

**INTERNAL CONTROL MANUAL**

**OF**

**ASNANI STOCK BROKER**

**MEMBER:**

**NATIONAL STOCK EXCHANGE OF INDIA LIMITED**

***This Internal Control Manual includes following:***

- DEALING WITH CLIENTS
- OFFICCE MANAGEMENT
- BRANCH MANAGEMENT
- RISK MANAGEMENT SYSTEM
- PMLA GUIDELINES
- POLICY REGARDING TREATMENT OF INACTIVE CLIENTS
- POLICY REGARDING MAINTENANCE OF BOOKS AND RECORDS

## **DEALING WITH CLIENTS**

### **REGISTRATION OF CLIENTS**

- Know Your Client Form (KYC)
- Member Constituent Agreement (MCA)
- Risk Disclosure Document (RDD)
- Maintenance/Upload of Unique Client Code

#### **1. Salient features of Know Your Client Forms**

- Client information / Status
- Bank and Depository Account details
- Financial details of the constituent
- Investment/ Trading experience
- References
- Financial documents (for Non Individual Constituents)

#### **Attachments to KYC form**

- Photograph
- Proof of identity and address
- Board Resolution from corporate clients permitting trading in derivative products
- KYC to be obtained duly signed by all the clients

#### **2. Salient features of Member Constituent Agreement**

- Printed on a non-judicial stamp paper of appropriate value
- To be signed by both the TM and the client & to be dated
- To be witnessed
- Must contain clauses prescribed by SEBI / NSE from time to time
- Additional clauses may be included, but shall not contradict with Rules, Byelaws, Regulations
- Requirements of MODEL TRIPARTITE AGREEMENT made effective from 01-04-2005
- Trading Member and FI / FII clients may at the discretion decided about the requirement of entering into Member Constituent Agreement

#### **3. Salient features of Risk Disclosure Document**

- Client to acknowledge the risk disclosure document and be aware that certain basic risks are involved in trading in equity and derivative products
- Client to be solely responsible for the losses

- Client to be aware that NSE/NSCCL/SEBI are not responsible for losses
- Client to fulfill certain formalities as a requirement for trading

#### **Salient features of Risk Disclosure Document**

- Client to be aware that contracts cannot be rescinded on the ground of lack of awareness or any other ground
- Trading Member to obtain acknowledgement in prescribed format of RDD
- Additional clauses may be introduced by the trading member but shall not contradict with the basic format or the Rules, Byelaws, Regulations, etc.

#### **4. Salient features of Unique Client Code**

- Every client to be assigned one unique code only
- Fool proof mapping of unique client code in back office with trading code allotted to the respective client
- Mandatory collection and upload of PAN for all
- Both trading code and unique client code to be printed on the contract note

#### **RELATED TO CONTRACT NOTES**

- To be issued in Prescribed format
- Trading Code & Unique Client Code of the Constituent to be printed
- Running serial number (reset to one at the beginning of the Financial Year)
- To be issued within 24 hours of the trade
- To be issued only for transactions executed in the trading system
- Acknowledgement of client / Proof of delivery
- On pre-printed stationary or in electronic form with certified digital signature
- To be signed by an Authorised Signatory mentioning name/ certified digital signatory
- Revision in the format from time to time to be up-dated (including revised legal jurisdiction & arbitration clause)
- Can be issued in continuation sheet as per prescribed format

#### **Electronic issue of Contract notes**

- Issuing ECNs when specifically consented
- ECNs to be digitally signed, encrypted and non tamper able in with provisions of IT Act, 2000

- Delivery of ECNs to e-mail of client, Preserve Log reports for mails sent and bounced back.
- In case of non delivery, to be sent in physical mode
- Simultaneously publish ECNs on the web-site.
- Enable access to clients in a secured way by allotting unique user name and password.

## **FUNDS AND SECURITIES OF CONSTITUENTS**

- Separate Bank and Demat Account to be maintained for client funds and securities
- Segregation of own and clients funds/ securities
- Funds / securities to be received only from respective clients accounts directly
- Pay-out of funds / securities directly to respective clients within one working day of pay-out by Exchange
- Funds / securities of a client should not be transferred to the account of the trading member / another client
- Funds / securities of a client should not be used for pay-in obligation of another constituent / pro-trades
- Client funds to be used only for the purposes specified
- Clients funds / securities not to be misused
- Not to receive/ pay cash to clients for margin/ Settlement
- Dividends received on clients" securities to be disbursed within 30 days

### **Statement of funds and securities**

- Sending statement of **funds and securities** to clients on a quarterly basis within one month from the end of the relevant period
- Statement of funds and securities/ margin and settlements should contain an error reporting clause of 30 days
- Proof of dispatch/ delivery to be maintained

## **MARGINS FROM CONSTITUENTS (CM SEGMENT)**

At discretion may collect margin from its client as a risk containment measure

## **MARGINS FROM CONSTITUENTS (F&O SEGMENT)**

To mandatorily collect initial margin (MG 13 file) upfront on a daily basis from the clients.

