INTERNAL CONTROL POLICY

Registration of Clients

Client registration is an ongoing process, with applications for registration as clients for the equity broking business being regularly received. Both the Head Office (HO) and branches are responsible for registering new clients, with experienced personnel handling the process. The steps involved include:

- Initial review of the application by one individual.
- Rechecking by a second individual.
- Submission of the documents to an authorized person for final approval.

The registration process includes the collection of Know Your Customer (KYC) documents and supporting materials to familiarize the firm with the clients. Clients are typically acquired through personal referrals, and risk assessments are conducted based on the client’s profile and relationship.

Client Registration Forms contain detailed instructions for account opening and equity market participation. Key points include:

Checklist and Instructions:

1. Originals of all submitted documents must be verified at the time of form submission.
2. **Non-Individuals:**
    - Annual Reports and Balance Sheets from the last financial year.
    - Partnership Deed (for firms), Memorandum and Articles of Association, and Board Resolution (for corporations).
3. **Identity Proof** (for individuals, proprietors, partners, directors, trustees, etc.):
    - PAN Card, Passport, Driving License, or Voter ID.
4. **Address Proof** (documents must not be older than three months):
    - Recent utility bills, rent agreements, or insurance policies.
5. A copy of a canceled cheque and a recent bank statement (not older than three months).
6. Details of all bank and Demat accounts held by the client.
7. Proof of Demat account details.
8. Any corrections made in the form must be countersigned by the applicant (no whitener allowed).
9. Separate forms must be submitted for different entities (individuals, corporations, etc.).
10. The forms must be filled out carefully to avoid rejection.

In-person verification of each client is conducted by an authorized person.

Incomplete forms will not be accepted, and any discrepancies or deviations must be reported to superiors. For clients opting for the Electronic Contract Note (ECN) facility, a separate letter must be obtained, including their email ID and unique client code.

Client Account shall not be activated unless KRA status is not verified.

Receiving, Validating, and Entering Client Orders

Authorized TWS/CTCL operators handle client orders at all offices. Clients contact designated operators to place, modify, or cancel orders. The operators are responsible for ensuring the following:

- **Verification**: Confirming the identity of the client or their authorized representative.
- **Clear Understanding of Instructions**: Ensuring there is a clear understanding of the order details, including whether the order is a buy or sell, the script name, quantity, and price.
- **Order Execution**: Instantly executing market orders and promptly confirming order details with the client.

To maintain accuracy and avoid errors, operators ensure the following:

- **Unrealistic Order Rates**: Unrealistic or unreasonable order rates are avoided. Any order placed with such rates is flagged for review.
- **Immediate Error Rectification**: Any errors in order placement or execution are promptly rectified under supervisory oversight.

Confidentiality and Security:

- Passwords and login credentials used in trading operations must remain confidential. Operators must not share or disclose client credentials to unauthorized parties.
- Security measures, such as two-factor authentication (if applicable), should be enforced for extra protection during order placement and execution.

Additional Points:

- **Client Communication**: Clear and timely communication with clients should be maintained throughout the order process. Any modifications or cancellations of orders should be promptly acknowledged and confirmed by the client.
- **Recording of Orders**: All orders, modifications, and cancellations must be properly recorded for audit and compliance purposes. A system for tracking these actions should be in place.
- **Risk Management**: Orders with potential risk implications (e.g., large volume trades, margin calls, etc.) should undergo additional scrutiny to ensure compliance with risk management policies.

This process should be continuously monitored for efficiency and compliance with regulatory standards.

Collection and Release of Payments

Collection:

- Authorized personnel review outstanding payments continuously using client-wise records.
- Due payments are collected on time, and bounced cheques are handled seriously.
- In case of defaults, operators are instructed to halt further purchases.

Procedure for Accepting Cheques:

1. Cheques must be in the trading member's name.
2. Client name and code must be noted on the back of the cheque.
3. Amount in words must match the figures.
4. Cheques must not be post-dated or older than three months.
5. Obtain client signatures for corrections.
6. Additional details for new bank accounts must be declared by the client.

