



**Karuna Financial Services Pvt. Ltd.
207, C. R. Avenue, Meridian Plaza
3rd Floor, Kolkata- 700006**

SURVEILLANCE POLICY

FOR

STOCK BROKING AND DEPOSITORY PARTICIPANT OPERATIONS

Policy Approved By:-

**Sanjoy Tekriwal
Director**

**Sandeep Tekriwal
Director**

(Policy Drafted by- Swarup Dutta- Compliance Officer of Karuna Financial Services Pvt. Ltd & Karuna Retails Pvt. Ltd.)

(Policy Reviewed by- Mr. Koushik Banerjee Principal Officer of Karuna Financial Services Pvt. Ltd.)

Policy Reviewed on 06- March -2023
Passed in the Board Meeting held on 08 March -2023



Karuna Financial Services Pvt. Ltd.
207, C. R. Avenue, Meridian Plaza
3rd Floor, Kolkata- 700006

Background:

Surveillance is the process of collecting and analyzing information concerning markets in order to detect unfair transactions that may violate securities related laws, rules and regulations. Trading Members & Depository Participants have the responsibility of monitoring the trading activity of their clients. Trading Members have been advised by the Stock Exchanges, Depository & extant Regulators to set-up monitoring of the Trading Activity and Movement of securities of their clients including intra-day activity and proactively report to the Exchanges/ Depository/ Extant Regulators observations/ findings, if any. In order to achieve this and to create safer markets, Karuna Financial Services Pvt. Ltd. (in short “the Company/KFSPL”) would have in place adequate surveillance policies and system in order to monitor suspicious/manipulative transactions and curb such activities, if any.

Responsibility:

Compliance Officer shall be responsible for the implementation and supervision of this Policy.

The Risk Management Officer, Settlement Officer & PMLA Officer shall assist and report to the Compliance Officer on a daily basis in respect of the alerts generated for the surveillance mechanism.

The Compliance Officer shall take all necessary steps to analyze, monitor, document and report the findings to the Board Members as well as the relevant Stock Exchanges/Depository and/or regulatory bodies, in a time bound manner, as detailed hereunder and/or as mandated by the Stock Exchanges/Depository and/or regulatory bodies.

The Compliance Officer shall exercise their independent judgment and take adequate precautions to ensure implementation of an effective surveillance mechanism, based on the day-to-day activities of the clients, general market information and the facts and circumstances.

The Internal Auditor of the Company, shall review the Policy, its implementation, documentation, effectiveness and review the alerts generated during the period of audit and shall record the observations with respect to the same in their Internal Audit Reports.

The Board of Directors shall peruse, review and provide necessary guidance with regard to the “**Surveillance Policy**”, periodically, for strengthening the processes.

1. Surveillance Policy for Stock Broking:

- 1.1. The Stock Exchanges viz. NSE and BSE are providing alerts based on predefined criteria to the all the stock brokers including KFSPL through their portals. As per applicable Circulars, KFSPL is reviewing these alerts and taking appropriate actions after carrying out due diligence viz. either disposing off alerts with appropriate reasons/findings recorded or filing Suspicious Transaction Report (STR) with FIU-India in accordance with provisions of PMLA (Maintenance of records) Rules, 2005.
- 1.2. In addition to the same, KFSPL has framed its Surveillance Policy for Stock Broking operations to generate alerts as per guidance provided in NSE Circular No. NSE/SURV/48818 dated 01.07.2021 based on following criteria:
 - 1.2.1. Trading activity in a single day by one client or group of clients who have contributed more than 25% in single scrip or a single derivative contract.
 - 1.2.2. A client or a group of clients who are either new client/ clients or who have reactivated their trading account after significant time gap and who have contributed more than 50% of the total trading volume of a single scrip or derivative contract in a single day.
 - 1.2.3. Client or a group of clients dealing frequently in small quantities in a scrip.
 - 1.2.4. Trading activity of a client found to be disproportionate considering a reported income range details or networth.
 - 1.2.5. A client who has submitted modification request for changes in his/her/its demographic details of address, email id, mobile number, bank details etc. at least twice in a month.
 - 1.2.6. A client or a group of clients who have been found to have direct or indirect connection with a listed company and who have executed any transactions prior to any dissemination of any price sensitive information by such listed company.
 - 1.2.7. A client or group of clients having more than 20% volume of any scrip listed in for 'information list' or 'current watch list'.
 - 1.2.8. A client or group of clients which persistently earn or incur high amount of loss through their trading activities or clients who appear to have executed trades with the objective of transfer of profits or losses.

