



POLICIES & PROCEDURE FOR CLIENT DEALINGS

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a. Refusal of orders/restrictions on trading in penny stocks and illiquid stocks:

We define Penny stocks as those stocks where the market price is below or close to par, with the company financials being weak with indicators such as loss, accumulated losses, low sales revenue, low or negative networth, signs of inactivity in the company, which are having very less value. KSL may from time to time identify such stocks and put trading restriction on the trades in such penny stocks. In addition to these stocks KSL may also include other stocks in the list of restricted stocks such as stocks in Z category, Trade to Trade Settlement or TS category, the scrips which are included in the list of illiquid scrips by the exchange/s or any other scrip which KSL deem fit for the purpose putting trading restriction.

The restriction on above stocks may be as to the price, quantity or mode of placement of orders. Accordingly KSL reserves the right to disable certain scrips for trading on online trading facility/sub broker/branch trading terminals or put quantity or price restrictions while putting trade orders. In such case, client may be allowed to place the trades subject to certain restrictions, through KSL's centralized dealing desk after enhanced due diligence of the orders.

In case of clients using internet trading facility, they may not find the scrip name or may not be able to place any order in the scrip, if such scrip is one of the restricted scrips. A client can enquire with KSL's dealer or customer service executive about any trading restriction on any scrip.

The above referred restrictions are placed on the trading activities of the client as these stocks are exposed to price rigging and other market manipulative activities. Further, KSL as a member of the stock exchanges is expected to have proper surveillance and monitoring mechanism on the trading activities of their clients, particularly on penny and illiquid scrips.

Clients may note that KSL shall have right to reject the orders placed by the Client and/or put circuit breakers to discourage trades getting executed at unrealistic prices from the current market price of the security or prohibit the Client from trading in illiquid securities which creates artificial liquidity or manipulates prices or to discourage Client from cross/ synchronized trading and KSL shall not be liable for any loss arising out of non acceptance or rejection of the Client orders for any such reason if the Client fails to give sufficient reason for placing such orders.

b. Setting up client's exposure limits

KSL may from time to time at its sole discretion, impose and vary the limits on the orders that client can place through it (including but not limited to exposure limits,

turnover limits, limits as to number, value and/kind of securities/ contracts in respect of which buy or sell orders can be placed). KSL may need to vary or reduce the limits or impose new limits urgently on the basis of its risk perception and other factors considered relevant and KSL will make all necessary attempts to inform clients of such changes.

Further KSL may as risk containment measure at any time at its sole discretion and without prior notice, prohibit or restrict the client's ability to place the orders or trade in all or some of securities/contracts through member.

The exposure limits are generally based on the availability of the margin in the client's account. Margin may be in the form of cash and /or in the form of securities with KSL. The client shall be permitted to trade upto a pre-determined number of times of the margin (the "Multiple") and the quantum of the Multiple on the margin shall be decided at sole discretion of KSL.

c. Applicable brokerage rate:

Brokerage will be charged to the client based on the brokerage rates specified in the account opening form or as per the product/scheme opted by the client from time to time. Brokerage chargeable to the client will also be communicated to the client through the welcome letter sent at time of account opening. Based on the value of business done by the client and risk perception, KSL may reduce the brokerage rate at its sole discretion. Changed brokerage rate will be communicated through the relationship manager/email communication and will be reflected in the contract notes for future trades. However, any increase in rate of brokerage will be done with advance notice of 15 days to the client. The brokerage rate will be within the permissible limit set by SEBI/exchanges (currently the same is 2.5% of turnover).

d. Imposition of penalty/delayed payment charges:

KSL requires all its clients to make the payment towards settlement obligation on or before due date. In case of debit balance in cash segment, penal interest will be levied on the client to deter them from delaying the payment in future.

Clients are further required to make payment of margin towards their Derivatives segment exposure. While, KSL accepts approved securities as margin, it is not the beneficial owner of these securities and hence it is unable to pledge the same onwards to the exchange as margin and has to arrange for own funds/securities for payment of margin to the exchange for positions taken by the clients. Clients are requested to make payment of margin in the form of funds to avoid charging of interest in F&O segment. Accordingly, whenever clients provide securities margin (or there is shortfall in payment of securities margin) instead of margin in the form of funds towards exposure in F&O, KSL reserves the right to charge interest on the debit balance

lying in F&O segment. No credit will be given for margin paid by the client in the form of securities.

