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Ann-5-Internal Controls

India Advantage Securities Limited
Member of : NSE, BSE, MCX-SX, DP : CDSL



D) Client Registration Procedures

For Client Registration & Documents Maintenance procedure is followed. We have Clients whose KYC-Registration documents are dully filled in the prescribed format as per Exchange guidelines.

We have maker – checker concept to avoid the misuse by filling data on the unfilled areas viz. segment, space provided for giving e-mail- id etc. We have got very few walk in clients. We work through Sub-Brokers and take deposit upfront from them. For Clients we insist on upfront margin before doing the trades. For assess of Financial capability of the clients, we ask for the Bank Statement & any existing client reference for introduction.

We do not outsource client registration modalities. We keep all the client registration documents at our HO only. We update client financials like income range etc & other particulars as per requirements. In-Person Verification of Clients is done by employees of Trading Member only. For UCC Upload done on respective Web-Site(url) of Exchanges & PAN is mentioned.

Sales Practices followed by trading member, following procedure is adopted. We do not have a separate marketing Division. We have not launched any promotional schemes. We make the client aware of the risk associated by getting the risk disclosure form signed. We do not offer any freebies like free demat account etc.

II) For Closure of Clients Accounts / Dormant Accounts : We take complete details of procedure adopted. For closure of account we insist client to give written application to close the account & then after settling all the dues, the account is suspended for trading in the admin terminal.

In case of Dormant Accounts(six month) extra caution taken by us is that we check the trading limits every week and for dormant account we verify the authenticity of the client before doing the trades. For transfer of Client from one branch to another-procedure adopted is that we take NOC from both the Branch heads before changing the mappings of the client, so that there is no issue regarding the obligation of the dues.



If the account is dormant for more than three months then we insist for upfront payment and authenticity of the client before doing the trade.

III) **For Order receipt and execution:** We follow procedure adopted. We have telephone recording system for receipt of orders and we can retrieve the log for more verification.

For trade confirmation we confirm the trade telephonically and we provide digital contract notes and back office access with user ID and password, on the web and client can view all his positions. We do not exercise discretionary powers to execute client orders. We have allotted UCC to every client and fixed dealers are allotted to them, before execution of orders dealers are strictly instructed to repeat the order loudly.

IV) **For Sending Contract Notes, Daily margin Statements, Quarterly Statement of Accounts to clients :** Following procedure is adopted. For sending the contract notes for trades executed at branches, we have a centralized system of contract generation and we send a digitally signed contract notes to every client. We have not outsourced sending the above-said documents. We send e-contract through e-sign provided in Acer & timing of sending documents is between 4.30-6.30 pm everyday.

All the logs are maintained as back-up. In case when documents are send through E-mail logs are maintained for sending. We have submitted the ECN Declaration for compliance related to issue of contract notes, maintenance of log, client consent and copy of contract notes in non-tamperable form.

V) **Risk Management :** For collection of Pay-In, Margin, Limits setting for exposures & turnover for clients, terminals, branches & sub-broker level-We have a centralized Admin terminals and we collect upfront Margins.

Based on the margins available, we set the trading limits as per the clients profiles. Branch Limits are set at HO only. For Monitoring of Debit Balances following procedure is adopted. We have a ageing analysis process based on T+2 days and regular follow up is done accordingly.

We are uploading the data on our web everyday so that client can view the ledgers everyday. We send the quarterly accounts statements to the clients. We follow up with the clients regularly and through the introducer of client in some case. We charge the delay payment charges to discourage the clients to indulge in such



practices of keeping debit balance in their ledger account. & there is no motive of revenue generation., we give further exposure to the client despite of debit balance in clients ledgers, but this practice is followed on case to case basis after considering relationship with his/her credibility, revenue generation from him/her/them and risk management parameters. If the client has deposited enough securities then we may allow trading on a restricted manner even with debit balance. We ensure that the Ledger Debit does not exceed 70% of Securities Deposited with us.

VI) **For Liquidation of Client Position** : We are sending e mail to all the clients their respective margin statement on a daily basis. So that client is aware of their margin obligation. Still if any margin shortfall is observed then we inform the client through telephone on their no. registered with us.

