



## **INTERNAL CONTROL POLICY & PROCEDURES**

### **INTRODUCTION**

CFS Financial Services Pvt Ltd (hereinafter referred to as the 'COMPANY') a body corporate, registered under the provisions of the Companies Act 1956, is a SEBI registered broker of the National Stock Exchange of India Ltd. (NSE), Bombay Stock Exchange Ltd (BSE) MCX Stock Exchange Ltd (MCX-SX) and National Securities Depository Ltd (NSDL).

**The company has adopted various policies & procedures for internal control measures & tools for compliance of various Acts, rules & regulations of the Exchanges/Depository.**

### **CLIENT REGISTRATION POLICY**

New account opening form containing Rights and obligation documents, Risk Disclosure Document, Guidance for Do's and Don'ts for trading on Exchange, Policies & Procedure must be signed by the client. The client may or may not sign the Voluntary documents.

The required documents should be collected from the clients strictly as per the documents mentioned in the checklist of the agreement book.

- Thorough checking by back office in charge including in-person verification, tallying the supporting documents with the original and interview of client.
- After Signature of the Director on behalf of CFS the new Client Code is allotted
- Uploading the client details to the NSE/BSE/MCX-SX/NSDL/KRA
- On receipt of Valid Report, accompanying the codes allocated to clients the same is intimated over telephone and Welcome Letter along with zerox copy of KYC along with documents received from the client is send to the client.
- The KRA duly filled with supporting documents is sent to KRA agency
- The KYC Filing of Client Registration Kit & updation of Index
- Periodical Review of financial data
- Deactivation of Client Code on receipt of written documents from Client.
- Intimation in writing to Client regarding deactivation of client code & reason thereof



- Financial capability of the clients is assessed depending on their turnover and is assessed at the end of each financial year. For this CFS ensures to update the financial information of the active clients. Financial statements for all corporate clients who are active are collected.

**Walk in Clients:** The company has decided not entertain Walk In Clients. All clients / would be Clients are required to submit proper references or introducers.

**Financial Documentation:** All clients are required to submit updated financial data, namely, their Balance Sheet, Salary Income Certificate. In case of re-activation of UCC, the clients are also required to submit written request. Clients, specially operating in F&O Segment are compulsorily required to submit their latest financial position every year without fail.

**Maker & Checker Concept:** The Company appoints different person for checking CRF/data submitted by client and data entered in computer for uploading to master file & the Exchanges. Even after uploading of data, the compliance officer checks the data entered from the CRF. All blank spaces in the CRF is crossed by the Compliance officer, if found not crossed by the client.

**Marketing Division:** The Company does not have any marketing Division

**Closure of Client Accounts/ Dormant Accounts:** Clients 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:

- a) If client fails to meet his obligation within stipulated time or time provided by the company
- b) If clients fails to provide proper documents as required under SEBI rules & regulations even after repeated request by the company.
- c) If client is declared fugitive under any law in India or abroad.
- d) If client is declared insolvent under any law in India or any criminal cases are filed or pending and such information is not disclosed at the time of registration with the company

**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 client 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.

## **TRADING POLICY**

Active Client master list should be uploaded in the NEAT/BOLT/CTCL trading terminal and all the orders from the clients should be checked for the client codes in the list. This will ensure minimal wrong code punching by the dealers. Dealers should be vigilant in executing the orders of the client. They should check & report to senior authorities / Compliance Officer if any client is giving order of abnormal quantity or rates. Every client should be contacted after the market hours for trade confirmation. The clients should be asked for the settlement of their obligation before settlement date of the exchange. Every client must be attended by the staff allocated for the purpose and in his absence; compliance officer must ensure that client is attended by another dealer. Staff/ dealer should check the margin availability/credit limit of the client before executing any trade on his behalf. No trades will be transferred to code other than entered in trading terminal after trading hours unless there is genuine mistake on part of the dealer of client mentioning the UCC at the time of placing the order. Transfer of code can be done only by the 'compliance officer' during the allowable time frame by the exchange on system provided by it. This step will help us to trace any discrepancies in the trade as well as timely receipt of cheques and securities from the clients and provide better service.

