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## ESCORTS SECURITIES LIMITED

### Internal Control Systems and Policies

ESCORTS SECURITIES LIMITED, a SEBI registered Stock Broker and Depository Participant and Category I Merchant Banker, follows a system for internal control with a view to ensure that the rules and regulations of regulators, government agencies, exchange, depositories and other authorities are complied with and the internal control and risk of the organization is managed in a smooth manner. For this purpose the company from time to time has laid down certain policies and guidelines. ESL tries to ensure that all the requirements of the Regulators, Exchanges, Depositories, Govt Agencies etc are incorporated in respective policies or formulated as a separate policy. However there may be difference in names or presentations as it also incorporates other guidelines for its internal controls. All care has been taken by the Board of Directors to ensure that there is no lapses in the same. Even if, any guidelines has escaped attention it shall be deemed to have been incorporated in the spirit of such guidelines. In case of any contravention in the policies and guidelines laid here under the policies/guidelines of Regulators, Exchange, Depositors etc shall prevail.

The company has a compliance team led by compliance officer, sales and marketing team, research unit and a suitable back office team to ensure smooth operation. Over and above the company has an internal audit system to commensurate to the size of the operations.

ESL reserves right to make changes in the Internal Policies and Procedures, as may be required from time to time. Such changes shall be notified to the clients and shall also be uploaded on ESL's website. These policies are reviewed in the meeting of Board of Directors from time to time. These policies are applicable across organization wherever applicable.

Various policies/guidelines are as under:

## **Internal Policies & Procedures**

The Board of Directors of ESL Securities Ltd. (ESL) have adopted the following Internal Policies & Procedures in terms of SEBI Circular: MIRSD/SE/Cir-19/2009 dated 03.12.2009 forming integral part of the Member Constituent agreement in their meeting held on 29/03/2010 at the registered office of the Company.

### **a) Refusal of Orders for Penny Stocks:**

- ESL shall have absolute discretion to term a stock as "PENNY". As per our policy, "PENNY STOCK" can be referred to as the stocks which are appearing in the list of illiquid securities issued by the Exchanges (Posted on their website) every month and any other stocks which ESL might consider to be illiquid. The details of such stocks will be posted on the website of ESL.
- ESL at its discretion can accept, refuse or partially accept any buy or sell order for execution from the client in respect of such scrips. ESL may allow restrictive acceptance of orders in such scrips and may demand appropriate declarations and additional margin from the client before accepting order of such stocks. ESL may cancel orders in such scrips received by the clients before execution or partial execution or place any other kind of restrictions on the trade on such scrips without assigning any reasons thereof to the client.
- ESL shall not be responsible for any consequential opportunity loss or financial loss that a client may incur from delay or non execution of orders in penny stock.

### **b) Setting up Client's Exposure Limits:**

- ESL may give an exposure limit which would be a multiple of the clear ledger balance in the account plus value of the shares given as collaterals computed after applying appropriate haircut depending on the risk profile of the client. In F & O segment exposure is given on the value of initial margin after applying appropriate hair cut. The exposure limit may be changed based on the volatility in the market and quality of collaterals.
- ESL may set different exposure limits varying for different clients depending on the credit worthiness, integrity and past conduct of the client. The client agrees that ESL shall not be responsible for such variation, reduction or imposition or the clients inability to route any order through ESL's trading system on account of any such variation, reduction or imposition of limits.

### **c) Applicable Brokerage Rate:**

- ESL follows the policy of charging brokerage not more than the maximum permissible brokerage as per the rules and regulation of the exchange/ SEBI. Brokerage shall be charged as per the rates agreed upon with the client at the time of registration. The brokerage is however subject to change at the discretion of ESL in consultation with the Client. The brokerage amount debited to the client does not include any exchange related charges, statutory levies and any other charges. Any other applicable taxes imposed by statutory authority including securities transaction taxes, duties, service tax, etc will be paid by the client separately as may be levied on the transactions from time to time. Total Brokerage including other charges and excluding statutory levies will not exceed the 2.5% limit.