- 1.2.9. A client who is holding more than 5% of paid up capital of a listed company and has pledged 100% of his/her/it's such holding for margin purpose and who has also significant trading volume in the same scrip which he/she/it holds.
- 1.2.10. In case of a client or a group of clients who have been identified as per any of the above 9 criteria and whose orders are placed through a dealing office which is far from such client's address as per his/her/its KYC.
- 1.2.11. A client having demat account with KFSPL and who has holding in a scrip of more than 5% of paid up capital of a listed company which has received the same shares through off-market transfer.
- 1.2.12. A client who has received shares of a listed company through multiple off-market transfer and has pledged such shares.
- 1.2.13. Identification of IP addresses of clients to identify multiple client codes trading from same IP address.
- 1.2.14. Clients who are connected with each other as per key KYC parameters of the clients as updated by respective client.
13. The stock broking operation shall review the alerts provided by Stock Exchanges on an ongoing basis and shall ensure to process the same as early as possible. In any case, these alerts will be processed within 45 days from the date of generation of the alert by the Stock Exchanges.
 - 1.3.1. In case of any delay in disposing off any alerts, reasons for the same shall be recorded.
14. The stock broking operation shall identify suspicious/ manipulative activities undertaken by any client through monitoring of order(s) and trade(s).
15. The stock broking operation shall, in case of reporting of any transaction as STR to FIU-India, shall evaluate whether any further action including suspension of the trading activity of the suspect client(s), reporting to Stock Exchanges/SEBI and/or other Regulatory Authorities.
16. The stock broking operation shall maintain records for such period as is prescribed under PMLA (Maintenance of Records) Rules, 2005, and Securities Contracts (Regulation) Rules, 1957 and any other directions as may be issued by SEBI/ Stock Exchanges from time to time.

2. Surveillance Policy for operations as Depository Participant:

21. CDSL is providing transactional alerts on biweekly basis based on threshold defined by CDSL to the all the Depository Participants including KFSPL through CDSL report download utility. As per applicable Communiques, KFSPL is reviewing these alerts and taking appropriate actions after carrying out due diligence viz. either disposing off alerts with appropriate reasons/findings recorded or filing Suspicious Transaction Report (STR) with FIU-India in accordance with provisions of PMLA (Maintenance of records) Rules, 2005.
22. In addition to the same, KFSPL has framed its Surveillance Policy for Stock Broking operations to generate alerts as per guidance provided in NSE Circular No. NSE/SURV/48818 dated 01.07.2021 based on following criteria:
 - 2.2.1. Multiple Demat accounts opened with same PAN/mobile number/ email ID/ bank account details/ address. While reviewing BO account details, the details of existing BO shall also be considered.
 - 2.2.2. Email/ letters sent to clients on their registered email ID/address which bounces/ returns undelivered.
 - 2.2.3. A BO who has submitted modification request for changes in his/her/its demographic details of address, email id, mobile number, bank details, POA holder, Authorised Signatory etc. at least twice in a month.
 - 2.2.4. Frequent off-market transfer of securities more than twice in a month without genuine reasons.
 - 2.2.5. Off-market transactions not commensurate with the income/networth of the BO.
 - 2.2.6. Pledge transactions not commensurate with the income/networth of the BO.
 - 2.2.7. High value off-market transfer immediately after modification of either email ID/mobile number/ address without genuine reason.
 - 2.2.8. Review of reasons for off-market transfer provided by the BO which appears non-genuine based on either profile of the BO or on account of reason codes, including frequent off-market transfer with reason code gift/donation to unrelated parties and/or with reason code off-market sales.

