

## **INTERNAL CONTROL POLICY & PROCEDURE FOR CASH AND DERIVATIVE SEGMENTS**

### **CLIENT CODE MODIFICATION:**

We have not given any of our sub-brokers the right to transfer trade. This right is available only at our Head-office under highly restricted circumstance with prior approval.

We entertain requests from sub-brokers for client code change on a very conservative basis. However, in certain cases which we are convinced are genuine mistakes of data-punching error, we do make the client code change, but after ensuring that the sub-broker has not done margin- arbitrage at client level.

In cases, where our terminal operators make mistakes, we take from them in writing that they have done data-punching error while inputting orders.

However, where there are such successive requests for client code change from the same terminal operator, it is our policy investigate and take necessary action. However, there has never been an occasion for us to test that policy. Only our Chief Dealer has the authority to do client code change.

We have a strict policy with respect to client code change. Inadvertent errors are inevitable. However, Client Code change is permitted within the criteria laid down by SEBI/ Exchanges.

### **PMLA:**

Alerts are based on following factors:

- (a) Sudden disproportionate increase in client's trading.
- (b) A client trading beyond declared financial capacity.
- (c) Introducing third party cheques in settlement of pay-in dues.
- (d) Making off-market transfers to the same demat account(s) immediately after receiving securities in pay- out.
- (e) Introducing Demand Drafts in settlement of pay- in dues.
- (f) Any other act that arouses suspicion.

If a client is always indulging in one or all of the above in an on going manner, we put him/her/it under special watch.

All transactions have to mandatorily meet the criteria laid down in our PMLA policy. A Principal Officer has been appointed and tasked with the responsibility of monitoring that all client trades meet the criteria of objectivity and transparency mandated under PMLA provisions.

## **Introduction/ Registration of Clients:**

### **(1) Client Due Diligence:**

We apply the usual client due diligence measures prescribed under KYC norms. Additionally, we also take reference of a client or person known to us in respect of walk-in clients. The format in which we conduct the client due diligence is part of our KYC form. In case of sub-brokers' clients due diligence and in-person verification is the responsibility of sub-broker.

### **(2) Assessment of financial capability of client:**

We take from clients a self-declaration, which states their total networth in terms of their net assets and liabilities. Such self-declaration has to be mandatorily supported by one of the following documents

- (a) Copy of ITR acknowledgement.
- (b) Copy of Annual Returns.
- (c) Copy of Form No. 16: In case of salary income.
- (d) Networth certificate from a Chartered Accountant.
- (e) Salary slip duly stamped, signed by employer.
- (f) Bank Account Statement for last six months.
- (g) Copy of Demat Account holding statement.
- (h) Any other document substantiating ownership of assets.

### **(3) Process of record keeping and retrieval of client registration documents:**

All client registration documents, once checked, found complete and verified as such and the accounts opened, are stored in safe - vaults in a sequential manner. Additionally, all KYCs and supporting documents are scanned and kept in soft form. We can conveniently retrieve either the physical or the scanned records.

### **(4) Updation of client financial and other client particulars:**

We have now started on an annual basis the process of sending out,

- (a) Client Master
- (b) Self-declaration for financial status to all clients asking them to confirm the details in client-master and update the financial particulars. It should be an annual exercise of updation of client particulars.
- (c) We intimate the client through a Welcome letter the fact that a trading account has been opened for him/ her. This letter also contains all the particulars submitted by the client in the KYC. In case of any discrepancy, the client is urged to contact us within fifteen days.

#### **(5) Client Master Modification:**

On an annual basis, there is a regular updation happening. However, in between, if the client wants to modify any details, he/she/it is enabled to do so by filling up a Client Master Modification Form and submitting to us the documentary proof of modified detail.

#### **(6) Systems and Process adopted for UCC upload:**

From our back-end, we generate file for the client containing data of market segment, client code, client name, PAN, address in the format prescribed by NSE. The data generated are thereafter verified with KYC. On the data being found fully correct, the client is uploaded on UCC – site of NSE. After uploading, we run a check, on the UCC-site, by entering the specific client, whether or not the client details are actually uploaded on UCC-site.

