SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

Client Code Modification and Error Code Policy

A **Client Code Modification and Error Code Policy** is crucial for stock brokers to address situations where clients' codes need modification or there is an error in order execution. The policy ensures that client code modifications are done only in exceptional circumstances and with proper authorization to avoid misuse or unethical practices. It also outlines the process for dealing with errors to maintain transparency and compliance with regulatory requirements.

1. Purpose & Scope

- **Purpose:** To establish a set of guidelines for handling modifications to client codes and resolving error trades or codes while ensuring that such changes are legitimate, well-documented, and comply with regulatory requirements.

- **Scope:** This policy applies to all employees, departments, and systems involved in trading, trade validation, risk management, and customer service.

2. Regulatory Compliance

- **Compliance with SEBI, NSE/BSE Rules, and Other Regulations:**

  - The Securities and Exchange Board of India (SEBI) and stock exchanges like NSE/BSE have clear rules regarding client code modifications. These modifications are only allowed in case of genuine errors and not for unethical practices like avoiding taxes or manipulating positions.

  - The firm must stay updated with regulatory requirements regarding error codes and client code modifications, and any breach must be reported.

3. Conditions for Client Code Modification

- **Genuine Errors Only:**

  - Client code modifications should be allowed only in genuine cases of errors, such as punching mistakes, wrong mapping of client accounts, or technical/system issues.

- **Prohibited Use:**

  - Client code modifications cannot be used to reassign trades for tax avoidance, risk shifting, or other manipulative practices.

- **Exceptional Circumstances:**

- o Modifications must only occur in exceptional cases and under a well-documented approval process. Routine or frequent modifications should raise red flags and warrant investigation.

4. Types of Client Code Modifications

- **Wrong Client Code Mapping:**

  - o An error where a trade is mistakenly executed under the wrong client code (due to data entry or system mapping issues).

- **Family Account Adjustments (Where Allowed):**

  - o In some cases, clients may have multiple accounts (e.g., family accounts), and legitimate trades may sometimes need to be adjusted. In such cases, the firm should follow a defined process and only under regulatory guidelines.

5. Authorization & Approval

- **Approval Process:**

  - o Any client code modification requires formal approval from a senior compliance officer or designated authority within the firm.

- **Documentation:**

  - o Every modification request must be accompanied by:

    - ▪ Reason for modification.

    - ▪ Evidence supporting the error (e.g., screenshots, system logs).

    - ▪ Approval from both the dealing and compliance team.

- **Time Limit for Modifications:**

  - o Modifications should be requested and processed within a set time frame, typically on the same day of the trade or as per exchange/SEBI guidelines.

- **Audit Trail:** Maintain a complete audit trail of all modifications, including timestamps, reasons, and the approval process.

6. Error Code Policy

- **Definition of Error Trades:**

  - o Error trades refer to trades that occur due to system failures, human mistakes, or any unintentional execution discrepancies that need correction.

- **Error Codes:**

- o Each error trade must be assigned an error code, and the corresponding reason for the error must be documented. Common error types include:

    - Wrong price or quantity input.

    - Mistaken identity of the client.

    - Technical glitches or downtime.

- **Error Reporting:**

    - o Brokers must immediately report any errors to the client, exchange, and relevant authorities as required by law.

- **Correction of Error Trades:**

    - o Procedures for correcting or canceling error trades must comply with regulatory guidelines.

    - o Trades executed in error should be reversed or rectified promptly.

7. Handling of Error Trades

- **Error Rectification Process:**

    - o Immediately notify the client and the compliance team.

    - o Correct the error through legitimate means such as trade cancellation, code modification, or reallocating the trade to the correct account.

- **Systematic Error Identification:**

    - o Regular monitoring of trading systems to detect patterns of errors that may indicate deeper operational or technical issues.

- **Error Reporting to Exchange:**

    - o Submit reports of error trades to the relevant stock exchanges within the timeline and formats specified by the exchanges (e.g., NSE/BSE).

8. Monitoring and Review

- **Daily Monitoring:**

    - o Client code modifications and error trades must be monitored daily by the compliance team to ensure proper oversight and prevent misuse.

- **Internal Review Mechanism:**

    - o Periodic review of client code modifications and error trade occurrences to assess if there are recurring issues, operational lapses, or risk of abuse.

- **Limit on Modifications:**

  - Implement a cap or alert system on the number or frequency of client code modifications to prevent excessive changes, which may signal underlying issues.

9. Record Keeping and Audit Trail

- **Detailed Records:**

  - Maintain records of all client code modifications and error trades, including:

    - The original and modified client code.

    - Reason for modification or error.

    - Supporting evidence (logs, screenshots, etc.).

    - Time of modification or error resolution.

    - Names of personnel involved in the approval process.

- **Retention of Records:**

  - Keep records for a minimum period as mandated by regulators (e.g., five years) to ensure that they are available for audits or inquiries.

- **Audit and Compliance:**

  - Periodic internal and external audits of the firm's trading systems, error correction processes, and client code modifications should be carried out to ensure adherence to policy and regulations.

10. Client Communication and Transparency

- **Client Notification:**

  - If a client code modification or error trade correction affects the client's position or account, notify the client immediately, explaining the situation and actions taken.

- **Client Consent (Where Required):**

  - Obtain prior consent from the client in cases where a modification will impact their trade significantly, unless the change is mandated by regulations.

- **Transparency:**

  - Maintain transparency with clients regarding the firm's procedures on code modifications and error corrections, ensuring they understand how errors are handled.

11. Penalties and Consequences

- **Regulatory Penalties:**

  - Non-compliance with client code modification rules or error trade handling can lead to penalties from stock exchanges and regulatory authorities like SEBI.

  - The brokerage firm may also face reputational damage and client losses.

- **Internal Disciplinary Actions:**

  - Any employee found to have engaged in unauthorized or unethical code modifications will face disciplinary actions, including termination and legal consequences.

12. Training and Awareness

- **Employee Training:**

  - Regular training for employees involved in trade execution, compliance, and risk management on the firm's client code modification and error code policies.

- **Client Education:**

  - Educate clients about the correct process for handling trade errors and the limited conditions under which their client code may be modified.

13. Whistleblower and Reporting Mechanisms

- Establish a system for employees or clients to report any suspicious or unauthorized client code modifications or error trade handling confidentially.

- Implement procedures for investigating and addressing reported concerns promptly.

14. Ongoing Review and Improvement

- **Periodic Policy Review:**

  - The client code modification and error code policy should be reviewed and updated periodically to ensure alignment with the latest regulatory requirements and market practices.

- **Continuous Improvement:**

  - Analyze trends in error trades and client code modifications to identify opportunities for operational improvements and minimize future errors.