



CIL Securities Ltd Risk Management & Internal Control Policy

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PREFACE:

This document shall be deemed to be an official guidelines, policies and procedures to be followed by CIL SECURITIES LTD while carrying out its business activities as a Member of the Bombay Stock Exchange Ltd and National Stock Exchange Limited

The objective of this document is to effectively manage the various risk involved in the business Operations which may include default by Clients, fraud and infidelity by employees, technological failures, misuse of trading system for market manipulations apart from protecting the interests of Investors and ensuring the effective and timely compliance with various applicable Acts, rules, regulations, bye-laws, circulars and guidelines.

MANNER OF USAGE:

This document shall be used as guidelines and reference by the key personnel in charge of the activities namely Client identification and introduction, surveillance, record keeping and the personnel in charge of executing and authorizing the day to day transactions as well as by the business associates such as Sub-Brokers, Remisiers, Authorised Persons etc. who are involved in the activities as mentioned above. The Compliance Officer (CO) shall provide the copy of this document to all such existing as well as new key Personnel and Business Associates from time to time and explain the contents and their responsibilities in this regard.

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REGISTRATION OF CLIENTS.

The sub-brokers, Authorised Persons and Remisiers introducing their Client shall carry out the due diligence of the prospective Clients as to their financial standing, risk profile, past and present stock market experience as well as other business activities undertaken by them, their reference from commonly known person and shall evaluate suitability of the proposed nature of their dealings in the context of information gathered as above. The due diligence of the direct Clients shall be on the same line and by the key personnel of the company.

In addition to the due diligence carried out by the intermediaries, the officials in charge of Client registration at the head office shall carry out further due diligence, if warranted, while verifying the KYC documents. A KYC policy is already in place and the staff members are instructed to strictly adhere to the rules and regulations framed by various authorities from time to time. All the Client registration forms are scrutinized at various levels before final registration of the Client. Trading is allowed to the Clients only after successful upload of "Unique Client Code".

PROCEDURE FOR ACCEPTANCE OF A NEW CUSTOMER

The department responsible for registration of new Clients for the Company shall be required to ensure due compliance of following procedure before providing trading Client code to a new constituent:

- i. That all of the Clients duly complete the formalities relating to Client registration as provided in KYC norms, as in force from time to time. The person in charge of Client registration department must also keep track of additional requirements prescribed by regulators e.g. RBI & SEBI from time to time in this regard and ensure compliance thereof.
- ii. That sufficient documentary evidence is collected from the proposed constituent, which establishes Identity and address of such constituent beyond any reasonable doubt
- iii. That all the copies of supporting documents are matched with the originals
- iv. That a copy of PAN is taken from each constituent, which has been verified with the original and cross checked with the data available on Income-tax Website. In case of any mismatch, the account must not be opened.
- v. That the signature of Constituent on Client Registration Form are matched with the signature given on the PAN Card or any other proof as may be submitted by the constituent and in case of any mismatch the account is opened only if the explanation for such mismatch is found to be reasonable on the basis of further documents e.g. Banker's Signature Verification, as may be submitted by the constituent.

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- vi. That sufficient information has been obtained to identify persons who shall beneficially own or control the trading account. Verify the customer's identity using reliable, independent source documents, data or information;
- vii. That the constituent has provided information about the fact whether he has got any criminal background and whether he has been at any point of time been associated in any civil or criminal proceedings. In case the Client is found to have a criminal background, then such a Client must not be registered without specific permission from the management, which shall exercise due caution before allowing any Client to trade
- viii. That no person is registered as constituent/Client who has been banned from trading in the stock market.
- ix. That the Client has submitted sufficient documentary evidence to prove his financial standing.
- x. That sufficient information has been taken from the Client to ensure that the Client is genuine and objectives of his proposed trading activities are legitimate and bonafide.
- xi. In case a proposed constituent is found to be reluctant in providing required information, then additional measures are employed to verify identity as well genuineness of such constituent.
- xii. That the account for Clients which have been introduced by company's' employees are opened only after due permission from respective head of the department or management is taken.
- xiii. That the proposed constituent has been clearly informed that the volumes of trading transactions that shall be allowed to the constituent from time to time, shall solely depend upon the financial standing and amount of margins deposited by the constituent.
- xiv. That for the purpose of internal controls and due diligence exercise the constituent has been categorized as low, medium or high risk on the basis of Clients' credibility
- xv. To Conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the customer, its business and risk profile, taking into account, where necessary, the customer's source of funds
- xvi. To identity Proof of Banking Account and Demat account before entering the details of bank and demat account in the Client Master database