**d) Imposition of Penalty/Delayed Payment Charges by either party, specifying the rate and the period (This must not result in funding by the broker in contravention of the applicable laws)**

- Clients will be liable to pay late pay in/delayed payment charges not exceeding 18% per annum for not making payment of their pay-in obligation on time as per the exchange requirement or net ledger debit as applicable.
- ESL may impose fines/penalties for an orders/trades/deals/actions of the client which are contrary to this agreement/rules/regulations/bye laws of the exchange or any other law for the time being in force, at such rates and in such form as it may deem fit. Further where ESL has to pay fine or bear any punishment from any authority in connection with/as a consequence of/ in relation to any of the orders/ trades/deals/actions of the client, the same shall be borne by the client.

**e) The right to sell clients' securities or close clients' positions, without giving notice to the client, on account of nonpayment of client's dues (This shall be limited to the extent of settlement/margin obligation)**

- ESL shall be entitled to liquidate client's securities, both unpaid securities as well as collaterals deposited towards margins or close out client's open position, without giving notice to the client for non-payment of margins or other amounts including the pay-in obligation, outstanding debts etc and adjust the proceeds of such liquidation/close out, if any, against the clients liabilities/obligations. Any and all losses and financial charges on account of such liquidations/closing out shall be charges to and borne by the client.
- In case the payment of the margin/security is made by the client through a bank instrument, ESL shall have absolute discretion to give the benefit/credit for the same only on the realization of clear proceeds in ESL bank account. Where the margin/security is made available by way of securities or any other property, ESL is empowered to decline its acceptance as margin/security and/or accept it at such reduced value as ESL may deem fit by applying haircuts or by valuing it by marking it to market or by any other method as it may deem fit. ESL has the sole discretion to decide referred stipulated margin percentage depending upon the market conditions.
- In event of death or insolvency of the client, ESL may close out all outstanding positions of the client, adjusting the loss incurred on such closures with the margin deposited by the client and claim further shortfalls, if any, against the estate of the client. The successors or heirs of the client shall be entitled to any surpluses which may result there from. The above action is at the sole discretion of ESL and may vary from client to client. It shall not be under any obligations to undertake the exercise compulsorily. ESL shall therefore not be under any obligation to compensate or provide reasons of any omission or delay on its part to sell client's securities or close open positions of the client.

**f) Shortages in obligations arising out of internal netting of trades**

Policy for settling shortage in obligation arising out of internal netting of trades is as under:

- The securities delivered short are purchased from the market on T+3 day and the purchase consideration (including all statutory taxes & levies) along with a

penalty is debited to the short delivering seller client. In case the shares are not available for purchase for any reason then the shortage will be closed out as per the prevailing rules of the respective exchanges. Currently, the penalty levied amounts to clients charged a flat rate of Rs 0.50 on value of purchase consideration.

**g) Conditions under which a client may not be allowed to take further position or the broker may close the existing position of a client.**

- Client unable to meet his pay-in obligation as per exchange requirement irrespective of the value of collaterals available.
- Long pending debit balance in the client's account.
- Margin shortfall not compensated by the client.
- Dishonor of Cheque
- Client dealing in "illiquid" stock as declared by ESL.
- Transactions which may appear to be suspicious in nature
- Where based on the happening of an event, ESL has a risk perception that further trading in the contracts/securities may not be in the interest of the clients and /or the market.

**h) Temporarily Suspending or Closing a Client's account at the clients request:**

ESL may carry out periodic review of the client accounts and may suspend the accounts from trading (i.e. prohibiting any market transactions, only allowing client shares/ledger balance settlement to take place) under any of the following circumstances:

- Where the Client is inactive for the last six months.
- Where the Client has not cleared his dues after repeated reminders
- Where Physical statements or contract notes, etc are received back undelivered and the client is not responding to update the correct address.
- Where the client is reported or known to have expired.
- Where client lodges a complaint either directly with ESL or through the Exchange relating to alleged unauthorized Trades being executed in his account.
- Where the account is under investigation by any regulatory body.
- As per direction of the Exchanges, SEBI or any other regulatory body.
- On written request received from the client and the same can be activated on the written request of the client only.
- The Client account can be closed on the written request of the client provided the client account is settled. If the client wants to reopen the account then the client has to again complete the KYC requirement.