The company may determine the rate of interest to be charged, at its sole discretion. Same will be communicated in debit note on interest sent to the clients. Default interest rate is 24% per annum. KSL may reduce the interest rate at its sole discretion depending on various factors including credit history of the client. Revised interest rate will be communicated through the relationship manager/email communication and will be reflected in the debit notes. However, any increase in rate of interest will be done with advance notice of 15 days to the client. Interest will be calculated considering balance lying across all exchange and segment on any given day.

Margins provided by the client in the form of funds shall be interest free and the KSL shall not be liable to pay any interest on the same.

e. The right to sell clients' securities or close clients' positions, without giving notice to the client, on account of non-payment of client's dues

Without prejudice to other rights (including the right to refer a matter to arbitration), KSL would be entitled to liquidate/close out without any notice all or any of the client's position for non payment of margins or other amounts, outstanding debts etc. and adjust the proceeds of such liquidation/close out, if any, against the clients liability /obligations. Any and all losses and financial charges on account of such liquidation/closing out shall be charged to and borne by the client.

Company on best effort basis will try and inform the client and give him reasonable time for payment. However it will be the responsibility of client to track his margins/obligations by going through margin statements sent to the client on daily basis

In case the payment of margin / security is made by the client through a bank instrument, KSL shall be at liberty to give the benefit / credit for the same only on completion of bank reconciliation and realization of the fund from the said bank instrument etc., at its absolute discretion. Where the margin/ security is made available by way of securities or any other property, KSL is empowered to decline its acceptance as margin / security and / or to accept it at such reduced value as the stock broker 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 in its absolute discretion.

KSL has the right but not obligation, to cancel all pending orders and to sell/close/liquidate all open position /securities / shares at the pre-defined square off time or when mark to market percentage reaches or crosses stipulated margin percentage, whichever is earlier. KSL will have sole discretion to decide referred stipulated margin percentage depending upon the market condition. In the

event of such square off, the client agrees to bear all the losses based on actual executed prices. The client shall also be solely liable for all and any penalties and charges levied by the exchange(s).

f. Shortages in obligations arising out of internal netting of trades:

KSL as member of the exchange delivers/receives securities to/from the exchange on net obligation basis in respect of a settlement. In such a process, if a client, who has sold securities, short delivers the securities, which are to be delivered to another client of KSL, who has bought the same security, it is treated as internal shortage of securities. In case of internal shortages on pay in day, KSL will endeavor to buy the shares from the market on the pay in day or on the next working day on behalf the client who has delivered short and deliver the same to the client who has bought them. The client who has delivered short will be debited with the rate at which the shares were purchased or the rate at which the said shares were sold by him, whichever is higher. In case KSL is unable to buy the securities as stated above, the transaction shall be closed-out.

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:

Under following circumstances a client may not be allowed to take further position and if required the existing position in his account may be also be closed:

- If there is a continuous debit Balance in client's account.
- If there is insufficient margin in client's account required to maintain his open position.
- If client is not responding satisfactorily to the Company/regulatory enquiry on trades undertaken by him explaining the rationale for transactions or fails to provide documents to prove beneficial ownership of shares, submit proof of income/Net worth etc.
- If there is an order by SEBI or any other appropriate authority debarring the client from dealing in securities market or an order to suspend/seize client's account.
- In case the scrip or member limits are breached or likely to be breached in the Derivatives Market Segment
- In case of dormant/inactive account and
- At the discretion of the company by giving written notice to the client

h. Temporarily suspending or closing a client's account at the client's request:

A client can request for temporary suspending or for permanently closing his account. For permanent

closure, client has to give a notice of one month and clear the dues, if any, in his account. Client account may be suspended by the company at any time:

1. On directions received from any regulatory authorities
2. If client is not responding to the queries raised by the company related to his trade activities
3. If there is not a single active demat account linked to trading account
4. Due to any other non compliance observed in the account

I. Deregistering a client.

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

- i) If the action of the client are prima facie illegal/improper or such as to manipulate the price of any securities or disturb the normal /proper functioning of securities either alone or in conjunction with others.
- ii) If there is commencement of any legal proceedings against the client under any law in force;
- iii) On the death/lunacy or other disability of the client;
- iv) If the client being a partnership firm, steps taken by the client and/or its partners for dissolution of the partnership;
- v) If the client suffers any adverse material change in his / her/its financial position or defaults in any other/agreement with KSL;
- vi) If there is reasonable apprehension that the client is unable to pay its debts or the client has admitted its inability to pay its debts, as they become payable;
- vii) If the client is in breach of any terms, condition or covenant of this agreement;
- viii) If the client has made any material misrepresentation of facts, including (without limitation) in relation to the security;
- ix) If a receiver, administrator or liquidator has been appointed or allowed to be appointed of all or any part of the undertaking of the client;
- x) If the client have taken or suffered to be taken any action for its reorganization, liquidation or dissolution;
- xi) If the client has voluntarily or compulsorily become the subject of proceedings under any bankruptcy or insolvency law or being a company, goes into liquidation or has a receiver appointed in respect of its assets or refers itself to the Board of Industrial and Financial Reconstruction or under any other law providing protection as a relief undertaking;
- xii) If the covenant or warranty of the client is incorrect or untrue in any material respect;
- xiii) On the order from the appropriate authority.

