

## **Internal Control Measures**

The 'Know your Client' (KYC) procedures clearly spells out the client identification process that is carried out at different stages. VLS Finance Limited has framed its own internal guidelines and legal requirements as per the established practices detailing the list of documents required during account opening process. The underlying principle is to follow the principles enshrined in the PML Act, 2002 as well as the SEBI Act, 1992.

### **1 Client Due Diligence:**

In opening Client Accounts, we apply the usual client due diligence measures prescribed under KYC norms. The format in which we conduct the client due diligence is part of our KYC form. We do not entertain walk-in clients and prefer clients known to us through some accredited contacts.

### **2 Assessment of financial capability of client:**

We take from clients net-worth/financial standing details which have to be supported by one of the following documents;

- a. Copy of ITR acknowledgement.
- b. Copy of Annual Returns.
- c. Copy of Form No. 16: In case of salary income.
- d. Net-worth certificate from a Chartered Accountant.
- e. Salary slip duly stamped, signed by employer.
- f. Bank Account Statement for last six months.
- g. Copy of dematerialized account holding statement.
- h. Any other document substantiating ownership of assets.

### **3 Process of record keeping and retrieval of client registration documents:**

All client registration documents, once checked, found complete and verified as such and the accounts opened, are securely stored.

### **4 Updation of client financial and other client particulars:**

We send to all our clients on an annual basis:

- a) Client Detail
- b) Self-declaration for financial status asking them to confirm details in client-master and update the financial particulars. It is an annual exercise of updation of client particulars.

### **5 Client Master Modifications:**

On an annual basis, there is a regular updation of the details. However, in between, if the client wants to modify any details, he/she/it is enabled to do so by filling up a Client Master Modification Form and submitting to us the documentary proof of modified detail.

## **6 Systems and Process adopted for UCC upload:**

From our back-end, we generate file for the client containing data of market segment, client code, client name, PAN, address in the format prescribed by BSE. The data generated are thereafter verified with KYC. On the data being found fully correct, the client detail is uploaded on UCC – site of BSE. After uploading, we run a check, on the UCC-site, by entering the specific client, whether or not the client details are actually uploaded on UCC-site. The KYC details of the clients are dealt with in the manner prescribed in the “KYC Registration Agency (KRA) System by the intermediaries” mandated by SEBI.

## **7 Process of client code closure:**

First the client has to give a request for closure of the account. On receipt of such request, the account is checked for any outstanding balance either debit or credit. If it is a debit balance, the client is asked to clear it. In case of a credit balance, the same is paid to the client. Similarly, a check is carried out in the back office to ascertain:

- i. the securities lying with us as margin or pending pay-out to the client.
- ii. whether the client has any outstanding position pay-in position of securities or a pay-out from Exchanges in pipeline.

In case of any outstanding position, we either let the client pay the same, (if it is an owing) or wait for the transaction to come to a close so that we can crystallize either the client’s liability for pay-in or our liability to settle the securities due to the client.

Whether any notice issued to the client is pending reply and any liability arises to the company or client as a result of client’s action / inaction for which the notice has been issued.

Once the client is cleared for closure, the client’s account is closed.

## **8 Precaution with respect to dormant accounts:**

All dormant accounts (inactive for six months and more) are treated as inactive and no transactions are allowed. However, a client can re-activate the dormant account by giving us in writing a request to activate it. Once an active becomes dormant immediate steps shall be taken for transfer of all assets of the client, such as credit balances, holding of securities or assets in any other form, to the client.

## **9 Risk Management Policy:**

All outstanding debit balances of Rs. 50,000 or more are monitored on a daily basis. No such debit is allowed to remain in books beyond five days. After five days, effective measures are taken for recovery of dues from the clients. In case of smaller debit balances, regular follow up is done with the clients for recovery of dues.

Pay-in funds and securities must be completed by the close of the working hours on the day next to the trading. However, securities can be paid in maximum by 9:30 AM on the (T+2) day, that is on the second day from the trading day. If not, they go for auction and the auction loss has to be borne by the client. In case of non pay-in of funds, we do make the pay-in but securities are not released until the client makes the pay-in.

Clients are given the cheques for their dues on the very day the pay-out is received from the Stock Exchange. However, clients maintaining their account on a running basis do not take their pay-out on a transaction-to –transaction basis. Whenever, they want the pay-out, they inform us and the credit balance (which has become due – a credit balance for which the exchange pay-out is not received is considered not due) is released to the client.

### **10 Internal Shortage:**

The policy and procedure for settlement of shortages in obligations arising out of internal netting of trades is as under:

- a) The short delivering client's account is debited by an amount equivalent to 20% above of closing rate of day prior to Pay-in / Pay-out Day. The securities delivered short are purchased from market on T+2 day and the purchase consideration (inclusive of all statutory taxes & levies) is debited to the short delivering seller client along with reversal entry of provisionally amount debited earlier.
- b) If securities cannot be purchased from market due to any force majeure condition, the short delivering seller's accounts is debited at the closing rate on T+3 day or Auction day on Exchange +10% where the delivery is matched partially or fully at the Exchange Clearing, the delivery and debits/credits shall be as per Exchange Debits and Credits.
- c) In cases of securities having corporate actions all cases of short delivery of cum transactions which cannot be auctioned on cum basis or where the cum basis auctioned on cum basis or where the cum basis auction payout is after the book closure/record date, would be compulsory closed out at higher of 10% above the official closing price on the auction day or the highest traded price from first trading day of the settlement till the auction day.

### **11 Policy for transfer of trades:**

We have a strict policy with respect to client code change. Inadvertent errors are inevitable. We permit client change after thorough scrutiny after fully satisfying ourselves the genuineness of the request.

### **12 Investor Redressal Mechanisms:**

All complaints received through letter, e-mail and personal representation (we urge upon client to put it in writing and give it to us) are duly recorded by us and measures taken for their redressal.

### **13 System in place to generate alerts for suspicious transaction:**

Alerts are based on following factors:

- . Sudden disproportionate increase in client's trading.
- . A client trading beyond declared financial capacity.
- . Introducing third party cheques in settlement of pay-in dues.
- . Making off-market transfers to the same demat account(s) immediately after receiving securities in payout.
- . Introducing Demand Drafts in settlement of pay in dues.
- . Any other act that arouses suspicion.
- . If a client is always indulging in one or all of the above in an ongoing manner, we put them under a special watch.