

# **INTERNAL CONTROL POLICY & PROCEDURES**

**ADOPTED BY  
GHANSHYAM SHARES & STOCK  
BROKERS PVT. LTD. MEMBER –  
NSE CASH & F&O SEGMENT &  
BSE CASH**

# INDEX

Sr. No.	Areas of Internal control
1	ACCEPTANCE OF CLIENT
2	CLIENT IDENTIFICATION
3	REGISTRATION / MONITORING OF BRANCHES / INTERMEDIATERIES ISSUE OF TRADING
4	TERMINAL MARGIN COLLECTION
5	TRANSACTION OF CLIENTS
6	PLACEMENT OF ORDER
7	COLLECTION AND RELEASE OF PAYMENTS TO CLIENTS
8	COLLECTION AND DELIVERY OF SECURITIES TO
9	CLIENTS OPERATION AND COMPLIANCE
10	REQUIREMENTS PAYMENT OF FUNDS
11	INACTIVE CLIENT ACCOUNTS
12	CLIENT CODE MODIFICATION
13	GRANTING CLIENT EXPOSURE LIMITS
14	SQUARING OFF CLIENTS POSITION IN CASE OF NON RECEIPT OF FUNDS
15	REFUND OF CLIENTS' DIVIDEND
16	PROHIBITION ON CIRCULATION OF UNAUTHENTICATED NEWS
17	POLICY ON INTERNAL SHORTAGES
18	SURVEILLANCE POLICY
19	POLICY ON ACCEPTANCE OF PRE – FUNDED INSTRUMENTS
20	RISK MANAGEMENT SYSTEM
21	OTHER AREAS

## **ACCEPTANCE OF CLIENT**

Only those

new clients would be accepted and allowed to trade with us, who would be referred to us by any of the following:

- 1) Employees;
- 2) Directors;
- 3) Relatives or Family Members of the Directors;
- 4) Existing Clients (trading in any segment).

On expression of wish for becoming a client by any person, a copy of Client Registration Form along with other documents and forms will be forwarded to the client. The copy of the CRF will also be accompanied with the list of documents and additional documents or proofs required. • Client Registration Form after being signed and filled by the Client will be received at our Client Registration department.

- At the client registration department, the documents are checked and only after they are found proper they will be counter signed by us. The client code generated will be communicated to the client after completion of entire procedure.
- A prospective client will be allowed to trade only on satisfactory submission of required documentary proof and proper signing of documents.

As far as possible Walk-in clients should not be registered as client or allowed to trade. In exceptional circumstances, if any walk in client is registered then he should be allowed to trade only after undergoing a proper procedure of client identification. In addition to the client identification procedure, such walk in client should be allowed to trade only to the extent of security provided initially till the period a confidence on the financial credibility is developed. With the passage of time and after development of sound business relationship with the client, such walk in client will be treated at par with any normally registered client.

### **Client Identification**

The following procedure should be adopted for identification of Client:

No clients will be registered without "in person verification".

In addition to "in person verification", for client identification, proper address and identity proof as prescribed by SEBI as per Uniform Documentary Requirement will be obtained from the client.

PAN number and a Copy of PAN card will be compulsorily obtained from the client. No trading will be allowed unless copy of PAN card is submitted by the client.

All the documents collected will be verified with originals by the Client Registration Department and a stamp "Verified with Original will be affixed and signed by the person verifying it. In person verification should be carried out by staff member.

### **Issue of Trading Terminal**

The guidelines laid down by the Exchange for Approved User and Location of trading terminal will be strictly followed. It would be made sure that there is no issue of trading terminals to unauthorized persons or at unauthorized locations.

The data regarding new user as well as modification in existing user should be immediately uploaded and documented on modification or issue to the new user as the case may be.

### **Margin Collection**

- Any exposure to the client will be subject to the collection of adequate margins from the clients.
- The margins collected would be as per the requirements of the Exchange and as specified in our policy for client exposure limit.
- Margins collected would be in the form of Shares, Cash or Credits.

- In cash segment margin would be collected at the discretion of management.

### **Transactions of Clients**

Transactions of few major clients would be monitored, if required and in case of any suspicion from our side of possibility of any malpractice the client. If required the client will be asked to stop such kind of malpractice or may be even suspended.

### **Placement of Order**

The orders will be placed by the respective Dealer as per the instructions from the clients. However, it should be made sure that the price put up should not be unrealistic or not representing the correct market price.

Generally before execution of order a final confirmation of the entire order should be made to the client. The clients should not be induced to either Buy or sell.

### **Collection and release of payment to Clients**

On shortage of Margin / pay-in clients are informed on T day and payments are received on T+ 1 day.

