

## Client Registration Form

# KUNVARJI FINSTOCK PVT. LTD.



### MEMBERSHIP NO.

National Stock Exchange of India Ltd. (NSE): 10195  
BSE Ltd. (BSE): 3087  
Multi Commodity Exchange of India Ltd. (MCX): 12575  
National Commodity and Derivatives Exchange Ltd. (NCDEX): 00067  
Depository Participant- Central Depository Services Ltd (CDSL) DP ID: 48400

### SEBI REGISTRATION NO.

Stock Broker: INZ000180436 | DP: IN-DP-593-2021

### REGISTERED & CORPORATE OFFICE

Block-B, 1st floor, Siddhivinayak Towers, Near D. A. V. School, Next to Kataria House, Off S. G. Highway, Makarba, Ahmedabad - 380 051.

### INFORMATION OF DIRECTOR / COMPLIANCE OFFICER

#### Directors:

Mr. Atul Chokshi | Ph. : 079 - 66669004 | Email: atul.chokshi@kunvarji.com  
Mr. Kunal Shah : 079 - 66669006 | Email: kunal.shah@kunvarji.com  
Ms. Nirali Shah : 079 - 66669008 | Email: nirali.shah@kunvarji.com

#### Compliance Officer : (For Broking & DP)

Mr. Manoj Bhandari | Ph. : 079 - 66669025 | Email: manoj.bhandari@kunvarji.com

For any grievance / dispute please contact Kunvarji Finstock Pvt.Ltd at the below Address or E-mail ID: grievance@kunvarji.com and Phone No.: 079 6666 9000

In case not satisfied with the response, please contact the concerned exchange(s) at:

- NSE E-Mail ID : ignse@nse.co.in, Telephone No.: 1800 22 0058
- BSE E-Mail ID : is@bseindia.com, Telephone No.: 022 2272 8097
- MCX E-Mail ID : grievance@mcxindia.com, Telephone No.: 022 6649 4070
- NCDEX E-Mail ID : askus@ncdex.com Telephone No.: 1800 266 2339
- CDSL E-Mail ID : complaints@cdslindia.com Telephone No.: 1800 200 5533

## RIGHTS AND OBLIGATIONS OF STOCK BROKERS, AUTHORISED PERSON (AP) & CLIENTS

### As prescribed by SEBI and Stock Exchanges

1. The client shall invest/trade in those securities/contracts/other instruments admitted to dealings on the Exchanges as defined in the Rules, Byelaws and Regulations of Exchanges/ Securities and Exchange Board of India (SEBI) and circulars/notices issued there under from time to time.
2. The stock broker, AP and the client shall be bound by all the Rules, Byelaws and Regulations of the Exchange and circulars/notices issued there under and Rules and Regulations of SEBI and relevant notifications of Government authorities as may be in force from time to time.
3. The client shall satisfy itself of the capacity of the stock broker to deal in securities and/or deal in derivatives contracts and wishes to execute its orders through the stock broker and the client shall from time to time continue to satisfy itself of such capability of the stock broker before executing orders through the stock broker.
4. The stock broker shall continuously satisfy itself about the genuineness and financial soundness of the client and investment objectives relevant to the services to be provided.
5. The stock broker shall take steps to make the client aware of the precise nature of the Stock broker's liability for business to be conducted, including any limitations, the liability and the capacity in which the stock broker acts.
6. The AP shall provide necessary assistance and co-operate with the stock broker in all its dealings with the client(s).
7. Requirements of professional diligence The Member must exercise professional diligence while entering into a financial contract or discharging any obligations under it. "professional diligence" means the standard of skill and care that a Member would be reasonably expected to exercise towards a Client, commensurate with-
  - i. honest market practice;
  - ii. the principle of good faith;
  - iii. level of knowledge, experience and expertise of the Client;
  - iv. the nature and degree of risk embodied in the financial product\* or financial service being availed by the Client; and
  - v. the extent of dependence of the Client on the Member.

\*Commodity derivative contract

8. The Authorized Person shall provide necessary assistance and co-operate with the Member in all its dealings with the client(s).

### CLIENT INFORMATION

9. The client shall furnish all such details in full as are required by the stock broker in "Account Opening Form" with supporting details, made mandatory by stock exchanges/SEBI from time to time.
10. The client shall familiarize himself with all the mandatory provisions in the Account Opening documents. Any additional clauses or documents specified by the stock broker shall be non-mandatory, as per terms & conditions accepted by the client.
11. The client shall immediately notify the stock broker in writing if there is any change in the information in the 'Account Opening Form' as provided at the time of account opening and thereafter; including the information on winding up petition/insolvency petition or any litigation which may have material bearing on his capacity. The client shall provide/update the financial information to the stock broker on a periodic basis.
12. **A. Protection from unfair terms in financial contracts\*\***
  - a. An unfair term of a non-negotiated contract will be void.
  - b. A term is unfair if it –
    - i. causes a significant imbalance in the rights and obligations of the parties under the financial contract, to the detriment of the Client; and
    - ii. is not reasonably necessary to protect the legitimate interests of the Member.
  - c. The factors to be taken into account while determining whether a term is unfair, include –
    - i. the nature of the financial product or financial service dealt with under the financial contract;
    - ii. the extent of transparency of the term;

\*\*contracts offered by commodity exchanges

- iii. the extent to which the term allows a Client to compare it with other financial contracts for similar financial products or financial services; and

- iv. the financial contract as a whole and the terms of any other contract on which it is dependent.
- d. A term is transparent if it –
  - i. is expressed in reasonably plain language that is likely to be understood by the Client;
  - ii. is legible and presented clearly; and
  - iii. is readily available to the Client affected by the term.
- e. If a term of a financial contract is determined to be unfair under point 11.A.c, the parties will continue to be bound by the remaining terms of the financial contract to the extent that the financial contract is capable of enforcement without the unfair term.

## 12. B.

- a. “Non-negotiated contract” means a contract whose terms, other than the terms contained in point 11.C. (given below) are not negotiated between the parties to the financial contract and includes –
  - i. a financial contract in which, relative to the Client, the Member has a substantially greater bargaining power in determining terms of the financial contract; and
  - ii. a standard form contract.
- b. “Standard form contract” means a financial contract that is substantially not negotiable for the Client, except for the terms contained in point 11.C.
- c. Even if some terms of a financial contract are negotiated in form, the financial contract may be regarded as a non-negotiated contract if so indicated by –
  - i. an overall and substantial assessment of the financial contract; and
  - ii. the substantial circumstances surrounding the financial contract
- d. In a claim that a financial contract is a non-negotiated contract, the onus of demonstrating otherwise will be on the Member.

## 12. C.

- a. The above does not apply to a term of a financial contract if it –
  - i. defines the subject matter of the financial contract;
  - ii. sets the price that is paid, or payable, for the provision of the financial product or financial service under the financial contract and has been clearly disclosed to the Client; or
  - iii. is required, or expressly permitted, under any law or regulations.
- b. The exemption under point 11.C does not apply to a term that deals with the payment of an amount which is contingent on the occurrence or non- occurrence of any particular event.

**13.** The Member and Authorized Person shall maintain all the details of the client as mentioned in the account opening form or any other information pertaining to the client, confidentially and that they shall not disclose the same to any person/authority except as required under any law/regulatory requirements. Provided however that the Member may so disclose information about his client to any person or authority with the express permission of the client.

## 14. A. Protection of personal information and confidentiality

- 1. “Personal information” means any information that relates to a Client or allows a Client’s identity to be inferred, directly or indirectly, and includes –
  - i. name and contact information;
  - ii. biometric information, in case of individuals
  - iii. information relating to transactions in, or holdings of, financial products
  - iv. information relating to the use of financial services; or
  - v. such other information as may be specified.

## 14. B

- a. A Member must –
- i. not collect personal information relating to a Client in excess of what is required for the provision of a financial product or financial service;
  - ii. maintain the confidentiality of personal information relating to Clients and not disclose it to a third party, except in a manner expressly permitted under point 13.B.b.;
  - iii. make best efforts to ensure that any personal information relating to a Client that it holds is accurate, up to date and complete;
  - iv. ensure that Clients can obtain reasonable access to their personal information, subject to any exceptions that the Regulator may specify; and
  - v. allow Clients an effective opportunity to seek modifications to their personal information to ensure that the personal information held by the Member is accurate, up to date and complete.
- b. A Member may disclose personal information relating to a Client to a third party only if –
- i. it has obtained prior written informed consent of the Client for the disclosure, after giving the Client an effective opportunity to refuse consent;
  - ii. the Client has directed the disclosure to be made;
  - iii. the Regulator has approved or ordered the disclosure, and unless prohibited by the relevant law or regulations, the Client is given an opportunity to represent under such law or regulations against such disclosure;
  - iv. the disclosure is required under any law or regulations, and unless prohibited by such law or regulations, the Client is given an opportunity to represent under such law or regulations against such disclosure;
  - v. the disclosure is directly related to the provision of a financial product or financial service to the Client, if the Member –
    1. informs the Client in advance that the personal information may be shared with a third party; and
    2. makes arrangements to ensure that the third party maintains the confidentiality of the personal information in the same manner as required under this Part; or
  - vi. the disclosure is made to protect against or prevent actual or potential fraud, unauthorised transactions or claims, if the Member arranges with the third party to maintain the confidentiality of the personal information in the manner required under this Part.-
- c. “Third party” means any person other than the concerned Member, including a person belonging to the same group as the Member.

## 15. Requirement of fair disclosure both initially and on continuing basis

- a. Member must ensure fair disclosure of information that is likely to be required by a Client to make an informed transactional decision.
- b. In order to constitute fair disclosure, the information must be provided –
- i. sufficiently before the Client enters into a financial contract, so as to allow the Client reasonable time to understand the information;
  - ii. in writing and in a manner that is likely to be understood by a Client belonging to a particular category;
  - iii. in a manner that enables the Client to make reasonable comparison of the financial product or financial service with other similar financial products or financial services.
- c. The types of information that must be disclosed to a Client in relation to a financial product or financial service, which may include information regarding –
- i. main characteristics of the financial product or financial service, including its features, benefits and risks to the Client;
  - ii. consideration to be paid for the financial product or financial service or the manner in which the consideration is calculated;
  - iii. existence, exclusion or effect of any term in the financial product or financial contract;
  - iv. nature, attributes and rights of the Member, including its identity, regulatory status and affiliations;

- v. contact details of the Member and the methods of communication to be used between the Member and the Client;
  - vi. rights of the Client to rescind a financial contract within a specified period; or
  - vii. rights of the Client under any law or regulations.
16. The stock broker and AP shall maintain all the details of the client as mentioned in the account opening form or any other information pertaining to the client, confidentially and that they shall not disclose the same to any person/authority except as required under any law/regulatory requirements. Provided however that the stock broker may so disclose information about his client to any person or authority with the express permission of the client.

## MARGINS

17. The client shall pay applicable initial margins, withholding margins, special margins or such other margins as are considered necessary by the stock broker or the Exchange or as may be directed by SEBI from time to time as applicable to the segment(s) in which the client trades. The stock broker is permitted in its sole and absolute discretion to collect additional margins (even though not required by the Exchange, Clearing House/Clearing Corporation or SEBI) and the client shall be obliged to pay such margins within the stipulated time.
18. The client understands that payment of margins by the client does not necessarily imply complete satisfaction of all dues. In spite of consistently having paid margins, the client may, on the settlement of its trade, be obliged to pay (or entitled to receive) such further sums as the contract may dictate/require.