- Daily reporting of Initial Margin collected
- Non-reporting considered as 100% shortfall

- Penalty for shortfall in collection
- Wrong reporting (considered as serious violation with stringent disciplinary actions)

### **MARGINS COLLECTION**

Mode of collection

- Funds
- Securities
- FDR and Bank Guarantee favoring TM

Other requirements

- Maintenance of adequate records for identifying client-wise margin collection
- If securities collected as margins, statement of securities to be issued to the clients

### **BROKERAGE**

- Brokerage not to exceed 2.5% incase of retail clients
- Brokerage not to exceed 1.5 % in case of sub- brokers
- Maximum brokerage of 25 paise per share if trade price of a share is Rs. 10/- or less
- Incase of option contract, brokerage to be charged on option premium amount which shall not exceed 2.5% of premium amount or Rs. 100/- per lot whichever is higher

### **STRAIGHT THROUGH PROCESSING (STP)**

- All institutional trades to be mandatorily processed through STP system

### **TRANSFER OF TRADES**

- No Transfer of trades from PRO to client and vice versa
- No transfer of trades from one client to another

### **OTHERS**

- Not charging excess rates for the trades
- Declaration of PRO trading to clients
- Confidentiality of client information
- No false inducement to trade by giving misleading advice or information to clients
- Client trades to be done with CLI code only

## **RELATING TO TRADING REQUIREMENTS**

### **MARGIN TRADING**

The company is not providing Margin Trading facility as of now.

### **INTERNET TRADING**

The company is not providing internet trading but providing web based trading under the now platform of NSE. The following additional requirements will be fulfilled:-

- Request letter to be obtained for availing NOW Facility from the clients
- Client specific user id and password to be used for execution of trades
- Password policy to be adhered for security, reliability and confidentiality
- Trading Member to ensure clients do not deal on behalf of others

## **OFFICE MANAGEMENT**

### **Notice Board**

- Display of permanent nature Notice Board (viz. painted board) containing required details, at all places where trading terminals are located including registered offices and branch offices of trading member /sub-broker
- Display of copy of SEBI Registration Certificate

### **related to trading terminals**

- Trading Terminal to be located at registered offices and/ or branch offices of trading member /sub-broker
- No extension of NEAT terminal without prior approval of the Exchange
- Trading terminal to be operated by approved persons only
- Trading terminal to be operated by person having valid NCFM certification

### **related to trading terminals**

- Upload of CTCL terminal to the Exchange before activation
- All information to be correctly uploaded in the prescribed format particularly user name, location of the terminal and CTCL id for NOW terminals.

- Any change in the uploaded details to be immediately uploaded to the Exchange
- Due diligence to be exercised while allotting trading terminal and prevent misuse
- PRO trading to be done only from trading terminals enabled for PRO trading

**Officer**

- Trading member to appoint officer
- Officer to monitor the with regulatory requirements and redress investor"s grievances.

**Inspection**

- Trading member to inspect on a yearly basis
  - 10% active sub-brokers ;
  - 10% of active branches ;
  - each active sub-broker/ branch to be inspected atleast once in every 5 years

**BRANCH MANAGEMENT:**

**OPENING OF NEW BRANCH**

**A BEFORE FINALISATION OF LOCATION**

- 1 Search of location outside the range of existing branch office of the company as decided by the management of the company from time to time.
- 2 Do proper Survey of the selected locations
- 3 Assessment of Prospective clientele at new location with expected Brokerage earned from the Branch.
- 4 Exiting offices of other Stock brokers at the same locations to access the profitability of the location
- 5 To judge the Cost factor as against the expected income.
- 6 Basic facilities, i.e., electricity, water, etc
- 7 Requirement and availability of new Staff at new location

**B AFTER FINALISTION OF LOCATION**



- 8 Make necessary arrangements for uploading of necessary information with Exchange(s), wherever required.
- 9 Make sure to display Notice Board and Name of the company as per the Exchange(s) norms.
- 10 Make sure to display SEBI Certificate on the office
- 11 Make sure to display Investors Rights and Obligations on the office.

### **SHIFTING OF BRANCH FROM ONE LOCATION TO OTHER LOCATION**

- 1 Search of new location – the location for branch office be finalized taking into consideration following factors
  - a) Do proper Survey of the selected locations
  - b) Accessibility of Existing Clients (if any)
  - c) Prospective clientele at new location
  - d) Cost factor
  - e) Basic facilities, i.e., electricity, water, etc.
  - f) Requirement and availability of new Staff at new location
- 2 After Finalizing new location to shift the existing branch following compliance to be done w.r.t. existing (old) branch:
  - a. To make sure to display address of new branch office along with contact detail(if changed) at least 15 days prior to shifting of office and One month after shifting the office so as to enable all the clients search the New Branch Office of the company without any hassle.
  - b. To communicate telephonically to all the existing clients of the Branch about shifting to new Branch.
  - c. Make necessary arrangements to shift the terminals and wait for green signal from Head Office for want of necessary approvals/intimations to the Exchange(s), wherever required.