On non payment of Margin/Pay-in, clients are not allowed to trade.

Generally clients are authorizing us to hold their payout through running account letter. However, on specific request of clients payout is made on T+2 basis.

### **Collection and Delivery of Securities to the Clients**

On shortage of securities for Pay-in, clients are informed on T + 1 day and securities are received on T+1 day. On non receipt of securities for Pay-in, clients are informed for shortage and auction.

Generally clients are authorizing us to hold their securities through running account letter. However, on specific request of clients security payout is made on T+2 basis.

### **Operations and Compliance requirement**

Generally exchange/SEBI byelaws, rules, regulations and circulars received from time to time for conducting operations and following compliance stipulated by exchanges/SEBI will be followed.

Annual compliance requirement of NSE/ BSE will be submitted regularly.

All the compliance requirements will be submitted in time to all the exchanges.

### **Closure of Client Accounts/ Dormant Accounts**

Client's accounts are closed either by client himself or action initiated by the company. On receipt of written request from the client, the compliance officer deactivates the client code in its front & back office. CRF form is marked closed only after proper verification of client's ledger account & clearance received from accounts department regarding dues & margin. Moreover written communication is also sent to client accompanying closure of his account.

Client's accounts are also closed on action initiated by the company in the following

cases: • On the request of the client or

• If client fails to meet his obligation within stipulated time or time provided by the company or • If clients fails to provide proper documents as required under SEBI rules & regulations even after repeated request by the company or

• If client is declared fugitive under any law in India or abroad or

• If client is declared insolvent under any law in India or On Death / insanity of the client or any criminal cases are filed are pending and such information is not disclosed at the time of registration with the company or

### **Transfer of Client from one branch to another**

The company may on written request received from a client, may allow the client to place his orders through another branch with a written notice to both the branches and/or office memo through email. However, if the client has also signed tripartite agreement, the client will be asked to provide „no objection“ from the sub broker and „sub brokers“ accompanying in writing to such request.

In case closure of any branch, the written notice with one month period is required to be given to all clients of the branch giving them option to place their order in future from any other branch or corporate/head office or closure of their account with the company.

The company also mark all inoperative client account as „dormant“ till the same is closed or Reactivated after written request is received from the client. UCC allotted to closed account is not used for any other new client.

### **Temporarily suspending or closing a client's account**

The member reserves the right to temporarily suspend a client in the following situations: • If the information received that the said client is linked to and criminal organisations. • If the client is restricted to trade in securities by SEBI, any of the exchange or and other body. • If the client has not fulfilled any or all KYC norms.

### **INACTIVE CLIENTS ACCOUNT**

• Inactive client means client who has not done any transactions during last one year. • A list of inactive clients shall be prepared from the back office software on the last day of every financial year and shall be submitted to the concerned department after confirmation with the management. The management will approve a final list of inactive clients. • A copy of the list is also forwarded to dealers who operate BOLT or NEAT terminals. • The concerned department shall mark the client status as “inactive” or “dormant” in various front office software of NEAT and BOLT and back office accounting and DP software. • After marking a client inactive, if any orders are received the dealer shall take reasonable steps to identify the client and to ensure that the orders are received from the same client.

The dealer shall use various techniques like call back, asking personal detail questions, last trade date, outstanding positions etc to confirm the identity of the caller. They may use any other technique which is reasonable. In case of any doubt the case shall be referred to the management or concerned Sub-Broker or introducer.

• If a Dormant client wants to restart trading, then the client is asked to give a written request to that effect and update KYC details, if any, before placing any order.

### **Policy on Prohibition of circulation of unauthenticated news**

As per code of conduct for Stock Broker in SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 and SEBI circular Cir/ISD/1/2011 dated March 23, 2011, all SEBI registered market intermediaries are required to have proper internal code of conduct to govern the conduct of its Employees. In view of same, GHANSHYAM SHARES & STOCK BROKERS Pvt Ltd. implements code of conduct for communicating through various modes of communication. Employees/temporary staff/voluntary workers are prohibited from:

Circulation of unauthenticated news related to various scrips in blogs/chat forums/e-mail etc. Encouraging or circulating rumors or unverified information obtained from client, industry, any trade or any other sources without verification.

Forwarding any market related news received either in their official mail/personal mail/blog or in any other manner except after the same has been seen and approved by the Compliance Officer.

If an employee is found violating the above norms, he/she shall be deemed to have violated the various provisions contained in SEBI Act/Rules/Regulations etc. and shall be liable for actions.

Access to Blogs/Chat forums/Messenger sites etc. has been restricted by GHANSHYAM

SHARES & STOCK BROKERS Pvt Ltd. and access is not allowed.