- 2.2.9. Sudden increase in transaction activity in a newly opened account in a short span of time. An account in which securities balance suddenly reduces to zero and an active account with regular transaction suddenly becomes dormant.
- 23. The DP shall review the alerts provided by CDSL on fortnightly basis and shall ensure to process the same as early as possible. In any case, these alerts will be processed within 30 days from the date of generation of the alert by CDSL.
- 2.3.1. In case of any delay in disposing off any alerts, reasons for the same shall be recorded.
- 24. The DP shall identify suspicious/ manipulative activities undertaken by any client through monitoring of transaction(s)
- 25. The DP shall, in case of reporting of any transaction as STR to FIU-India, shall evaluate whether any further action including disassociating with the suspect client(s) and reporting to CDSL/SEBI and/or other Regulatory Authorities.
- 26. The DP shall maintain records for such period as is prescribed under PMLA (Maintenance of Records) Rules, 2005, and Securities Contracts (Regulation) Rules, 1957, SEBI (Depository and Participants) Regulations, 1996, DP Operating Instructions and any other directions as may be issued by SEBI/ Stock Exchanges from time to time.

3. Process of disposal of alerts and action:

- 3.1. The designated officials who are tasked to review the alerts on daily basis shall review the same.
- 3.2. If the designated official finds after review and due diligence that the alert is required to be closed, the official shall close the same with appropriate remarks.
- 3.3. If the designated official after due diligence and making such inquiry as such official finds necessary comes to a conclusion that the alert warrants an action, the official will forward the same with his/her views to the Compliance Officer for his/her approval.
- 3.4. The Compliance Officer, after review of the alerts along with the submitted comments of the designated official, decides to close the alert, he/she shall close it with appropriate remarks. If the Compliance Officer finds that action in respect of such alert is warranted, he/she shall take such actions including filing STR with FIU-India, informing to Stock Exchanges and CDSL and/or discontinue the relationship with the client.

35. The report of such instances along with adverse observations and details of actions taken shall be submitted to the Stock Exchanges/ CDSL within 7 day from date of identification of such instances.

3.6 The records of alerts generated, disposed of as closed and details of action taken wherever applicable shall be maintained with such security measures as would make such records temper proof and the access is available on to designated officials under the supervision of the Compliance Officer.

4. Obligations of Compliance Officer/ Designated Director and Internal Auditor of the Stock Broking Business and Depository Participant operations:

4.1. The surveillance activities of the stock broking operations and that of DP operations shall be conducted under overall supervision of the Compliance Officer of KFSPL. The policy implemented by KFSPL in accordance with the provisions of Prevention of Money Laundering Act, 2002 and rules made thereunder as Reporting Entity.

4.2. A quarterly MIS shall be put up by the Compliance Officer to the board and the Designated Director giving number of alerts generated during the quarter, number of alerts closed, number of alerts on which action taken with details of action taken and number of alerts pending at the end of the quarter along with reasons for pendency and action plan for closure. The Board as well as the Designated Director shall be apprised of any exception noticed during the disposal of the alerts.

4.3. The Designated Director shall be responsible for all surveillance activities carried out by the trading member.

4.4. KFSPL shall submit its surveillance policy to the internal auditor for stock broking operations and internal auditor of DP operations for review and shall satisfy the queries/questions, if any, raised by the internal auditor with respect to the implementation of the surveillance policy, its effectiveness and the alerts generated.

