure the independence of the Compliance function and its responsibility to freely disclose findings and views to Senior Management, Board / ACB;

(2) Focus on various regulatory and statutory compliance requirements;

(3) Monitoring mechanism for the compliance testing procedure;

(4) Reporting requirements, including inter alia compliance risk assessment and change in risk profile to the senior management and to the Board / ACB;

(5) The authority of the Compliance function to have access to information throughout the UCB;

(6) A mechanism for dissemination of information on regulatory prescriptions and guidelines among staff and periodic updating of operational manuals; and

(7) The approval process for all new processes and products by the Compliance Department, prior to their introduction.

Chapter III - Scope, Structure, and Responsibilities

A. Scope

10. Compliance function shall ensure strict observance of all statutory and regulatory requirements for the UCB, including standards of conduct, managing conflict of interest, treating customers fairly, and ensuring the suitability of customer service.

B. Structure

11. The CCO shall head the Compliance Department, meeting the requirements prescribed under Chapter IV of these Directions. The UCB is free to adopt its own organisational structure for the Compliance function. However, the function shall be independent and sufficiently resourced, its responsibilities shall be clearly specified, and its activities shall be subject to periodic and independent review.

12. In case of UCBs having separate Departments / divisions looking after compliance with different statutory and other requirements, the Departments concerned shall hold the prime responsibility for their respective areas, which shall be clearly outlined. Adherence to applicable statutory provisions and regulations is the responsibility of each staff member. However, Compliance Function would need to ensure overall oversight.

C. Staffing

13. The staff in the Compliance Department shall primarily focus on Compliance function. However, the UCB may assign some other duties to the Compliance staff while ensuring that there is no conflict of interest.

14. Apart from having staff with basic qualifications and practical experience in business lines / audit & inspection functions, Compliance function shall have adequate staff members with knowledge of statutory / regulatory prescriptions, law, accountancy, risk management, and information technology. The UCB shall ensure appropriate succession planning to avoid any future skill gap.

D. Roles and Responsibilities

15. Compliance function shall be responsible for undertaking the following activities at the minimum:

(1) Assist the Board and the senior management in overseeing the implementation of Compliance policy including policies and procedures, prescriptions in compliance manuals, and internal codes of conduct.

(2) Play the central role in identifying the level of compliance risk in the organisation. The compliance risks in existing / new products and processes shall be analysed and appropriate risk mitigants shall be put in place. The Compliance function shall subject all new products to intensive monitoring at least for the first six months of introduction to ensure that the indicative parameters of compliance risk are adequately monitored.

(3) Compliance function shall monitor and test compliance by performing sufficient and representative compliance testing, and the results of such compliance testing shall be reported to the senior management. It shall periodically circulate the instances of compliance failures among staff, along with the required preventive instructions. The UCB shall examine staff accountability for major compliance failures.

(4) Ensure compliance of regulatory / supervisory directions given by RBI in both letter and spirit in a time-bound and sustainable manner. The UCB shall put in place an effective Compliance Program where all Risk Mitigation Plan / Monitorable Action Plan points are complied with within the timelines prescribed. Compliance to RBI inspection reports shall be communicated to RBI necessarily through the office of the Compliance function.

(5) Attend to compliance with directions from other regulators in cases where the activities of the entity are not limited to the regulation / supervision of RBI. Further, the Compliance function shall bring to the notice of RBI, any discomfort conveyed to the UCB on any issue by other regulators, and action taken by any other authorities / law enforcement agencies.

16. The Compliance Department shall also serve as a reference point for the staff from operational Departments for seeking clarifications / interpretations of various regulatory and statutory guidelines.

E. Internal Audit

17. Compliance risk shall be included in the risk assessment framework of the Internal Audit function, and Compliance function shall be subject to regular internal audit. The CCO should be kept informed of audit findings related to compliance, which should serve as a feedback mechanism for assessing the areas of compliance failures.

Chapter IV - Chief Compliance Officer

A. Appointment

18. The candidate for the post of CCO shall be selected based on a well-defined selection process and recommendations made by a committee constituted by the Board / ACB for the purpose. The Board / ACB shall take final decision in the appointment of CCO. If considered necessary, the CCO may also be recruited from the market.

19. The CCO shall have a clean track record and unquestionable integrity.

20. The CCO shall have a good understanding of the industry and risk management practices, knowledge of regulations, legal requirements, and have sensitivity to Supervisory expectations.

B. Authority, Stature, and Independence

21. The CCO shall be appointed for a fixed minimum tenure of not less than three years. However, in exceptional cases, the Board / ACB may relax the minimum tenure by one year, provided appropriate succession planning is put in place.

22. The CCO shall be transferred / removed before completion of the tenure only in exceptional circumstances, with the explicit prior approval of the Board / ACB, after following a well-defined and transparent internal administrative procedure.