## **CLIENT CODE MODIFICATION**

As per SEBI Circular No. CIR/DNPD/6/2011 dated July 05, 2011 Ghanshyam Shares & Stock Brokers Pvt. Ltd. has formed the following policies for client code modifications on the exchange platforms:

Objective: To frame the guidelines for modification to client codes post trade execution and reporting of such Client Code Modifications.

Brief about Client Code Modification: Client Code Modification means modification / change of the client codes after execution of trades. Stock Exchanges provide a facility to modify any client code after the trade has been executed to rectify any error or wrong data entry done by the dealers at the time of punching orders. However, such Client Code modification is subject to certain guidelines as to the time limit within which the client code modification is to be carried out, terminal / system on which such modifications can be done etc. The facility is mainly to provide a system for modification of client codes in case genuine errors in punching / placing the orders. It is to be used as an exception and not a routine. To prevent misuse of the facility Stock Exchanges levy penalty / fine for all non-institutional client code modifications.

Scope of the Policy: This policy covers all the Client Code Modifications carried out / to be carried out in any of the client accounts controlled by HO, subject to the guidelines issued by the SEBI / Stock Exchanges from time to time, in any segment of any exchange for which Ghanshyam Shares & Stock Brokers is a member broker.

“Error Trades” means the trades which will be modified / to be modified / allowed, to be modified subject to guidelines of the SEBI / Stock Exchanges and this policy.

For the purpose of this Policy, only the following types of trades shall be modified / allowed to be modified:

In case of **NSE** (NOTE: no consistent pattern in such modifications):

Client code/name and modified client code/name are similar to each other but such modifications are not repetitive.

Family Code (spouse, dependent parents, dependent children and HUF)

In Case of **BSE**:

Punching error / typing error of client codes due to any genuine error or mistake in order entry, while punching the order, by any of dealer.

Trade entered for wrong client due to any miscommunication from the client / authorized representative of the client.

Modification within family members

Institutional trades modified to broker error/pro account

### **General Conditions:**

The facility for Client Code Modification can be used only in case of Error Trade. The Client Code Modification shall be carried out only on the designated system and / or as per the process as may be prescribed by SEBI / Stock Exchange.

Place for Client Code Modification: Any Client Code Modification shall, subject to compliance of this policy, be carried out by RMS at HO of all the Error Trades happened in Capital Market Segment of NSE, BSE and MCX-SX.

Person Authorized to modify client codes: **Mr. Ramavtar S Chandak**, whole time director is authorized to carry out client code modification as per board resolution dated 30th July 2011.

Penalty: The penalty or fine, if any, levied on GHANSHYAM SHARES & STOCK BROKERS for any wrong trade occurred due to any miscommunication from the client / authorized representative of the client shall be borne by the client.

### **GRANTING CLIENT EXPOSURE LIMITS**

Exposure is allowed to the clients based on the margin available in form of funds or approved securities valued after deducting an appropriate haircut and/or taking into consideration the financial soundness of the client as provided by him/her to Ghanshyam Shares & Stock Brokers. Client is liable to pay applicable initial margins, withholding margins, special margins or such other margins as are considered necessary by the Exchange. Further Ghanshyam Shares & Stock Brokers at its discretion may collect additional margin or may even reduce the margin even though not required by the Exchange. Clients are supposed to maintain sufficient balance with Ghanshyam Shares & Stock Brokers pre trade depending on the channel through which they trade. Ghanshyam Shares & Stock Brokers may levy additional margins or relax the margins earlier imposed based on factors such as, client level positions, volatility in a particular stock or the market in general. Though it shall be our endeavor to ensure that a proper notice is sent to the clients, this may not always be possible taking into consideration the market scenario. Exposure allowed to clients may vary, basis the clients past trading performance, quality of collateral, market circumstances and dynamics and other such factors.

Clients may trade themselves through the internet or may trade through the sub-broker or branch. For clients who trade through the internet, the exposure limit may be ascertained by them on the trading portal. Clients executing trades through sub-broker or branches may check their exposure positions with the sub-broker/ Branch.

Ghanshyam Shares & Stock Brokers shall not be responsible for any variation, reduction or imposition or the Client's inability to route any order through the available channels on account of any such variation, reduction or imposition of limits. Ghanshyam Shares & Stock Brokers may at any time, at its sole discretion and without prior notice, prohibit or restrict the Client's ability to place orders or trade in securities based on certain risk parameters.