## **Daily Margin Statement, Quarterly Statements of Accounts and Register of Securities to Clients**

### **ISSUANCE OF CONTRACT NOTES**

As a Trading Member of Exchange, we are required to issue Contract Notes to all our constituents for all trades executed by them in the format as may be prescribed by the Exchanges / SEBI from time to time with all relevant details as required therein to be filed in, and issued in such manner and within such time as specified by the Exchange.

- 1) Contract Notes are issued by the Head Office, irrespective whether the trade has been executed at the head office or at the branch office. The company follows centralized system of accounting and as such all documents relating to the clients are issued to the client from head office.
- 2) It is to be ensured that the Contract Notes are issued within 24 hours of the execution of the contract. This Contract Note is issue to the clients through the ECN on their respective E-mail ID as consent received from the same. In case of clients who does not opt for ECN facility than the Contract Note is to be either handed over or posted to their respective address.



- 3) A contract note shall be signed by any one of the Company's Authorized signatory. Names of these authorized signatories will be printed on the Contract Notes. Contract note shall be time stamped with the time of receipt of order and the time of execution of order.
- 4) The contract notes shall be numbered with unique running serial number commencing from one which shall be reset only at the beginning of every financial year (viz April to March).
- 5) We are having Trading Codes in Contract Notes – which consist of Individual Client Codes as per UCI.
- 6) By using software Dealing Office address would be printed on the Contract Notes.
- 7) While issuing Contract Note ECN log for the same is maintain along with the delivery report. In case of contract note send physically than duplicate copy of the same is maintained along with POD.

### **STATEMENT OF ACCOUNTS**

- 1) The statement of accounts will be sent to the clients on a quarterly basis within one month of the end of the relevant quarter as it will help avoid discrepancies in future.
- 2) Quarterly Statements of Accounts and Register of Securities are all sent to clients in electronically/physical Form.
- 3) Quarterly Statements of Accounts and Register of Securities are issued by the Head Office, irrespective whether the trade has been executed at the head office or at the branch office. The company follows centralized system of accounting and as such all documents relating to the clients are issued to the client from head office.
- 4) All the documents dispatched to the client can be easily retrieved from the software. Further backup of all documents sent is kept separately to avoid any type of inconvenience.

### **PAYMENT POLICY**

- 1) Payments to clients shall be made on Pay out basis i.e within 24 hours of pay out (T+2 day).For other branches cheques would couriered to them from HO.
- 2) For clients who are desirous of keeping the pay out money with us as margin money can do so by submitting a letter to that effect mentioning therein not to issue cheques until a written request is made. However, such request at a time will be valid for one financial year only and/or until the same in being revoked by the client as the case may be.
- 3) For clients who are desirous of keeping the pay out money with us for future transactions can do so by submitting a letter to that effect mentioning therein to keep their account as 'running account'



and periodical cheques may be paid or received. However, the clients are required to neutralize and settle their account once in ever one/three months of first transaction.

- 4) Clients, who have debit balance in one segment and credit balance in other segment, will be paid only if their net balance is credit.
- 5) Margin Money to the clients will be returned only after adjusting debit balance, if any, in their account and/or if they have not defaulted in their obligation to deliver shares/securities.
- 6) Payments to the clients will be directly deposited in their account if mandate is given by them to this effect and they have account in the same bank, where the company has its account.

### **RECEIPT POLICIES**

- 1) Cheques from clients would be accepted only of those banks whose details have been provided during client registration.
- 2) No third party cheques would be accepted.
- 3) NO CASH PAYMENT IS ACCEPTED.
- 4) The branches should mail the details of the cheques deposited directly to the bank (Along with copy of Pay In Slip / Cheque) and scan copy of the same upload in web server. The branches/clients should ensure that the mails should be received by HO by 6 pm so that the benefit of the payment made by the clients can be posted to the ledger on the same day.
- 5) Clients are advised not deposit any cash/cheque directly to company's account. If cheque is deposited then intimation should be given in writing along with pay in slips otherwise credit will not given to client till proper documents are received from client.
- 6) For outstation branches, payments made by the clients would be not posted to the account of the clients unless HO receives credit for the same by the bank since outstation clearing cheque takes a period of 15-20 days to get cleared.
- 7) Local Cheques received within 2 PM will be posted to the ledger on the same day. The effect of the cheques received beyond 2 PM would be given on the next day.
- 8) While receiving RTGS / NEFT from client it must be ensured that the same has been received from clients registered account only. Proper record of the UTR number should be maintained.

