

# **LOHIA SECURITIES LIMITED**

## **INTERNAL CONTROL AND RISK MANAGEMENT POLICY**

The board of Directors has approved the following internal control and Risk Management Policy to be observed, Followed and complied with by all staff/employees and others associated with handling the client's trade with regard to the company's operations on both cash market segment and futures & option segment of NSEIL.

### **A) CLIENT REGISTRATION DOCUMENTS MAINTENANCE:**

- i) No "flying" or "walk-in" clients should be entertained in the first instance, clients referred to or introduced by respectable person, existing clients or persons well known to management shall only be entertained.
- ii) All matters, records documents related with client registration shall be handled, preserved and stored only by the company's own staff/employees and it shall not be outsourced. All clients' records shall be serially numbered and kept securely filed in separate files. These files shall be kept at secured place. A register/Index of such file no. and relevant details shall be maintained in a Register and/or in soft form on computer which shall be accessible through the 'password' of only authorized staff.
- iii) Every year after the end of financial year, the clients be pursued to furnish their latest Income-tax Return's copy, Balance Sheet, Bank Statement and trading limit/ exposure limit allowed earlier be revised suitably.
- iv) Overwriting/erasures in client registration documents shall be avoided and in case of alteration it should be counter signed by the client.

### **B) SALES PRACTICES:**

- i) The clients must be made aware of inherent risks/ market risks involved in trading in shares. The prescribed 'Risk Disclosure Document (RDD)' should be furnished to the client at the time of registration and an acknowledgement be obtained from client.
- ii) As a matter of policy company's dealers feeding orders in NEAT system shall not canvass/advise or suggest buying or selling for any scrip.
- iii) Clients may open their DP a/c with company's holding co. M/S Lohia Securities Ltd. at their own choice but company's staff shall not insist for it.
- iv) Except educative or other informative sessions/ group meetings where co. invites experts to speak about market conditions and trend, No marketing or sales efforts to be made by the co. with one to one client except for Institutional clients.

### **C) CLOSURE OF CLIENT ACCOUNT/DORMANT ACCOUNT:**

- i) (a) A written request shall be obtained from the client for closure.

(b) Upon receipt of this request, reasons for such closure request shall be ascertained and a decision shall be taken thereafter only.

(c) (i) A client has to trade at least once in a financial year to keep his account active. In case a client fails to trade even once in any financial year, his client code / trading account / client account will be deemed to be inactive from the first day of the financial year following the financial year in which the client has failed to trade even once and his assets (funds and / or securities), if any will be returned to the inactive client within 30 days from such date.

(ii) If a client wish to trade with us and his client code / trading account / client account is inactive, he has to apply for reactivation of his account. On receiving a written request from a client, LSL will activate his account within seven working days from the date of receipt of such request. However the company reserves the right of reactivation and may ask for explanation / and or documents from such client before reactivation. In case the company does not intend to reactivate any client code, the company will inform such client within three days from the end of seven working days from the date of reactivation request made by the client.

(iii) Once the client trades after reactivation his account will remain active. It shall be subject to conditions mentioned herein above in Para (c) ( i) .

(iv) In case the client fails to trade any time in three consecutive financial years, his client code / trading account / client account will be permanently closed. In case such clients whose trading accounts has been closed and he wishes to trade again, he has to go through the whole process of Client Registration a fresh, i.e. KYC formalities and signing of client agreement, other documents and submission of documents is to be carried out once again.

(V) In case of transfer of client from one branch to another branch, the client shall be informed about the same. Such information shall reach to the client well in advance and shall be in writing.

#### **D) ORDER RECEIPT AND EXECUTION:**

- i) The order of clients is executed by designated dealers who recognizes the voice of the respective client and/or his authorized representative and shall be in his UCC or UCC of the client who has given him authorization to do so.
- ii) At the end of each trading session, the trades are communicated to clients over telephone followed by the contract note.
- iii) While executing orders of client the dealers must adhere to limits fixed by compliance/surveillance deptt-. If any relaxation is required in exceptional cases, it shall be authorized by management.
- iv) The dealer shall not entertain any order or any other request from any one except from the client himself or else a person authorized by the client.