**i) Deregistering a client:**

Notwithstanding anything to the contrary stated in the agreement, ESL shall be entitled to terminate the agreement with immediate effect in any of the following circumstances:

- If the action of the client are prima facie illegal/improper or such to manipulate the price of any securities or disturb the normal/proper functioning of the market, either alone or in conjunction with others.
- On the death/lunacy or other disability of the Client.
- If the client being a partnership firm/any other organization, has any steps taken by the Client and/or its partners for dissolution or liquidation.

- If the Client suffers any adverse material change in his/her/its financial position or defaults in any other agreement with the Stock Broker.
- If the Client has made any material misrepresentation of facts, including (without limitation) in relation to the Security.
- If the Client is in breach of any term, condition or covenant of this Agreement.
- Any suspicious information found by ESL in sites like CIBIL, world check, etc or if there is any commencement of a legal process against the client under any law in force.
- If the client forms a part of the list of debarred entities published by SEBI and/or any action is taken by SEBI/Exchanges or any other body on the client.
- Inactive client account will be considered as inactive if the client does not trade for a period of six months. Calculation will be done at the beginning of every month. In such cases ESL may block or deactivate a client's account. A written request has to be made by the client for reactivation of their deactivated account.

#### **Changes in Internal Policies and Procedures:**

- ESL reserves right to make changes in the Internal Policies and Procedures, as may be required from time to time. Such changes shall be notified to the clients and shall also be uploaded on ESL's website. Such changes shall be deemed to be accepted and agreed by the clients unless otherwise informed to ESL within 15 days of the notification thereof.

### **POLICY REGARDING REGISTRATION OF CLIENTS**

#### **Policy for acceptance of Clients**

Directors have decided to accept new clients (Individual & Corporate) only after verifying with reference and following the already implemented procedure of obtaining KYC. To further strengthen the system, HO has decided to get the KYC of all existent clients rechecked. The KYC form obtains the requisite information regarding the identification of the Client, beneficial ownership, demat details, Income Tax details & identification etc.

#### **Client registration System**

The Know Your Client (KYC) booklet should be signed by the client. The required documents should be collected from the clients strictly as per the documents mentioned in the checklist of the KYC booklet. KRA if not done, should be completed with KRA authority.

- Primary KYC documents checking including interview of client by sales and marketing team.
- Final Checking by including interview, if required, by compliance team.
- Final review by Compliance officer / Management
- Allotment of Client Code
- Uploading the client details to the Exchange by back office staff.

- On receipt of Valid Report from exchange intimate the codes to clients
- Filing of Client Registration Kit and updation of Index by compliance team
- Periodical Review of financial data on yearly basis of active clients by compliance team
- Deactivation of Client Code by back office staff on receipt of written request from Client and/or instruction from Compliance Officer/ Directors

#### Procedure for identifying the Clients

Once KYC is obtained & verified with original documents & reference, the directors have authorized the Compliance Office with power to cross verify any information with other sources before upload.

Company has implemented a procedure in back office to identify the clients with normal turnover, Higher turnover & with no turnover on monthly basis. It also verifies whether the client is investor/trader/both. This information is again verified with payment details by finance department of the company. Clients have also been segregated on group basis like referred by a particular Sub Broker, or related to a particular family group, Institutional Clients/Non Resident Clients/ Higher Networth Clients/ Corporate Clients / Trust etc / Foreign Corporate or FIs / distant clients/ others etc.

#### Transaction Monitoring & Reporting:

All employees/ sub brokers/authorized persons/ branch heads have been given specific instructions on reporting all Suspicious Clients, suspicious monetary transactions and also business transactions which do not commensurate with the information & standing of the Client.

Employees and/or Terminal Users have been specifically asked to report on daily basis all exceptional transaction taken place on the terminal with detail of Client and also corresponding monetary transactions to the (like banking detail of payments).

Steps are also been taken to update KYC on a regular basis for all the existent clients.

#### Dormant/Inactive/Suspended Clients

Definition of "Inactive" accounts:

The Back office operations team shall carry out a quarterly review of the client accounts. The client who has not done even a single trade in the 6 months pre-ceding the quarter in which the review is carried out will be treated as an "Inactive Client" and such client accounts will be treated as "Inactive Client Accounts".