By keeping the client's risk profile in mind and keeping the market condition in mind we square off the client's outstanding positions if we do not receive the margin either in the form of Payment of funds or in the form of Securities.

VII) **Policy for Internal Shortages-Write-Up Given**

Policy for Internal Shortages Before 1st September,2010

In case of Internal Shortage the margin is debited to the client who has delivered short in Pay-In on T+2 day. We inform the Seller to buy the shares on T+2 day & deliver the shares to buyer on the settlement day.

Current Policy for Internal Shortages

From 1st September,2010 all the Internal Shortages have been settled through Close-Out Only. The Client who has not given delivery on T+2 date is debited with shortage amount plus penalty of 10% & of the sell amount is credited to the buyer.

VIII) **TRANSFER OF TRADES**

Take complete details of procedure adopted. The same should include at least following:

- Monitoring mechanism in place to review such transfer of trade – On a specific request from the concerned dealer we transfer the trades after verifying the authenticity of the request.



- Steps taken to find out reason for such transfer-Before authenticating and executing such transfer of trade by the head dealer of the location.
- Steps taken to avoid such Instances of errors; We map the client to each dealer and use the ODIN program so that there is minimum mistake.

IX) For Investor Redressal Mechanism : We take complete details of procedure adopted. The same should include at least following:

Our investor grievance email ID & Phone no. is printed on KYC forms and also available on our web site. In case of any grievance the client can approach us through email or write to us. Once we receive the complaint then the same has been taken seriously and been routed to the Compliance officer, who checks all the content of the complaint and verifies the same with the record available with the company. The complaint has been answered within a reasonable time to the concerned authority and a proper record has been maintained of the same in our Complaint register.

X) For Allotment, Surrender of Trading Terminals : Following procedure is adopted. In case of allotment of new terminals –Terminal limits are set as per the margins received client wise. For mapping of clients to other terminals in case of surrender of terminals client directly trades with our office.

For submission of Information to the Exchange it is through ENIT and physical document wherever required. For controls adopted by member to ensure that software used at the branch offices and sub-broker- Procurement of software is centralized & Branches does not have any power. Control Mechanisms in place to ensure that the terminals at branches/sub-broker offices are not used for unauthorized / illegal purposes-All the trading terminal activity is monitored by responsible officers on-line with mapping of clients for every terminal.

No unauthorized or illegal trading can be performed as all the locations are monitored. We do have on-line Risk Management in place to control the risk, exposure, limits for dealer as well as clients. For Opening & Closing of Branches / Sub-Broker offices we take complete details of procedure adopted- We take Post identification of the location of the branch along with due diligence and after completion of the formalities the data is uploaded to the Exchange for opening of the Branch.



Closing of the Branch is ascertained by the Management-due notice in writing and telephonically is given to the clients with the facility to trade through internet and telephone. Dealers have also been instructed to co-operate clients to facilitate migration and getting acquaintance to the nearest location. We do send emails to the respective clients for any change in the dealing office or convey by phone.

We do have checklist and instructions to be followed for opening & closing of branches. For Surrender of the Sub-broker registration sub broker has to give the application in set format and surrender the original registration certificate.

For Payment, Receipts of Funds from / to Clients-Receipt of Fund of Direct Client is done at HO and is deposited in designated client account ,as far as client which are not directly dealing from HO the collection is done by Branch and it is deposited in our designated client account directly at their nearest Bank Branch. The information is than uploaded by the Branch in our backoffice branch module or by Excel file sent through email at HO. Payment Cheques on Pay-Out day is issued at HO for the request received from clients / branches. For Receipt, Delivery of Securities from to / clients-We are depository member of CDSL. Most of the clients are having DP account with us under POA.. Clients under POA are taken care with automatic process of instructions for Pay-In and Pay-Out. Those who are operating from other DP instructs their DP for Pay-In when they sells securities. Pay out to clients whose DP is other than ourselves is given on instruction.