Release of Payments:

- Payments are made on due dates, except for clients with running account letters.
- Cheques are issued carefully, ensuring sufficient bank balance. Client signatures are obtained upon receipt.

Collection and Maintenance of Margins:

1. Applicability of Margins:
    - Margins are determined based on regulatory requirements and the client's trading activity.
    - Clients are informed of the margin requirements during account opening and whenever changes occur due to market conditions or updates in regulatory norms.
2. Collection Process:
    - Margins are collected upfront before the execution of trades to ensure compliance and mitigate financial risks.
    - Accepted forms of margin deposits include funds, securities, or other approved collateral.
3. Crediting Margins:
    - All collected margins are promptly credited to the client's account.
    - Confirmation of margin credit is communicated to the client through email or SMS notifications.
4. Shortfall Management:
    - Clients are notified immediately if their margin levels fall below the required thresholds.
    - Timely follow-up is conducted to ensure shortfalls are addressed to prevent disruptions in trading.

Monitoring Debit Balances:

1. Continuous Review:
    - Client accounts are monitored daily to track outstanding balances and identify potential delays in payments.
    - Automated systems generate reports highlighting overdue payments and high-risk accounts.
2. Follow-Up Mechanism:
    - Dedicated personnel are assigned to follow up with clients on overdue payments.
    - Clients with recurring payment delays are flagged for additional scrutiny.

3. Handling Bounced Cheques:
   - Instances of bounced cheques are reviewed promptly, and the client is informed immediately.
   - Such occurrences are documented and escalated to senior management for corrective actions.
4. Preventive Actions:
   - For clients with significant debit balances or frequent payment issues, trading limits are reviewed and adjusted accordingly.
   - Additional margins may be requested to minimize financial exposure.
5. Escalation and Reporting:
   - Persistent non-payment cases are escalated to the compliance team and senior management.

Detailed records of all follow-up actions and client communications are maintained for audit purposes.

Branch and AP Operations

Branch Management:

1. Operational Oversight:
   - Branch operations are directly monitored and controlled by the management to ensure standardization and compliance.
   - Key performance metrics, including client onboarding, trade execution, and complaint resolution, are regularly reviewed.
2. Role of Branch Managers:
   - Branch managers act as the primary point of contact for operational and client service issues.
   - They ensure compliance with exchange guidelines and regulatory norms in daily activities.
   - Training and updates are provided to branch managers to keep them informed about new policies, market trends, and compliance requirements.
3. Client Service Excellence:
   - Branches are equipped to handle client queries efficiently, ensuring high standards of service.
   - Feedback from clients is collected and analysed to improve service quality and operational efficiency.
4. Audits and Compliance Checks:
   - Regular internal audits are conducted to assess the adherence to policies and regulatory requirements.
   - Any discrepancies are addressed immediately, with corrective measures implemented.

AP Operations:

1. Registration and Deregistration:
   - Authorized personnel handle the registration of Authorized Persons (APs) after thorough verification of documents and credentials.
   - Deregistration is initiated in cases of non-compliance, inactivity, or breach of terms.

2. Mutual Agreements:
    - Payments to APs, including commission and brokerage shares, are governed by mutual agreements, ensuring transparency.
    - The terms of agreements are periodically reviewed and updated based on performance and regulatory changes.
3. Compliance Monitoring:
    - APs are required to comply with all regulatory norms, including KYC processes, trade practices, and client servicing standards.
    - Inspection of APs will be conducted as per Exchanges norms and reports will be submitted to Exchanges on or before due dates.
    - Non-compliance by APs is reported to the management, and appropriate actions are taken.
4. Support and Training:
    - APs are provided with regular training and updates on regulatory changes, product offerings, and market trends.
    - Dedicated support channels are available to address AP queries and operational challenges promptly.
5. Performance Reviews:
    - AP performance is reviewed periodically based on metrics such as client acquisition, trade volumes, and compliance adherence.
    - High-performing APs are incentivized, while corrective actions are implemented for underperformance.