5. Obligation of Quarterly reporting of status of the alerts generated for Stock Broking Operations and Depository Participant Operations:

5.1. A quarterly statement providing duly approved status of alerts in respect of stock broking operations on quarterly basis shall be submitted to BSE and NSE in the following format within 15 days after the end of the quarter:

A. Status of Alerts generated by the Trading Member:

Name of Alert	No. of alerts under process at the beginning of quarter	No. of new alerts generated in the quarter	No. of alerts Verified & Closed in the quarter	No. of alerts referred to Exchange (*)	No. of alerts pending/ under process at the end of quarter

B. Details of alerts referred to the Exchange

Sr. No.	Date of Alert	Type of Alert	Brief observation and details of action taken	Date referred to Exchange

C. Details of any major surveillance action taken (other than alerts referred to Exchanges) if any during the quarter

Sr. No.	Brief action taken during the quarter

In case KFSPL does not have anything to report, a “NIL Report” shall be filed within 15 days from the end of the quarter.

52. A quarterly statement providing duly approved status of alerts in respect of DP operations on quarterly basis shall be submitted to CDSL in the following format within 15 days after the end of the quarter:

A. Status of Alerts generated by the Depository Participant:

Name of Alert	No. of alerts under process at the beginning of quarter	No. of new alerts generated in the quarter	No. of alerts Verified & Closed in the quarter	No. of alerts referred to Exchange (*)	No. of alerts pending/ under process at the end of quarter

- B. Details of any major surveillance action taken (other than alerts reported to CDSL) if any during the quarter

Sr. No.	Brief action taken during the quarter

In case KFSPL DP operation does not have anything to report, a “NIL Report” shall be filed within 15 days from the end of the quarter.

6. Schedule of the implementation of the policy:

61. The policy shall be implemented by stock broking operations with effect from 01.08.2021. The first reporting by Stock Broking operations shall be submitted within 15 days of 30.09.2021.
62. The policy shall be implemented by DP operations with effect from 01.10.2021. The first reporting by DP operations shall be submitted within 15 days of 31.12.2021.

7. Review of Policy:

The Surveillance Policy shall be reviewed on periodic basis and at least once a year by the Compliance Officer & Principal Officer to ensure that the same is updated in line with market trends, updated regulations and practices.

RISK MANAGEMENT POLICY

Analyzing exposure to risk and determining on handling of the same forms the basis of our Risk Management Policy.

- Limits will be set automatically whilst taking into consideration the client's ledger position, shares lying with us in our margin account (after due haircut). As a norm we require a minimum margin of 20% in cash segment. The under mentioned T&Cs are applicable to set the client limit.
- We have margin based automated RMS system. Total deposits of the clients are uploaded in the System and client may take exposure on the basis of margin applicable for respective security as Per VAR based margining system of the stock exchange.
- If **margin used** is more than **cash margin available** then gentle reminder will be given to the client for maintaining sufficient balance but if **span margin requirement** is more than **cash margin available**, then position will be squared off immediately from RMS.
- Reminder to **Squared off** of the shortfall position will be flashed on Dealing Terminal. Company will not be liable if reminder message in not been displayed properly on dealing terminal due to technical problem.
- In Equity Future & Option segment system will calculate and block only span margin instead of initial margin (Span+Exposure)
- The Client shall be solely responsible for squaring off the Margin Intraday Positions (MIS) during the day before 3.20 p.m. In case the client fails to square off the position (Cash market and F & O), then, on a Best Effort Basis, Achievers Equities Limited / Achievers Commercial Pvt. Ltd. (KFSPL / KRPL) may square-off all the open positions (including Cash market and F & O - long or short) under MIS. However, If the Open positions under MIS are not squared off during the day for any reasons and are carried over for the next trading day, then those trades shall be treated as NRML/ CNC trade as the case may be and Client shall be responsible and liable for the trading obligations as any other normal trade and shall pay the requisite margin and or the purchase consideration as the case may be. Client shall ensure and take all steps to monitor such trades and comply with its obligations for such trades.
- The Client shall be solely responsible for squaring off the Max Multiplier (CO) during the day before 3.10 p.m. In case the client fails to square off the position (Cash market and F & O), then, on a Best Effort Basis, Achievers Equities Limited / Achievers Commercial Pvt. Ltd. (KFSPL / KRPL) may square-off all the open positions (including Cash market and F & O - long or short) under CO. However, If the Open positions under CO are not squared off during the day for any reasons and are carried over for the next trading day, then those trades shall be treated as NRML/ CNC trade as the case may be and Client shall be responsible and liable for the trading obligations as any other normal trade and shall pay the requisite margin and or the purchase consideration as the case may be. Client shall ensure and take all steps to monitor such trades and comply with its obligations for such trades.

