

INTERNAL CONTROL POLICY

(I) PROCEDURES

CLIENT REGISTRATION:

This is the 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.

Company registers clients 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.

- (i) Name of client: which is used to identify the client.
- (ii) 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.
- (iii) Also taking photo identity proof of Pass Port, Voter Ids, Driving License Copy.
- (iv) Photograph of client in case of Individual.
- (v) For Corporate client Board Resolution, Memorandum of association & article of association of company, Share holding pattern, Details of Authorised Persons and Directors.
- (vi) Pan card of all Clients.
- (vii) All these documents form part of KYC Norms, which is, will be taken from all the clients
- (viii) Bank Details of the client along with the proof of the same i.e. Self attested copies 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.
- (ix) 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.

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.

- (x) For Client Registration & Documents Maintenance procedure is followed. We have 3160 as on 31st March 2022 Active Clients whose clients registration documents are dully filled in the prescribed format from all the clients. 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. 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.

(xi) 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.

(xii) 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.

(xiii) 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 than one month. For trade confirmation we confirm the trade telephonically and we provide digital contract notes and the backoffice 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.

(xiv) 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 of Bounced Mail we send the Hard copy & keep the duplicate. 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.

(xv) 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.

- (xvi) 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.
- (xvii) 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.
- (xviii) 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 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 convenient 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 certificate to prevent misuse, we keep the original certificate and give the certified copies to the sub-broker.
- (xix) 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 sending soft copy of cheque /debit message from client's bank account at HO. Payment Cheques on Pay-Out day is issued at HO for the request received from clients / branches.
- (xx) 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.

- (xxi) For Square off of positions/liquidation of securities without consent of clients, we take complete details of procedure adopted. Our Officer of RMS Department intimates the client for short margin. In turn intimates HOD RMS for the same communication to clients telephonically as well as in person if attending the retail desk- In spite of call for margin/payments not received-In the situation of squaring off positions in FO Segments for want of adequate margin/liquidation of securities happening without consent of client is communicated by way of telephone which is duly recorded or in person if attends the retail desk. In case of square-offs we follow the above procedure to give the reasonable opportunity to the client to bring the required margin & mode of intimation as above. For margin calls –this exercise is carried out on daily basis by RMS department for shortfall of F&O Margin and follow ups are being made.
- (xxii) Policy for Internal Shortages-Write-Up Given-In case of Internal shortage the margin is debited to the client who has delivered short in Pay-In. We inform the client to buy the shares next day the delivery of which is given to the original buyer.
- (xxiii) For Transfer of Trades we take complete details of procedure adopted. The same should include atleast following: Monitoring the mechanism in place to review such transfer of trades- We on a specific request from the concerned dealer we transfer the trades after verifying the authenticity of the request. Before authenticating and executing such transfer of trade by the head dealer of the location. We map the client to each dealer and use the Exchange approved program so that there is minimum mistake.
- (xxiv) For Investor Redressal Mechanism we take complete details of procedure adopted. The same should include atleast following:

Register of complaints is centrally maintained. Clients were informed about the e-mail ID for redressal of investor grievances ,as email ID appears on the client registration form. Investor complaints as figuring out as per the Exchange records are recorded in the register of complaints. All the complaints either received by way of letter, telephonic call, personal representation, e-mail, etc are recorded in the Register of Complaints. Pending investor complaints and redressal are monitored by Compliance officer. No such instance for any escalation mechanism is prevalent for redressal of long pending investor complaints. Whether analysis of type of complaints, originating branch location of complaints is made to find out lapses/ frauds etc.- no such instance. Whether any system is in place to get client feedback on matters like receipt of contract notes, trade confirmation, SOA, margin statement, etc.- Yes client can write to us on the e-mail ID provided on the client registration form or the web site. What are the monitoring and control mechanism in place to ensure that cash, cheque and demand drafts received from clients at branches are properly accounted in the respective client ledger- Branch a/c reconciliation is done regularly. In case the TM is maintaining more than one back office software for maintaining client level information, check for the reasons or benefits. Compare the client master of all back office software to ensure that no different records with an intention to defraud investors are maintained – We have only one back office software. Is there any mechanism in place to verify the authenticity of transactions carried out in dormant accounts (not being operated in last six months). If the a/c is dormant for more then three months we insist for upfront margin and authenticity of the client before doing the trade. No TM’s employees at HO and branches are not exercising POA to operate client’s bank and demat accounts. We have no such issue for concentration of complaints at any specific branch.

(II) SYSTEMS

- (i) Capacity of Systems with reference to volume-
- (ii) Connectivity to Exchange, Authorised Person & Clients- Lease line for smooth connectivity
- (iii) Back up in case of disruption of connectivity- Multiple lease line as backup

(III) BRANCH/ SUB-BROKER AUDITS

- (i) Company need to perform Branch & Sub-broker Audits & sample report has to be submitted. Company need to verify books of accounts, KYC Documents, Dealing with Clients, Collection of Margins etc.

For HPMG Shares & Securities Pvt. Ltd.

DIRECTOR.