#### **(7) Process of client code closure:**

First the client has to give a request for closure in the prescribed format accompanied with a photocopy of PAN card with signature. On receipt of such request, the account is checked for any outstanding balance either debit or credit. If it is a debit balance, the client is asked to clear it. In case of a credit balance, the same is paid to the client. Similarly, a check is carried out in the settlement department to ascertain:

- (a) The securities lying with us as margin or pending pay-out to the client.
- (b) Whether the client has any outstanding position in F&O segment (NSE, BSE and MCX-SX), Currency Derivatives (both NSE, MCX-SX) or outstanding pay-in position of securities or pay- out from Exchanges in pipeline. In case of any outstanding position, we either let the client pay off the same, (if it is an owing) or wait for the transaction to come to a close so that we can crystallize either the client's liability for pay-in or our liability to settle the securities due to the client.
- (c) Whether any notice issued to the client is pending reply and any liability arises to the company or client as a result of client's action / inaction for which the notice has been issued. There is a prescribed process sheet, for monitoring the above points before taking a decision whether or not the client's account can be closed.

Once the client is cleared for closure, the client's account is closed, and intimation is sent in the format of a letter.

#### **(8) Precaution with respect to dormant accounts:**

All dormant accounts (inactive for six months and more) are made inactive in our system. Hence it is not possible to execute a transaction in dormant accounts. However, a client can re-activate his/her/its dormant account by giving us in writing in prescribed format to activate the account and also stating the reason for keeping the account dormant.

### **Funds & Securities:**

Pay-in is due the day next to the trade. If pay-in is not received by the close of the working hours on the day next to the trade day, the same shall be subject to a penalty percentage which shall not exceed the prevailing bank rate of interest or 18 % p. a. whichever is higher. This penalty shall be levied for the actual period for which the payment for the transaction / transactions has been delayed. Such penalty is deterrent in nature and is not a financing mechanism to the clients. Regular delays by clients shall result in suo-motto client de-registration.

The clients is given an exposure limit equivalent to the sum of credit balance in client's ledger account and the value of client's collaterals lying with us, after applying the haircut percentage prescribed by SEBI from time to time. Such exposure limit is monitored on-line as the clients is trading and any short-fall or deficit in margin with respect to any order/orders of the client shall have to be made up on an instant basis by the client, if the input order is to be allowed by us into the trading cloud.

In case of a client having an open position and his available margin (in terms of ledger credit and collaterals) being consumed towards the margin requirement of the existing open position, such client shall not be allowed to take any further position either in Cash Market or F & O Segment. Not only that the said client will not be allowed to take any further position in the market, but also we shall have the right to square up such existing position of the client in case of the value of open position over-shooting the client's available margin with us.

All debit balances are monitored on a daily basis. No debit is allowed to remain in books beyond three days. After three days client's securities and collaterals are auctioned off to realize the outstanding. Pay-in funds and securities must be complete by the close of the working hours on the day next to the trading. However, securities can be paid in maximum by 10.30 AM on the (T+2) day i.e., that is on the second day from the trading day. If not, they go for auction and the auction loss has to be borne by the customer. In case of non pay-in of funds, we do make the pay-in but securities are not released until the client makes the pay-in along with penal interest.

The local clients give us their cheques at the corporate office. To cater to remote clients we have opened CBS accounts with HDFC Bank and State Bank of India. These account numbers are notified to clients, who deposit their cheques in these accounts and send us an e-mail (at [chg@anspl.net](mailto:chg@anspl.net)) comprising the cheque number and the bank where they have deposited the cheque. The clients also send us through courier counter-foil of the pay-in slips which they have used to deposit the cheque. However, we give credit to the client's ledger accounts once we receive the e-mail intimation from the client. The Bank reconciliation of the client bank accounts (with HDFC Bank and SBI) happen on a daily basis. In case any credit is not reflected in the bank account in two days, the credit in client ledger is reversed. If the cheque is found to be dishonored, we levy a penalty on the client.