- 3 After Shifting to New Address following compliance to be done at New Branch Office:
  - a. Communicate all clients, except dormant clients, about the shifting of office telephonically.
  - b. Make sure to display Notice Board and Name of the company as per the Exchange(s) norms.
  - c. Make sure to display SEBI Certificate on the office
  - d. Make sure to display Investors Rights and Obligations on the office

### **CLOSURE OF BRANCH**

- 1 The company shall give notice to the customer in the event of closure of its branch office.
- 2 Intimate all the clients about nearest located Branch office of the company and also the Registered office of the company
- 3 Intimate the clients about the contact detail/email id of the head office in case they have any query.

## **RISK MANAGEMENT SYSTEM:**

### **RISK PERCEPTIONS**

#### **A HIGH RISK CATEGORY:**

Under this category following type of Investors do fall

- (i) NRIs and Foreigners
- (ii) Clients/Investors trading in the „T“ Group and „Z“ group covers under High risk category.
- (iii) Clients/Investors with High turnover coupled with delayed payment of more than 3 days of track record.
- (iv) Trusts, charities, NGOs and organizations receiving donations
- (v) Politically exposed persons (PEPs) of foreign origin

#### **B MEDIUM RISK CATEGORY:**

Under this category following type of Investors do fall:

- (i) Clients/Investors trading in “C” group scrip
- (ii) Clients/Investors with low turnover coupled with delayed payment of more than 3 days track record

#### **C LOW RISK CATEGORY:**

Under this category following type of Investors do fall:

- (i) Clients/Investors trading in „A“ Group, „B1, B2“ Group.
- (ii) Clients/Investors with High Turnover coupled with prompt payment track record.
- (iv) Clients/Investors with low turnover coupled with prompt payment track record.
- (v) Entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile

#### *GOAL:*

The goal of a risk management system is to measure and manage the company’s exposure to various risks identified as central to its franchise,

clients, branches etc. For each risk category, the company employs a four-step procedure to measure and manage the exposure. These are:

- 1) Establish Standards and Reports;
- 2) Impose Position Limits and Rules;
- 3) Set Investment Guidelines and Strategies; and
- 4) Align Incentive Contracts and Compensation.

*ESTABLISH STANDARDS AND REPORTS:*

A standard is a point against which a client is measured. A report given to management may follow a standardized format that requires presentation of information in a structured way for ease of use or understanding. Standardized financial reporting is essential for investors to gauge asset quality and company-level risk.

*IMPOSE POSITION LIMITS AND RULES:*

A key element of financial and market risk management is deciding which risks to bear and to what degree. A company needs to impose limits to cover exposures to counter-parties, credit, and overall position concentrations relative to systematic risks. Summary reports to management can periodically show counter-party, credit, and capital exposure by business unit. Principles of accountability, transparency, and improved financial performance are being translated into demands to quantify and measure as much operational activity as possible and correlate that activity to the business plan

*SET INVESTMENT GUIDELINES AND STRATEGIES:*

Risk management involves determining what risks a company's financial activities generate and avoiding unprofitable risk positions. The board's role is usually described as setting the risk appetite of the organization; however this is not possible if risks are understated or ill defined. Guidelines can advise on the appropriate level of active management, given the state of the market and senior management's willingness to absorb the risks implied by the aggregate portfolio.

*ALIGN INCENTIVE CONTRACTS AND COMPENSATION:*

The need for elaborate controls lessens when management can enter into incentive-compatible contracts with line managers and relate compensation to the risks they bear. For example, management can offer a salary level without commission. Commissions encourage salesmen/traders put in more transactions because of the commissions.

## KEY RESPONSIBILITIES FOR COMMUNICATIONS (TIER WISE)

### ***Tier 4 :( The Basic Tier)***

#### ***Who should call RMS (Tier 4)?***

**Authorized persons only from Branch / Associate (Business manager, Authorized Person in absence of Business manager)**

All Communications regarding requests and queries to RMS Department from Branches and Business Associates (Authorized persons only from Branch / Associate (Business manager, Authorized Person in absence of Business manager) should be addressed to this Tier only.

#### ***Reasons to call RMS (Tier 4)?***

- 1) Trading requests in emergency conditions (Like VSAT or Internet connectivity is broken)\*
- 2) Requests to leverage Client Accounts limit up to 10% of available margin in cash segment. (Subject to sufficient liquidity in margin and intraday Mark to Market on open positions in Client portfolio).
- 3) Mapping and Password Related Queries.