XI) Branch / Sub-Broker, Audits-BRANCH /SUB-BROKER, AUDITS

- **Take complete details of procedure adopted. The same should include at least following:**
 - Check whether member has system of conducting branch inspection. If yes, what are the areas covered in such inspections. In case area covered does not include following, then advise the TM
 - Mechanism of pay-in and pay-out of funds and securities: H.O
 - Issue of Statement of Accounts, in case not sent directly from the main office: NO
 - Cash dealings with clients: NO
 - Issue of Contract notes, in case not sent directly from the main office:NO
 - Upload of CTCL terminals: CTCL Terminal Uploading in HO
 - Shifting of NEAT terminals: NO
 - Check whether any illegal or unauthorised activity is being carried out at the said location: NO
 - Operation of trading terminals: No.
 - Whether advertisement code of the Exchange is violated – No, no advertisement placed.
 - Display of Notice Board and SEBI registration certificate: YES
 - Whether there is an Internal Audit system that commensurate with the nature, scope, size of business operations? - Yes
 - Whether the irregularities and recommendations/ suggestions pointed out in Internal Audit reports are placed before Audit Committee / Board? – Yes before the Board of Directors
 - What is the frequency of follow ups done for implementation of recommendations/ suggestion set out in the Internal Audit reports? – Monthly.



XII) PMLA

- **Take complete details of procedure adopted. The same should include at least following:**
 - Whether all the important provisions are included and implemented? **Yes**
 - Process to regularly review the policies and procedures on money laundering to ensure its effectiveness .In order to ensure this, whether the person doing the review is different from one who has framed such policy? - **Yes**
 - Process of obtaining sufficient information in order to identify persons who beneficially own or control securities account? – **During In Person verification due care has been taken to establish the identity of the Beneficiary of the Funds & Securities by asking for PAN card Voter ID, Bank details, DP details etc.**
 - How u ascertain that no account is opened in a fictitious /benami name? – **PAN is checked from official website of Income Tax department – Govt. of India**
 - Details of documentation requirement and other information to be collected in respect of different classes of clients depending upon perceived risk? – **We ask for IT Return & Profit & Loss A/c. Balance Sheet etc. and differentiate on that basis.**
 - How do you ensure that no account is opened where the intermediary is unable to apply appropriate clients due diligence measures/KYC Policies? – **When PAN, other critical information, in person verification is not possible for any particular client then that person's account is not opened.**
 - What are the necessary checks & balances to ensure that no client is enrolled who is having criminal background or is banned in any other manner. - **We tally the list furnished at the website of Exchange/SEBI, UN etc. and only after verification, any particular account is opened.**
 - Details of due diligence to be done for client of special category? – **List of banned entity, enquiry from the nature of business, person who is the introducer and financial are the main due diligence for client of special category.**
 - Details of systems in place to generate alerts based on set parameters for suspicious transactions – **Back office of trading software and CDSL are the source which generates alerts for suspicious transactions.**
 - Process of scrutinizing the alerts to arrive at suspicious transactions.- **the person who looks after back office processing and also who looks after CDSL operations gives inputs for alerts.**
 - Process of reporting of suspicious transaction to FIU – **Filling of Form as prescribed by FIU but no such case found yet.**
 - Details of training provided to the staff members in AML & CFT – **We conduct monthly short duration seminar at our 2nd floor hall for all our staff members and they are trained about AML & CFT.**
 - How you sensitize your customers about requirements of provisions emanating from AML and CFT framework – **Client are given the information on AML & CFT.**



Internal Control

Key Areas where Internal Control is observed

- Risk Management
- DP
- Dealing Room
- System department
- Accounts
- Compliance
 - PMLA
 - Insider trading
 - KYC
 - Investor Grievance
 - Internal Audit
 - Accessibility
 - Others

Various ways adopted by us for implementing Internal control in different areas:-

