

**Internal Controls and Office Management process of**

**Dharamshi Securities Pvt. Ltd.**

(As revised on 1<sup>st</sup> Feb 2023)

## **Our Internal Controls and Office Management**

### **1) Client Registration and Document Maintenance**

We identify that, in an environment of ever increasing instances of frauds and money laundering activities in the financial services sector across the globe, all financial intermediaries, including stock brokers have moral responsibility to incorporate strict client due diligence process before an individual/institution could avail of financial services from them. With a view to acknowledge this responsibility in its true spirit, we have adopted the following rules and processes before we could permit the client to trade through the platform provided by us.

A) We shall accept a person/entity as client, only after ensuring that the person/entity is well known to our management and promoters, all of whom shall act as gatekeepers to our mission to serving only those clients, whom we could consider as deserving to our strict client acceptance policy. A prospective client shall be considered only after their meeting with our directors/senior management or compliance officer. It shall be the policy of the company, not to entertain any walk-in clients, in order to avoid any kind of fake transactions.

B) We shall maintain the client registration documents, duly filled-in as per the format provided by SEBI and the exchanges from time to time.

C) We take utmost care in preparing important registration documents, with a focus on checking the authenticity of the information provided by the clients. Preparation and verification of KYC is handled by different personnel with in-person verification of clients.

In KYC, we ensure that:

a) Complete details of client information/status, bank and depository account details, financial details of the client, investment/trading experience, references, financial documents (For Non-individual clients) and signatures of clients are provided.

- b) Photograph, proof of identity and address, board resolution from corporate clients permitting trading in derivative products are attached.
- c) The segments in which a client wants to transact are selected and marked clearly by the clients.
- d) Voluntary documents are different from mandatory requirements.
- e) Consent letter shall be compulsory in case of ECNs.

D) Before a client is registered with us, we assess his financial capacity, we maintain documents such as PAN card copy, verify the same on the website of the Income-Tax, retain the latest IT returns acknowledgement copy/balance sheet (if any) or any such valid document, which expresses the financial stability and soundness of the clients. We shall ensure verification of PAN linking with Aadhaar at the time of account opening & if not linked, request such clients to ensure compliance with the same & further ensure all our clients (both new & existing clients) are in compliance with the requirement of PAN-Aadhaar linkage as per the timelines prescribed by the Government of India from time to time.

E) We shall never outsource client registration process.

F) The Know Your Client (KYC) form, along with other mandatory documents specified by SEBI/exchanges are processed further along with agreement papers on Non-Judicial papers of requisite denomination shall be executed with the clients.

G) The client's records shall always be maintained in observance and supervision of the office authorities. The records are kept confidential and inaccessible to outsiders. We have a back-up system of Unique Client Code.

H) The client details shall be entered in the back-office software by our employee, who has handled the documents of a particular client. Further, a senior person acts like a checker to verify that the details have been properly entered in the back-office software to avoid any issue in the future.

I) The financial capability of the client shall be assessed on the basis of the balance sheet, profit and loss statement, income tax returns, wealth details etc., which shows the financial position. Past 2 year's balance sheet is taken from the corporate clients. In cases where the clients are not comfortable in providing the financial documents, then a declaration is considered on the basis of the comfort of the management/directors/organization.

J) The documents are stored at the office and filed properly for easy retrieval whenever required.

K) The financial capability of the client is assessed on the basis of discussion/disclosure/income tax documents, like IT returns or Income Tax order.

L) The clients are requested to periodically provide their updated financial details/information that could have changed or requires updating.

M) Any change in address, email id, contact details etc. is entertained on a proper written request.

N) In-person verification is conducted by the employee of the company. In case of non-resident clients, employees at our local office can do the "In-person" verification of the non-resident clients, attestation of KYC documents by Notary Public, Court ,Magistrate, Judge, Local banker, Indian embassy/Consulate General in the Country where the clients resides may be permitted.

O) The duly executed client registration documents & Investor Charter are sent to clients by couriers along with a welcome letter or the documents are handed manually/mail/post to the client within 7 days.

P) The UCC is uploaded by the back office employees and verified by our compliance officer, before any trade is executed on behalf of the client.

Q) The clients are informed about the risks associated while trading in equities/derivatives at the time of their registration.

R) With reference to circular No. NSE/ISC/48785 , We upload the UCC with all the 6 mandatory KYC attributes for new & existing clients prior to execution of trade.

S) We shall update and upload the KYC data with CKYCR and KRA in respect of all individual and non-individual accounts as per regulators norm.

T) We have adopted following criteria for the treatment of inactive client A/cs. Those clients have not traded for 2 full financial years will have to submit fresh set of documents along with IPV & due diligence. At the end of each financial year we generate report for the client who have not traded during the year shall be marked as inactive.

U) With reference to NSE circular no. NSE/INSP/51438, we shall ensure client opening new trading account have the choice of providing nomination or opting out nomination.