## TRANSACTIONS AND SETTLEMENTS

19. The client shall give any order for buy or sell of a security/derivatives contract in writing or in such form or manner, as may be mutually agreed between the client and the stock broker. The stock broker shall ensure to place orders and execute the trades of the client, only in the Unique Client Code assigned to that client.
20. The stock broker shall inform the client and keep him apprised about trading/settlement cycles, delivery/payment schedules, any changes therein from time to time, and it shall be the responsibility in turn of the client to comply with such schedules/procedures of the relevant stock exchange where the trade is executed.
21. The stock broker shall ensure that the money/securities deposited by the client shall be kept in a separate account, distinct from his/its own account or account of any other client and shall not be used by the stock broker for himself/itself or for any other client or for any purpose other than the purposes mentioned in Rules, Regulations, circulars, notices, guidelines of SEBI and/or Rules, Regulations, Bye-laws, circulars and notices of Exchange.
22. Where the Exchange(s) cancels trade(s) suo moto all such trades including the trade/s done on behalf of the client shall ipso facto stand cancelled, stock broker shall be entitled to cancel the respective contract(s) with client(s).
23. The transactions executed on the Exchange are subject to Rules, Byelaws and Regulations and circulars/notices issued thereunder of the Exchanges where the trade is executed and all parties to such trade shall have submitted to the jurisdiction of such court as may be specified by the Byelaws and Regulations of the Exchanges where the trade is executed for the purpose of giving effect to the provisions of the Rules, Byelaws and Regulations of the Exchanges and the circulars/notices issued thereunder.

## BROKERAGE

24. The Client shall pay to the stock broker brokerage and statutory levies as are prevailing from time to time and as they apply to the Client's account, transactions and to the services that stock broker renders to the Client. The stock broker shall not charge brokerage more than the maximum brokerage permissible as per the rules, regulations and bye-laws of the relevant stock exchanges and/or rules and regulations of SEBI.

## LIQUIDATION AND CLOSE OUT OF POSITION

25. Without prejudice to the stock broker's other rights (including the right to refer a matter to arbitration), the client understands that the stock broker shall be entitled to liquidate/close out all or any of the client's positions for non-payment of margins or other amounts, outstanding debts, etc. and adjust the proceeds of such liquidation/close out, if any, against the client's liabilities/obligations. Any and all losses and financial charges on account of such liquidation/closing-out shall be taken to and borne by the client.
26. In the event of death or insolvency of the client or his/its otherwise becoming incapable of receiving and paying for or delivering or transferring securities which the client has ordered to be bought or sold, stock broker may close out the transaction of the client and claim losses, if any, against the estate of the client. The client or his nominees, successors,

heirs and assignee shall be entitled to any surplus which may result there from. The client shall note that transfer of funds/securities in favor of a Nominee shall be valid discharge by the stock broker against the legal heir.

27. The stock broker shall bring to the notice of the relevant Exchange the information about default in payment/delivery and related aspects by a client. In case where defaulting client is a corporate entity/partnership/proprietary firm or any other artificial legal entity, then the name(s) of Director(s)/Promoter(s)/Partner(s)/Proprietor as the case may be, shall also be communicated by the stock broker to the relevant Exchange(s).

## DISPUTE RESOLUTION

28. The stock broker shall provide the client with the relevant contact details of the concerned Exchanges and SEBI.
29. The stock broker shall co-operate in redressing grievances of the client in respect of all transactions routed through it and in removing objections for bad delivery of shares, rectification of bad delivery, etc.
30. The client and the stock broker shall refer any claims and/or disputes with respect to deposits, margin money, etc., to arbitration as per the Rules, Byelaws and Regulations of the Exchanges where the trade is executed and circulars/notices issued thereunder as may be in force from time to time.
31. The stock broker shall ensure faster settlement of any arbitration proceedings arising out of the transactions entered into between him vis-à-vis the client and he shall be liable to implement the arbitration awards made in such proceedings.
32. The client/stock-broker understands that the instructions issued by an authorized representative for dispute resolution, if any, of the client/stock-broker shall be binding on the client/stock-broker in accordance with the letter authorizing the said representative to deal on behalf of the said client/stock-broker.
33. Requirement for each Member to have an effective grievance redress mechanism which is accessible to all its Clients
- A Member must have in place an effective mechanism to receive and redress complaints from its Clients in relation to financial products or financial services provided by it, or on its behalf, in a prompt and fair manner.
  - A Member must inform a Client, at the commencement of relationship with the Client and at such other time when the information is likely to be required by the Client, of –
    - the Client's right to seek redress for any complaints; and
    - the processes followed by the Member to receive and redress complaints from its Clients.
34. A. Suitability of advice for the Client Right to receive advice that is suitable taking into account the relevant personal circumstances of the Client, such as the Client's financial circumstances and needs. This obligation would apply to persons who render advice to Clients and the regulator may specify categories of financial products and service that necessarily require such advice to be given.
- A Member must –
    - make all efforts to obtain correct and adequate information about the relevant personal circumstances of a Client; and
    - ensure that the advice given is suitable for the Client after due consideration of the relevant personal circumstances of the Client.
  - If it is reasonably apparent to the Member that the available information regarding the relevant personal circumstances of a Client is incomplete or inaccurate, the Member must warn the Client of the consequences of proceeding on the basis of incomplete or inaccurate information.
  - If a Client intends to avail of a financial product or financial service that the Member determines unsuitable for the Client, the Member –
    - must clearly communicate its advice to the Client in writing and in a manner that is likely to be understood by the Client; and
    - may provide the financial product or financial service requested by the Client only after complying with point 29.A.a and obtaining a written acknowledgement from the Client.
35. Dealing with conflict of interest In case of any conflict between the interests of a Client and that of the Member, preference much be given to the Client interests.
- A member must –
    - provide a Client with information regarding any conflict of interests, including any conflicted remuneration that the Member has received or expects to receive for making the advice to the Client; and
    - give priority to the interests of the Client if the Member knows, or reasonably ought to know, of a conflict between –
      - its own interests and the interests of the Client; or
      - the interests of the concerned Member and interests of the Client, in cases where the Member is a financial representative.

- b. The information under point 16a.i. must be given to the Client in writing and in a manner that is likely to be understood by the Client and a written acknowledgement of the receipt of the information should be obtained from the Client.
- c. In this section, "conflicted remuneration" means any benefit, whether monetary or non-monetary, derived by a Member from persons other than Clients that could, under the circumstances, reasonably be expected to influence the advice given by the Member to a Client.

## TERMINATION OF RELATIONSHIP

- 36. This relationship between the stock broker and the client shall be terminated; if the stock broker for any reason ceases to be a member of the stock exchange including cessation of membership by reason of the stock broker's default, death, resignation or expulsion or if the certificate is cancelled by the Board.
- 37. The stock broker, AP and the client shall be entitled to terminate the relationship between them without giving any reasons to the other party, after giving notice in writing of not less than one month to the other parties. Notwithstanding any such termination, all rights, liabilities and obligations of the parties arising out of or in respect of transactions entered into prior to the termination of this relationship shall continue to subsist and vest in/be binding on the respective parties or his/its respective heirs, executors, administrators, legal representatives or successors, as the case may be.
- 38. In the event of demise/insolvency of the AP or the cancellation of his/its registration with the Board or/withdrawal of recognition of the AP by the stock exchange and/or termination of the agreement with the sub broker by the stock broker, for any reason whatsoever, the client shall be informed of such termination and the client shall be deemed to be the direct client of the stock broker and all clauses in the 'Rights and Obligations' document(s) governing the stock broker, AP and client shall continue to be in force as it is, unless the client intimates to the stock broker his/its intention to terminate their relationship by giving a notice in writing of not less than one month.

## ADDITIONAL RIGHTS AND OBLIGATIONS

- 39. The stock broker shall ensure due protection to the client regarding client's rights to dividends, rights or bonus shares, etc. in respect of transactions routed through it and it shall not do anything which is likely to harm the interest of the client with whom and for whom they may have had transactions in securities.
- 40. The stock broker and client shall reconcile and settle their accounts from time to time as per the Rules, Regulations, Bye Laws, Circulars, Notices and Guidelines issued by SEBI and the relevant Exchanges where the trade is executed.
- 41. The stock broker shall issue a contract note to his constituents for trades executed in such format as may be prescribed by the Exchange from time to time containing records of all transactions including details of order number, trade number, trade time, trade price, trade quantity, details of the derivatives contract, client code, brokerage, all charges levied etc. and with all other relevant details as required therein to be filled in and issued in such manner and within such time as prescribed by the Exchange. The stock broker shall send contract notes to the investors within one working day of the execution of the trades in hard copy and/or in electronic form using digital signature.
- 42. The stock broker shall make pay out of funds or delivery of securities, as the case may be, to the Client within one working day of receipt of the payout from the relevant Exchange where the trade is executed unless otherwise specified by the client and subject to such terms and conditions as may be prescribed by the relevant Exchange from time to time where the trade is executed.
- 43. The stock broker shall send a complete 'Statement of Accounts' for both funds and securities in respect of each of its clients in such periodicity and format within such time, as may be prescribed by the relevant Exchange, from time to time, where the trade is executed. The Statement shall also state that the client shall report errors, if any, in the Statement within such time as may be prescribed by the relevant Exchange from time to time where the trade was executed, from the receipt thereof to the Stock broker.
- 44. The stock broker shall send daily margin statements to the clients. Daily Margin statement should include, inter-alia, details of collateral deposited, collateral utilized and collateral status (available balance/due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities.
- 45. The Client shall ensure that it has the required legal capacity to, and is authorized to, enter into the relationship with stock broker and is capable of performing his obligations and undertakings hereunder. All actions required to be taken to ensure compliance of all the transactions, which the Client may enter into shall be completed by the Client prior to such transaction being entered into.
- 46. In case, where a member surrenders his/ her/ its membership, Member gives a public notice inviting claims, if any, from investors. In case of a claim relating to transactions executed on the trading system of the Exchange, ensure that client lodge a claim with the Exchange within the stipulated period and with the supporting documents.
- 47. A. Protection from unfair conduct which includes misleading conduct & abusive conduct

- a. Unfair conduct in relation to financial products or financial services is prohibited.
- b. "Unfair conduct" means an act or omission by a Member or its financial representative that significantly impairs, or is likely to significantly impair, the ability of a Client to make an informed transactional decision and includes –
  - i. misleading conduct under point 41.B
  - ii. abusive conduct under point 41.C
  - iii. such other conduct as may be specified.

#### 47. B.

- a. Conduct of a Member or its financial representative in relation to a determinative factor is misleading if it is likely to cause the Client to take a transactional decision that the Client would not have taken otherwise, and the conduct involves –
  - i. providing the Client with inaccurate information or information that the Member or financial representative does not believe to be true; or
  - ii. providing accurate information to the Client in a manner that is deceptive.
- b. In determining whether a conduct is misleading under point 41.B.a, the following factors must be considered to be "determinative factors" –
  - i. the main characteristics of a financial product or financial service, including its features, benefits and risks to the Client;
  - ii. the Client's need for a particular financial product or financial service or its suitability for the Client;
  - iii. the consideration to be paid for the financial product or financial service or the manner in which the consideration is calculated;
  - iv. the existence, exclusion or effect of any term in a financial contract, which is material term in the context of that financial contract;
  - v. the nature, attributes and rights of the Member, including its identity, regulatory status and affiliations; and
  - vi. the rights of the Client under any law or regulations.

#### 47.C

- a. A conduct of a Member or its financial representative in relation to a financial product or financial service is abusive if it –
  - i. involves the use of coercion or undue influence; and
  - ii. causes or is likely to cause the Client to take a transactional decision that the Client would not have taken otherwise.
- b. In determining whether a conduct uses coercion or undue influence, the following must be considered –
  - i. the timing, location, nature or persistence of the conduct;
  - ii. the use of threatening or abusive language or behavior;
  - iii. the exploitation of any particular misfortune or circumstance of the Client, of which the Member is aware, to influence the Client's decision with regard to a financial product or financial service;
  - iv. any non-contractual barriers imposed by the Member where the Client wishes to exercise rights under a financial contract, including –
    - v. the right to terminate the financial contract;
    - vi. the right to switch to another financial product or another Member and
    - vii. a threat to take any action, depending on the circumstances in which the threat is made.