REVIEW OF LIST OF EXISTING CLIENTS TO ENSURE COMPLIANCE OF PMLA GUIDELINES

The department responsible for registration of new Clients for the Company shall be required to ensure the following with respect to all the existing constituents of the company:

- i. That the KYC details of all the existing active Clients are reviewed in context to the PMLA 2002 requirements

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- ii. That all the Clients are classified into high, medium or low risk categories based on KYC details, trading activity etc for closer monitoring of high risk category Clients
- iii. That annual financial statements are obtained from the Clients, particularly those in high risk categories; and
- iv. That in case of non individuals, additional information is obtained about the directors, partners, dominant promoters, major shareholders.

RECEIVING, VALIDATING & ENTERING THE ORDERS OF CLIENTS IN THE TRADING PLATFORM.

Normally, the new Clients shall be assigned and introduced to a specific terminal operator and the operator shall be briefed about Client's requirements for trading, investments and his risk taking abilities. Accordingly the terminal operator shall, under instruction from the concerned senior official, allow the Client to place the orders during the live market through written, oral or telephonic instructions

The sub-brokers and Remisiers, who are registered as terminal users with the exchanges, shall be allowed to operate the terminal and place the orders in their respective accounts and in the accounts of their Clients on the basis of the risk profile of their Clients and according to their written, oral or telephonic instructions.

SETTING UP CLIENT'S EXPOSURE LIMITS:

In Cash Segments exposure limits of Clients will be set by the Company on the basis of credit balance available in the Client's account.

In F&O and Currency Segments, exposure to Clients will be based on applicable Upfront Margins and deposits available in the Client's account.

Trading and exposure limits shall be within the limit prescribed by the Stock Exchanges.

Upon the discretion and Client's profile extra exposure or intraday limit will be given to the Client and such extra exposure will automatically be squared off by trading mechanism without any further reference to the Client appx. 10 minutes before the scheduled closing.

GROSS EXPOSURE TRADING LIMITS

CIL Securities Limited shall allow its Clients a gross exposure trading limit which will be based on deposit of the Client. The Board of Directors/ Committee or MD along with Directors authorized for this purpose may reduce / increase the trading limits as a Risk Management measure.

In case of increase in trading limits sought during the market hours, Clients is to transfer funds to the accounts of CIL Securities

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MARGIN OBLIGATIONS

CASH SEGMENT

The Clients are required to pay margins as per the rules and regulations of respective Principal Stock Exchanges.

F&O AND CURRENCY SEGMENTS

The Clients will have to pay initial exposure margins, span margins and any other margin as specified by the respective Exchanges.

CONTROL OVER MTM IN F&O

Real time check on unrealized MTM Loss in F & O segment and alert will be generated and Client appraisal is to be taken up to ensure compliance

COLLECTION AND RELEASE OF PAYMENTS TO CLIENTS

The Client shall be asked to make the full payment as per the daily debit obligation on T+1 basis.

The pay-out of funds shall be made on T+2 basis after confirming the successful pay-in of securities by the Client.

The exchange/segment wise segregated ledger account is to be maintained with an option to view the all exchange/segment merged position.

Under written authorization from the Client, the pay-out of funds can be retained for margins and/or future pay-in obligation and for collection and release of funds and the account shall be maintained on a running account basis with all exchange/segment. The inter exchange/segment Journal Entry shall be passed to show the correct exchange wise outstanding.

PAY-IN OF FUNDS & SECURITIES

The pay-in obligations of funds are to be met on T+2day in Cash Segment and T+1 day in F&O and Currency Derivative Segments. Clients having pay-in obligations are required to maintain balance against their pay-in obligations.

For Pay-in obligations of securities Clients shall be required to meet their obligations on T+2 day latest by 10:30 a.m. and in case of short fall, their obligations will be procured through auctions and will be debited to Client account.

