

SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

Internal Control Policy

An **Internal Control Policy** for stock brokers is essential to ensure compliance with regulations, safeguard client assets, manage risks, and maintain the integrity of financial markets. Such policies outline the procedures and controls that a brokerage firm must implement to ensure proper supervision, minimize risks, and prevent fraud or unethical practices. Below is a basic structure and key components of an internal control policy for stock brokers:

1. Purpose & Scope

- **Purpose:** To define and establish a framework for the internal control system of the brokerage firm to ensure compliance with applicable laws, safeguard client assets, and mitigate financial, operational, and reputational risks.
- **Scope:** Applies to all operations, personnel, and departments involved in brokerage activities, including trading, customer management, settlement, and risk management.

2. Compliance with Regulatory Framework

- Adherence to relevant securities regulations (e.g., Securities Exchange Act, FINRA rules, SEBI regulations in India).
- Implement a system for staying up-to-date with new and revised laws and regulations that impact brokerage operations.
- Assign a Compliance Officer to monitor compliance and act as a liaison with regulatory authorities.

3. Client Identification & Onboarding (KYC & AML)

- **Know Your Customer (KYC):** Implement strong procedures to verify client identities and assess the suitability of clients for particular investment products.
- **Anti-Money Laundering (AML):** Policies to detect and prevent money laundering and terrorist financing activities.
 - Perform due diligence on clients and their financial background.
 - Monitor unusual or suspicious activities and report them to authorities.

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4. Client Asset Protection

- **Segregation of Client Funds:** Ensure that client funds are kept separate from the firm's proprietary funds in accordance with regulatory requirements.
- **Custody and Control:** Establish clear procedures for handling and safeguarding client securities and assets.
- Regular audits and reconciliations of client accounts to avoid discrepancies or losses.

5. Risk Management

- **Credit Risk:** Implement measures to monitor client exposure and manage risks related to margin trading.
- **Market Risk:** Establish limits for proprietary trading activities and ensure that excessive risks are avoided.
- **Operational Risk:** Define procedures for disaster recovery, business continuity, and dealing with system outages or malfunctions.
- **Liquidity Risk:** Ensure that the firm maintains sufficient liquidity to meet obligations and client withdrawals.

6. Trading & Execution Controls

- **Order Handling & Execution:** Policies to ensure fair and timely execution of client orders, avoiding front-running or trading against clients.
- **Trade Monitoring:** Establish mechanisms for monitoring trades in real-time to detect suspicious activities, market manipulation, or other irregularities.
- **Insider Trading Policies:** Procedures to prevent insider trading, including restricted access to sensitive information and employee trading controls.

7. Internal Audit & Control Reviews

- Conduct regular internal audits to assess the effectiveness of internal controls.
- Implement a system for independent control reviews, either internally or through external auditors.
- Create a corrective action process to address deficiencies identified in audits or control reviews.

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8. Record Keeping & Reporting

- Maintain accurate and up-to-date records of all transactions, client accounts, and firm activities as required by law.
- Implement an electronic system for maintaining, backing up, and securing records.
- Timely reporting of financial statements, audit reports, and disclosures to regulatory authorities.

9. Employee Supervision & Ethics

- **Code of Ethics:** A clear code of ethics and conduct that outlines the professional standards expected of employees.
- **Training Programs:** Continuous training for employees to ensure understanding of compliance requirements, internal controls, and client handling.
- **Conflicts of Interest:** Procedures to identify and manage conflicts of interest between the firm, employees, and clients.

10. Fraud Prevention & Whistleblower Policy

- Implement systems for detecting and preventing fraud, including unauthorized trading, account manipulation, and theft.
- Encourage reporting of unethical or illegal practices through a whistleblower policy that ensures confidentiality and protection from retaliation.

11. Technology & Information Security

- **Data Protection:** Safeguards to protect client information and firm data from unauthorized access, hacking, or breaches.
- **Cybersecurity Measures:** Implement robust cybersecurity protocols, such as multi-factor authentication, encryption, and firewalls.
- **System Monitoring:** Regular monitoring of IT systems to detect any unauthorized access or system failures.

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12. Business Continuity & Disaster Recovery

- Establish a business continuity plan (BCP) and disaster recovery plan (DRP) to ensure the firm's operations can continue in the event of an emergency or system failure.
- Regular testing of the BCP and DRP, including backup systems and recovery procedures.

13. Reporting of Regulatory Breaches

- Establish a system for reporting breaches of regulatory requirements or internal policies to the appropriate regulatory authorities in a timely manner.
- Implement processes for rectifying breaches and ensuring that corrective measures are taken to prevent future occurrences.

14. Ongoing Review and Improvement

- Periodic reviews of the internal control policy to ensure it remains current and effective.
- Continuous monitoring and improvement of internal control procedures based on industry best practices and evolving risks.