#### ELECTRONIC CONTRACT NOTES (ECN)

- 48. In case, client opts to receive the contract note in electronic form, he shall provide an appropriate e-mail id to the stock broker. The client shall communicate to the stock broker any change in the email-id through a physical letter. If the client has opted for internet trading, the request for change of email id may be made through the secured access by way of client specific user id and password.
- 49. The stock broker shall ensure that all ECNs sent through the e-mail shall be digitally signed, encrypted, non-tamper able and in compliance with the provisions of the IT Act, 2000. In case, ECN is sent through e-mail as an attachment, the attached file shall also be secured with the digital signature, encrypted and non-tamperable.
- 50. The client shall note that non-receipt of bounced mail notification by the stock broker shall amount to delivery of the contract note at the e-mail ID of the client.
- 51. The stock broker shall retain ECN and acknowledgement of the e-mail in a soft and non-tamperable form in the manner prescribed by the exchange in compliance with the provisions of the IT Act, 2000 and as per the extant



rules/regulations/circulars/guidelines issued by SEBI/Stock Exchanges from time to time. The proof of delivery i.e., log report generated by the system at the time of sending the contract notes shall be maintained by the stock broker for the specified period under the extant regulations of SEBI/stock exchanges. The log report shall provide the details of the contract notes that are not delivered to the client/e-mails rejected or bounced back. The stock broker shall take all possible steps to ensure receipt of notification of bounced mails by him at all times within the stipulated time period under the extant regulations of SEBI/stock exchanges.

52. The stock broker shall continue to send contract notes in the physical mode to such clients who do not opt to receive the contract notes in the electronic form. Wherever the ECNs have not been delivered to the client or has been rejected (bouncing of mails) by the e-mail ID of the client, the stock broker shall send a physical contract note to the client within the stipulated time under the extant regulations of SEBI/stock exchanges and maintain the proof of delivery of such physical contract notes.
53. In addition to the e-mail communication of the ECNs to the client, the stock broker shall simultaneously publish the ECN on his designated web-site, if any, in a secured way and enable relevant access to the clients and for this purpose, shall allot a unique user name and password to the client, with an option to the client to save the contract note electronically and/or take a print out of the same.

## LAW AND JURISDICTION

54. In addition to the specific rights set out in this document, the stock broker, AP and the client shall be entitled to exercise any other rights which the stock broker or the client may have under the Rules, Bye-laws and Regulations of the Exchanges in which the client chooses to trade and circulars/notices issued thereunder or Rules and Regulations of SEBI.
55. The provisions of this document shall always be subject to Government notifications, any rules, regulations, guidelines and circulars/notices issued by SEBI and Rules, Regulations and Bye laws of the relevant stock exchanges, where the trade is executed, that may be in force from time to time.
56. The stock broker and the client shall abide by any award passed by the Arbitrator(s) under the Arbitration and Conciliation Act, 1996. However, there is also a provision of appeal within the stock exchanges, if either party is not satisfied with the arbitration award.
57. Words and expressions which are used in this document but which are not defined herein shall, unless the context otherwise requires, have the same meaning as assigned thereto in the Rules, Byelaws and Regulations and circulars/notices issued thereunder of the Exchanges/SEBI.
58. All additional voluntary clauses/document added by the stock broker should not be in contravention with rules/regulations/notices/circulars of Exchanges/SEBI. Any changes in such voluntary clauses/document(s) need to be preceded by a notice of 15 days. Any changes in the rights and obligations which are specified by Exchanges/SEBI shall also be brought to the notice of the clients.
59. If the rights and obligations of the parties hereto are altered by virtue of change in Rules and regulations of SEBI or Bye-laws, Rules and Regulations of the relevant stock Exchanges where the trade is executed, such changes shall be deemed to have been incorporated herein in modification of the rights and obligations of the parties mentioned in this document.
60. Members are required to send account statement to their clients every month.

## **INTERNET & WIRELESS TECHNOLOGY BASED TRADING FACILITY PROVIDED BY STOCK BROKERS TO CLIENT**

**(All the clauses mentioned in the 'Rights and Obligations' document(s) shall be applicable. Additionally, the clauses mentioned herein shall also be applicable.)**

1. Stock broker is eligible for providing Internet based trading (IBT) and securities trading through the use of wireless technology that shall include the use of devices such as mobile phone, laptop with data card, etc. which use Internet Protocol (IP). The stock broker shall comply with all requirements applicable to internet based trading/securities trading using wireless technology as may be specified by SEBI & the Exchanges from time to time.
2. The client is desirous of investing/trading in securities and for this purpose, the client is desirous of using either the internet based trading facility or the facility for securities trading through use of wireless technology. The Stock broker shall provide the Stock broker's IBT Service to the Client, and the Client shall avail of the Stock broker's IBT Service, on and subject to SEBI/Exchanges Provisions and the terms and conditions specified on the Stock broker's IBT Web Site provided that they are in line with the norms prescribed by Exchanges/SEBI.
3. The stock broker shall bring to the notice of client the features, risks, responsibilities, obligations and liabilities associated with securities trading through wireless technology/internet/smart order routing or any other technology should be brought to the notice of the client by the stock broker.
4. The stock broker shall make the client aware that the Stock Broker's IBT system itself generates the initial password and its password policy as stipulated in line with norms prescribed by Exchanges/SEBI.
5. The Client shall be responsible for keeping the Username and Password confidential and secure and shall be solely responsible for all orders entered and transactions done by any person whatsoever through the Stock broker's IBT System using the Client's Username and/or Password whether or not such person was authorized to do so. Also the client is aware that authentication technologies and strict security measures are required for the internet trading/securities trading through wireless technology through order routed system and undertakes to ensure that the password of the client and/or his authorized representative are not revealed to any third party including employees and dealers of the stock broker
6. The Client shall immediately notify the Stock broker in writing if he forgets his password, discovers security flaw in Stock Broker's IBT System, discovers/suspects discrepancies/ unauthorized access through his username/password/account with full details of such unauthorized use, the date, the manner and the transactions effected pursuant to such unauthorized use, etc.
7. The Client is fully aware of and understands the risks associated with availing of a service for routing orders over the internet/securities trading through wireless technology and Client shall be fully liable and responsible for any and all acts done in the Client's Username/password in any manner whatsoever.
8. The stock broker shall send the order/trade confirmation through email to the client at his request. The client is aware that the order/ trade confirmation is also provided on the web portal. In case client is trading using wireless technology, the stock broker shall send the order/trade confirmation on the device of the client.
9. The client is aware that trading over the internet involves many uncertain factors and complex hardware, software, systems, communication lines, peripherals, etc. are susceptible to interruptions and dislocations. The Stock broker and the Exchange do not make any representation or warranty that the Stock broker's IBT Service will be available to the Client at all times without any interruption.
10. The Client shall not have any claim against the Exchange or the Stock broker on account of any suspension, interruption, non-availability or malfunctioning of the Stock broker's IBT System or Service or the Exchange's service or systems or non-execution of his orders due to any link/system failure at the Client/Stock brokers/Exchange end for any reason beyond the control of the stock broker/Exchanges.

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## RISK DISCLOSURE DOCUMENT FOR CAPITAL MARKET AND DERIVATIVES SEGMENTS

This document contains important information on trading in Equities/Derivatives/Commodity Segments of the stock exchanges. All prospective constituents should read this document before trading in Equities/Derivatives/Commodity Segments of the Exchanges.

Stock exchanges/SEBI does neither singly or jointly and expressly nor impliedly guarantee nor make any representation concerning the completeness, the adequacy or accuracy of this disclosure document nor have Stock exchanges /SEBI endorsed or passed any merits of participating in the trading segments. This brief statement does not disclose all the risks and other significant aspects of trading.

In the light of the risks involved, you should undertake transactions only if you understand the nature of the relationship into which you are entering and the extent of your exposure to risk.

You must know and appreciate that trading in Equity shares, derivatives contracts or other instruments traded on the Stock Exchange, which have varying element of risk, is generally not an appropriate avenue for someone of limited resources/limited investment and/or trading experience and low risk tolerance. You should therefore carefully consider whether such trading is suitable for you in the light of your financial condition. In case you trade on Stock exchanges and suffer adverse consequences or loss, you shall be solely responsible for the same and Stock exchanges/its Clearing Corporation and/or SEBI shall not be responsible, in any manner whatsoever, for the same and it will not be open for you to take a plea that no adequate disclosure regarding the risks involved was made or that you were not explained the full risk involved by the concerned stock broker. The constituent shall be solely responsible for the consequences and no contract can be rescinded on that account. You must acknowledge and accept that there can be no guarantee of profits or no exception from losses while executing orders for purchase and/or sale of a derivative contract being traded on Stock exchanges.

It must be clearly understood by you that your dealings on Stock exchanges through a stock broker shall be subject to your fulfilling certain formalities set out by the stock broker, which may inter alia include your filling the know your client form, reading the rights and obligations, do's and don'ts, etc., and are subject to the Rules, Byelaws and Regulations of relevant Stock exchanges, its Clearing Corporation, guidelines prescribed by SEBI and in force from time to time and Circulars as may be issued by Stock exchanges or its Clearing Corporation and in force from time to time.

Stock exchanges does not provide or purport to provide any advice and shall not be liable to any person who enters into any business relationship with any stock broker of Stock exchanges and/or any third party based on any information contained in this document. Any information contained in this document must not be construed as business advice. No consideration to trade should be made without thoroughly understanding and reviewing the risks involved in such trading. If you are unsure, you must seek professional advice on the same.

In considering whether to trade or authorize someone to trade for you, you should be aware of or must get acquainted with the following:

### BASIC RISKS:

#### 1.1 Risk of Higher Volatility:

Volatility refers to the dynamic changes in price that a security/derivatives contract undergoes when trading activity continues on the Stock Exchanges. Generally, higher the volatility of a security/derivatives contract, greater is its price swings. There may be normally greater volatility in thinly traded securities / derivatives contracts than in active securities /derivatives contracts. As a result of volatility, your order may only be partially executed or not executed at all, or the price at which your order got executed may be substantially different from the last traded price or change substantially thereafter, resulting in notional or real losses.

#### 1.2 Risk of Lower Liquidity:

Liquidity refers to the ability of market participants to buy and/or sell securities / derivatives contracts expeditiously at a competitive price and with minimal price difference. Generally, it is assumed that more the numbers of orders available in a market, greater is the liquidity. Liquidity is important because with greater liquidity, it is easier for investors to buy and/or sell securities / derivatives contracts swiftly and with minimal price difference, and as a result, investors are more likely to pay or

receive a competitive price for securities / derivatives contracts purchased or sold. There may be a risk of lower liquidity in some securities / derivatives contracts as compared to active securities / derivatives contracts. As a result, your order may only be partially executed, or may be executed with relatively greater price difference or may not be executed at all.

**1.2.1** Buying or selling securities / derivatives contracts as part of a day trading strategy may also result into losses, because in such a situation, securities / derivatives contracts may have to be sold / purchased at low / high prices, compared to the expected price levels, so as not to have any open position or obligation to deliver or receive a security / derivatives contract.

### **1.3 Risk of Wider Spreads:**

Spread refers to the difference in best buy price and best sell price. It represents the differential between the price of buying a security / derivatives contract and immediately selling it or vice versa. Lower liquidity and higher volatility may result in wider than normal spreads for less liquid or illiquid securities / derivatives contracts. This in turn will hamper better price formation.

### **1.4 Risk-reducing orders:**

The placing of orders (e.g., "stop loss" orders, or "limit" orders) which are intended to limit losses to certain amounts may not be effective many a time because rapid movement in market conditions may make it impossible to execute such orders.

**1.4.1** A "market" order will be executed promptly, subject to availability of orders on opposite side, without regard to price and that, while the customer may receive a prompt execution of a "market" order, the execution may be at available prices of outstanding orders, which satisfy the order quantity, on price time priority. It may be understood that these prices may be significantly different from the last traded price or the best price in that security / derivatives contract.

**1.4.2** A "limit" order will be executed only at the "limit" price specified for the order or a better price. However, while the customer receives price protection, there is a possibility that the order may not be executed at all.

**1.4.3** A stop loss order is generally placed "away" from the current price of a stock / derivatives contract, and such order gets activated if and when the security / derivatives contract reaches, or trades through, the stop price. Sell stop orders are entered ordinarily below the current price, and buy stop orders are entered ordinarily above the current price. When the security / derivatives contract reaches the pre-determined price, or trades through such price, the stop loss order converts to a market/limit order and is executed at the limit or better. There is no assurance therefore that the limit order will be executable since a security / derivatives contract might penetrate the pre-determined price, in which case, the risk of such order not getting executed arises, just as with a regular limit order.