FOR INTERNAL NETTING OF TRADE

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If shortages arising out of Internal netting of trades then auction will not be done and selling Client will be asked to purchase the shares so as to give delivery to the buying Client

ACTIONS FOR DEFAULT IN PAY-IN AND MARGIN OBLIGATIONS

The payment of Margins must be completed on the same day basis and failure to make the payment, shall give a right to reduce the position of the Client/Square off the Position.

DEBIT BALANCES IN CLIENTS' ACCOUNT

The Company will scrutinize the debit balances in Clients' accounts on regular basis and in case of default in payment, the shares available will be sold so as to cover the debit balance and with due notice to the Client.

BANKING OPERATIONS AND PAYMENT OF DIVIDEND ETC.

All the bank account shall be reconciled on a regular basis by downloading the bank statements in electronic form from the websites of respective banks.

The ECS credit of dividends shall be passed in the account of relevant Clients.

One competent employee shall be dedicated for the banking operations to ensure the availability of sufficient funds in the clearing and Clients' accounts.

The person in charge of banking operations shall monitor the returned cheque and necessary follow-up actions.

The instances of return of issued Cheques, if any shall be taken very seriously by the management and will investigate the reasons and will take the required steps to avoid the recurrence of such instances

OPERATIONS & COMPLIANCE REQUIREMENTS.

The day to day operations are being looked after by the Managing Director

The on-line surveillance desk is monitored by Head of Surveillance under direct supervision of the Managing Director, where real time Client wise / scrip wise position, M to M, Margin requirements, available margin and exposure limits are monitored.

MONITORING OF BRANCHES / SUB-BROKERS SHALL BE CARRIED OUT CENTRALLY FROM HEAD OFFICE.

The Surveillance and back office activities are centralized in view of very few numbers of branches; off line through daily risk management reports. Bulk orders i.e. securities that exceed 0.5% of market cap of a stock will be monitored through Back Office report.

Regular branch visits and internal reviews are carried out to ensure smooth functioning and proper management of the branches. As regards operations at branch level, all the back office related activities have been centralized at the corporate office of the company. The operations at the branch level are

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restricted to trading and collection of payments only. All other activities are controlled from corporate office only. Feedback from all the branch managers is received on continuous basis to analyze the status of operations at the branch.

CONTINUITY PLANNING / ALTERNATE PLAN IN CASE OF DISASTERS ETC.

All the Information Technology infrastructure requirements shall be in charge of the Manager, Risk Management

There shall be sufficient and competent man power to manage the trading system failures during the live market.

There shall be the back-up communication link in addition to the regular link for all the exchange segment and it shall be tested periodically.

There shall be main line power input from two different routes and there shall be sufficient battery back-up through on-line UPS.

There shall be two Operation Hubs and incase of Link Failure the operations are transferred to alternate Hub.

Voluntary freezing of the Online Trading account:

1. Procedure to Freeze Online Trading Account

Using the Browser / App:

- Log in to the CIL Securities Limited application (mobile/ web).
- Select Client Backoffice Login.
- Upon Login, Select the "FREEZE TRADING ACCOUNT" option.
- Select Radio Buttons Freeze to Freeze the account or Unfreeze Button to Unfreeze the account.
- Click on Submit.

Calling a Support Line:

- Call CIL at the number 9281464168 (between 10:00 am – 6 :30 pm excluding Saturdays, Sundays and public holidays), verify the client's identity and may request for freeze
- Once verified, CIL will freeze the account.

2. Procedure to Unfreeze Online Trading Account

- Clients can call on 040 - 69011111 and after necessary due diligence, the account will be unfrozen within approximately 30 minutes subject to necessary validations.
- After the account has been unfrozen, the client can resume trading.
- Clients will be allowed to trade through both online and offline modes, i.e. call and trade or throughAP terminal.

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COMPLIANCE

We are committed to comply with all the requirements issued by the exchange and other market intermediaries from time to time.

We have compliance department in place for continuous monitoring of various compliances. Various internal controls are put in place to ensure strict adherence to all the rules and regulations.

Department wise allocation of various compliances is also done to ensure day-to-day compliances.

For CIL Securities Ltd

KK Maheshwari
Managing Director

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