

INTERNAL CONTROL POLICY WITH RESPECT TO BROKING OPERATIONS

(1) CLIENT REGISTRATION:

This is first stage of contact with the client. It is very important to take adequate details from the clients to maintain a record of the details of the clients.

1. Company registers client by obtaining the Client Registration Form which is foremost requirement of exchange. In this form the basic details of the clients are obtained i.e.
 - a. Name of client: Which is used to identify the client.
 - b. Residential Address is taken with the address proof which are the document specified by exchange i.e. Ration Card, Pass Port, Voters ID or Driving License.
 - c. Also taking photo identity proof of Pass Port, Voter Ids, Driving License Copy.
 - d. Photograph of client in case of Individual.
 - e. For Corporate client Board Resolution, Memorandum of association & article of association of company, Share holding pattern, Details of Authorised Persons and Directors.
 - f. Pan card of all Clients.

All these document form part of KYC Norms, which is, will be taken from all the clients



- g. Bank Details of the client along with the proof of the same i.e. Xerox of the bank pass book Or Cancel Cheque with sign the bank so that company can keep track of the third party payment i.e. amount paid through other persons account.
- h. DP accounts details which is to giving & taking delivery of securities. Proof of the DP Account holder name will be taken. This is also for not third party delivery of the security i.e. security of client given to other persons or taking delivery of other persons.

(2) CLIENT BROKER AGREEMENT:

Client broker agreement is executed at the time of client registration. It is as per the format prescribed by the exchange. This will cover all the responsibilities, Rights & Liabilities of client & member.

(3) RISK DISCLOSURE DOCUMENT:

Trading in securities market involves risks of various nature. Clients need to be educated and informed about the risks involved and the company as a policy will issue the RDD to all its clients and obtain a signature on the copy.

(4) BANK ACCOUNTS:

Client Bank Account will be used only for the purpose of receiving and paying funds from the clients. For the payments of expenses the business account will be used. Fund Transfers between all the bank accounts will be allowed as per requirements.

(5) 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.

(6) 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.

(7) 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 retrieve either the physical or the scanned records on an easy basis.

(8) 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.



(9) 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.

(10) 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.

(11) Process of client code closure:

First the client has to give a request for closure 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:

- (i) the securities lying with us as margin or pending pay-out to the client.
- (ii) whether the client has any outstanding position in F&O segment, Currency Derivatives or outstanding pay-in position of securities or a payout from Exchanges in pipeline. In case of any outstanding position, we either let the client pay off the same 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.
- (iii) 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 an intimation is sent in the format of a letter.

(12) 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 to activate the account and also stating the reason for keeping the account dormant.

(13) Risk Management Policy:

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. This penalty shall be levied for the actual period for which the payment for the transaction / transactions has been delayed.

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 hair-cut 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 instantaneous 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) in 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.

(14) Policy for transfer of trades :

If there is mistake in inputting the client code while doing the sauda, we make the necessary changes in client code within the time allowed by the exchange only after taking the permission of the Designated Director.

(15) Investor Redressal Mechanism :

To resolve the complaints/grievances of our clients, we have deputed compliance officer for the same, who is obliged to resolve the same within 24 hours, failing which, the client can approach the Director of the Company for further action.

(16) Policy of Limit setting in case of new terminals:

Limits are set to the mark-to-margin limit equivalent to sub-broker's deposit, in case of new terminals. This means that the moment the trading loss reaches an amount equal to Sub-broker's limit, the terminal will automatically be disabled. Unless the sub-broker replenishes the



margin, the sub-broker will have no trading limit for the day. That means, no new positions can be created from the terminal. However, setting-off of already created positions would be allowed.

(17) System in place to generate alerts for suspicious transaction :

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 payout.
- (e) Introducing Demand Drafts in settlement of payin dues.
- (f) Any other act that arouses suspicion.

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

For MERFIN SHARES AND
STOCK BROKING P. LTD.

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Director / Authorised Signatory