Equity Policy

1. Execution of trade is not allowed for those instruments which are in Ban Period.
2. Order entry is not allowed in MIS mode for the shares having up to 10% of CIRCUIT Limit.
3. For Trade to Trade (T2T), MIS not allowed (System will allow only CNC purchase & sell on the basis of available share holdings).
4. If any Security moves 16% upside or downside from market price other than shares traded in Future, then MIS will be blocked from Admin for that particular stock & all the existing open positions will be squared off at that point for that particular day.
5. Cash market intraday limits will be given to 5 times depending on the availability of the margin.
6. Exposure will be given to 3 times for Future trade & 1 time for Options trade.
7. If MTM loss exceeds 70%, the same day position will be squared off.
8. Currently we have a tie up with HDFC Bank, ICICI Bank & AXIS Bank, where client can transfer his/her funds through Cheque or Fund Transfer
9. The exchange delisted scrips will not be visible in trading system. One can check it in their respective DP accounts.
10. One has to clear his dues within T+5 days in any Cash segment or else position will be squared off.
11. In case of exposure taken on the basis of shares as margin the payment is required to be made before the exchange pay in date otherwise we will be liable to square off after the pay in time. Auto square off in Intraday should be done on daily basis 15 minutes before o market closing.
12. Equity Derivative clients can initiate position in F&O segment on the basis of SPAN margin only which was previously calculated on the basis of Initial margin (SPAN + EXPOSURE margin) from our end. SPAN must be strictly maintained by every client to keep their open position in NRML product.

Settlement Obligation in Options

13. 1. Brokerage: Any Transaction clients enter into will attract brokerage.
Brokerage is debited to client account at the end of the day.
 2. Premium payable or Receivable
 3. Profit on Exercise
 4. Loss on assignment
14. Obligation amount will be debited or credited in client ledger account as per detail mention below.
15. Assuming clients place a transaction on day T, Options obligation will be settled as per the following table.

Condition	Obligation Settlement
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Option Premium Receivable	T+1
Option Premium Payable	T
Exercise Profit in case of Stock / Index	T+1
Assignment Loss in case of Stock / Index	T
Brokerage	T

16. On T day if clients have a payin and takes a fresh position for a particular trade date and also squared off their existing position for a different trade date (if payin or payout falls on the same date) in that case fresh Position taken against limit arising from the squaring of the existing position and client does not have sufficient free limit available in such cases the said position will be reported as short fall of Margin Collection from client as per regulator and exchange and penalty will be charged as per regulation implied by SEBI and exchanges.

Illustration:

1st of Jan 2018 Buy Nifty 6000 Call at 100
= **Total Amount payable** 50x100 =5000

2nd of Jan 2018 Sold Nifty 6000 Call at 120
= **Total Amount receivable** 50x120 =6000

(will be received on T+1 on 3rd of Jan 2013)

2nd Jan 2013 Buy Nifty 5900 Put at 100
= **Total Amount payable** 50x100 =5000

(will have to pay on T day itself or else it will be reported shortfall of margin collection)

Note: Above illustration is considered in case client has no other limits.

