`SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

Pre-funded Instrument Policy

A **Pre-funded Instrument Policy** for stock brokers outlines the rules and procedures for handling pre-funded instruments such as demand drafts, pay orders, or banker's cheques, which clients may use to fund their trading accounts. This policy ensures transparency, compliance with regulatory requirements, and mitigates risks related to money laundering, fraud, and improper handling of funds.

Key Components of a Pre-funded Instrument Policy for Stock Brokers

1. Purpose & Scope

- **Purpose:** To define guidelines and procedures for the acceptance, verification, and settlement of pre-funded instruments used by clients to fund their trading accounts.
- **Scope:** This policy applies to all employees, departments, and stakeholders involved in accepting, processing, or managing pre-funded instruments such as demand drafts (DDs), pay orders, and banker's cheques.

2. Regulatory Compliance

- **Compliance with SEBI (Securities and Exchange Board of India) or Other Regulatory Guidelines:**
    - Ensure adherence to regulations set forth by SEBI or relevant authorities regarding the acceptance of pre-funded instruments to mitigate risks associated with money laundering and fraud.
    - Brokers must maintain a trail for all pre-funded instruments, which includes keeping records and evidence of their legitimate origin.

3. Acceptance of Pre-funded Instruments

- **Approved Instruments:** Only accept demand drafts, pay orders, banker's cheques, or any other pre-approved pre-funded instrument issued by scheduled banks or recognized financial institutions.
- **Client Notification:** Notify clients in advance about the types of pre-funded instruments that are accepted and the process for submitting them to the broker.
- **Verification of Instruments:**
    - Instruments should be cross-checked with the issuing bank to verify authenticity.
    - The details of the instrument (amount, date, client's name, bank name, etc.) must match the information provided by the client.

4. Fund Source Verification

- **Third-Party Instruments Not Allowed:** Pre-funded instruments should be accepted only from the client's bank account. Instruments from third-party sources must be rejected unless there is a clear and verified relationship between the third-party payer and the client (e.g., joint accounts).
- **Proof of Fund Source:** Obtain confirmation or evidence from the client's bank to ensure that the instrument was issued against a debit from the client's account.
- **AML/KYC Compliance:** Follow Anti-Money Laundering (AML) and Know Your Customer (KYC) regulations while accepting pre-funded instruments.
    - Ensure the client has complied with KYC norms and verify the source of the funds to avoid acceptance of money from illegitimate sources.
    - In case of suspicion, report any potential money laundering activity as per regulatory guidelines.

5. Processing and Settlement

- **Submission Timelines:** Pre-funded instruments should be submitted by the client well in advance to ensure that funds are credited to the client's trading account in time.
- **Bank Verification:** Before accepting the pre-funded instrument, the brokerage firm should verify the issuance of the instrument with the bank to ensure its legitimacy.
- **Deposit and Settlement:** Upon acceptance, the pre-funded instrument should be deposited in the firm's designated bank account, and the settlement should only be allowed once the funds are cleared.
- **Record Maintenance:** Proper records of all pre-funded instruments, including the instrument number, issuing bank, client details, and settlement information, must be maintained for audit and regulatory reporting purposes.

6. Rejected Instruments

- **Conditions for Rejection:**
    - Instruments from unapproved or non-scheduled banks.
    - Instruments with discrepancies in client details or mismatches with KYC records.
    - Instruments that are suspected to have been obtained through fraudulent means.
- **Client Notification:** Inform the client immediately in case the instrument is rejected, and provide the reason for rejection. Return the instrument to the client or destroy it as per regulatory guidelines.

- **Handling of Returned Instruments:** If the bank returns the pre-funded instrument for any reason (e.g., insufficient funds, incorrect details), notify the client and take appropriate action as per the firm's policies.

7. Record Keeping & Audit Trail

- **Detailed Records:** Maintain an audit trail for each pre-funded instrument, which includes:
    - Client details.
    - Instrument details (type, bank, amount, date).
    - Date of acceptance and deposit.
    - Proof of fund origin (confirmation from the bank).
- **Retention of Records:** Retain all records related to pre-funded instruments for a minimum period as required by regulatory authorities (e.g., SEBI mandates a five-year retention period).
- **Audit:** Regular internal and external audits should be conducted to ensure the firm's compliance with the policy. Any discrepancies should be flagged and resolved promptly.

8. Risk Management

- **Fraud Prevention:** Implement stringent verification mechanisms to prevent fraud, such as cross-checking with the bank and verifying the source of funds.
- **Reconciliation:** Regular reconciliation of bank accounts and records related to pre-funded instruments should be conducted to ensure there are no discrepancies between instruments deposited and actual funds received.
- **Employee Accountability:** Define roles and responsibilities clearly for employees handling pre-funded instruments to ensure accountability and minimize errors.

9. Training & Awareness

- **Staff Training:** Provide ongoing training to employees involved in the acceptance and processing of pre-funded instruments to ensure they are aware of regulatory requirements and internal procedures.
- **Client Education:** Educate clients about the proper procedures for submitting pre-funded instruments and the importance of adhering to the brokerage firm's requirements.

10. Whistleblower and Reporting Mechanisms

- Establish a confidential reporting system where employees can report suspicious transactions or violations related to pre-funded instruments.
- Implement procedures for reporting any violations or suspicious activities to the appropriate regulatory authorities.

11. Ongoing Monitoring and Review

- **Regular Policy Review:** Review and update the policy periodically to reflect changes in regulations, market conditions, or the firm's operations.
- **Continuous Monitoring:** Implement systems for ongoing monitoring of transactions related to pre-funded instruments to identify any irregularities or potential violations.

For Shri Krishna Share Brokers Private Limited

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