xiv) In accordance with the provisions of agreement entered into with the client.

j. Policy on inactive (dormant) Account:

In order to protect the account of customer, KSL will deactivate the trading accounts, which are identified as "Dormant". Dormant account will be those accounts where more than two year has elapsed from last trade date.

Clients will be informed about deactivation of the account. Once the account is deactivated, the customer will not be able to place any orders in any trade segments.

Client can get his account reactivated by following any of the below process after due authentication:-

- a) Call our Customer Service Executive
- b) Write an email to us from your registered email id
- c) Submit us the physical letter of request for reactivation at any of our branches

The assets of the client i.e ledger credit and /or securities in KSL account, if any shall be transferred to the client bank /demat account as a part of monthly/quarterly settlement of funds and securities, as may be opted by the client in the running account authorization provided by him, if any. If no such authorization is provided by the client, the funds/securities shall be transferred to client's bank/demat account as a part of daily settlement. In case of interim request received from the client for release of funds/securities, the funds and/or securities will be transferred to his account after due verification of the client as per the procedure mentioned above.

k. Penal charges that may be debited to the Client's account:

KSL reserves the right to debit client's ledger for any penal charges that may be charged by the Exchanges/depositories on KSL on the client level for any default/violation of Exchange guidelines / requirements occurring due to omission or commission of any act on the part of the client. This may include penalty for:

- Short delivery of securities
- Violation of client level position limits
- Shortfall in Margin payment
- Client code modification

KSL shall have the right to recover such charges like any other trade dues payable by the client and recover the same by selling his securities.

l. Third party funds and securities

In accordance with SEBI circular dated August 27, 2003, KSL requires all its clients to make payout of funds and securities from the account held in their name towards their settlement and margin obligation. Similarly, payout of funds will be made in client's name and securities will be transferred only to demat account held in client's name and

registered with KSL. Proofs regarding account being held in client's name i.e. copy of cheque book/bank statement in case of funds and copy of DP master in case of securities needs to be provided by the client. Receipt of funds/securities will be accepted only from these accounts. Payment made from any other account will be treated as "third party".

In no circumstance, third party funds and securities will be accepted towards settlement and/or margin obligation. In case, KSL observes that payment of funds or securities towards payin/margin obligation has been met from third party account, KSL reserves right not to give credit of funds/securities to client/reverse the credit given and return the same to the source account from where funds/securities were received. Client will be solely liable on account of any shortfall in meeting pay in/margin obligation in this regard.

Wherever, client gives POA on demat account to KSL, KSL treats the securities lying in the account as securities margin. Therefore, client needs to ensure that only securities belonging to the client are retained in the account and appropriate proof regarding purchase/gift etc. needs to be provided to KSL. In absence of the same, KSL reserves right to transfer the securities to source account from where securities were transferred to POA demat account.

In case client transfers securities to POA account from third party account and sells the securities, KSL reserves the right to withhold the payout till client obtains NOC from the account holder from whose account shares were transferred for sale.

Kindly note that the updated policies shall be available on the website of the Company

FAQ on Anti Money Laundering

I. About money laundering

1. What is money laundering?

Money Laundering refers to conversion of money illegally obtained to make it appear as if it originated from a legitimate source. Money laundering is being employed by launderers worldwide to conceal criminal activity associated with it such as drugs / arms trafficking, terrorism and extortion. All crimes that produce a financial benefit give rise to money laundering.

2. How does money laundering affect business?

The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is the one of the most valuable assets of a financial institution.

If funds from criminal activity can be easily processed through a particular institution – either because its employees or directors have been

bribed or because the institution turns a blind eye to the criminal nature of such funds – the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries and of regulatory authorities, as well as ordinary customers.

As for the potential negative macroeconomic consequences of unchecked money laundering, one can cite inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers. Also, as it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law.

3. What is the connection with society at large?

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.

The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue.