**\*(In case of emergency situation all persons calling RMS Department for trading or squaring off the positions shall keep in mind the net positions hence arrived after such trades as it might be done on direct terminals of exchanges and may or may not reflect as positions open or squared at branch terminals, the persons calling for such trades should ensure that there is no duplicity of trade is being performed after the systems at branch or client locations gets connected. )**

**Authorized Persons calling RMS for trades should also note if you are calling for squaring off a open position in cash segment which was actually created in Margin/Intraday account and were subject to square off while trading should be converted into delivery trades as the counter trades done to square off may not reflect at master terminals at branches and can be re-subjected for square-offs by system once the system recovers for operations.)**

### ***Tier 3 :( Intermediate Tier)***

#### ***Who should call RMS (Tier 3)?***

**Authorized persons only from Branch / Associate (Business manager, Authorized Person in absence of Business manager)**

### ***Reasons to call RMS (Tier 3)?***

- 1) Trading requests in illiquid securities and BSE T2T segment which is not allowed at branch locations up to 1 time of available margin in portfolio.
- 2) Trade Back-Up related

### ***Notes:***

**Branches** which do not have requisite Certification to Trade in any segment (NSE/NSEFO/BSE) need to submit the required Certificate otherwise they would not be allowed to place the order in that segment even from Head Office

### ***Tier 2 :( The Middle Part)***

#### ***Who should call RMS (Tier 2)?***

**State Head/ Cluster Head**

#### ***Reasons to call RMS (Tier 2)?***

- 1) All Communications and clarifications regarding confirmation of Client positions and Mark to Market losses.
- 2) MIS and Stock Related Queries
- 3) Queries and unresolved issues / Requests would be heard at this Tier.
- 4) Software Related understanding of reports.
- 5) For creation/deletion of IDs.

### ***Tier 1 :( The Manager)***

#### ***Who should call RMS (Tier 1)?***

**Cluster Head / State Head/ Country Head**

#### ***Reasons to call RMS (Tier 1)?***

- 1) Communications regarding HNI / Approved Clients.
- 2) Communications regarding request for holding of position (which are subject to RMS square off) or special leverage under exceptional circumstances.
- 3) Trading Platform(ODIN/OMNESYS) Application Tier issues **(For Connectivity related issues contact IT Department)**
- 4) All critical and disputes which were not resolved to the satisfaction of concerned persons at previous Tiers would be addressed at this Tier.

### ***Head of Department***

#### ***Who should call RMS Head of Department?***

1. For all Exchange related issues and queries.

2. All critical and disputes which were not resolved to the satisfaction of concerned persons at previous Tiers would be addressed at this Tier.

**BASIC RULES FOLLOWED IN RMS DEPARTMENT IN RESPECT TO:**

- 1) Negotiable Instrument Guidelines**
- 2) 7 Day Debits Guidelines**
- 3) Short Margin Guidelines**
- 4) Negotiable Instruments updating Guidelines**
- 5) Payout Requests Guidelines**
- 6) Intraday Square Off Guidelines**
- 7) Near Circuit Scripts Square Off Guidelines**
- 8) M2M Loss Guidelines**
- 9) Special Extra Intra Day Limit Guidelines**

**1) Negotiable Instrument Guidelines**

A Negotiable instrument payable to us is a mode for monetary transfer from Client side.

A negotiable instrument is categorized in following breakdowns according to their nature and relevance for necessary consideration and benefits thereto.

**Negotiable Instrument (Class A)**

**Fund Transfers**

(A fund transfer by the mode of registered bank account of client with us is considered as a liquid fund reported for consideration of margin money available with us.)

**Same Day Same bank Cheque Clearing**

(A Same Day Same bank Cheque Clearing is a cheque issued in the name of Sumpoorna deposited in the same bank to us; the submission of such cheques should be reported in stipulated format.)

**Negotiable Instrument (Class B)**

**Cheque Deposited to Other Banks**

(A Cheque Deposited to Other Banks is a Cheque issued in the name of Sumpoorna deposited in the different bank from the issuer bank in accounts of Sumpoorna for clearing to us; the nature of clearing is moderate and may take from 2-7 days time, the submission of such cheques should be reported in stipulated format.)

## **2) 7 Day Debits Guidelines**

**Guidelines 1).** 7 Day cases will be squared off from 9:15 AM and **no fresh buying** will be allowed to that client on the 7th day (even if that client sells stock, future or options more than his 7 days debit)

**Guidelines 2).** Stock selection category is not a practice (RMS 7 Day square off of stocks is a random process of selection and request to consider selective stock for square off is not considered)

**Guidelines 3).** All Collection of Negotiable instrument for 7 Day instances should be informed, collected, deposited and reported in stipulated format at T+4 or T+5 Day, No Negotiable instrument will be considered to hold the positions unless there is a fund transfer reported before market opens in stipulated format at designated mail address.

**Guidelines 4).** No Calls is accepted for holding 7 Days Debits.

## **3) Short Margin Guidelines**

**Guidelines 1).** **Cash Short Margin** will be squared off from **9:15 AM** while **F&O Short Margin** will be squared off from **9:30 AM**, In Case of market Volatility the same will be squared off from 9:00AM without a prior notice thereof.

**Guidelines 2).** Stock or FO selection category is not a practice (RMS square off of stocks or F&O is a random process of selection and request to consider selective stock or contracts for square off is not considered)

**Guidelines 3).** All Collection of Negotiable instrument for Short Margin instances should be informed, collected, deposited and reported in stipulated format, Negotiable instruments (Fund Transfer, Same day same bank Clearing) will be considered to hold the positions reported before 9:00 AM in stipulated format at designated mail address.

