SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

Conflict of Interest Policy for Stock Brokers

A **Conflict of Interest Policy for Stock Brokers** is essential to ensure that brokers act in the best interest of their clients and maintain the integrity of the markets. This policy helps identify, manage, and mitigate any conflicts between the broker's personal or financial interests and those of their clients or the broader market. A well-defined conflict of interest policy ensures transparency and fairness, helping to avoid reputational damage, legal risks, or regulatory sanctions.

1. Objective of the Conflict of Interest Policy

- **Client Protection:** Ensure that clients' interests are prioritized and protected in all transactions.
- **Transparency:** Maintain transparency in dealings and ensure that conflicts of interest are disclosed to clients.
- **Market Integrity:** Prevent conflicts of interest from affecting market integrity or fair market practices.
- **Compliance:** Adhere to the regulations set forth by SEBI, stock exchanges, and other regulatory authorities concerning conflicts of interest.

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2. Scope of the Policy

This policy applies to:

- **Stock Brokers:** All employees, agents, representatives, directors, and related parties of the brokerage firm.
- **Clients:** All client transactions and relationships, including retail and institutional clients.
- **Business Activities:** All business activities, including client transactions, proprietary trading, research, advisory, asset management, and any other services provided by the broker.

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3. Key Sources of Conflicts of Interest

Common scenarios where conflicts of interest might arise include:

3.1 Proprietary Trading

- Brokers may engage in **proprietary trading** (i.e., trading for their own account), which could potentially conflict with client trades. For instance, brokers might prioritize their own trades over client orders or use client information to benefit their proprietary trades.

3.2 Front Running

- **Front running** occurs when brokers execute trades in their own accounts or on behalf of other clients ahead of large client orders, taking advantage of expected market movements to generate profits at the client's expense.

3.3 Cross-Selling and Biased Recommendations

- Brokers may be incentivized to sell specific financial products or services (such as mutual funds or structured products) because of commissions, incentives, or financial arrangements with issuers, which may not align with the best interests of the client.
- Providing **biased research reports** or **recommendations** to promote certain stocks or products, motivated by financial relationships with companies, investment banks, or affiliates.

3.4 Soft Dollar Arrangements

- **Soft dollar arrangements** involve brokers receiving benefits (such as research or services) from third parties (e.g., mutual funds or portfolio managers) in exchange for executing trades through them, which could affect the broker's objectivity.

3.5 Employee Personal Trading

- Employees may engage in **personal trading**, which could conflict with client transactions if they use non-public information to benefit from trades or manipulate market conditions for personal gain.

3.6 Outside Business Interests

- Brokers, employees, or agents may have **outside business interests** (e.g., directorships, investments in companies) that could create conflicts when those interests overlap with their responsibilities to clients or the brokerage firm.

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4. Managing and Mitigating Conflicts of Interest

To effectively manage conflicts of interest, stock brokers should adopt the following measures:

4.1 Disclosure of Conflicts

- **Mandatory Disclosure:** Brokers must disclose any actual or potential conflicts of interest to clients when providing investment advice, executing trades, or recommending products. This includes disclosing any financial or business relationships that could influence their advice.
- **Client Consent:** In some cases, brokers should obtain the client's consent to proceed with transactions where a conflict of interest has been disclosed.

4.2 Separation of Business Units (Chinese Walls)

- **Information Barriers:** Implement "Chinese walls" or **information barriers** between different business units, such as proprietary trading, research, and client advisory, to prevent the misuse of confidential client information.
- **Segregation of Duties:** Ensure the physical and functional separation of departments that handle potentially conflicting business activities (e.g., research, trading, and sales).

4.3 Prohibition of Front Running

- **Ban on Front Running:** Strictly prohibit front running by brokers and employees. Surveillance systems should be in place to monitor trading activities for any potential front-running violations.
- **Employee Training:** Conduct regular training for employees on the prohibition of front running and the penalties associated with it.

4.4 Proprietary Trading Controls

- **Client Priority:** Ensure that client orders are prioritized over proprietary trades. Brokers must not trade for their own account in a way that adversely impacts client trades.
- **Proprietary Trading Disclosure:** If a broker engages in proprietary trading, the firm must disclose this activity to clients and ensure that adequate controls are in place to avoid conflicts.

4.5 Research Objectivity

- **Independent Research:** Ensure that research reports and investment recommendations are objective and free from undue influence from financial or business relationships.
- **Conflict-Free Recommendations:** Avoid providing biased recommendations to promote products or services in which the broker has a vested interest. Disclose any financial interest the broker or its employees may have in the securities being recommended.
- **Separation of Research and Sales:** Maintain the independence of research departments by separating them from the sales and trading departments.

4.6 Employee Personal Trading Policies

- **Pre-Trade Approvals:** Require employees to seek pre-approval for personal trades to ensure that such transactions do not conflict with client interests or breach insider trading regulations.
- **Blackout Periods:** Impose blackout periods during which employees are prohibited from trading certain securities, particularly around the time of major client transactions or market-moving events.
- **Disclosure of Personal Trades:** Employees must disclose personal trades and financial interests that could conflict with their professional responsibilities.

4.7 Third-Party Payments and Soft Dollar Arrangements

- **Prohibition of Kickbacks:** Brokers should not accept any form of kickback, incentive, or payment from third parties that could influence their dealings with clients.
- **Disclosure of Soft Dollar Arrangements:** Brokers must disclose any soft dollar arrangements to clients and ensure that they do not compromise the quality or objectivity of their services.

4.8 Employee Outside Business Interests

- **Disclosure of Outside Interests:** Employees must disclose any outside business interests or directorships that may create conflicts of interest. Approval should be sought from the compliance department before engaging in any outside activities.
- **Restrictions on External Activities:** Employees may be restricted from engaging in activities or affiliations that could interfere with their responsibilities to the firm and clients or create conflicts of interest.

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5. Internal Controls and Procedures

- **Compliance Monitoring:** The compliance department must regularly monitor and review broker and employee activities to identify potential conflicts of interest.
- **Internal Audits:** Conduct regular internal audits to ensure that conflict management policies and procedures are being followed effectively.
- **Whistleblower Mechanism:** Implement a confidential whistleblower mechanism where employees can report potential conflicts of interest or unethical behavior without fear of retaliation.
- **Record Keeping:** Maintain accurate records of any conflicts of interest identified, the measures taken to manage them, and client disclosures.

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6. Training and Awareness

- **Employee Training:** Conduct regular training programs for all employees on conflict of interest policies, ethical trading practices, and compliance requirements. This ensures that employees understand how to identify, disclose, and mitigate conflicts.
- **Client Education:** Educate clients about conflicts of interest and provide them with information on how the brokerage firm manages and discloses these conflicts.

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7. Review and Updates to the Policy

- **Periodic Review:** The conflict of interest policy should be reviewed periodically to ensure that it remains relevant and effective in addressing emerging risks, changes in business activities, and evolving regulatory requirements.
- **Policy Enhancements:** Based on audits, client feedback, and regulatory developments, the policy should be updated to strengthen conflict management processes.