Risk Management

- 1) We have a system in place whereby it is ensured that exposure for trading is given only after it is ascertained that the client is having sufficient margin in his account. If any deficiency is observed in margin account of the client then such deficiency is intimated to the client.
- 2) Trade in F&O segment is allowed only after taking all the applicable margins from the client.
- 3) No third party payment & securities are accepted. The Software installed in the back office generates an alert in case third party payment & securities are received for the purpose of pay-in.
- 4) All activities relating to receipt and payment of cheques is under the control of Head-Accounts, who is experienced personnel having rich experience in its field.
- 5) Surveillance officer has been posted in the Risk management department to take care of the limit setting process and other areas of risk management.
- 6) All circulars published by NSE, BSE and SEBI and all guidelines issued by them are followed strictly and proper steps are taken for their strict adherence.
- 7) Daily back up of CDSL is taken and a copy of the same is also stored at out of office location.



Depository Participant

- 1) KYC norms are strictly followed.
- 2) Before opening any account proper supporting proof is taken from the client with respect to his identity, his address and his bank.
- 3) PAN card has been made mandatory as per SEBI norms.
- 4) Different parameters have been set for opening different type of accounts i.e of Company, of proprietor, of individual, HUF and of NRI's etc.
- 5) All circulars published by CDSL and all guidelines issued by CDSL are followed strictly and proper steps are taken for their strict adherence.

Dealing Room

- 1) Access to trading room is restricted. Only dealers and other important officials of the company are allowed to enter trading room that too with the help of access card issued by the company in the name of its employees.
- 2) Each user is password protected. Password is not shared amongst the different users.
- 3) Trading terminals are under the strict control of its authorized dealers and no outsiders are allowed to have access to it. the dealing room activities are supervised by the head- Dealing .
- 4) Instructions given by clients with respect to trades in their account are followed with due care & diligence.

System department

- 1) Access to System room is restricted. Only to system officials and other important officials of the company are allowed to enter system room that too with the help of access card issued by the company in the name of its employees.
- 2) Back up of all important data pertaining to the key areas of the company is taken on a daily basis and stored outside the Company premises.
- 3) V-sat is installed at the roof top where there is a proper security system
- 4) Other equipment relating to connectivity are under proper security, in a different room secluded from the common working area of the company and is taken care of by chief technical officer.

Accounts

- 1) All the cheques to clients are issued with utmost care as per the obligation generated. Strict control is observed so that no third party cheque is issued.



Cheque is issued only in the name of the client who has traded with the company.

- 2) Reconciliation of the accounts of the clients are done on a periodic basis. If any cheque is not encashed by the client timely then they are given the option to exchange the cheque which is not encashed timely with a fresh cheque.

Compliance

PMLA: - It is ensured that nobody uses the trading facility of the company for investing illegally acquired money, for the purpose of circular trading or dealing in illiquid stock to jack up the prices of securities artificially.

Insider Trading: - Different steps have been taken to ensure that unpublished price sensitive information are not used for making profit.

KYC: - Know your client norms are strictly adhered to. Trading account is opened with utmost care. PAN card is verified from NSDL/IT site. Proper supporting proof is taken from the client with respect to his identity, his address and his bank and DP etc.

Before submitting the application to the exchange for Sub Broker, his database is verified from different sites provided by different agencies to ensure that he does not fall in the defaulters list.

Investor Grievance: - Complaints lodged by the clients and Exchanges are documented and taken care of immediately.

As per circular issued by the exchanges, a separate e-mail ID have also been created and displayed on important documents whereby the clients can lodge their complaint without any hassle to us.

Internal Audit:- Any suggestion made by the internal auditors of the company is implemented immediately. We apprise the auditors of any new development or circulars/publications by the exchanges or from any other source related to capital market so that they can incorporate the same in their audit programme.

Accessibility:- For getting access to different department of the company, access card have to be used. Separate areas for outsiders have been earmarked along with a conference area.

Others:- Suggestions if any made by National Stock Exchange of India Limited at the time of Inspection or at any other time are strictly adhered to.

Circulars issued by the exchanges and depositories are read regularly and action is taken thereon promptly.



Note : SEBI Inspection Period 01/04/2016 to 11/01/2018. Last SEBI Inspection Date in January-2018. All Internal Control are reviewed by Management by Board Resolution.