**E) CONTRACT NOTES/DAILY MARGIN STATEMENT/QUARTERLY STATEMENT OF ACCOUNTS TO CLIENTS:**

- i) All contract notes in physical form be sent by courier under P.O.D or hand delivered to client himself or his authorized agent, whose specimen signatures have been recorded with co.'s records. Duly receipted copy/counter files of the physical contract note be kept filed chronologically.
- ii) In the case of ECN the log be reviewed by compliance officer for delivery failures and ensure to send physical contract notes.
- iii) In the case of ECN- the ECN system shall be adopted and started only when all requirements of NSE/BSE/SEBI are completed.
- iv) All communications like daily margin statement/contract note/statement of account (quarterly) shall be done by hand delivery or by sending through courier. In the case of clients who have opted for ECN, all such communication shall be through Internet/e-mail.

**F) LIMITS/EXPOSURES/MARGIN/BRANCHES/SUB-BROKER LEVEL**

- i) All employees & staff both at corporate office and Branches level are to be made aware of requirement of SEBI/NSE/BSE related to limits/exposures/margin and they shall adhere to the same.
- ii) All such limits shall be reviewed/monitored by surveillance officer/compliance officer subject to client's financial status.
- iii) All upfront margin/M to M/Adhoc Margins as imposed by NSE/BSE from time to time have to be collected from clients and no violation shall be tolerated at all.

**G) MONITORING OF DEBIT BALANCE:**

- i) All clients are required to meet their obligations of pay-in as per NSE schedule. Debit balance in client's accounts shall not be allowed at all. If required, co's lien on shares shall be exercised and these be withheld.
- ii) If payment is not received after several reminders, the company shall undertake 'close out' procedure as prescribed in NSE/BSE trading regulations.
- iii) If exceptional debit balance arises in the case of severe fluctuation/volatility, the management shall take such steps as may be deemed fit including stopping transactions, Arbitration and recovery proceedings.

**H) ALLOTMENT/SURRENDER OF TRADING TERMINALS:**

- i) The installation of trading terminals at any location whether through VSAT/CTCL/Leased line shall be applied to NSE/BSE only after approval by

- management. All procedures and conditions as required by NSE/BSE must be completed. A record of trading terminals and User ID shall be always maintained.
- ii) Limits at trading Terminals shall be set by surveillance/compliance officer considering the volume and track records of traders.
  - iii) All software to be used at trading terminals shall be in conformity of NSE/BSE approved vendors and must be procured at H.O/Corporate level only.
  - iv) In terms of NSE/BSE regulation regarding periodic inspection of branches/sub-brokers office where trading terminals have been installed, periodic visit shall be made to such branches/sub broker's office to verify that operations are in conformity of NSE/BSE/SEBI regulations.
  - v) Other risk factors like low volume/high volume for small no. of client only/operational expenses/feasibility/viability of such trading terminals shall be reviewed by management on half yearly basis and take corrective measures as deemed fit.

**I) OPENING & CLOSING OF BRANCHES/SUB-BROKER OFFICES**

- i) All prescribed procedure and conditions for opening of branch/sub-broker office must be adhered to. Decision in this regard as to opening or closing shall be at the sole discretion of management.
- ii) The branches shall be manned by co's authorized person only and information as prescribed by NSE/BSE must be displayed at each branch in a notice board of adequate size put-up at conspicuous place.
- iii) At sub-broker level, trading shall not commence before SEBI REGN. Procedure for the sub-broker has been complied with. Sub-broker shall not be allowed to issue contract note/Bill/Statement of Accounts to clients on sub-brokers' stationery. All such records/documents must be between the co. and clients.
- iv) Before opening of branch/sub-broker a proper agreement between landlords of the premises shall be entered into to ensure litigation-free status of the premises.
- v) If management approves closure of any branch/sub-broker, the same shall be taken at least one month in advance before effective date for closure. All existing clients shall be informed in advance and they be allowed to choose any other nearby branch or co's H.O. for trading. All general public be informed through media.