II. Laws in India related to Anti money laundering

There is an Act called Prevention of Money Laundering Act 2002.(PMLA). The purpose of this act is to prevent the financing of terrorism and to prevent laundering of money i.e. to legalize or officialize or canalize the money generated from illegal activities like drug trafficking, organized crimes, hawala rackets and other serious crimes. This act is a part of the Global measures being taken by all the countries under the initiatives of UN agencies. It is applicable to all SEBI Registered brokers/sub-brokers and other financial institution who are dealing in any kind of financial assets. It is an

obligation of the entities to whom this Act is applicable, to report certain kind of transactions routed through them to FINANCIAL INTELLIGENCE UNIT, a department specially set up to administer this Act under the Ministry of Finance

The transactions which are supposed to be reported are cash transactions above rupees ten lakhs or series of cash transactions below ten lakhs but aggregating to above ten lakhs in a month or its equivalent in any foreign currency and the transactions which may not be in cash but suspicious in nature. Any such types of transaction, though not executed but attempted and failed are also required to be reported.

SEBI has issued master circular no. ISD/AML/CIR-1/2010 dated February 12, 2010. You are requested to go through the same for more details.

III. Client obligation related to Anti money laundering

1. What has this got to do with opening Trading/Demat account?

The first step in the laundering process for criminals is to get their money into an account with a Bank/Financial intermediaries, often using a false identity and address. The funds so deposited will be transferred to other accounts locally or abroad or used for buying goods or services. This transaction would appear to be like any legally earned money and becomes difficult to trace it back to its criminal past. SEBI registered Intermediary under law should not only prevent this, but should stop criminals who wish to use the banking/Financial channel to launder the ill-gotten money from illegal /criminal activities.

2. Why does the Kotak Securities Limited (KSL) ask you for proof of your Identity, Signature and Address?

The identification of a customer is a very critical process with a view to protect the customer interests by preventing from fraudsters who may use the name, address and forge signature to undertake benami / illegal business activities. This also helps to safeguard the intermediaries from being unwittingly used from the transfer or deposit of funds derived from criminal activity or for financing of terrorism. Identification of customers will also help to control financial frauds, identify money laundering and suspicious activities. The Prevention Of Money-Laundering Act, 2002 (PMLA) was notified on July 1, 2005. As per the provisions of PMLA Act and as per the circular issued by Securities and Exchange Board of India (SEBI) on 18th January 2006 and subsequent

circulars issued in this regard, every market intermediaries registered with SEBI is obligated to adopt a policy framework with respect to anti-money laundering measures. KSL is inter alia a stock broker, depository participant and a portfolio manager registered with SEBI and needs to adhere to the same.

3. How could money laundering affect you as a customer?

A key defence against money laundering is to prevent accounts being opened in false identities. Anyone wishing to open an account will therefore be asked for proof of their identity, address and signature. These documents have to be essentially obtained irrespective of the type of account to be opened and the purpose for which the account is opened for.

The fact that these documents are asked for opening of account does not mean that you are suspected of money laundering. Criminals try to appear to be normal law-abiding customers, for example they may try to open a number of accounts using small amounts of money. Hence it is necessary to identify all prospective account holders or customers. Anybody including a criminal could falsely use your identity, if these identity documents are not obtained.

4. What proof of identity will you need?

The best identification documents are those which are issued by a Government authority, which should have a photograph, address and signature. You may provide one single document which can establish your identity, address and the signature or two or more documents. For an individual, documents like copy of the Passport, Election Identity Card, Driving License, Permanent Account Number (PAN) card, etc. would be sufficient for the purpose of establishing the identity, address and signature. Similarly, for other entities like firms, companies, trusts, documents like - Deed, Memorandum & Articles of Association, Certificate of Incorporation etc. would be applicable and the branch / sales staff / call centre would be able to help you in providing the details of the list of approved documents. As per SEBI regulations, KSL is under obligation to obtain sufficient information in order to identify persons who beneficially own or control securities account. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

5. What if you cannot provide the documents suggested?

If you cannot provide the basic KYC documents the company will not be in a position to open your account.

6. What are the responsibilities of a client related to money laundering?

KSL has 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.

Clients should provide KSL with updated details of their occupation, source of income and give details of their annual income and networth on annual basis. Further, they should provide explanation for any trading pattern observed by KSL in its routine course.

7. Help us to help you

Please help us to prevent crime, tax evasion and the laundering of the proceeds of such crime or evasion by being patient when staff asks you to provide documents to prove your identity.

You can also help prevent crime against yourself and others by maintaining the confidentiality of your account details and identity documentation.



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