Compliance with Regulatory Standards

Inactive and Dormant Accounts:

1. **Identification and Classification**:
    - Accounts that have not recorded any trading activity for 24 consecutive months are flagged and marked as dormant.
    - Notifications are sent to clients informing them about the dormant status of their account and the steps for reactivation.
2. **Reactivation Process**:
    - Clients must submit a written request to reactivate their dormant account.
    - Updated KYC documents are mandatory to validate the identity and address of the client.
    - The compliance team verifies the documentation before reactivating the account.
3. **Payouts During Dormancy**:
    - Any request for fund payouts during the dormancy period requires a written application from the client.
    - Verification of the client's identity is conducted to ensure compliance and prevent unauthorized transactions.
4. **Risk Mitigation**:
    - Dormant accounts are subject to additional scrutiny to prevent unauthorized access or fraudulent activities.
    - Enhanced monitoring tools are used to track any suspicious activity linked to dormant accounts.

5. **Regulatory Compliance**:
    - Policies for handling dormant accounts are aligned with SEBI and exchange guidelines.
    - Dormant account data is reviewed periodically to ensure compliance with regulatory mandates and operational efficiency.

Issuance of Contract Notes

1. **Timely Issuance**:
    - Contract notes are issued within 24 hours of the execution of a trade to ensure compliance with regulatory requirements.
    - These notes include detailed information about the trade, such as the security name, quantity, price, and brokerage charges.
2. **Electronic Contract Notes (ECNs)**:
    - ECNs are sent to the client's registered email address, ensuring prompt delivery and accessibility.
    - Clients must provide consent for receiving ECNs during the account registration process.
3. **Handling Bounced Emails**:
    - If an ECN email bounces back, a physical copy of the contract note is dispatched to the client's registered address within 24 hours.
    - Records of bounced emails are maintained for future reference and compliance audits.
4. **Record Maintenance**:
    - All contract notes, including ECNs and physical copies, are securely stored for regulatory and operational audits.
    - ECN logs are maintained with details such as timestamps, delivery confirmations, and failure reports.
5. **Compliance and Verification**:
    - Contract notes are verified for accuracy before issuance to clients.
    - Any discrepancies in the contract note are addressed promptly, with corrected versions issued as necessary.
6. **Unique Identification**:
    - Each contract note is assigned a unique identification number to ensure traceability and compliance with regulatory mandates.
7. **Client Communication**:
    - Clients are informed about the availability of their contract notes and advised to report any discrepancies immediately.
    - Support channels are available for clients to request duplicate copies or clarification on issued notes.

Monthly/Quarterly Settlement of Funds

1. **Regulatory Compliance**:
    - Settlement of client funds and securities is carried out as per SEBI and exchange-mandated timelines.
    - A monthly or quarterly settlement schedule is followed, based on the client's preference.
2. **Calculation and Reporting**:
    - The obligation amount is calculated by considering the funds and securities available in the client's account.

- Clients receive detailed statements of accounts showing all transactions and balances.

3. **Communication**:
    - Intimation is sent to clients regarding the settlement process through registered communication channels (email or SMS).
    - Clients are informed about any unutilized balance being refunded to their registered bank accounts.
4. **Handling of Exceptions**:
    - For clients who have opted for running accounts, settlement is carried out only upon specific instructions.
    - In case of disputes, the matter is promptly escalated and resolved by the compliance team.
5. **Record Maintenance**:
    - Proper records of all settlements are maintained for audit and compliance purposes.
    - Settlement logs are periodically reviewed to ensure accuracy and adherence to policies.

