

### INTERNAL CONTROL - POLICY & PROCEDURES

Date of making: 02<sup>nd</sup> April, 2013

Date of approval: 09<sup>th</sup> September, 2014

To be implemented immediately from the date of approval.

The below mentioned Internal Control – Policy & Procedure has been approved by the Board of Directors in their meeting held on 09<sup>th</sup> September, 2014. All the employees are required to follow the same and take due care for its proper implementation.

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#### ➤ Introduction

Crosseas Capital Services Private Limited (hereinafter referred to as CCSPL or Crosseas) is a SEBI registered Stock Broker and a Depository Participant and to carry on its business as such, it is necessarily required to comply with various Acts, Rules, Regulations, Stock Exchange Bye-laws, and Circulars etc. that govern CCSPL's conduct of business. CCSPL is a member of BSE since 22-07-2005 and is registered with SEBI having registration no. INB011229532 (CM), INF011229532 (F&O). Similarly is also a member of NSE since 12-10-2006 and is registered with SEBI having registration no. INB231229536 (CM), INF231229536 (F&O), INE231229536 (CDS). CCSPL is also a member of MCX-SX since 01-10-2008 and is registered with SEBI having registration no. INB261229539 (CM), INF261229539 (F&O), INE 261229536 (CDS). CCSPL is also a member of USE since 03-06-2010 and is registered with SEBI having registration no. INE271229536 (CDS). CCSPL is also a registered Depository Participant (DP) of CDSL having registered with SEBI having registration no. IN-DP-CDSL-377-2006, CCSPL has laid down certain procedures to ensure that its various business activities are conducted not only in conformity with the various regulatory requirements but also in a professional manner. All staff shall ensure adherence to these procedures governing their respective part of CCSPL's business activities while discharging their duties.

Any non-compliance with the internal control procedures described hereunder may result in disciplinary action against the staff concerned. Staff shall also ensure that if they observe any breach/possible breach of any of the procedures, they must immediately bring it to the notice of their head of department or Compliance Department.

#### ➤ Background of company business:

The company's business majorly comprises of:

**Retail Brokerage:** This activity consists of share brokerage income through small retail clients trading out of the company's offices in Kolkata and Mumbai. There are no active institutional clients, except for a brief period in 2010. Most of the clients are small/medium net worth clients barring a few HNIs.

**Proprietary trading:** This activity consists of share jobbing / arbitrage / delivery / non delivery based trading which is undertaken by Directors' and dealers / jobbers employed / contracted by

Member: BSE / NSE / USE / MCX-SX DP : CDSL

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the Company. Such trading activity is also carried out by Directors' Individual client accounts as well as those of group organizations.

➤ **Internal Control Procedures Relating to CCSPL's Business Activities**

The internal control procedures relating the various business areas of CCSPL are given hereunder:

a) **Client On-boarding and Registration**

- Persons are added as clients only after they have had a meeting with the director / employee / sub-broker of the company.
- The Application forms for opening an account are issued only when the management is satisfied with the client's financial capacity to trade in stock market and after the prospective client provides the valid references for his account.
- Know your client form duly complying with the KYC requirements as specified by the SEBI & Exchange and are processed further on receipt of requisite documents like proof of identity, proof of residence, proof of bank account, KRA form, etc. from the clients.
- In-person of the client is done by the staff / director of the company and a proof the same is maintained by signing on the proof of KYC document.
- Original documents are verified for the various photocopies submitted by the client
- The registration department checks for the KRA details and gets the same fetched from the KRA website or alternatively will do formalities for uploading the KRA details within the prescribed time limit.
- Walk-in clients are not entertained and only clients through reference are enrolled.
- The company has the policy of approval of all application forms by the Director of the company before allowing trading to applicant
- The details are entered in the back office software by the maker of the document. Further a senior person acts like a checker to see that the details have been properly entered in the back office software to avoid any issue in future.
- The financial capability of the client is assessed on the basis of the balance sheet, profit and loss, income tax return, wealth details, etc which shows the financial position. Last 2 years' balance sheet is taken from corporate clients. From the individual clients copy of IT Return is insisted or a declaration about their financial earnings &/or net-worth is taken on the basis of the management's level of comfort with such client.
- The clients are apprised about the risk disclosure document and are made aware of the contents therein regarding the risk associated with the securities market.
- A copy of the Client Registration Documents (CRD) are given to the new clients at the time of registration & to the existing clients on demand. The UCC & complete set of registration documents are physically provided to the clients and a welcome letter informing them about their UCC.
- The client registration modalities are carried out in house and not outsourced.
- On the Basis of Risk profile of Client, which is done by Management/Sales Traders/ Dealers, Client is given limit for trading.
- All the formalities relating to client identification & verification are done in accordance with the Customer Due Diligence Process described under the CCSPL PMLA Policy.
- With reference to updation of clients financial information, the client are requested to intimate change in financial status which are updated. Client have also been sent draft letter for providing the feedback. The client information has been received from some of the clients.
- With reference to updation of clients' financial information, clients are requested to send copy of their IT Returns & net-worth on a yearly basis.
- The documents with respect to the registration of the client should be maintained at the office and arranged sequentially as per the UCC code provided to the client and the same should be stored in cabinets under the control and guidance of the Compliance Officer. The sequential numbering





and maintaining of the KYC at the office would make retrieval of client registration document fast & easy as and when required.

#### **KYC (Know Your Client) Registration Agency [KRA] Registration:**

KRA stands for KYC Registration Agency. It is an agency registered with SEBI under the Securities and Exchange Board of India (KYC (Know your Client) Registration Agency) Regulations, 2011.

KRA is required to avoid duplication in KYC of the investors. It facilitates single point change management. It helps to maintain uniformity of data across intermediaries. KRA helps to improve compliance levels.

- The new KRA system is mandatory from the 1<sup>st</sup> January, 2012 i.e. any new client who is registered after 1<sup>st</sup> January, 2012, the same client's personal details has to be submitted to the KRA.
- The organization has to get registered with any of the following agencies: CVL / NDML / DOTEX / CAMS.
- The PAN number is the Unique Identification Number for KRA.
- For New Client registered with the Member:
  - The Clients PAN number is checked on the KRA web-site for the uploading his details. If the details are not found in the KRA data, the KYC details are uploaded to the KRA. The hard copy of KYC along with the supporting have to be submitting to the KRA within 10 days from the date of uploading.
  - The member has to verify the status of the said KYC. If he KYC is rejected then the reasons for rejections have to be complied with till the form gets cleared.
  - Proof of dispatch is to be maintained for all KYCs sent to the KRA in hard form.
  - In case if details are already uploaded to the particular clients, the details uploaded on the KRA have to be verified with the details with our new client documents provided to us. If changes found, the same has been modified on the KRA system and hard copy of the same to be submitted to the KRA.
- For existing clients:
  - PAN number and KYC details of Active clients i.e. clients who have traded in current period have to be uploaded on the KRA site. In such clients also the procedure for uploading is the same as new clients.

#### **b) Funds**

- Any money received or held on behalf of clients, is to be kept in a separate bank account titled "Client Account". Funds lying in this account cannot be utilized for any purpose other than for meeting clients' obligations.
- Some of the clients have given consent to the company to maintain their running accounts so as to avoid the trouble of receiving/paying funds on a daily basis. As decided by the Risk Management Officer, in case of some clients, no trades are done until the funds are received in advance.
- The company collects and releases funds through banking channels i.e. Account Payee Cheques or RTGS only. (Ref. CIR/MIRSD/03/2011 dated 9/06/2011)
  1. Proper audit trail should be maintained while receiving funds from the clients. The company does not accept any Pre-funded instruments, however in case if required to collect such pre-funded instrument then the company will collect information to maintain details like the name





of the Client, the Bank Account number, Certification through the collection of the following documents/supporting as required to be accompanied along with the receipt voucher after proper due diligence:

- A certificate from the issuing bank on its letterhead or on plain paper with the seal of the issuing bank
  - A certified copy of the requisition slip (a portion of which is retained by the bank) to issue the instrument
  - A certified copy of the passbook/bank statement for the account debited to issue the instrument.
  - Authentication of the bank account debited and the name of the account holder by the issuing bank on the reverse of the instrument
2. In case where funds are transferred by any client through Electronic Fund Transfer, following due diligence are required to be taken while accepting the funds:

Name of the Sender or Bank Account Number is mentioned in Description column of Bank Statement in case RTGS / NEFT transaction.

- The Accounts Team coordinates with DP team regarding pay-in of securities by clients and then releases the pay-out cheques to the client. In case of any shortage, the amount is released after partly withholding the pay-out fund.
- In case of pay-in, the cheques are collected on or before pay-in date of particular settlement & on receipt of cheques it is verified that the cheques are from client's Account only. Bank Account Numbers are entered in the Receipt Voucher & the same is compared with Master through system. All bank receipts which are not from client's Bank Account will be marked with "Third Party" flag by the Back office Software. After identifying such receipts necessary steps are taken by the Back office Department & the same is reported to the Compliance Officer.
- In case of pay-out, after verifying that there is no short pay-in of shares, the company will release the payments of the clients either by electronic fund transfer or by issue of cheques. The cheques are either hand delivered to the authorized persons intimated by the clients or by courier to the client's correspondence address. In some cases cheques are directly deposited into client's account.
- In case of own trading pay-in/pay-out funds are arranged through own funds.
- Company is not doing any fund based activities such as funding to clients except where client fails to meet his pay-in obligation.
- In case of non-receipt of funds for a long time, then persuasion and followup by the accounts team is done. In case of no response from the clients, a legal notice is sent for recovery of money from default clients. However, if the funds are not received even after legal notice then the amount is written off as bad-debts.
- The funds are collected only from designated bank accounts and no funds received from any other third party accounts are accepted / credited the the clients account.

**c) Collection & Maintenance of Margins**

- The company transacts on behalf of clients in Cash segment, F&O & CDS segment. With respect to the collection of margin in cash segment, the company does not mandatorily collect margin. However, all efforts are made to see that none of the cash segment transaction leads to any loss for the organization. Further in case of new clients or risky clients, the Risk Management Team/Management may insist on margin/early pay-in of shares or funds before execution of the trades.
- In case where the margin requirements are not very low as compared to the client's risk profile, necessary margins are collected in any of the following form. (1) Early Pay-in of Shares, (2) Collection of Cheques on T/T+1 day, (3) Collection of funds and/or securities as Margin.





- With respect to collection and maintenance of margins in the F&O & CDS segment the same is as detailed below:

- **F & O & CDS Margins**

- No transaction is executed for clients until the Initial Margin has been collected from them. Funds or shares are received from the clients as Margin.
- Shares received from clients as Margin are kept in a separate 'Client Margin Demat Account'.
- The Company daily uploads the span margin file to the Exchange.
- In case of shortfall in Margins (which are very few), the clients are immediately told to reduce the position immediately or requested to deposit extra margin to meet the shortfall.
- The clients are regularly sent the collateral margin report updating them on their margin requirement and the margin given by them to the organization and the surplus/shortfall in the margin, so that effective steps can be taken by the clients on the same.
- Any Penalty paid by the company to the exchange due to shortfall of margin of any client, will be recovered from the client by debiting the client's ledger through a JV and intimating the client by providing a copy of JV (manually or electronically), as a proof for the penalty charged to their account.
- The reporting of the margin to the exchange will be done by the back office department.
- The option of reporting the margin can be done upto T+5 days, however the back office department is authorized to do the uploading from T+1 day itself on the basis of the valuation of the total margin lying to the credit of the ledger plus the value of the other margin securities provided by the client. In case any corrections are required in the file due to dishonor of any client cheque, etc then the new file will be uploaded after due consultation and permission of the seniors and the last file uploaded will be considered to be the final file.
- The margin file uploaded is checked by 2 officials and then only uploaded to the exchange.
- The margin can be collected in through cheques, bank credits, fixed deposit, bank guarantee, Mutual Fund Units, Government securities / T Bills and approved list of securities. With respect to the securities that will be taken, haircut will be applied on the basis of VAR or as may be required by the exchange.
- The margins are to be collected from all the clients in the F&O & CDS segment and with respect to the cash segment, the margin will be taken as considered appropriate by the risk management department.
- The company has a system where the stocks not approved by the exchange will not be considered in collaterals calculation, however the company may retain the same for extra security.
- The accounts department periodically reconciles the total collaterals received from clients with the total securities available in the Client Margin Demat Account and to take care that there is no item pending in reconciliation.