### **SQUARING OFF CLIENTS POSITION IN CASE OF NON PAYMENT OF FUNDS**

This policy is set up to confer right to sell clients' securities or close clients' positions, with or without giving notice to the client/s on account of non payment of client's dues:—

Margin collection – Margin is collected upfront from the clients i.e prior to executing any trades. Based on the margin thus available with Ghanshyam Shares & Stock Brokers - exposure is given to the client. The applicable margin may vary and the client may be asked to replenish the margin by tendering additional funds or securities.

In accordance with Exchange guidelines, Ghanshyam Shares & Stock Brokers retains the right to square off the position without giving any notice to the client.

The client agrees to pay for the shares purchased through Ghanshyam Shares & Stock Brokers before the pay-in date in order to enable Ghanshyam Shares & Stock Brokers to make the

requisite pay-in to the exchange. In case the client fails to make the payment, Ghanshyam Shares & Stock Brokers may liquidate the securities in the clients account in order to ensure that adequate credit is received for the shares purchased. This square off may be done on or before the 5th day from the settlement date.

The client also agrees to maintain adequate margin for the positions taken in any segment. However in case the credit available is lower than the minimum margin required, the client's positions would be liquidated in a manner that there is no shortfall of margin. Ghanshyam Shares & Stock Brokers shall endeavor to ensure that adequate prior information is given to the client for such liquidation. It shall inform the client through the mobile number and or email id updated with Ghanshyam Shares & Stock Brokers. It shall be the clients' responsibility to ensure that adequate credit balance is available in the account.

The above guidelines may be changed based on the discretion of Ghanshyam Shares & Stock Brokers and in terms of the market conditions. In cases where the market is volatile and there is a sudden spurt in scrip price then Ghanshyam Shares & Stock Brokers may square off position without any notice due to the paucity of time and other such circumstances

Whenever Ghanshyam Shares & Stock Brokers endeavors that the positions are to be liquidated, it shall not be responsible for any liabilities in case the same cannot be liquidated.

The priority of the positions to be squared off, i.e. which positions to be squared off first, would be at the discretion of Ghanshyam Shares & Stock Brokers.

Ghanshyam Shares & Stock Brokers may follow the following priority for squaring-off positions:- Lower Margin scrip's will be squared off first.

Only futures position will be squared off (option position to be square off manually) In case where there is a position in cash and derivative segment, futures positions would be squared off first then cash positions would be square off in case still there is shortfall.

### **PAYMENT OF DIVIDEND**

Dividend received for the shares in Client Beneficiary account and/or pool account, should be passed on to the client with in 30 days from receipt of the Dividend.

### **INTERNAL SHORTAGE**

We have followed the policy prescribed by the Exchange in case of any internal shortage issues i.e. Shortages in obligations arising out of internal netting of trades

GHANSHYAM SHARES & STOCK BROKERS PVT LTD (GSSBPL) shall have the right to adopt a policy of its choice for internal shortages arising out of internal netting of trades and charge the defaulter seller and compensate the impacted purchaser as per the policy. The client hereby agrees that if he/she/it has short delivered any securities against his/her/its pay-in obligation which resulted into internal shortage, i.e. buy position of another client of Ghanshyam Shares & Stock Brokers, self auction of Internal short scrip will be carried out by Ghanshyam Shares & Stock Brokers

### **Internal Shortage in NSE /BSE**

In case of internal shortage of securities in NSE /BSE, the securities will be bought in the open market by Ghanshyam Shares & Stock Brokers in NSE /BSE on T+2 day or on settlement day. The seller client will be debited at sell rate or at the rate at which stock bought by Ghanshyam Shares & Stock Brokers in the open market, whichever is higher. Securities payout will be passed on to the buyer. The profit, arising on account of buy rate lower than the sell rate, the benefit, if any, will be passed on to buyer. In case of or any other reason whatsoever, if Ghanshyam Shares & Stock Brokers is unable to buy such quantity in NSE /BSE as the case



may be the outstanding security pay-in obligation of the seller client shall be closed out at the rate of the closing rate of T+3 or on the next settlement day plus penalty calculated as below. The buyer client will be credited at same closing rate at which seller client was debited.

## **SURVEILLANCE POLICY**

As per exchange notices NSE/INVG/22908 dated 07-Mar-2013 and Ghanshyam Shares & Stock Brokers Pvt. Ltd. (GSSBPL) has formed the following policy to deal with alerts received from the exchange, if any, with regard to any trade done by any client at any point of time on the exchange platform. The policy is to create awareness among the investors regarding the day to day compliances and also to stop any suspicious/irregular activities by any constituent. The scheme is as under:

GHANSHYAM SHARES & STOCK BROKERS will continuously keep track of any alerts generated by exchange/s.