Shares as Margin

17. Cash and Shares are considered as Margin and accepted for taking futures, options and intraday positions.

18. For Futures, Options & Margin positions, margin can be given in the following forms:

(a) Cash Margin

(b) Specified securities (by way of depositing securities to our Margin Account by availing “Shares and Margin” facility”).

For Futures & Options and Intraday, the limit granted is a sum of (a) & (b) and the margin is blocked on the individual positions on the overall basis and not in any proportion of (a) & (b).

19. Though securities limit is granted for exposure to F&O and Margin positions, actual payment is required for settlement dues arising from mark-to-market losses on Futures positions, premium payments for Options bought, square off losses on Futures, Options and Intraday positions, Cash n Carry (CNC) in case of Intraday positions and brokerage (inclusive of other charges) applicable on the transactions.

Illustration- Shares as Margin:

We provide 50% (50% Hair Cut) exposure on the Shares Client have provided us for availing **Shares as Margin** Facility. Workings of margin are given below:-

Suppose client have following margins

Cash Margin	-	-7625.00 debit
Demat Holdings	-	ITC 50 Qty
Share as Margin	-	ITC 32 Qty
So Ledger will be	-	-7625.00 debit

Now Margin Upload will be - Ledger Balance + Share as Margin Exposure, in this case [- 7625.00 + {(ITC 32* 353.15 Ltp of last trading day=11300.8)*50%=5650.4}]

= -1974.6 debit

Note:

1. System will not consider **Shares as Margin** for Exposure on Demat Balance of rest of the 18 ITC stocks of client as the same is in Clients Demat Account, it will consider shares for exposure which are transferred to company's "Client Margin Account" in this case it is 32 stocks of ITC only.

2. We will provide list of stocks which are eligible for **Shares as Margin**, you can avail the list from DP Department plus you can download from our website.

3. List of stocks is subject to change as per Company's Policy.



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Commodity Policies:

1. Exposure given at 3 times on Intraday.
2. We don't provide any extra exposure on Agro base Commodity for intraday & delivery i.e. exposure allowed on Agro base Commodity trading is 1 time.
3. Auto square off in Intraday should be done on daily basis 15 minutes before o market closing.
4. If MTM loss crossed 70%, then no fresh trade will be allowed. One can only square off his/her existing position.
5. If MTM loss crossed 80% the position will be squared off from sysstem.
6. If fund is received through NEFT, Prefunded Instrument like Demand draft & Cheque given from HDFC, AXIS & ICICI banks then the limit will be provided to carry forward the same day Future & Options position depending on the market conditions.
7. All open positions in MCX segment should be squared off before the tender period; else client must be informed about his/her position and his/her intention for delivery.
8. Risk Categorization:
 1. High Risk –The payout shares will be transferred to Hold back account of the clients under this category till the debits are cleared and a fresh exposure will be allowed only after a confirmation of clearance of the debit is received from the client. The clients of the branches which are located outside Kolkata are by default put under High Risk Category, which will be reviewed every 3 months. Clients who do not want the shares to be delivered to their demat account and utilize the same for limit / exposure by keeping the shares in our holdback account are also mapped under this category.
 2. Medium Risk – The clients falling under this risk group are given the share delivery wherein the maximum ledger debit is up to Rs 10000. Exposure given on the basis of margins.
 3. Low Risk – These clients are well known to the company on the basis of their track record. Hence their debits up to a maximum of Rs 30000. Simultaneously exposures granted to them are a bit flexible in nature (3 times more the normal exposure norms) on the basis of available margins.