Inactive Client Accounts shall be de-activated by the Back office operations team with the prior approval from the Head-Operations.

**The following shall be done immediately at the back office once a Client Account has been identified as Inactive:**

- d) Obtain approval from Head –Operations to mark as 'Inactive'.
- e) Mark 'Inactive ' status in Back Office system
- f) Mark 'Inactive' status in Front Office system which will not allow trades to be executed on the Inactive client code.
- g) Communicate the status to Dealers.
- h) Dealers must exercise caution and escalate the case when orders are received for an 'Inactive' account.

**Return of client money's, if any in the account:**

The balance remaining in the client account as on the date of Inactivation, if any, shall be refunded to the client within one week of Inactivation of the Client Account.

**Procedure for reactivation:**

The Back office operations team can reactivate a client account which has been made Inactive only when the following documents are obtained from the client:

- g) Communication in writing requesting the account to be reactivated stating the reasons for being inactive in the past.
- h) Updated financial details (IT returns in case of all clients, Financial Statements in case of corporate clients )

Reactivation of the client account shall be done by the Back office operations team only after obtaining approval from the Head-Operations or Managing Director.

## **TRADING POLICY:**

Active Client master list should be uploaded in the trading terminal and all the orders from the clients should be checked for the client codes in the list. This will ensure minimal wrong code punching by the dealers.

Dealers should be vigilant in executing the orders of the client. They should check & report to senior authorities if any client is giving order of abnormal quantity or rates or orders for trading in penny & illiquid stocks.

Every client should be contacted after the market hours for trade confirmation. The clients should be asked for the settlement of their obligation before settlement date of the exchange. Every Client should be asked to give his/her order in writing or provide written confirmation for accepting order over telephone. However all telephonic communication in the dealing room is record on a voice logger, logs of which are maintained for a reasonable period of time even after settlement of trade.

Staff/dealer should check the margin availability /credit limit of the client before executing any trade on his behalf.

## **SETTLEMENT POLICY:**

### **PAYMENT POLICY:**

1. Payments to clients shall be made on Pay out basis i.e within 24 hours of pay out ( T+2 day)  
. In case of outstation clients payments are made either by branches or cheques are sent directly by head office on payout.
2. For clients who are desirous of keeping the pay out money with us as margin money can do so by giving necessary instruction in writing to that effect mentioning therein not to issue cheques until a written request is made. However his account will be periodically squared off in terms of the SEBI/Exchange guidelines.
3. For clients who are desirous of keeping the pay out money with us for future transactions can do so by giving necessary instruction in writing to that effect mentioning therein to keep their account as 'running account' and periodical cheques may be paid or received. However his account will be periodically squared off in terms of the SEBI/Exchange guidelines.
4. Clients, who have debit balance in one segment and credit balance in other segment will be paid only if their net balance is credit.
5. Margin Money to the clients will be returned only after adjusting debit balance, if any, in their account and/or if they have not defaulted in their obligation to deliver shares/securities.

### **RECEIPT POLICIES**

1. Cheques from clients would be accepted only of those banks whose details have been provided during client registration.
2. No third party cheques would be accepted.
3. No cash payment is accepted. However the Directors have its discretionary power in extreme circumstances.
4. The branches should mail the details of the cheques deposited directly to the bank at [pankaj.sharma@escortssecurities.com](mailto:pankaj.sharma@escortssecurities.com). The branches/clients should ensure that the mails should be received by HO by 6 pm so that the benefit of the payment made by the clients can be posted to the ledger on the same day.
5. Clients are advised, if they deposit cash/cheque /make payments through RTGS/NEFT, directly to company's account they should intimate the accounts team , so that the payment can be tracked and necessary credits may be given to respective clients.

### **SECURITIES**

#### **Collection of securities**

1. To ensure that clients are delivering the shares from their own account and all the deliveries to/from the clients correspond with the details provided by the client with their registration. The Securities may however be made available for payin obligation from the clients hold back margin account if he holds the same in it.



2. The statement should be checked with the securities obligation of the clients. Any third party delivery from the clients should not be delivered to Clearing house.