**J) PAYMENT, RECEIPT OF FUNDS FROM/TO CLIENTS:**

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**k) RECEIPT, DELIVERY OF SECURITIES FROM/TO CLIENTS:**

- i)
  - a) The co. shall obtain particulars of bank accounts and Demat accounts of client at the time of opening client's a/c at all H.O. and branch levels. This shall not be alterable without following complete procedure as done at the time of opening the a/c.
  - b) These particulars shall be fed into co.'s soft/hard records and the staff/employee handling receipt/payment of funds and receiving/making

delivery of securities to clients must ensure that these have been made from/to these accounts only.

- ii) Cash payment should not be accepted from clients under any circumstances.
- iii) Under extraordinary circumstances if the client pays through pay order or Demand Draft, he must furnish a certificate from his banker that the said instrument has been drawn out of his bank account as recorded with the Company.
- iv) All receipts / payments from / to clients shall be passed through Bank A/C meant for 'clients' money' account only.
- v) All securities read./delivered from the clients must be effected in/out of Co's DP pool A/C only.

**L) SQUARE OFF / LIQUIDATION OF SECURITIES without consent of clients:**

The Client has to meet his payment obligation before the schedule date of settlement of fund/securities in the exchange failing which the company may sell shares any day after the settlement day. Any profit/loss on account of such sale will be entirely and exclusively borne by the client and the company will not be responsible for such loss.

**M. Policy for Internal Shortages**

Despite adopting stringent measures, if some clients fail to meet their pay-in obligation and after adjusting such shortage with bought clients there still remains shortage for delivery to NSE/BSE, the company shall not bail out the client who has defaulted. It shall be left to NSE/BSE-auction process and all consequences thereof shall be debited to such client's A/C only.

**N. TRANSFER OF TRADE:**

- i) Normally no transfer of trade shall be permitted.
- ii) In exceptional cases after satisfying that there is a genuine mistake on the part of the dealer/client during communication /execution, the same shall be rectified through transfer of trade from one a/c to another in NSE/BSE permitted slot. Otherwise it shall be allowed to lapse and rectified by reversed trade in next trading session.
- iii) A strict vigilance is to be kept by surveillance/compliance officer on 'transfer of trade' to detect any pattern like same set of clients asking for transfer of trade frequently for no apparent reason or the same dealer repeating same mistake in client code again & again. Such cases to be enquired into and corrective measures be taken.

**O. Investor Grievance's Redressal**

- (i) A register of complaint containing prescribed particulars be kept at H.O. and each branch and entries made therein on the same day of receipt of complaint from a client. The nature, fact and circumstances for the occasion of complaint be discussed and efforts made to discuss not with

the client and sort/settle the grievance to the satisfaction of the client. All concerned staff/dealers be directed to ensure that such grievance is not allowed to recur.

- (ii) An exclusive e-mail id be created for receipt of Investor grievances through e-mail. The compliance officer to check this mailbox on daily basis and in case of receipt of any complaint, the procedure as in (i) shall be promptly adopted for redressal.
- (iii) In case of frequent complaints of identical nature, the concerned staff/employee shall be subjected to disciplinary action.

**P. Internal Audit**

The company shall appoint external qualified C.A firm for day-to-day internal audit of co's operation on NSE/BSE on all segments with specific emphasis on Client Registration/KYC/Contract Notes/Margins/Branch formalities/etc. In addition the co. shall appoint Internal Auditors to cover other such aspects as may be required by NSE/BSE/SEBI.