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- Trades in Z category stocks are not allowed across all segments, unless permission for the same is taken and allowed after due consideration.
- The exposure with respect to every sub-broker, Authorised person & dealers terminal is controlled through the office risk management team. In case of sub-brokers, Authorised person having direct terminals the exposure limit is defined to control the maximum risk exposure of the client. Additionally the company has also installed CTCL / IML software with the help of which the company is expanding the reach and due to the control features existing in the CTCL / IML software along with the RMS software controls are maintained on the overall operations vide every client code and every terminal / branch / sub-broker / Authorised person location.
- Contracts being traded in options are not allowed beyond the first 3 months.
- None of the clients are being entertained without the collection of upfront margin. The clients position is reviewed daily and accordingly collection is done on a daily basis by our deputed risk management executives which are in turn checked by the risk and surveillance manager who in turn reports to the Dealing Head/Surveillance head.
- Holdings in DP accounts registered with Karuna Financial Services Pvt. Ltd. along with POA are considered while setting the client limits.
- As a policy we have specified a single sauda limit, which is maximum 10000 in quantity terms which can be placed for trade and a maximum of Rs 10 lacs in order value terms across all clients registered with Karuna Financial Services Pvt. Ltd. Beyond that on client request we can further increase single sauda limit subject to availability of the margin.
- The client limit is predetermined. The client limit is fixed as per the Ledger balance in line with respective client's trade history/experience, if available, his financial capacity and/or credit worthiness and referrals. If required and to exceed the limit, permission of higher authority is generally required.
- As a part of our risk management system, our team also monitors the exposures of clients on real-time basis. During market fall, we observe the position of respective client like his credit balance available with us, securities lying with us etc. and depending upon the same, we allow them to transact or create the position or to extend / subtract their position.

At the same time, we have to consider respective client's trade history/experience with us, his financial capacity and/or credit worthiness and referrals. In case, there is debit balance, client is required to provide sufficient margin / securities / funds to carry out his request for fresh buying or to create fresh position.



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Objective

- ✓ To ensure none of the clients have exposures unless adequate margin is available. This ensures control of abnormal volumes which is not supported by margin.
- ✓ Maximum risk is in F&O segment. Hence monitoring of F&O is done with utmost diligence.
- ✓ To ensure monitoring of square up transactions in cash segment on daily basis.
- ✓ Prevention of punching transactions beyond the stipulated ranges.
- ✓ Prevention of trade in ill-liquid / Z category shares.
- ✓ To ensure timely collection of overdue so as to enable an efficient RMS system

Note: Commodity trading is offered through Karuna Retails Pvt. Ltd.

Date: 02.04.2018

Place: Kolkata

Enclosed below find some Important Circulars of Exchange and Regulators related to RMS

NATIONAL STOCK EXCHANGE OF INDIA LIMITED

DEPARTMENT : INSPECTION

Download Ref.No.: NSE/INSP/20638

Date : April 26, 2012

Circular Ref.No.: 136/2012

To All Members

Sub : Clarifications on funding in connection with / incidental to /consequential upon the securities business

This is with reference to the Exchange circular no. NSE/MEMB/261 dated May 27, 1997 regarding clarification given by SEBI on applicability of Rule 8(1)(f) and 8(3)(f) of Securities Contract (Regulation) Rules, 1957, relating to fund based activities of brokers.

The Exchanges and SEBI have received various representations and queries on the issue from members. The Exchange in consultation with SEBI has provided clarification on the above subject as per Annexure I.

Members may take note of the same.

For and on behalf of
National Stock Exchange of India Limited

C N Upadhyay
Asst. Vice President
Encl: Annexure 1

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Annexure I

Clarifications

1. Debit Balances in Clients' Account

Rule 8 (1) (f) and Rule 8(3)(f) of SCRR permits a trading member to fund in connection with or incidental to or consequential upon the securities business. Further, Regulation 3.11 of Part A of the Capital Market Regulations of the Exchange provides that “If a Constituent fails to make payment of consideration to the trading member in respect of any one or more securities purchased by him before the pay-in date notified by the Exchange from time to time, the Trading Member shall be at liberty to sell the securities received in pay-out, in proportion to the amount not received, after taking into account any amount lying to the credit of the Constituent, by selling equivalent securities at any time on the Exchange not later than the fifth trading day reckoned from the date of pay-in. If the trading member has not sold the securities for any reason whatsoever, such securities shall be deemed to have been closed out at the close out price declared by the Exchange for the fifth trading day. The loss, if any, on account of the close out shall be to the account of the Constituent”.