### **1.5 Risk of News Announcements:**

News announcements that may impact the price of stock / derivatives contract may occur during trading, and when combined with lower liquidity and higher volatility, may suddenly cause an unexpected positive or negative movement in the price of the security / contract.

### **1.6 Risk of Rumors:**

Rumors about companies / currencies at times float in the market through word of mouth, newspapers, websites or news agencies, etc. The investors should be wary of and should desist from acting on rumors.

### **1.7 System Risk:**

High volume trading will frequently occur at the market opening and before market close. Such high volumes may also occur at any point in the day. These may cause delays in order execution or confirmation.

**1.7.1** During periods of volatility, on account of market participants continuously modifying their order quantity or prices or placing fresh orders, there may be delays in order execution and its confirmations.

**1.7.2** Under certain market conditions, it may be difficult or impossible to liquidate a position in the market at a reasonable price or at all, when there are no outstanding orders either on the buy side or the sell side, or if trading is halted in a security / derivatives contract due to any action on account of unusual trading activity or security / derivatives contract hitting circuit filters or for any other reason.

### **1.8 System / Network Congestion:**

Trading on exchanges is in electronic mode, based on satellite/leased line based communications, combination of technologies and computer systems to place and route orders. Thus, there exists a possibility of communication failure or system problems or slow or delayed response from system or trading halt, or any such other problem/glitch whereby not being able to establish

access to the trading system/network, which may be beyond control and may result in delay in processing or not processing buy or sell orders either in part or in full. You are cautioned to note that although these problems may be temporary in nature, but when you have outstanding open positions or unexecuted orders, these represent a risk because of your obligations to settle all executed transactions.

## **2 AS FAR AS DERIVATIVES SEGMENTS ARE CONCERNED, PLEASE NOTE AND GET YOURSELF ACQUAINTED WITH THE FOLLOWING ADDITIONAL FEATURES:**

### **2.1 Effect of "Leverage" or "Gearing":**

In the derivatives market, the amount of margin is small relative to the value of the derivatives contract so the transactions are 'leveraged' or 'geared'. Derivatives trading, which is conducted with a relatively small amount of margin, provides the possibility of great profit or loss in comparison with the margin amount. But transactions in derivatives carry a high degree of risk.

You should therefore completely understand the following statements before actually trading in derivatives and also trade with caution while taking into account one's circumstances, financial resources, etc. If the prices move against you, you may lose a part of or whole margin amount in a relatively short period of time. Moreover, the loss may exceed the original margin amount.

- Futures trading involve daily settlement of all positions. Every day the open positions are marked to market based on the closing level of the index / derivatives contract. If the contract has moved against you, you will be required to deposit the amount of loss (notional) resulting from such movement. This amount will have to be paid within a stipulated time frame, generally before commencement of trading on next day.
- If you fail to deposit the additional amount by the deadline or if an outstanding debt occurs in your account, the stock broker may liquidate a part of or the whole position or substitute securities. In this case, you will be liable for any losses incurred due to such close-outs.
- Under certain market conditions, an investor may find it difficult or impossible to execute transactions. For example, this situation can occur due to factors such as illiquidity i.e. when there are insufficient bids or offers or suspension of trading due to price limit or circuit breakers etc.
- In order to maintain market stability, the following steps may be adopted: changes in the margin rate, increases in the cash margin rate or others. These new measures may also be applied to the existing open interests. In such conditions, you will be required to put up additional margins or reduce your positions.
- You must ask your broker to provide the full details of derivatives contracts you plan to trade i.e. the contract specifications and the associated obligations.

### **2.2 Currency specific risks:**

1. The profit or loss in transactions in foreign currency-denominated contracts, whether they are traded in your own or another jurisdiction, will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.
2. Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example when a currency is deregulated or fixed trading bands are widened.
3. Currency prices are highly volatile. Price movements for currencies are influenced by, among other things: changing supply- demand relationships; trade, fiscal, monetary, exchange control programs and policies of governments; foreign political and economic events and policies; changes in national and international interest rates and inflation; currency devaluation; and sentiment of the market place. None of these factors can be controlled by any individual advisor and no assurance can be given that an advisor's advice will result in profitable trades for a participating customer or that a customer will not incur losses from such events.

### **2.3 Risk of Option holders:**

1. An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time. This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to its expiration will necessarily lose his entire investment in the option. If the price of the underlying does not change in the anticipated direction before the option expires, to an extent sufficient to cover the cost of the option, the investor may lose all or a significant part of his investment in the option.
2. The Exchanges may impose exercise restrictions and have absolute authority to restrict the exercise of options at certain times in specified circumstances.

### **2.4 Risks of Option Writers:**

1. If the price movement of the underlying is not in the anticipated direction, the option writer runs the risks of losing substantial amount.

2. The risk of being an option writer may be reduced by the purchase of other options on the same underlying interest and thereby assuming a spread position or by acquiring other types of hedging positions in the options markets or other markets. However, even where the writer has assumed a spread or other hedging position, the risks may still be significant. A spread position is not necessarily less risky than a simple 'long' or 'short' position.
  3. Transactions that involve buying and writing multiple options in combination, or buying or writing options in combination with buying or selling short the underlying interests, present additional risks to investors. Combination transactions, such as option spreads, are more complex than buying or writing a single option. And it should be further noted that, as in any area of investing, a complexity not well understood is, in itself, a risk factor. While this is not to suggest that combination strategies should not be considered, it is advisable, as is the case with all investments in options, to consult with someone who is experienced and knowledgeable with respect to the risks and potential rewards of combination transactions under various market circumstances.
- 3. TRADING THROUGH WIRELESS TECHNOLOGY/ SMART ORDER ROUTING OR ANY OTHER TECHNOLOGY:** Any additional provisions defining the features, risks, responsibilities, obligations and liabilities associated with securities trading through wireless technology/ smart order routing or any other technology should be brought to the notice of the client by the stock broker.
- 4. GENERAL:**
- 4.1. The term 'constituent' shall mean and include a client, a customer or an investor, who deals with a stock broker for the purpose of acquiring and/or selling of securities / derivatives contracts through the mechanism provided by the Exchanges.
  - 4.2. The term 'stock broker' shall mean and include a stock broker, a broker or a stock broker, who has been admitted as such by the Exchanges and who holds a registration certificate from SEBI.
  - 4.3. Deposited cash and property:

You should familiarize yourself with the protections accorded to the money or other property you deposit particularly in the event of a firm become insolvent or bankrupt. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property, which has been specifically identifiable as your own, will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall. In case of any dispute with the Member of the Exchange, the same shall be subject to arbitration as per the Rules, Bye-laws and Business Rules of the Exchange.

4.4. Commission and other charges:

Before you begin to trade, you should obtain a clear explanation of all commissions, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

- 4.5. For rights and obligations of the Members/Authorised Persons/ clients, please refer to rights and obligation
- 4.6. The term 'Constituent' shall mean and include a Client, a Customer or an Investor, who deals with a member for the purpose of trading in the commodity derivatives through the mechanism provided by the Exchange.
- 4.6.1. The term 'member' shall mean and include a Trading Member or a Member/Broker, who has been admitted as such by the Exchange and got a registration certificate from SEBI.

**5. Additional Risk Disclosure documents for Options Trading**

**5.1. Risk of Option holders:**

1. An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time. This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to its expiration will necessarily lose his entire investment in the option. If the price of the underlying does not change in the anticipated direction before the option expires, to an extent sufficient to cover the cost of the option, the investor may lose all or a significant part of his investment in the option.
2. The Exchanges may impose exercise restrictions and have absolute authority to restrict the exercise of options at certain times in specified circumstances.

**5.2. Risks of Option Writers:**

1. If the price movement of the underlying is not in the anticipated direction, the option writer runs the risks of losing substantial amount.
2. The risk of being an option writer may be reduced by the purchase of other options on the same underlying interest and thereby assuming a spread position or by acquiring other types of hedging positions in the options

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- markets or other markets. However, even where the writer has assumed a spread or other hedging position, the risks may still be significant. A spread position is not necessarily less risky than a simple 'long' or 'short' position.
3. Transactions that involve buying and writing multiple options in combination, or buying or writing options in combination with buying or selling short the underlying interests, present additional risks to investors. Combination transactions, such as option spreads, are more complex than buying or writing a single option. And it should be further noted that, as in any area of investing, a complexity not well understood is, in itself, a risk factor. While this is not to suggest that combination strategies should not be considered, it is advisable, as is the case with all investments in options, to consult with someone who is experienced and knowledgeable with respect to the risks and potential rewards of combination transactions under various market circumstances.

## **GUIDANCE NOTE - DO's AND DON'Ts FOR TRADING ON THE EXCHANGE(S) FOR INVESTORS BEFORE YOU BEGIN TO TRADE**

1. Ensure that you deal with and through only SEBI registered intermediaries. You may check their SEBI registration certificate number from the list available on the Stock exchanges and SEBI website [www.sebi.gov.in](http://www.sebi.gov.in).
2. Ensure that you fill the KYC form completely and strike off the blank fields in the KYC form.
3. Ensure that you have read all the mandatory documents viz. Rights and Obligations, Risk Disclosure Document, Policy and Procedure document of the stock broker.
4. Ensure to read, understand and then sign the voluntary clauses, if any, agreed between you and the stock broker. Note that the clauses as agreed between you and the stock broker cannot be changed without your consent.
5. Get a clear idea about all brokerage, commissions, fees and other charges levied by the broker on you for trading and the relevant provisions/ guidelines specified by SEBI/Stock exchanges.
6. Obtain a copy of all the documents executed by you from the stock broker free of charge.
7. In case you wish to execute Power of Attorney (POA) in favour of the Stock broker, authorizing it to operate your bank and demat account, please refer to the guidelines issued by SEBI/Exchanges in this regard.

## **TRANSACTIONS AND SETTLEMENTS**

8. The stock broker may issue electronic contract notes (ECN) if specifically authorized by you in writing. You should provide your email id to the stock broker for the same. Don't opt for ECN if you are not familiar with computers.
9. Don't share your internet trading account's password with anyone.
10. Don't make any payment in cash to the stock broker.
11. Make the payments by account payee cheque in favour of the stock broker. Don't issue cheques in the name of AP. Ensure that you have a documentary proof of your payment/deposit of securities with the stock broker, stating date, scrip, quantity, towards which bank/ demat account such money or securities deposited and from which bank/ demat account.
12. Note that facility of Trade Verification is available on stock exchanges' websites, where details of trade as mentioned in the contract note may be verified. Where trade details on the website do not tally with the details mentioned in the contract note, immediately get in touch with the Investors Grievance Cell of the relevant Stock exchange.
13. In case you have given specific authorization for maintaining running account, payout of funds or delivery of securities (as the case may be), may not be made to you within one working day from the receipt of payout from the Exchange. Thus, the stock broker shall maintain running account for you subject to the following conditions:
  - a. Such authorization from you shall be dated, signed by you only and contains the clause that you may revoke the same at any time.
  - b. The actual settlement of funds and securities shall be done by the stock broker, at least once in a calendar quarter or month, depending on your preference. While settling the account, the stock broker shall send to you a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all the receipts/deliveries of funds and securities. The statement shall also explain the retention of funds and securities and the details of the pledged shares, if any.
  - c. On the date of settlement, the stock broker may retain the requisite securities/funds towards outstanding obligations and may also retain the funds expected to be required to meet derivatives margin obligations for next 5 trading days, calculated in the manner specified by the exchanges. In respect of cash market transactions, the stock broker may retain entire pay-in obligation of funds and securities due from clients as on date of settlement and for next day's business, he may retain funds/securities/margin to the extent of value of transactions executed on the day of such settlement in the cash market.
  - d. You need to bring any dispute arising from the statement of account or settlement so made to the notice of the stock broker in writing preferably within 7 (seven) working days from the date of receipt of funds/securities or statement, as the case may be. In case of dispute, refer the matter in writing to the Investors Grievance Cell of the relevant Stock exchanges without delay.
14. In case you have not opted for maintaining running account and pay-out of funds/securities is not received on the next working day of the receipt of payout from the exchanges, please refer the matter to the stock broker. In case there is dispute, ensure that you lodge a complaint in writing immediately with the Investors Grievance Cell of the relevant Stock exchange.