**Guidelines 4).** In case of Short Margin Square Off in cash segment, If **Group 1 Approved stocks** are squared off the amount to the extent the stocks will be squared off will be **4 times of the short margin** amount being reported, **Group 2 Approved stocks** are squared off the amount to the extent the stocks will be squared off will be **3.3 times of the short margin** amount being reported and If **Group 3 Approved stocks** are squared off the amount to the extent the stocks will be squared off will be **2 times of the short margin** amount being reported, If Un-Approved



Category stocks are squared off the amount to the extent the stocks will be squared off will be 1 times of the short margin amount being reported. (Approved List is sent to official email id of Branch Manager and Business Associates on regular basis)

**Guidelines 5).** No Calls will be entertained to hold the positions unless there is a mail with details of acceptable negotiable instrument stipulated earlier on with proper details like Scan Copy, Excel Details, No details of funds will be considered after 9:00 AM

#### **4) Negotiable Instruments updating**

All negotiable instruments collected and deposited must be reported in stipulated format with Scan copy, Excel Format, Covering letter at *designated email id for this purpose*; For limit updates thereto is uploaded in systems **Four** times during trading hours at 10:00 AM, 11:00 AM, 12:00AM and 1:00 PM, all mails reported in the context is collected and reviewed for limits approval, Only Class A category Negotiable instruments are subjected for limits.

#### **5) Payout Guidelines**

All Sales persons or Business managers must post Payout Requests at designated email id for this purpose.

The limits will be decreased from trading accounts once accounts sections intimate us about such payout requests.

All requests to entertain limit or hold positions in short margin will only be allowed if client requests to cancel payout being processed after we receive a request from Branch manager or above only after providing the scan copy of across cancelled issued negotiable instrument at designated email id for this purpose..

#### **6) Intraday Square Off Guidelines**

All intraday / Margin positions created in cash Segment is subject to square off around 3:10 PM to 3:20 PM, all product conversion must be done before 3:00 PM.

#### **7) Near Circuit Scripts Square Off Guidelines**

All the Intraday positions will be squared off from RMS when the scripts breaches the **4% Tier (for Scripts with 5% Circuit), 8% Tier (for Scripts with 10% Circuit), 16% Tier (for Scripts with 20% Circuit Tier),**

Also note that it is the prime responsibility of the Branch to square off the Near Circuit Scripts positions of its Clients. The position will be

squared off from RMS in case of failure of Branch in fulfilling its responsibility.

### **8) M2M Loss Guidelines**

Client id whose liquidity erodes more than 70% during the intraday is squared off immediately from RMS and intimation will be sent to branches after such square off.

### **9) Special Extra Intra Day Limit Guidelines**

Special extra Intraday Limit provided to clients would be withdrawn at 2:45 PM and needs to be squared off before 3 o'clock otherwise it would be squared off by the RMS Department without any prior intimation thereof..Also note that no request to hold the position would be entertained except in case of fund transfer.

## **IMPORTANT NOTES TO ABOVE GUIDELINES**

**No Calls would be entertained for working outside the below mentioned rules.**

1. Limit against cheque collected from the client is given by RMS Department on the same day in case of Transfer Cheque (Where issuing bank and the bank in which cheque is deposited is same) and in case of other cheques it is given after it gets cleared and Accounts Department gives that confirmation to RMS Department. Please note that in case the client is in short margin or 7 days Debit or is a critical client( in terms of risk)the limit would be provided only on cleared funds i.e. after the cheque gets cleared and Accounts Department gives that confirmation to RMS Department.

2. The Cheque collected from the client is considered by RMS Department when a mail is sent by the Branch at designated email id for this purpose along with the *scan copy* of cheque as well as Excel containing Details as to serial number, Date, Cheque No., Client Code, Amount, Deposited Bank, Exchange.

3. (Approved List of Stocks) The Trading Limit for each client is fixed as the sum of his ledger balance and stock position after haircut. Hair-cut is determined on the basis of the category to which the stock belongs. If a stock belongs to **Group 1** then the hair-cut on such stock would be **25%**, **Group 2** then the hair-cut on such stock would be **30%** and if it belongs to **Group 3** the hair-cut is **50%** and if it does not belong to any of the above category then the hair cut would be **100%.Therefore, the client won't get any benefit in terms of limit on his unapproved stock**

**holding while he would get 50% benefit on Group 3 stock, 70% benefit on Group 2 stock and 75% benefit on his Group 1 stock**

4. While determining the Trading Limit of Client stock which is there in beneficiary account is only considered. Stock in DP account of client is not considered.

5. **Short Fund Margin** of the client is arrived at by deducting the stock position after Hair-cut from the Overall debit ledger Balance of the client i.e. the clients whose stock position after hair-cut is not enough to cover the debit in his ledger Balance is in short margin. Such clients have to give a cheque to cover the short margin before 9:15 AM otherwise the position of such client is squared off at 9:15 AM by the RMS department at H.O to the extent of the short margin.

6. The client needs to be informed by the branch when their account comes in 4-days debit and the cheque should be collected from them and mailed till 5th day debit. If the client does not give payment till then the positions are squared off on the 7th day by the RMS Department.

7. The client needs to square off his intraday margin position by 3 o'clock otherwise it's automatically squared off by RMS.

