

Policy for Pre-Funded Instruments

Policy created by	Operational staff
Policy reviewed by	Compliance Head
Approval authority	Board of Directors
Periodicity of Review periodicity	As and when any changes are introduced by any statutory authority or as and when it is found necessary to change the policy due to business needs.
Officer responsible for implementation	Compliance Officer

Objective:

The objective of the policy is to prevent acceptance of third party funds and to prescribe process to deal with instruments issued by third party when received.

Background:

SEBI vide circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003 has specified that the stock brokers can accept demand drafts from their clients. However, SEBI vide circular no. CIR/MIRSD/03/2011 dated June 9, 2011 and National Stock Exchange vide its circular no. NSE/INSP/18024 dated 09-Jun-11 has advised stock brokers to maintain an audit trail while receiving funds from the clients through Demand Draft (DD)/Pay Order (PO)/Bankers Cheque (BC) since such third party pre-paid instruments do not contain the details like name of the client, bank account number are not mentioned on such instruments. Non maintenance of audit trail may result in flow of third party funds or unidentified money which may result into breach of regulations issued under PMLA and SEBI circulars.

Terms used in this policy:

1. **Prefunded Instruments** - Referred as Pay-orders, Demand Draft, banker's cheque etc.

Policy:

SEBI vide circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003 has specified that the stock brokers can accept demand drafts from their clients. However, in accordance with SEBI circular no. CIR/MIRSD/03/2011 dated June 9, 2011, the following needs to be complied:

1. A "Pre-paid instrument received register" with columns for date, name of the client, amount, instrument drawn on (bank name) and such other columns as found necessary shall be maintained. The register may be maintained either in a physical form or in electronic form.
2. Pre-paid instruments of the value of less than Rs 50,000 may be accepted from the client. Whenever such instruments are received, entry into 'Pre-paid instruments Received register' shall be made.

3. If the pre-paid instrument is for value more than Rs. 50,000 or If the aggregate value of pre-funded instruments is Rs. 50,000 or more, per day per client is presented for acceptance, such instrument or instruments may be accepted, only if the same is/are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:
 - I. Certificate from the issuing bank or its letter head or on a plain paper with the seal of the issuing bank.
 - II. Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.
 - III. Certified copy of the passbook / bank statement for the account debited to issue the instrument.
 - IV. Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.
4. If a client submits pre-paid instruments at different times during the day, details and certificates as stated above may be collected along with the instrument with which the aggregate value of pre-paid instruments submitted exceeds Rs 50,000 for that date.
5. In case of any receipt of funds by way of Electronic fund transfer, an audit trail to ensure that funds are received from respective client only has to be maintained. Necessary details may be collected from banker at which the amount is received.
6. If the pre-paid instrument is received through post or any other method where client does not directly interface for submission of the instrument and the instrument doesnot contain the information as required above, the following action may be taken:
 - Contact the client immediately and seek information. Not to bank the instrument until the information is given by the client.
 - If the pre-paid instrument is bank transfer, contact banker immediately for the details; not utilize the amount so credited until the details are receivedand not to give credit to the customer until banker gives the details/certification.
7. While giving credit to respective client's ledger, Head office needs to cross check /



verify with documents that such instrument is received from respective client.

Review Policy:

This policy may be reviewed as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change the policy due to business needs. The policy may be reviewed by the Directors and place the changes in policy before the Board at the meeting first held after such changes are introduced.

Policy communication:

A copy of this policy shall be made available to all the relevant staff who are responsible for receipt of funds from clients and customer service executives.

Disclaimer: Above policy is subject to change from time to time having regard to change in circumstances and shall be reviewed periodically in accordance with regulatory guidelines and management perception.

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