d) **Payment of Dividend:**

- The company receives dividend on clients' shares directly in the client bank account.
- The company pays all the dividends received on behalf of clients immediately to respective clients. The client dividend account is nullified immediately.
- On receipt of client dividend, the actual beneficial owner are identified and the Dividend amount is credited to the clients account.
- Own dividends are credited to Dividend Account.





## BOLT / NEAT Terminal

### e) Order Receipt and Execution

- The Organization setup is small and all the client are personally known to management/sub broker, their financial position is known and the dealer is aware of the risk appetite of the client which helps in better control.
- The company has restricted the access to the dealing office only to the authorized persons who are dealers and sub brokers of the company.
- The approved clients are informed of the dealers / sub-broker who would be responsible for receiving, validating and entering the orders on behalf of them.
- The orders are received over phone, through sub-brokers, personal instructions when they are in the office. The organisation does not have a telephone recording system as the orders are duly confirmed at the time of entry itself when the orders are inputted in the system.
- To give better & personal service to the clients they are divided group wise among the dealers so that particular dealer can serve a particular group of clients which helps dealer to understand client investment strategy in a better way & serve them accordingly. The concerned dealers have access of back office system in which the clients balance positions are updated daily and on the basis of the same the exposure is determined by the risk admin department. In cases exceeding the normal trading pattern, the dealer contacts the front office head to decide on the trade. The order are entered instantly as given by the client without any delay. The orders are inputted as informed by the clients and no discretionary power is used if the order meets the requirement of margin and other risk management parameters.
- The orders are received from the clients only or through an authorised person as may be informed to the organisation.
- On execution of valid order into exchange system, dealers confirm the trade with the client so as to avoid any future dispute.
- At the end of the trading hours, the dealer informs the clients about the execution of the orders placed by the clients.
- After market hours, back office team informs the client about their executed trades for the day and also about their obligation towards Pay-in & Pay-out of funds & securities for the particular day.
- The RMS software calculated the value of unexecuted orders in the given exposure limit of the client and if the exposure is reached then no new orders will be allowed to be entered.
- **Recording System:** Orders that are received over phone (recorded landline only) are recorded daily and the recorded conversation between the clients and the dealers are stored daily for easy retrieval and checking in future. The organization is using Voice Recording System and has a policy of taking back-up and storing the backup in-house as well as outside the office. All dealing telephone lines are voice recorded and any request to listen to a tape must be made to Compliance (in the prescribed form). Tapes must be listened to only by the concerned employee and Compliance.
- Client codes mapping over terminals are done using the RMS software so that the clients input their orders only through their authorized dealer & this also provides a control where only authorized dealer will be allowed to enter the client trades.

### f) Sending Contract Notes, Daily Margin statement, Quarterly Statement of Accounts to clients

- The processing and issue of contract note is centralized at the corporate office, Mumbai
- Auto numbering of the contract notes is done through the system and the contract note is initiated to 1 (first contract note) every year on 01<sup>st</sup> April.
- The organisation sends contract notes and daily margin statements within 24 hours of execution of the trade (i.e. Within 1 day) by digitally signed emails to the email id of all the