8. All Queries related to pending cheques deposited which is not cleared till date should be enquired in accounts section only, Limits will be provided once the pending cheques are cleared in our accounts, no calls for any update in pending cheques should be accepted from branches or business associates as the same is intimated through accounts only.

9. All High value same bank clearing deposited and reported at earlier trading sessions if not cleared will not be considered for limits until the same is fully cleared in our books and any update in the same context will only be updated in accounts section only.

10. In case of reversal or dishonor of a negotiable instrument RMS holds the right to square off the Open positions and stocks in portfolio subject to the margin shortage amount arising due to such reversal or dishonor (RMS Keeps the right intact for square off viewing the crucial conditions of portfolio and impact due to such reversals.)

11. If a Short margin instance which is squared off from RMS if reported later with fund transfers or other Class A Negotiable instruments with stipulated documents will be provided with the limits up to the amount reported to us by the way of such negotiable instruments (Only BM's and Authorized persons are allowed to contact TIER 4 RMS department for such limits, The executive will allow limit after properly scrutinizing of such reported negotiable instruments.

12. All Business managers are hereby advised to properly scrutinize the M2M losses and SPAN they are carrying for the next Day as the same will reveal the next day short margin.

13. No leverage will be allowed in F&O segment as we are already facilitating F&O trading with no Exposure margin which is normally 5%.
14. Note that the password of Online Clients would only be mailed at the client email Id that is registered with the CRF department. No request for sending at that any other email Id or on phone would be considered..
15. Any change in RMS Guidelines will be informed separately.

## **PMLA GUIDELINES**

This policy has been prepared pursuant to „Prevention of money Laundering Act“, 2002 (PMLA) as applicable to the intermediary“ registered under Section 12 of the SEBI Act,

It provides general background on the subject of money laundering and terrorist financing and summarizes the main provisions of applicable anti money laundering and anti-money terrorist financing legislation in India.

The provisions of PMLA-2002 are applicable for the company. The procedure for the purpose are selected on the basis of specific nature of its business. Organizational structure, type of customers and transaction etc to satisfy itself that the measures adopted by the company are adequate and appropriate to follow the spirit of the suggested measures the Prevention of Money Laundering Act, 2002.

This policy provides to have a system in place to identify, monitor and reporting the suspected money laundering or terrorist financing transactions to law enforcing authorities. This policy are in conformity with SEBI Guidelines, CDSL and Exchanges Requirements.

Obligations of intermediaries under Prevention of Money Laundering Act, 2002 (PLMA)

- Appoint a Principal Officer who would be responsible for ensuring of provisions of PMLA
- Name, designation, address and e-mail address of such Principal officer be intimated to Office of Director – FIU, Delhi
- Adopt written procedures to implement the anti-money laundering provisions
- Communicating the policies relating to PMLA/CFT to management/staff handling accounts information, securities transactions and customer records (at branches/ department/ subsidiaries)
- The Policy to contain ; risk based approach, classification of clients as Clients of Special category (CSC), verification of names of customers in updated list of individuals and entities subject to various sanction measures of UN Security Council Committee and complying with Government order UAPA
- Co-operation with law enforcement authorities and timely disclosure of information

### **The Policy aims to achieve:**

- a) Customer acceptance policy and customer due diligence measures
- b) Monitoring of transaction, its evaluation for the purpose.
- c) Maintenance of records.
- d) Compliance with statutory and regulatory requirements
- e) Co-operation with law enforcing agencies, including the timely disclosure of information.
- f) Proper training of the staff member in efficient monitoring the procedure.
- g) Role of internal auditors to ensure compliance of policies, procedures and control to prevent money laundering.

### **Appointment of Principal Officer:**

To prevent and control Money Laundering, we have appointed “Principal Officer” in terms of Money Laundering Act, 2002 and the same were intimated to FIU-INDIA.

### **RIGHTS AND POWERS OF PRINCIPAL OFFICER**

1. The principal officer / other appropriate officials have timely access to customer identification data and other CDD information.
2. The principal officer has access and is able to report to Senior Management his/her next reporting level or the Board of Directors.

### **CONTENTS OF PMLA/CFT GUIDELINES**

1. Communicating the policies relating to PMLA/CFT to management/staff handling accounts information, securities transactions and customer records (at branches/ department/ subsidiaries)
2. The above to contain ; risk based approach, classification of clients as Clients of Special category (CSC), verification of names of customers in updated list of individuals and entities subject to various sanction measures of UN Security Council Committee and complying with Government order UAPA.
3. Co-operation with law enforcement authorities and timely disclosure of information.

## **Risk-Based Approach to KYC**

Client acceptance is a critical activity in AML compliance. Every new Client accepted by an institution provides the individual with an entry point to local and international financial systems. Client acceptance, thus, becomes the first step in controlling money laundering and terrorist financing.

Regulatory guidelines stipulate that a sound KYC program should determine the true identity and existence of the customer and the risk associated with the customer. It is imperative that institutions capture information about their customers' background, sources of funds, business, domicile and financial products used by them and how these are delivered to them in order to properly understand their risk profile.

