

INTERNAL CONTROL POLICY

KB Capital Markets (P) Ltd (KBCMPL) is registered with and regulated by the Securities and Exchange Board of India (SEBI) as a Stock Broker, Depository Participant [NSDL] and Portfolio Manager. As a stock broker, KBCMPL is a trading and clearing member in Cash Segment and trading member in Futures & Options and Currency Derivative segments of National Stock Exchange of India Limited (NSE) and is regulated by the stock exchange through their respective bye-laws, rules and regulations.

Preface:

This document shall deem to be as official guidelines, policies and procedures to be followed KBCMPL while carrying out its business activities as a Member of National Stock Exchange of India Ltd. 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. The Compliance Officer (CO) shall make this document accessible to the clients, stock exchange and to all such existing as well as new key Personnel from time to time and explain the contents and their responsibilities in this regard.

Risk Management & Internal controls:

1. Registration of Clients:

- a. It is a policy of the company not to entertain walk in clients.
- b. The due diligence of clients shall be done by the key personnel of the company. Due diligence of the prospective clients as to their financial standing, risk profile, past and present stock market as well as other business activities, 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.
- c. In addition to the due diligence carried out by the intermediaries, the officials in charge of client registration shall carry out further due diligence, if warranted, while verifying the KYC documents.
- d. KYC procedures as prescribed by SEBI/Stock Exchange/Depositories are to be strictly followed while ascertaining the identity and verifying the proof of address of the new clients.
- e. While opening the depository and trading account the title of the account shall be maintained in the same style and pattern as it appears on the PAN Card.
- f. At the time of account opening the name of the client may be searched through the Internet search engines and the results, if any may be reviewed in the context of past business activities and regulatory actions, if any.

g. Identity Proof of Banking Account and Demat account shall be obtained before entering the details of bank and demat account in the client master database.

2. 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.

3. Collection and Release of Payments to clients

a. The exchange/segment wise segregated ledger account shall be maintained.

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

c. The pay-out of funds to the clients shall be made on within one working day from the pay-out from exchange in case if the client has not given any running account authorization. In case if the client has given a written consent to the company to maintain running accounts on their behalf to avoid the trouble of receiving / paying funds on daily basis, the account shall be maintained on a running account basis with all segment net balance criteria. The inter segment Journal Entry shall be passed on once in a week or when required. However, the actual settlement of funds shall be done on a periodic interval (calendar Quarter/Month) as opted by the client in the Running Account written authorization executed by the client.

d. In order to ensure that the Client's Funds are used only for the purpose of the respective client's transactions it is necessary to maintain a proper bifurcation of own and client funds. For this objective a separate bank account designated as Client Bank Account is maintained for all the three segments of the exchange.

e. There shall be no cash dealing with the clients in violation of prescribed norms.

f) The policy for Pre funded instruments such as Pay Orders, Demand Drafts, Banker's Cheque, etc., and electronic transfer of funds should be strictly followed where a client provides a pre funded instrument / transfers funds through electronic channels to meet their obligation.

4. Collection and maintenance of Margins.

a. The requirement of collection and maintenance of margins in Cash/Capital Market segment is waived in general. However, after taking into account the conduct of the account, size and frequencies of trades, category of scripts and financial standing of the client, the directors/senior officials may decide to collect the margins in any form on a case to case basis.

b. In the case of Clients trading in Derivative segments of the exchange, the margins money is collected from the client in advance before entering any trade of the client. The maintenance of margins for clients in these segments shall be as per the Risk Management Policy of the company.

c. In case of the clients having relatively large volume and regular trading activities, the payout of funds and securities shall be retained towards the upfront and daily margins.

5. Collection and delivery of Securities from / to the clients.

- a. Collection of securities from the clients shall normally be called from the clients on T+1 basis.
- b. In case of delivery pay-in obligations of large quantity/value and/or illiquid scrip shall be called for prior to the execution of sell order or as early as possible after the execution of sell order and shall be tendered to the clearing house under early pay-in mechanism.
- c. Securities pay-in 'Overdue Obligation' statement shall be generated one day as well as one hour prior to the pay-in schedule and a reminder shall be given to the respective clients.
- d. Deliveries of securities to the clients as far as possible shall be given to the clients directly from the clearing house through upload of pay-out break-up files. In case where direct delivery could not be effected due to some reasons the same shall be delivered to client within 24 hours from the pay-out time.
- e. In case of the clients who have given written authorization for retention of securities towards margin and/or future pay-in obligations, the pay-out securities of such clients shall be moved and retained in the separate BO account maintained under the type "Margin Account" in depository system and designated as 'Client Margin/Hold back Account' in back office.