Considering both of the above provisions, the following clarifications are issued on debit balances in Client's account:

- a) If debit balance arises out of client's failure to pay such amount for less than fifth trading day reckoned from date of pay-in, such debit balances would not be construed as violation relating to funding.
- b) If debit balance arises out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and no further exposure is granted to client from the sixth trading day reckoned from the date of pay-in, such debit balance would not be construed as violation relating to funding.
- c) If debit balances arise out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and further exposure is granted to client it would be construed as a funding violation even if fully paid collaterals are available for margins.
- d) Delayed Payment Charges or interest charge for the funds deployed by the member may be charged at the rate/s consented by the client.

For the purpose of reckoning debit balance stated above, the debit balance in the client ledger consolidated across segments (not across Exchanges) after giving effect to the release of margin to be considered.

Further, if subsequently any complaint is received regarding selling of collaterals for recovery of debit balance, as per the Regulation 3.11 of Part A of the Capital Market Regulations of the Exchange quoted above, the securities shall be deemed to have been closed out at the closing price declared by the Exchange for fifth trading day reckoned from the date of pay-in.



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Collaterals as Margin

In Equity Derivative Segment and Currency Derivative Segments Members are allowed to accept approved securities from clients for margin purposes. However, Members can lodge their own securities only to the Clearing Corporation and not the clients' securities. Where Member has accepted securities with appropriate hair cut for margin purpose, but has to deploy his funds for meeting margin requirements of the client at the Exchange, Members may levy interest or delayed payment charge on debit balance as per the terms consented by the client.



CIRCULAR

CIR/DNPD/7/2011

August 10, 2011

To

Managing Director/ Chief Executive Officer

Recognized Stock Exchanges

Dear Sir/Madam,

Sub: Short-collection/Non-collection of client margins (Derivatives Segments)

1. In consultation with BSE, MCX-SX, NSE and USE, it has been decided that Stock Exchanges shall levy penalty specified hereunder on trading members for short-collection/non-collection of margins from clients in Equity and Currency Derivatives segments:

For each member	
'a'	Per day Penalty as %age of 'a'
(< Rs 1 lakh) And (< 10% of applicable margin)	0.5
(≥ Rs 1 lakh) Or (≥ 10% of applicable margin)	1.0

Where a = Short-collection/non-collection of margins per client per segment per day

2. If short/non-collection of margins for a client continues for more than 3 consecutive days, then penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of shortfall.
3. If short/non-collection of margins for a client takes place for more than 5 days in a month, then penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.
4. Notwithstanding the above, if short collection of margin from clients is caused due to movement of 3% or more in the index (close to close value of Nifty/Sensex for all equity derivatives) and in the underlying currency pair (close to close settlement price of currency futures, in case of all currency derivatives) on a given day, (day T), then, the penalty for short collection shall be imposed only if the shortfall continues to T+2 day.
5. All instances of non-reporting shall amount to 100% short collection and the penalty as applicable shall be charged on these instances in respect of short collection.



Securities and Exchange Board of India

6. If during inspection it is found that a member has reported falsely the margin collected from clients, the member shall be penalized 100% of the falsely reported amount along with suspension of trading for 1 day in that segment.
7. The penalty shall be collected by the Stock Exchange within five days of the last working day of the trading month and credited to its Investor Protection Fund.
8. SEBI shall examine implementation of this circular during inspection of the Stock Exchange.
9. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
10. The circular shall come into force from September 1, 2011.
11. This circular is available on SEBI website at www.sebi.gov.in under the category "Derivatives- Circulars".

Yours faithfully,

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