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15. Please register your mobile number and email id with the stock broker, to receive trade confirmation alerts/ details of the transactions through SMS or email, by the end of the trading day, from the stock exchanges.

## IN CASE OF TERMINATION OF TRADING MEMBERSHIP

16. In case, a stock broker surrenders his membership, is expelled from membership or declared a defaulter; Stock exchanges give a public notice inviting claims relating to only the "transactions executed on the trading system" of Stock exchange, from the investors. Ensure that you lodge a claim with the relevant Stock exchanges within the stipulated period and with the supporting documents.
17. Familiarize yourself with the protection accorded to the money and/or securities you may deposit with your stock broker, particularly in the event of a default or the stock broker's insolvency or bankruptcy and the extent to which you may recover such money and/or securities may be governed by the Bye-laws and Regulations of the relevant Stock exchange where the trade was executed and the scheme of the Investors' Protection Fund in force from time to time.

## DISPUTES / COMPLAINTS

18. Please note that the details of the arbitration proceedings, penal action against the brokers and investor complaints against the stock brokers are displayed on the website of the relevant Stock exchange.
19. In case your issue/problem/grievance is not being sorted out by concerned stock broker/AP then you may take up the matter with the concerned Stock exchange. If you are not satisfied with the resolution of your complaint then you can escalate the matter to SEBI.
20. Note that all the stock broker/APs have been mandated by SEBI to designate an e-mail ID of the grievance redressal division/compliance officer exclusively for the purpose of registering complaints.

## GUIDANCE NOTE - DO's AND DON'Ts FOR THE CLIENTS

### Do's

1. Trade only through Registered Members of the Exchange. Check from the Exchange website at following link <https://www.mcxindia.com/membership/notice-board/Member-AP>, [www.ncdex.com](http://www.ncdex.com) - Details to see whether the Member is registered with the Exchange.
2. Insist on filling up a standard 'Know Your Client (KYC)' form before you commence trading
3. Insist on getting a Unique Client Code (UCC) and ensure all your trades are done under the said UCC.
4. Insist on reading and signing a standard 'Risk Disclosure Agreement'.
5. Obtain a copy of your KYC and/ or other documents executed by you with the Member, from the Member.
6. Cross check the genuineness of trades carried out at the Exchange through the trade verification facility available on the Exchange website at the following link <https://www.mcxindia.com/en/login>. The trades can be verified online where trade information is available up to 5 working days from the trade date.
7. Insist on a duly signed Contract Note in specified format for every executed trade within 24 hours of trade, highlighting the details of the trade along with your UCC.
8. Ensure that the Contract Note contains all the relevant information such as Member Registration Number, Order No., Order Date, Order time, Trade No., Trade rate, Quantity, Arbitration Clause, etc.
9. Obtain receipt for collaterals deposited with the Member towards margins.
10. Go through the Rules, Bye-laws, Regulations, Circulars, Directives, Notifications of the Exchange as well as of the Regulators, Government and other authorities to know your rights and duties vis-à-vis those of the Member.
11. Ask all relevant questions and clear your doubts with your Member before transacting.
12. Insist on receiving the bills for every settlement.
13. Insist on Monthly statements of your ledger account and report any discrepancies in the statement to your Member within 7 working days. In case of unsatisfactory response report the discrepancy to the Exchange within 15 working days from the date of cause of action.
14. Scrutinize minutely both the transaction & holding statements that you receive from your Depository Participant.
15. Keep Delivery Instruction Slips (DIS) book issued by DPs in safe possession.
16. Ensure that the DIS numbers are preprinted and your account number (UCC) is mentioned in the DIS book.
17. Freeze your Demat account in case of your absence for longer duration or in case of not using the account frequently.
18. Pay required margins in time and only by Cheque and ask for receipt thereof from the Member.
19. Deliver the commodities in case of sale or pay the money in case of purchase within the time prescribed.
20. Understand and comply with accounting standards for derivatives.
21. Ensure to read, understand and then sign the voluntary clauses, if any, agreed between you and the Member. Note that the clauses as agreed between you and the Member cannot be changed without your consent.
22. Get a clear idea about all brokerage, commissions, fees and other charges levied by the Member on you for trading and the relevant provisions/ guidelines specified by SEBI/Commodity exchanges.
23. Make the payments by account payee cheque in favour of the Member. Ensure that you have a documentary proof of your payment/deposit of commodities with the Member, stating date, commodity, quantity, towards which bank/ demat account such money or commodities (in the form of warehouse receipts) deposited and from which bank/ demat account.
24. The payout of funds or delivery of commodities (as the case may be) shall not be made to you within one working day from the receipt of payout from the Exchange, in case you have given specific authorization for maintaining running account to the member. Thus, in this regard, the running account authorization provided by you to the Member shall be subject to the following conditions:
  - a. Such authorization from you shall be dated, signed by you only and contains the clause that you may revoke the same at any time.
  - b. You need to bring any dispute arising from the statement of account to the notice of the Member in writing preferably within 7 (seven) working days from the date of receipt of funds/commodities or statement, as the case may be. In case of dispute, refer the matter in writing to the Investors Grievance Cell of the relevant Commodity exchanges without delay.
  - c. In case you have not opted for maintaining running account and pay-out is not received on the next working day of the receipt of payout from the exchanges, please refer the matter to the Member. In case there is dispute, ensure that you lodge a complaint in writing immediately with the Investors Grievance Cell of the relevant Commodity exchange.

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- d. Please register your mobile number and email id with the Member, to receive trade confirmation alerts/ details of the transactions through SMS or email, by the end of the trading day, from the commodity exchanges.
- b. You should familiarize yourself with the protection accorded to the money or other property you may deposit with your member, particularly in the event of a default in the commodity derivatives or the member becomes insolvent or bankrupt.
- c. Please ensure that you have a documentary proof of having made the deposit of such money or property with the member, stating towards which account such money or property deposited.
- d. In case your problem/grievance/issue is not being sorted out by concerned Member/Authorised Person then you may take up the matter with the concerned Commodity Exchange. If you are not satisfied with the resolution of your complaint then you can escalate the matter to SEBI.

## Don'ts

1. Do not deal with any unregistered intermediaries.
2. Do not undertake off-market transactions as such transactions are illegal and fall outside the jurisdiction of the Exchange.
3. Do not enter into assured returns arrangement with any Member
4. Do not get carried away by luring advertisements, rumours, hot tips, explicit/ implicit promise of returns, etc.
5. Do not make payments in cash/ take any cash towards margins and settlement to/ from the Member.
6. Do not start trading before reading and understanding the Risk Disclosure Agreement.
7. Do not neglect to set out in writing, orders for higher value given over phone.
8. Do not accept unsigned/duplicate contract note/confirmation memo.
9. Do not accept contract note/confirmation memo signed by any unauthorized person.
10. Don't share your internet trading account's password with anyone
11. Do not delay payment/deliveries of commodities to Member.
12. Do not forget to take note of risks involved in the investments.
13. Do not sign blank Delivery Instruction Slips (DIS) while furnishing commodities, deposits and/or keep them with Depository Participants (DP) or member to save time.
14. Do not pay brokerage in excess of that rates prescribed by the Exchange
15. Don't issue cheques in the name of Authorized Person.

## POLICIES AND PROCEDURES

This document contains policies and procedures defined/ devised and followed by Kunvarji Finstock Pvt. Ltd. ('KFPL' or 'Broker') which it applies or adopts while providing services as a stock broker on National Stock Exchange of India Ltd. ('NSE'), BSE Ltd. ('BSE'), MCX and NCDEX (collectively herein after referred to as 'the Exchanges') to its clients. The purpose of the document is to communicate these policies and procedures to clients of KFPL.

The policies and procedures stated herein below are subject to change from time to time at the sole discretion of KFPL, depending on market conditions, requirements prescribed by Exchanges, Regulators or any other Government Authority, its risk management framework etc.

KFPL shall endeavor to keep its clients updated about such changes through regular and timely display of updated documents on its website and through direct/indirect communications to clients to the extent possible. The client may, if he or she so wishes, obtain an updated copy of this document by specifically requesting any of the offices of KFPL in writing.

Although while preparing and updating this document, sufficient care has been taken to cover all important aspects and parameters pertaining to delivery of service, method of such delivery, restrictions and leverages etc., KFPL does not warrant that this document contains all the information about policies and procedures prescribed or practiced by KFPL; nor does it claim that all important aspects and parameters have been covered in this document. The document is intended to generally provide comprehensive information to clients about issues and matters presently envisaged. Neither this document nor any of the clauses or its interpretation should be taken as basis for guidance on matters not covered in this document.

### 1. REFUSAL OF ORDERS:

In view of the risks associated in dealing with Penny Stocks and/or illiquid Stocks/contracts/ options, KFPL would generally advise its clients to desist from trading in them. Further, SEBI, Exchanges or KFPL may issue circulars or guidelines necessitating exercising additional due diligence by the clients, for dealing in such securities. KFPL may refuse to accept orders for execution of trade by a registered client under the following circumstances:

- a. If KFPL forms an opinion that the order is not placed with a genuine trading or investment objective.
- b. If KFPL forms an opinion that there is exceptional volatility in the market in general or in market for that particular scrip and execution of trade under such situation may expose it to very high risk.
- c. If KFPL forms an opinion that the price of the scrip does not reflect its fundamentals for market factors and the same is the result of market manipulation orchestrated or perpetrated by unknown entities.
- d. While accepting an order for illiquid scrips, scrips traded in trade to trade segment or belonging to Z Group or any such scrip for which either the Regulator or the Exchange have raised caution flag in any manner whatsoever, KFPL shall make such inquiries as it may deem fit and shall undertake such review of the financials of the Company or its trading pattern as it may find necessary, and may accept or reject such order based on its assessment. Apart from Stock Exchanges and Regulator identifying illiquid scrips, KFPL may have its own criteria in deciding whether scrip is illiquid or not.
- e. "Penny stocks" is a term to refer to such stocks which are quoted at a very small fraction of their face value and is also used to refer to stocks which are quoted below Rs. 1/-. The policy relating to refusal of orders stated herein above is also applicable to such stocks as they would be normally be either in illiquid stocks or stocks without reasonable fundamentals.
- f. KFPL does not allow clients to trade in illiquid derivative contracts. The measure of liquidity changes from time to time and from underlying to underlying.
- g. Trading in securities of the types enumerated above will be allowed to the client at the sole and absolute discretion of KFPL. Such securities may be blocked in a normal trading system and any dealings in such securities will be allowed only on the approval of risk management department as it may deem fit. KFPL may restrict the quantity of order of such securities if the client is allowed to buy/sell. KFPL may further insist upto 100% advance pay in of funds/ securities before accepting orders in such securities.
- h. Trading in securities market take place on screen based online computerized trading environment which is dependent on efficient functioning of network equipments, computers and softwares. In the event of malfunction or problem in

any of these ingredients, KFPL may not be able to place client's order in such circumstances. Such inability on the part of KFPL may result in loss of opportunity or notional loss to the client as prices may have moved during the time taken in resolving the technical issues which may have resulted in non execution of order. Such risk is inherent systemic risk. KFPL shall not be responsible for such opportunity loss or notional loss and shall not reimburse the client for such amount.

- i. KFPL has to maintain margin deposits with the Exchange and the same is monitored by Exchange on real time basis. margin rates are based on parameters defined by Exchanges and SEBI. These parameters may change during the course of the day on account of volatility and price movements. In the event of change of values of some of the parameters, applicable margin rates may change one or more times during the day. Exchanges disable trading terminal of those brokers who might have fully utilized to the extent of 100% of their deposits. This situation may arise on account of change in the margin rates or sudden surge in clients' orders resulting in deposits being exhausted. Under such circumstances, KFPL may not be able to accept fresh orders from client on account of its inability to execute the same. This may result in loss of opportunity or notional loss to the client as prices may have moved during the time taken in resolving the operational issues which may have resulted in non execution of order. Such risk is operational risk inherent to trading in securities market. KFPL shall not be responsible for such opportunity loss or notional loss and shall not reimburse the client for such amount.