### **PRE-FUNDED INSTRUMENTS POLICY**

If the aggregate value of Pre-funded instruments is Rs. 50,000/- (Rupees Fifty Thousand Only) or more, per day per client, we may accept the instruments only if the same are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:



- 1) Certificate from the issuing bank on its letterhead or on a plain paper with the seal of the issuing bank.
- 2) Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.
- 3) Certified copy of the passbook / bank statement for the account debited to issue the instrument.
- 4) Authentication of the bank account number debited and name of the account holder by the issuing bank on the reverse of the instrument.

We may maintain an audit trail of the funds received through electronic funds transfer to ensure that the funds are received from their clients only.

## **MARGIN POLICY**

### **Capital Market Segment**

In the Capital Market Segment collection of margin is non-mandatory. However, depending upon the circumstances margin is collected from the client. The amount of margin is discretionary and depends upon various factors.

Our clients are generally introduced by existing clients, dealers, proprietor, employees or person known to us. Generally we do not entertain walk in clients. As such risk of client default is minimized to that extent. Moreover as margin collection is not mandatory in CM segment, the same is not compulsorily collected. In this regard we follow the following policies:

1. No margins are collected with clients having sound financial background, having good reputation in terms of cheque realization and where client exposure is not large.
2. Further clients who give their consent, we keep their shares purchased through us as margin in a separate constituent beneficiary account till they are sold by them in any subsequent settlement or they take return the same.
3. We cautiously deal with those clients whose cheques realizations are poor.

### **Future & Option**

1. No trading will be entertained unless up front margin is received in advance for value of trade to be executed on behalf of any client.
2. Margin will be accepted in 'Cheque' only unless management decides otherwise.
3. If margin is accepted in the form of shares, a hair cut on and above 40% will be computed on the price at the day end. All short fall will have to be met immediately by the client in cash or before opening of next trading session, which ever is earlier. No letter or written communication in this



regard will be sent to any client for shortage of margin. The client will be responsible for any shortage of his margin with us for his outstanding trades.

4. No complain will be entertained for squaring off of outstanding trades or liquidating of margin by the management in absence of short fall of margin at any stage by the client. It will be sole discretion of the management to decide on 'spot' whether to square off outstanding trades of a client and margin be liquidated to meet the short fall.
5. Any amount payable on account of 'Mark to market' has to be paid in cheque by the client before opening of next trading session. Amount paid must be in the form of clear bank balance given on the day of trade. If clear balances of margin/ MTM are not available, the management will at its sole discretion square off the trades of any client, which in its opinion can put the company or its other clients to unnecessary market risk.
6. The company reserves the right to liquidate a client's position, if the client fails to maintain proper margin with the company. Further, company also reserves the right to liquidate/neutralize a client's position in extra ordinary fall or rise in market price sensitive index, which in the opinion of the company may have a bearing on the future survival of the company and its business.

## **SECURITIES**

### **Collection of securities**

1. To ensure that clients are delivering the shares from their own account and all the deliveries to/from the clients correspond with the details provided by the client with their registration.
2. The statement should be checked with the securities obligation of the clients. Any third party delivery from the clients should not be delivered to clearing house.
3. No credit to clients should be given even though shares received from third party has been delivered to clearing house due to any technical reasons beyond management's control. If client provides sufficient written proof of ownership of such account/share, than after updating client database, client may be given effect of the same.
4. The reports provided by Exchange should be used to check whether there is any short pay-in/ out of securities to/from Clearing house.