6. Sending Contract Notes, Daily Margin Statements, Quarterly Statement of accounts to Clients

- a. We have the policy of sending Contract Notes and Daily Margin Statements to Clients weather in physical / electronic / physical and electronic from as desired by the client. within 24 hours of execution of trades.
- b. In case if the above documents sent via emails is bounced then the physical contract notes and margin statement are issued. ECN logs are maintained for documents/statements delivered to the clients electronically.
 - The statement of funds/ securities are sent to the clients as per consented by them monthly or quarterly.
 - Clients who have provided personal email id to us in the ECN Consent will only be sent electronic documents. No email ids will be created for the clients for sending of Contact Notes/documents.
 - Change of email id will be accepted only on the basis of written request received from the client himself and not by his power of attorney.

7. Client Code Modification or Transfer of Trades

- a. All cases of modification of client codes of Non-Institutional Trades to another code other than designated "Error Account" Code should be avoided in all circumstances.
- b. There is a separate document detailing the policy for client code modification / transfer of a code to Error Account. Please refer the same.

8. Operations & Compliance Requirements.

- a. The day to day operations will be looked after by the senior director Mr. Prashant Khandelwal.

- b. The real time client wise / scrip wise position, MTM Margin requirements, available margin and exposure limits with the exchange and segments shall be monitored by the said director.
- c. Various types of limits on trading terminals are being set up and updated dynamically during the live market.
- d. The off-line risk management reports as generated from back office shall be used to have a quick look at a glance for the status of any individual account or a group of account or for the clients.
- e. The various compliance requirements of all the segments shall be ensured by the Asst. compliance officer under the supervision of the Director Mr. Prashant Khandelwal who is the compliance officer of the Broking Division.

8. Banking Operations and Payment of Dividend etc.

- a. 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.
- b. The Broker Pool and Margin Demat Accounts should always have Client Bank Account details registered therein for the ease of tracking and returning the dividends to the client.
- c. The receipt of dividends in the client bank account shall be passed without any delay by way of a journal entry in the account of relevant clients. In order to ensure that dividends so received on behalf of the clients are returned before 90 days from the date of receiving the same, the client dividend account should be monitored on a monthly basis by the responsible personnel to ensure that they are nullified every month.
- c. One competent employee dedicated for the banking operations shall monitor the bank accounts through electronic interface offered by clearing bank and ensure that funds available in client bank account are not less than the funds payable to the clients at all times.
- d. The person in charge of banking operations shall monitor the returned cheques and take intimate necessary follow-up actions.
- e. The instances of return of issued Cheques, if any, shall be taken very seriously by the senior management. The reasons for the return of cheques shall be investigated and necessary steps shall be taken to avoid the recurrence of such instances in future.

9. Investor Grievance Policy:

- The register of complaints is maintained in the Dealing office under the observation and control of the director.
- All the clients are informed that in case of any grievance they have an option of writing the same in the Investor Grievance Register maintained at the office or can report the grievance through email or can meet the director to discuss any point of observation as may be required.

- The e-mail id for redressal of investor grievances is informed to the clients by printing the same on all the documents send to the clients including the quarterly statements, and CONTRACT NOTES sent to the clients.

10. Allotment, Surrender of trading terminals:

The Limit setting of the terminals is decided on the basis of the funds margin and securities value given to the member. Every terminal has a specific dealer and every dealer is assigned his own set of clientele who he has to cater to.

- The terminals are installed / activated only after complying with the regulatory requirement of informing Exchange and uploading of the details of the authorized user.
- In order to avoid any unauthorized use of terminals, the transactions entered through every terminal shall be supervised by the compliance officer. Proper checks and analysis of trades are done on daily basis.

11. Continuity planning / alternate plan in case of disasters etc.

a. The Systems Manager Mr. Prashant Khandelwal (Director) shall be in charge of all the Information Technology infrastructure requirements.

b. Sufficient and competent man power shall be maintained to manage the trading system failures during the live market.

c. The company has availed the internet trading facility called NOW offered by NSE, for all the segments of the exchange, which shall also act as a fallback system in case of any failure of the regular trading system using the VSAT link.

d. The main line power inputs are sourced from two different routes and there shall be sufficient battery backup through online UPS to take care of power failure situations.

e. In case of disaster, we can commence the operations from our registered office situated at Dalhousie at any time by using fallback systems through NOW. Moreover, we shall keep back-up USB pen drive and cartridges with full data so that we are well equipped with our internal system in case of disaster.
