

Policy for modification of Client Code of Non- Institutional Trades

Policy created by: Operational/ Risk Management Staff	Policy created on: <u>April 1st 2023</u>
Policy reviewed by: Compliance Head	Policy reviewed on: <u>April 1st 2023</u>
Approval Authority: Board of Directors/ Partners/ Proprietor	<u>Mr.Tushar Shah</u>
Policy approved by: Board of Directors/ Partners/ Proprietor	Policy approved on: <u>April 1st 2023</u>
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Officer responsible for implementation: Compliance Officer.	<u>Nehal Shah</u>

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Objective

The main objective of the policy is to deal with modification of client code after the execution of trade and to create an awareness amongst the relevant staff such as dealers, Branch In charge, Compliance Officer, Sub-brokers and Authorised Persons.

Background

SEBI vide its circular no. CIR/DNPD/6/2011 dated July 5, 2011 and National Stock Exchange vide circular nos. NSE/INV G/2011/18281 dated July 5, 2011, NSE/INV G/2011/18484 dated July 29, 2011 and NSE/INV G/2011/18716 dated August 26, 2011 directed that modifications of client codes of non-institutional trades are done only to rectify a genuine error in entry of client code at the time of placing / modifying the related order.

As per the above mentioned circulars, the Stock Exchanges shall levy penalty to the Trading Members for Client Code Modification as per the calculation given below and transfer the amount to its Investor Protection Fund.

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2

Where,

a = Value (turnover) of non-institutional trades where client codes have been modified by a trading member in a segment during a month.

b = Value (turnover) of non-institutional trades of the trading member in the segment during the month.

Accordingly, for the client code modification done on the Exchange system, the Exchange penalises as per SEBI defined penalty structure. and in addition, the Stock Exchanges have been directed to conduct a special inspection to ascertain whether the modifications of client codes are being carried on as per the strict objective criteria set by the Stock Exchange, if 'a' as % of 'b', as defined above, exceeds 1% during a month and take appropriate disciplinary action, if any deficiency is observed.

Terms used in this policy

1. Genuine errors

Errors due to communication and/or punching or typing such that the original client/code/name and the modified client code/name are similar to each other and modification within relatives ('Relative' for this purpose would mean "Relative: as defined under the Companies Act, 1956)

2. Modification of client codes

Modification in client codes due to shifting of trade (Institutional or non institutional) to the Error Account, which are subsequently liquidated/closed out in the market and not shifted to other client code.

Policy

Dealers are advised to hear patiently the client code /scrip name and reconfirm the same to their best possible efforts before placing order into the system however the below mentioned client code modifications are considered Genuine Errors as per the circulars issued by the Sebi / Exchanges :

1. Where original client code/ name and modified client code / name are similar to each other but such modifications are not repetitive.
2. Error due to communication and/or punching or typing such that the original client code/name and the modified client code/name are similar to each other.
3. Modification within relatives ('Relative' for this purpose would mean "Relative" as defined under the Companies Act, 1956).

Provided there is no consistent pattern in the above mentioned modifications.

Modification in client codes

- 1) Any trade shifted (institutional or non institutional) to the Error Account are subsequently liquidated/closed out in the market and not shifted to some other client code. New order would be punched in original code.
- 2) Client code modification issues should be reported to the Compliance Officer / Concerned Operations In-Charge at Head Office for approval and it should be approved only after verifying the Sebi /Exchange directives issued from time to time.
- 3) The Compliance Officer / Concerned Operations in charge should review every day the Error Account file send by the Exchange.
- 4) A separate register to be maintained for this purpose where the details are recorded.
- 5) An error account with the name "ERROR" is opened and UCC uploaded for the same to the Stock Exchange. UCC for Error account is _____.
- 6) The modification of client code is to be done only in exceptional cases and not in routine case.
- 7) The access / rights of client code modification is given only to such officers as are approved by Head of operations and Compliance department and any deviations are to be escalated to concerned directors /partners/ Sole Proprietor.
- 8) Concerned person authorized for verification should check that Client code/name and modified client code/name are similar to each other or the code change is on account of Family Code (spouse, dependent parents, dependent children and HUF).

- 9) Department head/ compliance officer are advised to analyze the mistake for genuineness of code modification, verify for patterns which indicates the intention to adversely impact one investor over other by transferring profits/ losses to/from specific codes.

Example of Genuine Error

The criteria for determining the genuineness of client code modification are as follows:
Client code FA 1234 wrongly entered MN5678 would be constructed as intentionally committed whereas FA1234 entered as AF 1234 or FA 2341 may be a genuine punching error.

Reporting Process

Department Head/ Compliance officer are advised to update the modified cases report to the Board / Management on the implementation of the said policy periodically.

Approval Authority

This policy is approved by the Board / Managing Partners / Sole Proprietor.

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.

In case Corporate Members: The policy may be reviewed by the Managing Director/CEO and place the changes in policy before the Board at the meeting first held after such changes are introduced.

In case of Individuals / Partnership Members: The policy may be reviewed by the Managing Partners / Sole proprietor.

Policy communication

A copy of this policy shall be made available to all the relevant staff such as dealers, Branch In charge, Compliance Officer, Sub-brokers and Authorised Persons

Reference to the Circulars

- SEBI – Circulars No.-CIR/DNPD/01/2011 dated July 05, 2011
- NSE – Circular No. - NSE/INV/G/2011/596 dated February 17, 2011
- Circular No.- NSE/INV/G/2011/18484 dated July 29, 2011
- Circular No. - NSE /INV/G/2011/870 dated August 26, 2011

~~(Members may also add reference circulars of any other exchange wherein they are registered).~~

~~**Disclaimer: Members are requested to make this policy more Comprehensive based on their business requirements and not to treat this as the full and final policy.**~~