## 2. POLICY RELATING TO SETTING UP OF CLIENT'S EXPOSURE LIMIT:

KFPL provides broking services to its clients for transactions on various Stock Exchanges and the Stock Exchanges have different segments e.g. cash market or capital market segment, equity derivatives segment or equity F&O segment, currency derivatives segment etc. Each segment deals in different products having different risk profiles and settlement attributes. Many segments may be added in future by different Stock Exchanges depending on different product development. Transactions on Stock Exchanges are executed on electronic platform and clients are serviced from network of dealing offices spread over various locations, cities, towns and states. Many clients are also provided facility to transmit their orders through internet without human intervention. KFPL uses different order routing solutions for broadcast of live prices to its dealing offices and to clients using internet for their order execution. The orders are transmitted to central server site through electronic communication medium using such order routing solutions. The orders are validated at central server and valid orders are transmitted to respective Exchanges electronically. Thus, once the order is punched through the routing solution, the process till transmission to Exchange trading platform is handled through computers electronically without human intervention. Such environment requires that KFPL has predefined policies for setting exposure limits for its clients. The securities markets are usually very volatile and different clients have different risk profiles. Volatility amongst different scrips and different derivatives contracts are different. Business Rules, Bye laws and Regulations of the Exchanges require Brokers including KFPL to obtain upfront margin from clients. All these factors taken together create a challenging environment where KFPL, apart from setting allowable trading limits for different clients differently, has to often modify or change such trading limits several times during the day if situation so demands.

The trading limit setting policies enumerated below are to be taken as basis for understanding policies implemented by KFPL and the same may not be rigidly followed and may be changed from time to time on account of factors stated above. The averments contained in these statements are not promises made by KFPL to its clients and they do not confer any rights to clients to demand that there trading limits at all times will be set according to these policies.

- a. Exposure limits to the client will be provided based on the available margin in the client's broking account maintained with KFPL exposure limits for its clients. The securities markets are usually very volatile and different clients have different risk profiles. Volatility amongst different scrips and different derivatives contracts are different. Business Rules, Bye laws and Regulations of the Exchanges require Brokers including KFPL to obtain upfront margin from clients. All these factors taken together create a challenging environment where KFPL, apart from setting allowable trading limits for different clients differently, has to often modify or change such trading limits several times during the day if situation so demands. The trading limit setting policies enumerated below are to be taken as basis for understanding policies implemented by KFPL and the same may not be rigidly followed and may be changed from time to time on account of factors stated above. The averments contained in these statements are not promises made by KFPL to its clients and they do not confer any rights to clients to demand that there trading limits at all times will be set according to these policies.

- b. The exposure limits will be a certain multiple of the available margin. Such multiplier will be as decided by KFPL from time to time and may vary from client to client,.
- c. On a case-to-case basis KFPL, as its sole and absolute discretion, may allow higher exposure limits to the client.
- d. In case of cash segment, KFPL may at its sole and absolute discretion allow clean exposure limit up to certain amount to the client without insisting for any credit balance and/or margin. The quantum of clean exposure limit shall be decided by KFPL. On a case-to-case basis KFPL may, at its sole and absolute discretion, give higher clean exposure limits to certain set of the clients. KFPL reserves the right to withdraw clean exposure limit granted to the client at any point of time at its sole and absolute discretion. The client cannot raise any concern/dispute for the same. etion allow clean exposure limit up to certain amount to the client without insisting for any credit balance and/or margin. The quantum of clean exposure limit shall be decided by KFPL. On a case-to-case basis KFPL may, at its sole and absolute discretion, give higher clean exposure limits to certain set of the clients. KFPL reserves the right to withdraw clean exposure limit granted to the client at any point of time at its sole and absolute discretion. The client cannot raise any concern/dispute for the same.
- e. Available margin for the purpose of granting exposure is calculated as a sum of free credit balance of the client in KFPL's books, margin in the form of funds, securities, bank fixed deposit, bank guarantee, etc. of the client available with KFPL, and the value of securities held in the client's demat account for which power of attorney is granted in favour of KFPL.
- f. The choice of the securities to be considered as margin shall be determined by KFPL at its sole discretion from time to time and the client shall abide by the same.
- g. While granting the exposure limit, margin in the form of securities will be valued as per the latest available closing price on NSE or BSE after applying appropriate haircut as may be decided by KFPL at its sole discretion.
- h. KFPL may from time to time depending on market conditions, profile and history of the client, type and nature of scrip, etc., at its sole discretion charge/change the rate of haircut applicable on the securities given as margin, multiplier for granting exposure in Cash/F&O segments and take such steps as KFPL may deem appropriate.
- i. The Client will have to abide by the exposure limit set by KFPL.

### 3. APPLICABLE BROKERAGE RATES:

- a. KFPL charges brokerage to its clients at rates not exceeding the maximum chargeable as prescribed by exchanges/SEBI, which is at present 2.5% of the value of the transaction. The actual brokerage rates chargeable to a client will be as per the terms agreed with the client at the time of client registration. KFPL may charge brokerage on option contracts expiring worthless and option contracts exercised/assigned. In case of low value securities, KFPL may prescribe minimum brokerage per share which may exceed 2.5% of the value of the transaction subject to a maximum of Rs. 0.25 per share.
- b. KFPL charges minimum Rs. 25/- per contract note issued in case of brokerage chargeable on cash market transactions. This minimum limit may be revised upward depending on regulatory dispensations and cost environment. KFPL may waive off minimum contract charges for certain clients at its sole discretion.
- c. In respect of low value option contracts, KFPL charges a minimum brokerage of Rs. 50/- per contract traded. KFPL does charge lower brokerage to selected clients based on their trading volumes.
- d. KFPL may devise different schemes of brokerage based on market demand and dynamics, which may operate on parameters other than value of transaction. A client opting for such scheme may find effective brokerage rates much higher than value based brokerage offered to him, if he does not meet with the volume and other criteria defined as part and parcel of the relevant scheme.
- e. The brokerage rate may be varied in future as agreed between the client and KFPL either in writing or orally from time to time. In case of oral agreement, if the brokerage is charged at such revised rate in contract note subsequent to revision and the client does not raise any dispute on such brokerage within the time period stipulated on the contract note then the same will be considered as consented by the client.
- f. The brokerage rate at no point of time will exceed the rates as may be specified by the Exchanges/SEBI from time to time. f The brokerage will be exclusive of the following except in cases where it is agreed otherwise:
  - I. Service Tax and Education Cess
  - II. SEBI/exchange/Clearing member charges

- III. Stamp duty
- IV. Statutory charges payable to Exchange / SEBI /Govt. Authorities etc.
- V. Any another charges towards customized/ specialized service

#### 4. IMPOSITION OF PENALTY/ DELAYED PAYMENT CHARGES BY EITHER PARTY

##### IMPOSITION OF PENALTY:

The Exchange/ Clearing corporation/ SEBI levies penalties on the broker for irregularities observed by them during the course of business. KFPL shall recover such imposed penalties/ levies, if any, by the Exchange/Regulatory, from such clients on account of whose dealings such penalties/levies have been imposed. Few of the examples of violations for which penalties may be levied are as under:

- a. Auction of securities pursuant to short deliveries by the client.
- b. Non adherence to client level exposure limits in cash, F&O and currency segments.
- c. Short margin reporting in any segment as may be stipulated by the respective Exchange.
- d. Any other reason which may be specified by the Exchanges/ Clearing Corporation/SEBI from time to time.

Such recovery would be by way of debit in the ledger of the client and amounts would be adjusted in client ledger account.

##### A. BY KFPL ON ITS CLIENTS:

- a. KFPL may levy penalty/delayed payment charges from clients who have delayed payment against settlement obligation or margin obligation at the rate of 18% per annum. KFPL may waive these charges for such clients if it is satisfied that the respective client has not willfully delayed payment.
- b. Levy of such charges and payment thereof by client does not amount to KFPL agreeing to fund the settlement obligations or margin obligations of the client. The penalty/delayed payment charges are being imposed to ensure that the clients pay money towards their obligations on time.
- c. The client shall have an obligation to make payment of such penalty/ delayed payment charges upon KFPL debiting the amount in the respective client's ledger account by journal entry and by communication of the same to the client by way of sending statement of account either in hard copy or by email.

##### B. BY CLIENTS ON KFPL:

1. In respect of clients who have instructed KFPL to maintain running account: Such clients shall be entitled to claim interest/delayed payment charges from KFPL upon satisfaction of the following conditions:
  - a. The client has submitted written request for pay out of his funds subject to the same being equal to or less than his clear unencumbered credit balance in his client account for respective segment. The term clear unencumbered credit balance shall have the same meaning as stated in clause 2(A) (2) herein above.
  - b. KFPL fails to pay the dues to the client as per his request as stated in (a) above within such time as may have been stipulated by the client in his "Running account authorization letter" issued to KFPL. In the event of KFPL opting to make payment by cheque or demand draft, allowance shall be made for time reasonably taken in cheque or demand draft reaching the dealing office from where the client's account is being serviced or at the registered address of the client by courier or by post. In respect of electronic payment through fund transfer facility provided by Banks, allowance shall be made for the time taken by Banks in processing such electronic fund transfer request.
  - c. While computing delay in payment, allowance shall be made for bank holiday in Gujarat state, bank holiday in state where Head Office of bankers of KFPL is situated, any law and order problem or natural disaster in any of these states or in areas from where KFPL undertakes its operations, or major break down or disruption in electronic systems including computers, connectivity which KFPL and its Banks are using to process payment etc.
  - d. Such interest shall be payable to client upon the client raising his claim for the same with evidence of submission of request and computation of claim. Such interest shall be payable at the rate of 18% per annum.
2. In respect of clients who have not instructed KFPL to maintain their account on "running account basis".
  - a) Such clients shall be required to claim their dues by intimation to KFPL on the payout day at the respective dealing office of KFPL from where their account is being serviced.
- 3.

- b) KFPL shall pay such amount by sending cheque within one clear working day from the date of receipt of such request to the dealing office from where the client's account is serviced. KFPL may make payment by initiating electronic fund transfer for direct credit to designated bank account of the client within 1 working day from the date of receipt of such request. In the event of KFPL opting to make payment by cheque or demand draft, allowance shall be made for time reasonably taken in cheque or demand draft reaching the dealing office from where the client's account is being serviced or at the registered address of the client by courier or by post. In respect of electronic payment through fund transfer facility provided by Banks, allowance shall be made for the time taken by Banks in processing such electronic fund transfer request.
- c) Allowance shall be made for bank holiday in Gujarat state, bank holiday in state where Head Office of bankers of KFPL is situated, any law and order problem or natural disaster in any of these states or in areas from where KFPL undertakes its operations, or major break down or disruption in electronic systems including computers, connectivity which KFPL and its Banks are using to process payment etc.
- d) In the event of the client concluding that KFPL has delayed payment, he shall raise his claim in writing to the Head Office of KFPL along with the evidence of his having demanded payment from the dealing office from where his account is being serviced and the details of computation of delay in accordance with the above clauses and delayed payment charges at the rate of 18% per annum.

## 5. KFPL'S RIGHT TO CLOSE OUT CLIENT'S POSITIONS AND TO SELL CLIENTS SECURITIES WITHOUT NOTICE

KFPL requests the prospective clients to refer to MEMBER CLIENT AGREEMENT and RISK DISCLOSURE DOCUMENT wherein Broker's rights to sell securities purchased by the client and to close out open positions of the client are adequately defined. For the sake of clarity, the circumstances and procedures relating to such close out or sale of securities are explained below.