GHANSHYAM SHARES & STOCK BROKERS will carry out due diligence of its clients on a continuous basis and ensure that key KYC parameters such as financial soundness, etc are updated periodically.

If any alerts are generated by the exchange/s with regard to trade/s of any client, Ghanshyam Shares & Stock Brokers will seek information regarding such alerts from the client/s and the client shall be advised to provide explanation/information along with documentary evidence such as bank statements and/or depository statements on such trades within 15 days of such alerts. Extension if found necessary will be given.

Financial statements on a periodic basis are to be collected from all active clients. If any client is found to be flouting any norms of GHANSHYAM SHARES & STOCK BROKERS and/or the exchange/s will be suspended from trading with GHANSHYAM SHARES & STOCK BROKERS.

## **POLICY ON ACCEPTANCE OF PRE - FUNDED INSTRUMENTS**

It's a Master Policy of the Company for the acceptance of Prefunded Instruments. This policy is Subject to the rules and regulations of the Exchange/s and/or SEBI from time to time.

Title:

Acceptance of Prefunded Instrument for trades on Exchange/s.

Coverage:

Head office, all the branch offices of the Company wherever trading terminals / IBT terminals are installed.

Scope:

Acceptance of Prefunded Instruments like Demand Draft/Pay order/Bankers" cheques from a client against Pay-in Obligation/ Margin.

Procedures:

The Prefunded Instruments shall be accepted only in following special circumstances; • If the client wants to create immediate positions and there are Bank Holiday/s on the following day/s.

- If the client does not have an account in the bank in which the company has accounts. • If the client wants to create a position immediately and has no other way of transferring funds.
- If the Bank account of the client is in a cooperative bank, which may take some time for the cheque to be cleared.

- If the company Bank accounts clearing branch is not available in the city/village where the client has his bank account.
- All the procedures prescribed in SEBI Cir/MIRSD/03/2011 dated 9/6/2011 Dt 09/06/2011 which is annexed herewith.

**Objective:**

The Objective of this policy is to minimize the frequency of acceptance of Prefunded Instrument, especially Demand Draft where there is a difficulty in tracking the correct source of Issuance.

**Permissible Limits:**

The Prefunded Instruments must be accepted only in cases mentioned above and not otherwise. Approval for acceptance must be taken by either of the executive Directors or the Managing Director and only then credit should be given.

## **RISK MANAGEMENT SYSTEM FOR CAPITAL MARKET & DERIVATIVES SEGMENTS**

### **BACKGROUND:**

As per the requirements of SEBI and the Stock Exchange(s), the company has designed a Risk Management System for open positions of its clients and proprietary in the Capital Market and Derivatives segments.

### **POLICY:**

The company shall on its discretion and as per the requirements of governing and regulatory bodies, collect Initial Margins and Mark to Market (MTM) margins from the clients. In addition, the margins so collected can be topped up as required and exposures of the clients so be adjusted that can vary from client to client basis.

The company shall on its discretion maintain the non-cash component of the client as a percentage of the cash component and the same may vary from client to client basis. The Directors of the Company are allowed to take the above decisions and the same shall be monitored on a regular basis by automated software or otherwise.

The automated software shall compute the capital available towards the exposure, the policy for such exposure shall be entered into the system by the directors or the compliance officer.

### **RISK CONTROL:**

The trading rights of the clients shall cease once the client utilizes 100% of the allocated exposure or is @50% of loss to the capital computed for exposure calculation.

Upon 75% of the clients' capital loss, 50% random position of the client shall be squared off, if the client does not infuse clear funds to its margin requirements and/or to cover its loss. Upon 100% of the clients' capital loss, the entire position of the client shall be squared off. The loss is a percentage of the capital computed for exposure calculation as per the company's policy or as per the policy framed by the Directors or the Compliance Officer.

### **SYSTEMIC CONTROL:**

The clients shall be classified as high, medium and low risk, based on their trading patterns and their funds flow system. The same shall be at the discretion of the Directors.

### **DISCLAIMER:**

These are the Risk Management Systems in place, but the client's liabilities shall be as it is, if the

above parameters cannot be executed.

**OTHER AREAS**

Complete confidentiality of Client information shall be maintained. No client information would be disclosed except if required by law.

Proper records as required by various statutes will be maintained.

The above internal control procedures should be reviewed periodically in the light of recent changes.

Back ups - The back up of the following files should be taken on a daily basis and should be stored on local and remote locations –

Trade files

Back office database

Event logs such as connection logs etc.

Back ups need to be tested on a regular basis. It will be the responsibility of the IT department to test the back up on a regular basis.

For Ghanshyam Shares & Stock Brokers Pvt. Ltd.  
Director