Clients are given the cheques for their dues on the very day the pay-out is received from the Stock Exchange. However, clients maintaining their account on a running basis do not take their pay-out on a transaction-to – transaction basis. Whenever they want the pay-out, they inform us through sub-broker (or a direct client will inform the Accounts Department in Corporate Office) and the credit balance (which has become due – a credit balance for which the exchange pay-out is not received is considered not due) is released to the client. In case of dividend receipts on client securities, our back-office system is so designed as to discern the specific clients for whom the dividends are received. The client-dividends received by us are credited to respective client accounts.

All client securities are strictly received from the client beneficiary accounts mapped with us. It is our policy not to accept transfer of securities from beneficiary owner accounts which are not mapped with us. In case of transfers from undiscerned (or unmapped) beneficiary accounts, we do return the securities to the same beneficiary owner accounts from which the securities are received. This is done to keep an audit trail of securities received by us from clients towards their pay-in and margin obligations. We do maintain a single and consolidated Beneficiary Owner Account to receive all client securities. However, we have a facility in our back-office to trace the securities in the single consolidated beneficiary account to respective clients. All client securities are strictly used to meet client pay-in and margin obligations. Similarly, client securities pay-outs are given to the client beneficiary accounts which are mapped with us. It is our policy not to make client securities pay-outs to third-party accounts.

#### **BOLT / IML Terminal:**

It is our policy not to give direct exchange terminals to our sub-brokers. However, to our branches we do give direct terminals. Such direct terminals are operated under the strict supervision of senior staff. To, our sub-broker, we only allocate IML/ CTCL terminals, so that the Risk Management is online and dynamic. A sub-broker is given a trading limit based on his total deposit (both in terms of cash and securities) with us. The simple criterion is that the total loss, if any, on the various orders under the sub-brokers' IML/ CTCL terminal should not exceed the sub-broker deposit with us. In case of any order value or loss exceeding the sub-broker deposit, the sub-broker is asked to replenish his deposit.

#### **Contract Notes:**

All contract notes are generated in the specified formats from the software. The contract generation is centralized and takes place only at our corporate office. Our policy is to mail the Contract Notes to client e-mail id, as given by him/ her, in the KYC. No contract is physically sent to the clients. It is mandatory for clients to provide their e-mail for Contract Notes. In case the client desires to receive the Contract Note in physical form, he/ she is levied a charge of Rs. 40/- per Contract Note. This is mentioned in the tariff sheet in KYC. We preserve and maintain logs of electronically transmitted Contract Notes. We also maintain and preserve Proof of Delivery of Contract Notes sent in physical form. In case of any electronic mail of Contract Note bouncing, we do send it to the client in physical form and preserve its Proof of Delivery. However, as provided in KYC, we do charge the client an amount of Rs. 40/-

### **Statements of Accounts:**

Statements of Accounts are dispatched to clients on monthly/ quarterly basis as opted by the client in KYC, by way of e-mail to the client e-mail provided by the client in KYC. The log of the e-mail is preserved as proof of dispatch. In case of e-mail bouncing the Statement of Account is physically sent to the clients and a charge of Rs. 40/- is levied on the client. In case of physical dispatch, the proof of delivery is maintained by us.

### **Execution of Power of Attorney (POA):**

It is our policy to get the clients to execute a POA in our favor to enable us to debit client beneficiary accounts for client pay-in and margin obligations. The POA confers on us the authority to debit the client beneficiary accounts only to the extent required for client pay-in and margin. We do maintain a register of POAs executed by clients in our favor. Where clients have not executed POA, they are required to transfer securities to our beneficiary account through a physical trade, which can involve delay or even omission on the part of client to transfer such securities for pay-in and margin. This may entail auction loss to the client. It is therefore in client interest to execute POA for pay-in/ margin obligations, which we convey to the clients when they approach us for opening accounts.