3 No credit to clients should be given even though shares received from third party has been delivered to clearing house due to any technical reasons beyond management's control. If client provides sufficient written proof of ownership of such account/share, than after updating client database, client may be given effect of the same.

4. The reports provided by Exchange should be used to check whether there is any short pay-in/ out of securities to/from Clearing house

### **Delivery of Securities**

1 The company will be making direct pay-out of shares to client account of which details are given in Client Registration Kits.

2. The direct pay-out file should be created by the backoffice software.

3. The instruction slip for shares delivery from the Pool account in case of client to client transaction or break delivery from the Clearing house should be signed by any of the directors / authorized persons.

4. Pay out shares shall be given to clients only when they have clear balance in their ledger account. (\*the clear balance means that cheques issued by clients should have been cleared in bank.)

5. Shares of clients having debit balance will be kept with the company as hold back margin.

6. The hold back margin account will be reviewed twice in a week i.e on Wednesday & Saturday and shares will be credited to the accounts of the client if they have clear balance during the time of periodic review.

7. In case shares are sold which are lying in hold back margin account, charges of Rs. 8/- per script may be debited to the clients account.

### **MARGIN POLICY**

#### **Capital Market Segment**

1. No Purchase order will be entertained unless 10% upfront margin or credit balance is lying in the client account. This is waived in case of Institutional or HNI Clients. The compliance officer shall have the discretion to waive margin for Cash Market Segment.
2. In case where margin is exempted to any client, the payment must ne received before the payin obligation.
3. No short sale will be allowed.
4. Sale order will be executed only on delivery of shares to respective DP account before orders are executed unless management allows the shares to be sold before receipt of shares.
5. On non delivery of shares in time due to fault of client, auction charges alongwith 10% extra fine will be payable by the client.

### **Future & Option Segment**

1. No trading will be entertained unless up front margin is received in advance for value of trade to be executed on behalf of any client.
2. Margin will be accepted in 'Cash' or cash equivalent / collaterals with proper haircuts only unless management decides otherwise.
3. If margin is accepted in the form of shares, a hair cut /VAR as per existing rule will be computed on the price at the day end. All short fall will have to be met immediately by the client in cash or shares or before opening of next trading session. No letter or written communication in this regard will be sent to any client for shortage of margin. The client will be responsible for any shortage of his margin with us for his outstanding trades.
4. No complain will be entertained for squaring off of outstanding trades or liquidating of margin by the management in absence of short fall of margin at any stage by the client. It will be sole discretion of the management to decide on 'spot' whether to square off outstanding trades of a client and margin be liquidated to meet the short fall.
5. Any amount payable on account of 'Mart to market' has to be paid in cash by the client before opening of next trading session. Amount paid must be in the form of RTGS/NEFT/ clear bank balance cheques given on the day of trade. If clear balance of margin/ MTM are not available, the management will at its sole discretion square off the trades of any client, which in its opinion can put the company or its other clients to risky situations.

### **REPORTING POLICY**

#### **Contract Note/Accounts/Reports**

After the trading time the trade data is imported and contract note is generated at Back office. We are sending digital contract notes to the clients on daily basis. In addition to above, with a view to communication faster the company shall, to the extent possible, try to inform all clients electronically and shall encourage electronic communication of all trade, accounts, statements etc. The client can also login to the backoffice through web and get all the details. All efforts are also taken to inform trades to the clients on SMS/Phone.

### **Branch Control Policy**

1. Compliance Officer with the assistance of backoffice and IT team will be responsible for checking & controlling day to day affairs of the branches for any trading problems.
2. Branches will be opened for sole purpose of allowing clients to get their orders executed. Clients will be allowed to trade from only one specified branch for better control & service. Branch manager will be responsible for all activities & trades executed from any branch and solving any client related problems in consultation with compliance officer. In case of technical problems at the branch trades will be executed from H.O.
3. All Client Registration Kits will be approved at the head office and will be required to be counter signed by the branch head from where client has shown his interest to trade. Branch head will be

responsible for all trades executed from his branch and putting all surveillance system to keep tab on 'unfair' trade practices.

4. All contract notes will be generated at head office and will be sent to all clients by post unless otherwise desired for.

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