### 1. CASH MARKET SEGMENT OR CAPITAL MARKET SEGMENT

- a. A KFPL is subject to upfront margin requirements by stock exchanges in Cash Segment. Positions in cash market are marked to market usually at the end of the day and marked to market losses arising on client's open position at the end of the day is required to be funded by KFPL. In exceptional circumstances, stock exchange may require KFPL to deposit such additional margins in cash as it may find necessary. KFPL may levy margins on the clients at such rates and of such amount as it may find prudent based on risk profile and other factors. KFPL may demand additional margins to cover additional volatility or marked to market losses or open positions from the clients. KFPL may prescribe margin requirements at the time of client registration or may intimate it or change it at the time of placement of order or any time thereafter. In the event of client not fulfilling such margin requirements, KFPL may sell off securities deposited by the client as margin, securities held by KFPL on behalf of the client either in its pool account or beneficiary account or may square off open positions of the client.
- b. KFPL shall undertake such selling of securities or squaring off of open positions, to the extent required,
  - 1) to ensure that client has balance in this ledger account to such extent as would be required to maintain balance open positions of the client after such squaring off.
  - 2) In the event of non payment of dues by client, to the extent required to recover debit balances in any segment in ledger account of the client
- c. KFPL shall not be under obligation to give any prior written or oral notice or intimation to the client. Non payment of dues or non compliance with margin obligation will entitle KFPL to effect squaring off as stated herein above. Any written or verbal notice or intimation given by KFPL at any time earlier or for any client shall not be construed as having established procedure of such prior notice or intimation.

### 2. DERIVATIVES SEGMENT

- a. The existing margining systems and Exchange Regulations require that KFPL collect upfront margin from its customers; and Exchanges require margin deposits in the form and manner prescribed which is monitored online by the Exchanges on post trade basis. KFPL is also required to upload daily the details of margin required to be collected from each client having open position and margin collected from each of such client. Shortages in collection would amount to non compliance with Exchange Regulations and may result in penalties and even suspension of trading. Exchanges levy margins computed on VAR parameters defined by Regulators and are computed in such way so as to meet value at risk in 99% of the cases. The parameters for margin calculation are



reworked several times during the day depending on volatility and margin rates therefore may change several times intraday and at the end of the day. KFPL is entitled and may levy additional margin on client's positions selectively or generally depending on its own perception about adequacy of Exchange defined margins. Credit balances available in client's ledger account is first appropriated against debit for MTM settlement and balance available together with collaterals if any deposited by the client, valued as per defined norms should be sufficient to meet applicable margin requirement at the commencement of trading on the next day. Any shortages will have to be made good by clients before commencement of trading.

- b. In the event of client not meeting margin obligations as applicable, KFPL may square off its outstanding positions and sell off collaterals, to the extent required, without prior written or oral notice or intimation to the client, to ensure that the open positions of the client is backed by sufficient margin.
- c. KFPL may not exercise its rights of squaring off or realising collaterals in all cases at all times. This may happen due to client making promise of payment or deposit of collaterals in due course, which KFPL may rely upon. Non exercise of its rights by KFPL should not be construed as allowing client the right to keep open positions without sufficient margin.

## 6. SHORTAGES IN DELIVERY OBLIGATIONS ARISING OUT OF INTERNAL NETTING OF TRADES

Stock Exchanges compute delivery obligations of the brokers after netting off all the positions of all clients for each scrip. If on net basis, the total position of the broker for scrip is sale, he is required to deliver such net quantity of shares of that scrip to Stock Exchange before pay in. If on net basis, the total position of the broker for scrip is purchase, Stock Exchange delivers such net quantity of shares of that scrip to the broker on successful completion of pay in, at the time of pay out. This may result in sale position of one client being netted off against purchase position of another client in the same scrip requiring settlement of delivery obligations within the office of the broker. In such event, if the selling client fails to honour his settlement obligation, the buyer client may end up not receiving securities against his purchase or he may receive lesser no. of shares than his purchase quantity of shares. Since the obligation against Exchange is non existent, the usual auction mechanism established by the Stock Exchange may not be available in such scenario. Stock brokers are required to frame procedures for dealing with such internal shortage which are fair and transparent.

KFPL has framed and implemented following policy for settling of the transaction, which remains unsettled due to Internal Shortages.

The transaction, which remains unsettled due to Internal Shortages of Securities, shall be closed out and settled amongst the buyer and seller as under:

- a. The internal shortage quantity of shares will be deemed to have been squared off amongst the short deliverer and the purchaser at the auction rate of that scrip available from exchange trading system of the 'relevant day' ('relevant day' defined as the day on which the scrip would have been auctioned, had the obligation been against the exchange and not netted off within office of KFPL).
- b. In the event of there being no auction of that particular scrip on the 'relevant day' or auction rate not being available for any reason whatsoever, the internal shortage quantity of shares will be deemed to have been squared off amongst the short deliverer and the purchaser at the highest of the following:
  - I. Highest price on any day from the date of trade till the 'relevant day'.
  - II. Price at which the purchaser counter party has bought the shares on the trading day.

Accordingly, if the seller fails to give the delivery of securities sold by him which if resulted into Internal Shortage, the seller client will be debited for the transaction at the rates prescribed above. Similarly, if KFPL is unable to give the delivery of securities bought by the buyer due to the Internal Shortage, the buyer client will receive the credit for the transaction at the rates prescribed above.

## 7. CONDITIONS UNDER WHICH A CLIENT IS NOT ALLOWED TO TAKE FURTHER POSITIONS OR KFPL MAY CLOSE OUT EXISTING POSITIONS OF THE CLIENT

KFPL may not allow client to take further positions or may close out existing positions of client under following circumstances:

- a. If the client has failed to meet his margin or settlement obligation as explained in para 5 above.

- a. In the event of KFPL taking a view that there is likely to be huge volatility in the market and KFPL may have prescribed that client wishing to trade further must deposit required amount of additional margin upfront, in the event of the client not fulfilling such conditions, KFPL may refuse to accept further orders from the client.
- b. If KFPL believes that the order placed by the client is not on account of genuine trading or investment objective, KFPL may refuse to allow the client to take further positions.
- c. If the client fails to furnish documents/ informations as may be called for by KFPL from time to time as per regulatory requirements and/or as per its internal policy.
- d. Any ban imposed on the client by any regulatory authority.
- e. Where name of the client apparently resembles with the name appearing in the list of debarred entities published by SEBI/ EXCHANGES, where the information available for such debarred entity resembles with the information pertaining to the client and it is not possible to arrive at a view that the client and the debarred entity bearing the same name and other details are two different entities.
- f. Depending on the market circumstances, if KFPL is of the view that the positions of the client are at risk, KFPL may close the existing position of the clients without waiting for the pay in schedule of the Exchanges.

KFPL may take actions under this policy with or without giving any notice or intimation to the client. KFPL will not be responsible for any opportunity loss or actual loss to the client in the event of any action taken by it pursuant to this policy.

## 8. TEMPORARY SUSPENSION OF CLIENT ACCOUNT AT CLIENT'S REQUEST

If a client does not want to trade either for a limited period or for indefinite period, he may inform KFPL in writing of his intentions not to trade for a limited period or for indefinite time, as the case may be. Upon receipt of such request, KFPL, after making such verification as it may find necessary, shall suspend the client's trading account for such limited period or for indefinite time, as requested by the client.

If a client whose trading account has been temporarily suspended wishes to reactivate the same, the client will have to forward written request for reactivation to the registered office of KFPL.

## 9. DEREGISTRATION OF THE CLIENT

Without prejudice to KFPL's rights and remedies available under the Agreement, KFPL may forthwith, at its sole and absolute discretion, de-register the client with/without prior notice/intimation in the following circumstances:

- a. If the client makes request for deregistration in writing.
- b. If KFPL is satisfied and believes that the client is not interested in executing transactions through KFPL.
- c. If the client is not maintaining his account as per the requirements and KFPL wishes to sever the relationship with the client after giving such due notice as stipulated in Member Client Agreement.
- d. Where the client indulges in any irregular trading activities like synchronized trading, price manipulation, trading in illiquid securities/ options/contracts, self trades, trading in securities at prices significantly away from market prices, etc.
- e. Any enquiry/investigation initiated by the Exchanges/regulators against the client;
- f. Any regulatory action taken/initiated against the client by the Exchange/regulators including but not limited to debarring the client from accessing the capital market;
- g. Where name of the client apparently resembles with the name appearing in the list of debarred entities published by SEBI/ Exchanges (where no information other than name is available);
- h. Name of the client appears in database/websites of CIBIL, Watch Out Investors, World Check, etc.;
- i. The client having suspicious back ground or link with suspicious organization;
- j. Where the client is non-traceable, has pending disputes with KFPL, possibility of a default by the client;
- k. Any other circumstances leading to a breach of confidence in the client for reasons like return of undelivered couriers citing reason of 'No such person/ Addressee left/ Refusal to accept mails, etc.', continues cheque bouncing, or not furnishing the financial and other details as may be called for by KFPL from time to time, etc;
- l. Upon receipt of written information about the death of the client;
- m. Such other circumstances which in the sole opinion of KFPL warrants to de-register the client.

In all such cases, KFPL shall have the right to close out the existing open positions/contracts, sell/liquidate the margin (in any form) to recover its dues, if any, before der-registrating the client. Any action taken by KFPL in terms of this policy shall damage (actual/notional), which may be caused to the client as a result. Also while de-registrating the client, KFPL may retain certain amount/securities due/belonging to the client for meeting any future losses, liability, penalties, etc. arising out of dealing of the client with KFPL. In case if any securities retained by KFPL is sold/liquidated to recover any such losses, liability, penalties, etc., KFPL shall have the sole authority to decide the mode, manner and the price at which to effect the sale of securities and the client can not raise any dispute as to the manner, mode and the price at which the securities are sold by KFPL.

In any of the above circumstances, if the client is able to justify his/her/its innocence either by producing any record, document or otherwise to the full satisfaction of KFPL may reconsider its decision of de-registrating the client. However in no circumstances any action taken by KFPL till the date of re-registration shall be challenged by the client and KFPL shall not be liable to the client for any loss or damage (actual/notional), which may be caused to the client as a result.

## 10. POLICY REGARDING TREATMENT OF INACTIVE CLIENTS

If a client has not executed any trade in any segment for which the client is registered since last 12 months, he/she/it shall be considered as an inactive client. Orders for such client shall be accepted and executed only after due verification about genuineness of the order and that the order has, in fact, placed by such client.

The assets of the inactive client shall be returned to the client at the end of the quarter in which the client's account has been identified as inactive based on his/her/its activity over last 12 months.

## 11. CLIENT CODE MODIFICATION POLICY

KFPL allows execution of client orders through punching in of such orders through CTCL TWS provided to all the dealing offices. The orders of the clients are punched by the dealer allocated to the client in such CTCL TWS along with the client code allotted to the respective client. Since the orders are communicated either on phone or by verbal communication, there are chances of communication or interpretation of incorrect client code resulting in order being punched in with incorrect client code. KFPL has formulated policies for correction of such errors including typographical errors committed by dealers appointed by KFPL or its sub brokers and authorised participants, in accordance with SEBI Circular No. CIR/DNPD/6/2011 dated 05.07.2011 and guidelines issued by Exchanges in this behalf.

- a. Code modification shall be carried out using functionality provided by the trading system of the respective Exchange only and within time prescribed. Code modification after the prescribed time limit through code modification in back office shall not be done.
- b. In case of mistake in communication by the client resulting in order entry with incorrect or wrong code, the order shall be transferred to 'Error Account' of KFPL designated in this behalf and the position arising out of such order having been traded shall be squared off in open market as early as possible. Any loss or profit arising out of liquidation of such position transferred to 'Error Account' of KFPL shall be transferred to the respective client's ledger account.
- c. In respect of order entry with incorrect client code due to typographical error of the dealer of KFPL, such order shall be transferred to 'Error Account' of KFPL and the position arising out of such order having been traded shall be squared off in open market as early as possible. Fresh order with correct client code shall be punched in the TWS. Any loss or profit arising out of liquidation of such position transferred to 'Error Account' of KFPL and price difference between the original order and the new order shall be borne by KFPL.
- d. Any other instances of error in any other attributes of order of the client shall also be dealt with by transferring the respective order to 'Error Account' of KFPL, and the positions arising out of such orders shall be squared off at the earliest. The profits or losses arising out of such orders shall be borne by the client if the error has been committed by the client and shall be borne by KFPL if the same is committed by the dealer of KFPL.
- e. In respect of any modification of code resulting in transfer of order from one client code to another client code, the same shall be permitted on insistence of the client only subject to

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- 1) 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.
- 2) Modification within relatives ('Relative' for this purpose would mean 'Relative' as defined under the Companies Act 1956)
- 3) Such code modification shall be subject to penalty which will be prescribed percentage of the order value in respect of which the client code has been modified. The client shall bear such penalty.