Encouragingly, 88 per cent of respondents reported that they are adopting a risk based approach to account opening, and hence KYC, with another 8 per cent actively considering moving towards it.

With the multitude of requirements by different regulators around the globe, specifically when entering into a correspondent financial relationships, Indian financial institutions may have adopted a risk-based approach earlier than expected and before regulations mandated it. For local business of multinational financial institutions this would not be the case as they often adopt global policies and procedures, hence, they follow global best practices and standards.

As customer risk rating and KYC drives enhanced due diligence and ongoing monitoring it is critical that organizations conduct a comprehensive assessment to understand the risks associated with their business and customers. This in turn will provide a basis upon which associated policies and procedures can be developed.

Across all the sectors, the greatest consideration was the nature of the customer's business. With increased regulatory concern on PEP's, it is surprising to note that they do not constitute the heaviest weightage. In absence of the active review by various industry bodies and independent experts, it is unclear how effective these processes are and if they would meet best practice standards.

**We have adopted the following specific parameters, which are related to the overall 'Client Due Diligence Process':**

- a. Policy for acceptance of clients

- b. Procedure for identifying the clients
- c. Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR)
- d. Risk management
- e. Analyzing alerts
- f. Reporting of alerts to FIU-IND
- g. Other Parameters

**(a) Policy for acceptance of clients**

We are taking following safeguards while accepting the clients:

1. We have instructed our account opening section not to open account in a fictitious / benami name or on an anonymous basis in any circumstances.
2. It is Necessary made proper checks before opening a new account so as to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations etc.
3. We have not been allowing account opening, where it is unable to apply appropriate clients due diligence measures / KYC policies i.e. it is unable to verify the identity and /or obtain documents required as per the risk categorisation due to non cooperation of the Client.
4. We have been regularly updating KYC profile of “clients of special category” defined under Money Laundering Act 2002, if any.
5. We are taking full detail of all the clients including occupational detail and financial detail.
6. We have been properly complying documentation requirement and other information in respect of different classes of clients depending on perceived risk and having regard with the requirement to the Prevention of Money Laundering Act 2002, guidelines issued by RBI and SEBI from time to time.



7. We have not been allowing any client to act on behalf of another person / entity.
8. We have been taking special caution in case of account opening of NRI, OBC, FIIs etc.
9. Special instructions given to update on yearly Basis financial updates of all the clients.

**(b) Procedure for identifying the clients**

1. Maintenance of updated list of individuals / entities subject to various sanctions / measures available from the site <http://www.un.org/sc/committees/1267/consolist.shtml> and to regularly scan all existing accounts to ensure that no account is held by any of the entities or individuals included in the above list.
2. For customers that are natural persons, it is required to obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities, it is required to (i) verify the legal status of the legal person/ entity through proper and relevant documents (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person, (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Customer identification requirements in respect of a few typical cases, especially, legal persons requiring an extra element of caution.
3. In the event of matching any particulars of designated individuals/entities, we will inform the full particular of the funds, financial assets or economic resources or related services held in the form of securities, within 24 hours to the joint secretary (IS.I) Ministry of Home Affairs, at a given fax / phone number and email id and will also send the same to the email id and address of SEBI.
4. In the event of matching the details beyond doubt, we will prevent the persons from conducting any further financial transactions under intimation to the above mentioned authorities and will file STR to FIU, IND, covering all transactions.

5. The „Know your Client“ (KYC) policy is clearly defined and adopted under the supervision of Principal Officer.
6. We have been identifying the client by using reliable sources including documents / information, in person verification, etc.
7. We have seen each original document prior to acceptance of a copy and same be stamped “Verified with the original”. The information collected by us is enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by us in compliance with the Guidelines.
8. We have been noting failure by prospective client to provide satisfactory evidence of identity and same to be reported to the higher authority within the organisation.

**(c) Transaction monitoring and reporting especially Suspicious Transactions Reporting**

Ongoing monitoring is an essential element of effective KYC procedures. We can effectively control and reduce the risk only if the company have an understanding of the normal and reasonable activity of the client so that they have the means of identifying transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the account. Special attention is required to pay to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. For the purpose of monitoring of transaction unde PMLA following should be taken care of:

1. we will examine the background and the purpose of transactions which are complex or unusually large/ with patterns which appear to have no economic purpose/ which exceed the limits specified for the relevant class of client accounts, and record the findings in writing; make available such findings, records and related documents to auditors, SEBI, Stock Exchanges, FLUIND, other relevant authorities during audit, inspection or as and when required.
2. we will submit cash Transactions Report (CTR) wherever applicable, for each month by 15<sup>th</sup> of the succeeding month to FIU-IND

3. We will submit Suspicious Transaction Report (STR) within 7 days of arriving at a conclusion that any transaction are of suspicious nature to FIU-IND
4. To preserve records involving CTR/STR for ten years as required under PMLA, 2002
5. We have been taking close surveillance, where transaction amounting to **Rs. 10 Lacs or more.**
6. We have not been allowing any cash transaction with client.
7. We regularly monitor the transactions for generation of alerts for identification of suspicious transactions.