### **Receiving and Execution of Orders:**

Orders may either be executed from our terminals or sub-broker allotted terminals. All sub-broker client orders are executed from sub-broker terminals. In case of orders executed from sub-broker terminals, it is the responsibility of the sub-broker to ensure sanctity of the order. In case of any sub-broker client disputing or abdicating any order executed in his/ her account, the impact of such order has to be borne by the sub-broker. However, in case of orders being executed from our end, our dealers usually have voice-recognition of the clients calling them or in case of doubt the dealers verify the veracity of client by cross-checking the client's personal details. In case of internet-based orders, all orders executed from the client's internet-based trading terminal have to be necessarily born by the client. The clients are not allowed to place orders at prices which are out of sync with the current market price of shares, in order to ensure that clients do not disrupt the market integrity and also there are no large cumulative unexecuted orders in the trading terminals.

### **Portfolio Manager:**

As and when we become a Portfolio Manager, we shall evolve an elaborate set of policies in keeping with SEBI regulations for servicing portfolio clients.

### **Brokerage Charged:**

It is defined in tariff sheet of KYC.

### **Client Margin Intimation:**

Client Margin intimation is sent to the clients along with Contract Note. Any shortfall or deficit of margin is supposed to be replenished by clients before the start of next trading day. Client exposure is equivalent to the client margin deposit (both in cash and securities). The client's ledger credit is also counted by us as client margin. Since client margin intimation is sent to clients along with Contract Notes, the log of Contract Note is automatically the log of client margin intimation. In case of mail bouncing, it is physically sent and its Proof of Delivery is maintained. The policy enunciated for Contract Notes for dispatch also applies to Client Margin Intimation.

### **KRA Procedure & Policy**

When the filled KYC along with the requisite documents is received, it is checked for accuracy of entries and documents attached therewith as proof of identity, address, bank account and demat account. Once they are found in order, the requisite data are fed into our back office software which generates the client code. If the KYC also contains the account opening form for demat account, the requisite data are uploaded to CDAS, which then generates a response file which contains the beneficiary account number. The response file of CDAS is uploaded in the back office system which then imports in the demat account number generated by CDAS. The demat account details are then updated in the software which contains the data inputs of trading account. Thereafter the unique client code is uploaded in NSE and BSE, with all the requisite details.

Thereafter the KYC and supporting documents are sent to scanning department, which scans the KYC and supporting documents. After scanning of documents, Annexure I, PAN Card Copy and address Proof are separated from the rest of KYC. From Annexure I and PAN Card Copy and address Proof, the requisite data is entered into the data of the KRA. At this KRA generates a unique KRA number, which is written down on top of every Annexure I. This process being over, Annexure I with all the supporting documents are uploaded to KRA. On a periodic basis, we check the KRA system to ascertain if any of our client accounts uploaded into KRA database are put under 'Hold' for want of any requisite information. If there is any such client account under Hold, the missing information along with supporting documents are uploaded to KRA, The KRA, then, removes the account(s) from Hold status.

### **Policy for unauthentic news circulation:**

None other than our Senior Research Analyst is allowed to pass on any market related news and developments. This way we keep a tab on spread of rumours and unsubstantiated news items among our clients and associates – Even as our senior Research Analyst disseminates any news item with a brief analysis of its impact, the investors are any-way cautioned that they must exercise their best judgment while acting on any news propagated by our Research term

**Policy to safeguard against insider trading:**

The trading room is provided with a camera and microphone and the activities in the trading room are recorded and kept under constant surveillance. Employees are not allowed to trade in the normal course. Employees are allowed to buy and sell shares purely from an investment point of view and any employee wanting to buy and sell has to take prior permission of the management. All employee accounts are under zero limit. However, an employee being allowed to buy and sell, he/ she is allowed a maximum limit of Rs. 50, 000/- This does not however mean that an employee would be allowed to utilize this limit on a daily basis. No employee is allowed to trade on a continuous basis for two days. Dealers are continuously watched to make sure that no dealer is leaking client information. Any employee found leaking client information is subject to immediate dismissal.