### **Delivery of Securities**

1. The company will be making direct pay-out of shares to client account of which details are given in Client Registration Kits.
2. The direct pay-out file should be created by the back office software.
3. The instruction slip for shares delivery from the Pool account in case of client to client transaction or break delivery from the Clearing house should be signed by directors



4. Pay out shares shall be given to clients only when they have clear balance in their ledger account. (\*the clear balance means that cheques issued by clients should have been cleared in bank.)
5. Shares of clients having debit balance will be kept with the company as hold back margin.
6. The hold back margin account will be reviewed twice in a week and shares will be credited to the accounts of the client if they have clear balance during the time of periodic review.

### **INVESTOR REDRESSAL SYSTEM/ MECHANISM**

- 1) The company has a separate manual register for recording all clients related complain either received personally or via post or via email.
- 2) The company has also designated email ID for sending complains by its investors or clients. The email Id has been disclosed in the KYC Kit sent to all clients at the time of registration as well as is mentioned on the contract note.
- 3) The company has also kept manual investors complain register at its all branches and the same are verified by the compliance officer or its team of official from time to time.
- 4) The branch manager is responsible for sending the copy of complain received or written in complain register within 24 hours of the receipt of the complaint to compliance officer at head office either personally or via email.
- 5) On receiving the complaint, the Compliance officer is authorized to dispose off the complaint on its merit and write personally to the client of all action taken by him for satisfaction of the client.
- 6) If the compliance officer deserves the attention of the higher management or if the compliance officer is unable to dispose off complaint to the satisfaction of the client or the exchange or the SEBI, the designated directors are informed of the situation by the compliance officer and all documents are placed before them within seven days of the receipt of the complaint.
- 7) The designated director's review the pending complains every seven days along with matters needed their attention.

### **I. Branch Control Policy**

- 1) A list of Branch will be displayed at Head Office with name of In-charge, Address, Contact Number & Email details.
- 2) Compliance Officer will be responsible for checking & controlling day to day affairs of the branches for any trading problems.



- 3) Branches will be opened for sole purpose of allowing clients to get their orders executed. Clients will be allowed to trade from only one specified branch for better control & service. Branch manager will be responsible for all activities & trades executed from any branch and solving any client related problems in consultation with compliance officer.
- 4) All Client Registration Kits will be approved at the head office and will be required to be counter signed by the branch head from where client has shown his interest to trade. Branch head will be responsible for all trades executed from his branch and putting all surveillance system to keep tab on 'unfair' trade practices.
- 5) All contract notes will be generated at head office and send electronically/physically within 24 hours of the trade.

### **POLICY ON UNAUTHENTICATED NEWS CIRCULATION**

- 1) Employees / Temporary Staffs / Voluntary Workers etc employed/working in our office shall not be encouraged or they shall not circulate rumors or unverified information obtained from client, industry, any trade or any other sources without verification.
- 2) Access to BLOGS / Chat Forums / Messenger sites etc. are either restricted under supervision of some responsible employees of the company or access shall not be allowed.
- 3) Logs for any usage of such BLOGS / Chat Forums / Messenger sites (called by any nomenclature) shall be treated as records and the same should be maintained as specified by the respective Regulations which govern our company.
- 4) Employees are directed that any market related news received by them either in their official mail / personal mail / Blog or in any other manner, should be forwarded only after the same has been seen and approved by the Compliance Officer of our Company. If nay employee fails to do so he/she shall be deemed to have violated the various provisions contained in SEBI Act/Rules/Regulations etc. and shall be liable for actions. The Compliance Officer shall also be held liable for breach of duty in this regard.

### **BROKERAGE POLICY**

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.

### **RECORDS**

All physical records like Client Registration Forms -Contract Notes- Bank records is kept at HO.



## **BACKUP POLICY**

All important data backup is taken on daily basis. Backup is taken to prevent loss of data in the event of equipment failure or destruction.

### **Backup Storage**

There shall be a separate or set of storage for each backup day. The old data is kept for 7 days and after that the storage media is reused.

### **Monthly Backups**

Every month a monthly backup shall be made using the latest backup on the USB hard disk and the same is taken to separate location by the directors.

For **CFS Financial Services Pvt. Ltd**

**Compliance Officer**