-

The Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions.

#### **(d) Risk Management**

The Board of Directors of the company ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation covering proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility are explicitly allocated within the company for ensuring that the Company's policies and procedures are implemented effectively. The company, in consultation with boards, has decided to devise procedures for creating Risk Profiles of the existing and new customers and apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship.

As The internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures, the compliance function should provide an independent evaluation of the Company's own policies and procedures, including legal and regulatory requirements. The company will appoint and conduct Concurrent/ Internal Audits on specific intervals that will specifically check and verify the application of KYC procedures at the branches and will comment on the lapses observed in this regard. The compliance in this regard may be put up before the Board on quarterly intervals.

The company will conduct an ongoing employee training programme so that all the staff are adequately trained in KYC procedures. Training requirements should have different focuses for frontline staff, compliance

staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind the KYC policies and implement them consistently

Implementation of KYC procedures requires the company to demand certain information from client which may be of personal in nature or which has hitherto never been called for. This can sometimes lead to a lot of questioning by the client as to the motive and purpose of collecting such information. There is, therefore, the company will educate, from time to time, the customer of the objectives of the KYC programme.

**(e) Analyzing alerts**

1. We have mechanism to analysis the alerts, as and when generated and also using KYC information including details of occupation and financial status at the time of analyzing alerts.
2. The company will maintain record of all such suspicious transactions, its nature and its value

**(f) Reporting of alerts to FIU-IND**

1. All the suspicious transaction Alerts generated will be reported to FIU-IND.

**(g) Other parameters**

➤ **Retention of Records**

We have observed the following document retention:

- a. We have bound to maintain all necessary records, if any, on transactions, both domestic and international at least for the minimum period prescribed under the relevant Act (PMLA, 2002 as well SEBI Act, 1992) and other legislations, Regulations or exchange bye-laws or circulars.
- b. We have also bound to kept records, if any, on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for the same period.

➤ **Training of staff**

The company has adequately trained staff in AML and CFT (Combating Financing of Terrorism) procedures.

In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, the same will be retained until it is confirmed that the case has been closed

**Review of PMLA/CFT Procedures**

We will review regularly the policy and procedures on prevention of money laundering and terrorist financing to ensure their effectiveness.

## **POLICY REGARDING TREATMENT OF INACTIVE ACCOUNTS**

### **What happens when a client is declared inactive?**

On a client being declared inactive,

1. All the securities of the client are transferred into the last known demat account of the client.
2. All the funds of the client are returned to the client.
3. In case the demat account/ bank account details are not available and the client is not contactable, , the securities/ funds are transferred into a separate account of the company and held till such time the company hears from the client or their representatives.
4. Trading in the client account is stopped.

### **Client declared inactive voluntarily**

A client may write to the company stating that he wishes to transfer his account into an “inactive” status, based on which the account will be marked as such.

### **Client declared inactive by passage of time**

Any client who has not traded continually for a period as may be decided by the management from time to time and has also not renewed his running account authorization for such continuous period as decided by the management will automatically be moved to the “inactive” category.

### **Client declared inactive by law**

Any client will be moved to the “inactive” category if required by law.

### **Procedure to activate the client**

To reactivate the account, the client is expected to write to the TM requesting for activation of the account, based on which the account would be activated after due diligence by the TM.

## **MAINTENANCE OF BOOKS AND RECORDS**

- ❑ Securities Contracts (Regulation) Rules, 1957 (SCRR) and the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 specifies maintenance of proper books of accounts.
- ❑ Members to maintain Exchange-wise separate books of accounts, other records and documents, in accordance with the Rules, Regulations, Bye-laws and relevant circulars of Stock Exchanges.

Regulation 17 (1) of SEBI Regulations provides for maintenance of following books, records and documents by the Brokers.

- Register of transactions (Sauda Book)
- Clients ledger
- General ledger
- Journals
- Cash book
- Bank pass book
- Register of Securities
- Members' contract books
- Counterfoils or duplicates of contract notes issued to clients;
- Written consent of clients in respect of contracts entered into as principals ;
- Margin deposit book;
- Register of accounts of sub-brokers;
- Tripartite Agreement between broker, sub-broker and clients specifying scope of authority and responsibilities of the Broker and such sub-broker.

All these books of accounts and other records are to be preserved by the broker for a minimum period of five years as per Regulation 18 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992

### **Other Books and Records**

- Register of Complaints
- Records of Particulars of Approved Users
- Record of Brokerage Collected
- Dividend Ledger
- Statement of funds and securities obligations received from the Clearing Corporation

Register of Transactions should contain :

- Name of the Constituent
- Rates both gross and net of brokerage

- Name of the Security (CM) / Contract Specification (F&O)
- Value of the security (CM) / derivatives contract (F&O)
- Date of expiry of Contract (F&O)

Register of securities to be maintained client-wise scrip-wise and should provide for following details

- Date of receipt / delivery
- Quantity received / delivered
- Entity from / to whom received / delivered
- Balance Quantity
- Purpose of receipt / delivery