23. The CCO shall be a senior executive of the UCB with a position not below two levels from the Chief Executive Officer (CEO).

    Provided that in the case of UCBs in Tier 3, this requirement may be relaxed by one level further.

24. The CCO shall have the ability to exercise judgment independently. They shall have the freedom and authority to interact with regulators / supervisors directly and ensure compliance.

25. The CCO shall have direct reporting lines to the Managing Director (MD) & CEO and / or Board / ACB. In case the CCO reports to the MD & CEO, the Board /

ACB shall meet the CCO at quarterly intervals on a one-to-one basis, without the presence of the senior management, including MD & CEO. Further, the performance appraisal of the CCO shall be reviewed by the Board / ACB.

26. The CCO shall not have any reporting relationship with the business verticals.

27. The UCB shall ensure that there is no 'dual hatting,' i.e., the CCO shall not be given any responsibility which brings elements of conflict of interest, especially any role relating to business. The CCO shall generally not be a member of any committee which conflicts their role as CCO with responsibility as a member of the committee, including any committee dealing with purchases / sanctions. In case the CCO is a member of any such committee, that would only be an advisory role.

28. The CCO shall have the authority to communicate with any staff member and have access to all records or files that are necessary to enable them to carry out entrusted responsibilities in respect of compliance issues.

C. Reporting Requirements

29. The UCB shall provide prior intimation to the Senior Supervisory Manager, Department of Supervision, RBI, before appointment of the CCO, pre-mature transfer, resignation, early retirement, removal, or any other change in terms and conditions regarding tenure of the CCO. In the case of appointment, such intimation shall be supported by a detailed profile of the candidate along with the 'Fit and Proper' certification by the MD & CEO of the UCB, confirming that the person meets the prescribed supervisory requirements and rationale for changes, if any. 'Fit and Proper' criteria may be examined based on the requirements spelt out in these Directions.

D. Roles and Responsibilities

30. The CCO shall be the nodal point of contact between the UCB and the regulators / supervisors and shall necessarily be a participant in the structured or other regular discussions held with RBI.

31. The CCO shall be a member of the 'new product' committee/s. If there is no such committee in existence, then the CCO shall evaluate all new products before these are launched.

Chapter V – Compliance Officer

A. Designation

32. Scheduled UCBs and non-scheduled UCBs with deposits of ₹100 crore and above, shall designate a senior officer as ‘Compliance Officer’, while in remaining non-scheduled UCBs, the CEO may act as the ‘Compliance Officer’.

B. Roles and Responsibilities

33. The Compliance Officer shall be responsible to verify that the transactions put through by the UCB are in compliance with the various directives / guidelines / instructions issued by RBI.

34. The said Officer shall also coordinate with the concerned officials of the UCB for furnishing proper compliance to the observations made in inspection reports to RBI within the prescribed time limit.

35. The Compliance Officer shall arrange to obtain certificates from UCB’s controlling offices / branches regarding compliance to directives / guidelines / instructions issued by RBI on an ongoing basis. The UCB should also put in place a system whereby it receives compliance from its controlling offices / branches promptly.

36. The Compliance Officer shall also apprise the position periodically to the Board / ACB.

Chapter VI - Use of Technology for Monitoring

37. The UCB shall implement comprehensive, integrated, enterprise-wide and workflow-based solutions / tools to enhance the effectiveness of Compliance function. Such a solution / tool shall, inter alia:

    (1) provide for effective communication and collaboration among all the stakeholders (by bringing business, compliance and IT teams, and senior management, on one platform);

    (2) have processes for identifying, assessing, monitoring, and managing compliance requirements;

    (3) escalate issues of non-compliance, if any;

    (4) require recording approval of competent authority for deviations / delay in compliance submission; and

    (5) have a unified dashboard view to senior management on compliance position of the UCB as a whole.

38. The UCB, based on the size and complexity of its operations, may decide on the tools / mechanism which it would prefer to deploy for monitoring of compliance and development of the unified dashboard.

Chapter VII - Repeal and Other Provisions

A. Repeal and Saving

39. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Compliance function as applicable to Urban Co-operative Banks stand repealed, as communicated vide circular no. DoS.CO.PPG.66/11.01.005/2026-27 dated July 31, 2026. The Directions, instructions, and guidelines repealed prior to issuance of these Directions shall continue to remain repealed.

40. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these Directions, instructions, or guidelines shall not in any way prejudicially affect:

    (1) any right, obligation or liability acquired, accrued, or incurred thereunder;

    (2) any penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;

    (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of Other Laws Not barred

41. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

42. For the purposes of giving effect to the provisions of these Directions or for removing any difficulties in their application or interpretation, RBI may, if it deems necessary, issue such clarifications as it considers appropriate in respect of any matter covered herein. The interpretation of any provision of these Directions by RBI shall be final and binding on all concerned entities.

(Tarun Singh)
Chief General Manager