Risk Management and Limits

1. **Setting Exposure Limits**:
    - Exposure limits are set for clients based on their margin deposits and risk profile.
    - Limits are reviewed periodically and adjusted as per the client's trading behaviour and financial strength.
2. **Margin-Based Risk Management System (RMS)**:
    - The RMS operates on a margin-based model, ensuring trades are within allowable limits.
    - Clients are notified of margin shortfalls promptly to avoid interruptions.
3. **Order Monitoring**:
    - All orders are monitored in real-time to ensure compliance with prescribed limits.
    - Orders exceeding exposure or turnover limits are automatically blocked or reviewed manually by the risk team.
4. **Handling Volatile Market Conditions**:
    - Additional margins may be imposed during high volatility to protect against market risks.
    - Client positions are reviewed more frequently during such periods.
5. **Square-Off Policy**:
    - Open positions may be squared off without prior client consent in cases of significant margin shortfalls or breaches of limits.
    - The procedure is followed transparently, with notifications sent to the client.
6. **Review and Escalation**:
    - Risk parameters and limits are reviewed regularly by the risk management team.
    - Any anomalies or breaches are escalated to senior management for immediate action.
7. **Client Communication**:
    - Clients are kept informed about their trading limits, margin requirements, and any changes to risk policies.
    - Regular updates are shared on risk-related matters to ensure transparency.

Investor Grievance Redressal

1. **Dedicated Compliance Officer**:
    - A compliance officer is assigned to address and resolve all client complaints.

- The compliance officer ensures grievances are acknowledged and resolved within 24 hours.

2. **Grievance Reporting Mechanism**:
    - Clients can lodge complaints through email, phone, or in person.
    - A unique tracking number is assigned to each grievance for follow-up purposes.
3. **Escalation Procedure**:
    - If a grievance is not resolved within the stipulated timeframe, clients can escalate the issue to senior management or the designated grievance officer.
4. **Resolution Timeline**:
    - All grievances are resolved promptly, with a maximum timeline of seven working days for complex cases.
5. **Documentation and Review**:
    - All complaints and their resolutions are documented and reviewed periodically.
    - Feedback from clients is analysed to improve processes and client satisfaction.
6. **Regulatory Compliance**:
    - The grievance redressal mechanism is aligned with SEBI and exchange guidelines.
    - Unresolved grievances are reported to the exchange as per regulatory requirements.

Disaster Recovery and PMLA Policy

Disaster Recovery Plan (DRP):

1. **Objective**:
    - To ensure business continuity and minimize disruptions during disasters or unforeseen events.
2. **Data Backup**:
    - Regular backups of all critical data are maintained at secure off-site locations.
    - Backup frequency is reviewed periodically to ensure data integrity and accessibility.
3. **Alternative Infrastructure**:
    - Standby systems and infrastructure are available to handle critical operations in case of primary system failure.
    - Disaster recovery drills are conducted regularly to test the readiness of systems and staff.
4. **Communication Protocol**:
    - A clear chain of communication is established for internal and external stakeholders during emergencies.
    - Clients and regulators are informed promptly about any impact on operations.
5. **Review and Updates**:
    - The DRP is reviewed annually and updated based on emerging risks and technological advancements.

- ✪ **Prevention of Money Laundering Act (PMLA) Policy:**

1. **Objective**:
    - To ensure compliance with PMLA, 2002, and prevent money laundering and terrorist financing activities.
2. **Client Due Diligence (CDD):**

- Rigorous verification processes are followed for all clients during onboarding and throughout the relationship.
- Enhanced due diligence is conducted for high-risk clients or transactions.

3. **Monitoring and Reporting**:
   - Suspicious transactions are identified, monitored, and reported to the Financial Intelligence Unit (FIU-IND).
   - Records of all transactions are maintained for a minimum of five years.
4. **Training and Awareness**:
   - Regular training programs are conducted for employees to ensure awareness of PMLA compliance requirements.
   - Updates on changes in regulations are communicated promptly to relevant staff.
5. **Internal Audit**:
   - Periodic audits are conducted to ensure adherence to PMLA guidelines and identify areas for improvement.