V) With reference to SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2022/4, we shall execute 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / re-pledging of securities.

W) We ensure that all client accounts are settled on monthly or quarterly basis (as per the client preferences) in the manner prescribed from time to time.

X) We verify the PAN of FPIs online from website authorized by the Income-Tax department. To clarify no certification of PAN document required from FPI. Alternatively, e-PAN issued by CBDT can also be produced by FPI for KYC compliance without requiring any certifications. We shall verify the PAN and download the available documents from KRA.

## **2) Sales practices followed by the trading member**

We do not have any separate marketing division. We do not follow any sales practices to induce the clients to trade. We have never launched any promotional schemes for our employees, or for our clients.

## **3) Order receipt and execution**

A) Orders are received through recorded phone lines, text on mobile, fax, mail or personally by clients in the office premises only.

B) Receipts of orders are maintained in log system of NEAT/BOLT /CTCL terminals. Confirmation, modification and execution of trades are intimated to the clients verbally via recorded lines, and text on mobile or mail and records are maintained in our system.

C) We do not have any discretionary client account for trading on their behalf. Eligibility to trade depends upon the verification of upfront margin and sufficient collaterals. In case of non-availability of sufficient margin, we ask our clients to provide for the same before execution of any trade.

D) Our organization setup is small, and all the clients are personally known by the management. Their financial position is known and the dealer is aware of the risk appetite of the client, thus helping us in risk management process.

E) The company has restricted the access to the dealing office only to the authorized persons, who execute trade on behalf of the clients.

F) The approved clients are known to dealers, who would be responsible for receiving, validating and entering the orders on their behalf.

G) To give better and personal services, the clients are divided into groups, so that the dealers can serve a particular group of clients. This helps the dealer to understand the investment strategy of the client in a better way, and thereby serve them efficiently. The concerned dealers have access to the back office system, in which the clients' balance positions are updated on a daily basis, as per the exposure limits determined by the dealer. In situations, where the trades exceed the normal trading pattern, the dealer contacts the front office head to decide on the trade. The orders are entered instantly, as received from the clients. The orders entered into the system are solely based upon the request of the clients.

H) Upon execution of a valid order, the dealers confirm the trades with the clients so as to avoid any future dispute.

I) Aftermarket hours, the dealer/back office team informs the client about the orders placed and executed on behalf of the clients, and also towards their obligation of pay-in of funds and securities for that particular day.

#### **4) Sending various reports to clients as per regulators norms.**

Upon execution of trades, contracts are generated centrally at our Dealing/corporate office only. We have a fully secured mechanism for electronic contract notes. We use Busy sign Software for sending Electronic Contract Notes (ECNs). We have adopted all the rules and regulations notified by the exchange and SEBI. ECNs are sent only to clients, who have consented to receive them. In case of a bounced mail notified by our software, we do send them a physical contract note, and get their acknowledgement receipt. We maintain a complete log report of ECN in the prescribed format given by the exchange. We also see to it that the ECN consent letter **is signed only by the client**. All ECNs are sent digitally signed, encrypted, non-tamper able and in accordance with the provisions of IT Act, 2000. And that where the ECN is sent through email attachment, the attached file is secured with digital signature, encrypted and non-tamper able.

Acknowledgements of emails are being retained in the soft form. We have provided an access to their ECNs through our website- [www.dharamshi.net](http://www.dharamshi.net) , wherein the clients can access them by using proper user ids and passwords. Similar care has been taken while sending daily margin statement and other mandatory reports.

Quarterly statements of accounts/weekly fund and securities ledger are sent to clients in Electronic format and logs are maintained with us. In case of running account authorization, we do send them the account statement, after settlement, as per their consent on a monthly or a quarterly basis, along with an explanation on retaining the funds/securities in the manner prescribed from time to time.

Contract notes/retention reports / margin reports are sent to the client at the end of the day, or within 24 hours in case of any system problem.



## **5) Collection of pay-in, margin, monitoring of client's debit balances, limits setting for exposures and turnover of clients and terminals**

Upfront margin (Initial, VAR+ELM and Exposure margin) is collected from all the clients before entering the trade. Any debit balance in the F&O client ledger is set off by apportioning the free balances/value of collaterals and the only balance amounts are considered as margins collected from the clients. Mark to market margin is settled in cash. Margin, as calculated by clearing corporation on client wise portfolio, based on SPAN and Additional Exposure Margin is debited and collected from client.

Monitoring of client's debit balances/obligations, and appropriate collection therein is done on a real time basis.

## **6) Allotment/ Surrender of trading terminals**

We generally operate from our corporate office/Dealing office at Prabhadevi/Mulund only. All our terminals are located there. We are connected through Lease lines provided by the exchange. We have co-location server at NSE connected through lease lines for CTCL and Algo terminals by empanelled vendor Greek Soft Technologies Pvt. Ltd.

## **7) Business continuity plan (BCP)**

We have Dealing/Back office at Prabhadevi and Mulund. Our Dealing and Back office at both locations are simultaneously running Business continuity plan (BCP) for each other.

## **8) Payment/receipt of funds from/to clients**

We follow a system of T+1 cycle for Pay-in and Pay-out of funds from/to our clients. We ensure that this process is completed within the stipulated time period. We pay due attention to ensure that the funds are managed from our own accounts in case of Proprietary Trading/ Own Trading. To manage financial risks, we keep track on client Mark to Market on real time basis. We also strictly adhere to our

Policy of not funding to the clients in order to garner larger volumes of trades, or to grow our business. We also ensure that benefits such dividend is credited to the client's account within the stipulated time frame. We take strict action against the defaulter client, who is unable to fulfill his financial obligation with a stipulated timeframe. Neither do we have any sub-broker or remisers nor do we engage in any sort of third party transfer of funds.

### **9) Receipt/delivery of securities from/to clients**

Our system of pay-in and pay-out of securities is based on the T+1 cycle. We do maintain Separate Own Beneficiary account and separate client beneficiary account. We also segregate the securities- client wise. Client's securities are not maintained with us. To indulge in fair trade practice, we strictly keep a check on any third party security transfer through our back office software.

Being a mid-sized company, and with a very limited client base, it becomes quite easy for the compliance officer or the management to monitor the activities of the demat division. A strict routine check of the activities of the demat division is carried out by our managerial staff, to prevent any misuse of securities for own purposes, or for other clients.

### **10) Transfer of Trades**

Exchange has provided a mechanism (NCMS) whereby any erroneously executed trade can be transferred to actual client code or Error code within exchange norms with the approval of compliance officer or concerned authority. All the soft copies and hard copies of the same is maintained by us date wise to verify the same with the back office. Moreover Internal auditors also have a look for any changes made in the back office vis a vis with the exchange trade file. As a policy matter no genuine trades would be transferred other than that entered erroneously by the dealer. Moreover we are educating the dealers by making them participate in more and more mock sessions and also regarding penalties and pit fall of such transfers. Further, if any dealer incurs the same on regular basis stringent action is taken.

In pursuance with SEBI circular no. CIR/DNPD/6/2011 dated 5th July 2011 , NSE circular no NSE/INVG/2011/1/18484 dated 29th July 2011 and BSE circular no. 20110729-24 dated 29th July 2011, any changes in client code for Non Institutional clients would attract monetary penalty for each and every code changed from 1st August 2011. Subsequent to the above mentioned circular the exchanges had allowed reasoning of client code changes to satisfy the inspecting officials, however penalty would be levied. The reasoning provided was 1) Punching error / typing error of client codes. 2) Trade entered for wrong client due to communication error. 3) Modification within family members. 4) Institutional trades modified to broker error account. In view of above stringent norms advocated by SEBI as well as by the exchanges it is hereby decided to instruct the dealers to take utmost care while punching order/trades. They should not enter orders in haste. Wherever there is a mistake the same should be rectified immediately and the trades should be transferred to ERROR account instead of client account. Further the square off should also be done from the error account itself. Further it is instructed to the dealers to notify the compliance officer or any competent authority regarding error trades immediately on occurrence so that proper solution of the same can be done.

### **11) Prefunded Instruments**

Any client who wishes to trade/honour Pay – in obligation of the Exchange with any prefunded instrument namely Pay Order, Demand Draft, Banker's Cheque etc. 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:

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

## **12) Investor Redressal Mechanism**

We make all the necessary information available to the investors. The investors have complete liberty to convey their grievances, if any to the company, and we are always ready to solve the same at the earliest. We have maintained a register of all the complaints for the same, and the compliance officer of the company monitors the complaints and redresses them on a regular basis. The clients are informed regarding the designated mail id for complaints in the Welcome Letter/ Website/ KYC itself. All complaints either received by way of letter, telephonic call, personal representation, email etc. are recorded in complaints register maintained manually and the same is updated regularly. The complaints are analyzed on a regular basis to find out lapses/frauds etc. if any which are originating from the complaints received, which would help us in increasing our internal control systems to avoid the same in future. We attach Read Receipt Tag to Contract Notes, Trade Confirmation, Statement of Accounts, Margin Statements etc. sent to the clients to make sure that the client has received the required communication from us. We have a monitoring mechanism in our back office software wherein Cheque(s) received from accounts other than designated in KYC form / uploaded in the UCC at exchange cannot be entered in the software without a master being created, hence the pop up given serves as a guiding note for unauthorized/third party payment received for trades entered in to by the client.

Further our software gives us a pop up of dormant / inactive accounts on daily basis. As per the norms of SEBI, we have opened a new window for the redressal of the investor grievances. The clients can email us all their complaints at our email id: reachus@dharamshi.net. In case complaints received are no redressed on time the client can escalate the same to [dharamshi@dharamshi.net](mailto:dharamshi@dharamshi.net) or personally meet the directors for redressal of the same.