## GENERAL:

KFPL shall have the right at its sole and absolute discretion to amend/change/revise any of the above said policies and procedure at time in future and the same shall be binding on the client forthwith.

Any action taken by KFPL in accordance with the policies and procedures mentioned herein above cannot be challenged by the client, and KFPL shall not be liable to the client for any loss or damage (actual/notional) which may be caused to the client as a result.

## **RIGHTS AND OBLIGATIONS OF BENEFICIAL OWNER AND DEPOSITORY PARTICIPANT AS PRESCRIBED BY SEBI AND DEPOSITORIES**

### **General Clause**

1. The Beneficial Owner and the Depository participant (DP) shall be bound by the provisions of the Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 1996, Rules and Regulations of Securities and Exchange Board of India (SEBI), Circulars / Notifications / Guidelines issued there under, Bye Laws and Business Rules/Operating Instructions issued by the Depositories and relevant notifications of Government Authorities as may be in force from time to time.
2. The DP shall open/activate demat account of a beneficial owner in the depository system only after receipt of complete Account opening form, KYC and supporting documents as specified by SEBI from time to time.

### **Beneficial Owner information**

3. The DP shall maintain all the details of the beneficial owner(s) as mentioned in the account opening form, supporting documents submitted by them and/or any other information pertaining to the beneficial owner confidentially and shall not disclose the same to any person except as required by any statutory, legal or regulatory authority in this regard.
4. The Beneficial Owner shall immediately notify the DP in writing, if there is any change in details provided in the account opening form as submitted to the DP at the time of opening the demat account or furnished to the DP from time to time.

### **Fees/Charges/Tariff**

5. The Beneficial Owner shall pay such charges to the DP for the purpose of holding and transfer of securities in dematerialized form and for availing depository services as may be agreed to from time to time between the DP and the Beneficial Owner as set out in the Tariff Sheet provided by the DP. It may be informed to the Beneficial Owner that "no charges are payable for opening of demat accounts"
6. In case of Basic Services Demat Accounts, the DP shall adhere to the charge structure as laid down under the relevant SEBI and/or Depository circulars/directions/notifications issued from time to time.
7. The DP shall not increase any charges/tariff agreed upon unless it has given a notice in writing of not less than thirty days to the Beneficial Owner regarding the same.

### **Dematerialization**

8. The Beneficial Owner shall have the right to get the securities, which have been admitted on the Depositories, dematerialized in the form and manner laid down under the Bye Laws, Business Rules and Operating Instructions of the depositories.

### **Separate Accounts**

9. The DP shall open separate accounts in the name of each of the beneficial owners and securities of each beneficial owner shall be segregated and shall not be mixed up with the securities of other beneficial owners and/or DP's own securities held in dematerialized form.
10. The DP shall not facilitate the Beneficial Owner to create or permit any pledge and /or hypothecation or any other interest or encumbrance over all or any of such securities submitted for dematerialization and/or held in demat account except in the form and manner prescribed in the Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 1996 and Bye- Laws/Operating Instructions/Business Rules of the Depositories.

### **Transfer of Securities**

11. The DP shall effect transfer to and from the demat accounts of the Beneficial Owner only on the basis of an order, instruction, direction or mandate duly authorized by the Beneficial Owner and the DP shall maintain the original documents and the audit trail of such authorizations.
12. The Beneficial Owner reserves the right to give standing instructions with regard to the crediting of securities in his demat account and the DP shall act according to such instructions.

13. The stock broker / stock broker and depository participant shall not directly / indirectly compel the clients to execute Power of Attorney (PoA) or Demat Debit and Pledge Instruction (DDPI) or deny services to the client if the client refuses to execute PoA or DDPI.

#### Statement of account

14. The DP shall provide statements of accounts to the beneficial owner in such form and manner and at such time as agreed with the Beneficial Owner and as specified by SEBI/depository in this regard.
15. However, if there is no transaction in the demat account, or if the balance has become Nil during the year, the DP shall send one physical statement of holding annually to such BOs and shall resume sending the transaction statement as and when there is a transaction in the account.
16. The DP may provide the services of issuing the statement of demat accounts in an electronic mode if the Beneficial Owner so desires. The DP will furnish to the Beneficial Owner the statement of demat accounts under its digital signature, as governed under the Information Technology Act, 2000. However if the DP does not have the facility of providing the statement of demat account in the electronic mode, then the Participant shall be obliged to forward the statement of demat accounts in physical form.
17. In case of Basic Services Demat Accounts, the DP shall send the transaction statements as mandated by SEBI and/or Depository from time to time.

#### Manner of Closure of Demat account

18. The DP shall have the right to close the demat account of the Beneficial Owner, for any reasons whatsoever, provided the DP has given a notice in writing of not less than thirty days to the Beneficial Owner as well as to the Depository. Similarly, the Beneficial Owner shall have the right to close his/her demat account held with the DP provided no charges are payable by him/her to the DP. In such an event, the Beneficial Owner shall specify whether the balances in their demat account should be transferred to another demat account of the Beneficial Owner held with another DP or to rematerialize the security balances held.
19. Based on the instructions of the Beneficial Owner, the DP shall initiate the procedure for transferring such security balances or rematerialize such security balances within a period of thirty days as per procedure specified from time to time by the depository. Provided further, closure of demat account shall not affect the rights, liabilities and obligations of either the Beneficial Owner or the DP and shall continue to bind the parties to their satisfactory completion.

#### Default in payment of charges

20. In event of Beneficial Owner committing a default in the payment of any amount provided in Clause 5 & 6 within a period of thirty days from the date of demand, without prejudice to the right of the DP to close the demat account of the Beneficial Owner, the DP may charge interest at a rate as specified by the Depository from time to time for the period of such default.
21. In case the Beneficial Owner has failed to make the payment of any of the amounts as provided in Clause 5&6 specified above, the DP after giving two days notice to the Beneficial Owner shall have the right to stop processing of instructions of the Beneficial Owner till such time he makes the payment along with interest, if any.

#### Liability of the Depository

22. As per Section 16 of Depositories Act, 1996,
1. Without prejudice to the provisions of any other law for the time being in force, any loss caused to the beneficial owner due to the negligence of the depository or the participant, the depository shall indemnify such beneficial owner.
  2. Where the loss due to the negligence of the participant under Clause (1) above, is indemnified by the depository, the depository shall have the right to recover the same from such participant.

#### Freezing/ Defreezing of accounts

23. The Beneficial Owner may exercise the right to freeze/defreeze his/her demat account maintained with the DP in accordance with the procedure and subject to the restrictions laid down under the Bye Laws and Business Rules/Operating Instructions.
24. The DP or the Depository shall have the right to freeze/defreeze the accounts of the Beneficial Owners on receipt of instructions received from any regulator or court or any statutory authority.

## Redressal of Investor grievance

25. The DP shall redress all grievances of the Beneficial Owner against the DP within a period of thirty days from the date of receipt of the complaint.

### Authorized representative

26. If the Beneficial Owner is a body corporate or a legal entity, it shall, along with the account opening form, furnish to the DP, a list of officials authorized by it, who shall represent and interact on its behalf with the Participant. Any change in such list including additions, deletions or alterations thereto shall be forthwith communicated to the Participant.

### Law and Jurisdiction

27. In addition to the specific rights set out in this document, the DP and the Beneficial owner shall be entitled to exercise any other rights which the DP or the Beneficial Owner may have under the Rules, Bye Laws and Regulations of the respective Depository in which the demat account is opened and circulars/notices issued there under or Rules and Regulations of SEBI.

28. The provisions of this document shall always be subject to Government notification, any rules, regulations, guidelines and circulars/ notices issued by SEBI and Rules, Regulations and Bye- laws of the relevant Depository, where the Beneficial Owner maintains his/ her account, that may be in force from time to time.

29. The Beneficial Owner and the DP shall abide by the arbitration and conciliation procedure prescribed under the Bye-laws of the depository and that such procedure shall be applicable to any disputes between the DP and the Beneficial Owner.

30. Words and expressions which are used in this document but which are not defined herein shall unless the context otherwise requires, have the same meanings as assigned thereto in the Rules, Bye-laws and Regulations and circulars/notices issued there under by the depository and/or SEBI

31. Any changes in the rights and obligations which are specified by SEBI/Depositories shall also be brought to the notice of the clients at once.

32. If the rights and obligations of the parties hereto are altered by virtue of change in Rules and regulations of SEBI or Bye-laws, Rules and Regulations of the relevant Depository, where the Beneficial Owner maintains his/her account, such changes shall be deemed to have been incorporated herein in modification of the rights and obligations of the parties mentioned in this document.

## ADDITIONAL LITERATURE FOR AML REQUIREMENTS

As per the requirements of SEBI, implementation of Anti Money Laundering (AML)/ Combating Financing of Terrorism requires trading members as intermediaries to demand certain information from investors which may be of personal nature or has hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions with regard to the motive and purpose of collecting such information. To, sensitize about these requirements as the ones emanating from AML and CFT framework, General FAQs as published by The Financial Action Task Force (FATF), an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing is reproduced herewith. Kindly feel free to visit the websites of <http://www.fatf-gafi.org/> and <http://fiuindia.gov.in> for more information on the subject.

### FAQ

#### What is Money Laundering?

The goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardising their source.

Illegal arms sales, smuggling, and the activities of organised crime, including for example drug trafficking and prostitution rings, can generate huge amounts of proceeds. Embezzlement, insider trading, bribery and computer fraud schemes can also produce large profits and create the incentive to "legitimise" the ill-gotten gains through money laundering.

When a criminal activity generates substantial profits, the individual or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention.

In response to mounting concern over money laundering, the Financial Action Task Force on money laundering (FATF) was established by the G-7 Summit in Paris in 1989 to develop a co-ordinated international response. One of the first tasks of the FATF was to develop Recommendations, 40 in all, which set out the measures national governments should take to implement effective anti- money laundering programs.

#### How much money is laundered per year?

By its very nature, money laundering is an illegal activity carried out by criminals which occurs outside of the normal range of economic and financial statistics. Along with some other aspects of underground economic activity, rough estimates have been put forward to give some sense of the scale of the problem.

The International Monetary Fund, for example, has stated in 1996 that the aggregate size of money laundering in the world could be somewhere between two and five percent of the world's gross domestic product.

Using 1996 statistics, these percentages would indicate That money laundering ranged between US Dollar (USD) 590 billion and USD

1.5 trillion. The lower figure is roughly equivalent to the value of the total output of an economy the size of Spain.

However it must be said that overall it is absolutely impossible to produce a reliable estimate of the amount of money laundered and therefore the FATF does not publish any figures in this regard.

#### How is money laundered?

In the initial - or placement - stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location.



After the funds have entered the financial system, the second - or layering - stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channelled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not co-operate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.

Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage - integration - in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.

### **Where does money laundering occur?**

As money laundering is a consequence of almost all profit generating crime, it can occur practically anywhere in the world. Generally, money launderers tend to seek out countries or sectors in which there is a low risk of detection due to weak or ineffective anti-money laundering programmes. Because the objective of money laundering is to get the illegal funds back to the individual who generated them, launderers usually prefer to move funds through stable financial systems.

Money laundering activity may also be concentrated geographically according to the stage the laundered funds have reached. At the placement stage, for example, the funds are usually processed relatively close to the under-lying activity; often, but not in every case, in the country where the funds originate.

With the layering phase, the launderer might choose an offshore financial centre, a large regional business centre, or a world banking centre - any location that provides an adequate financial or business infrastructure. At this stage, the laundered funds may also only transit bank accounts at various locations where this can be done without leaving traces of their source or ultimate destination.

Finally, at the integration phase, launderers might choose to invest laundered funds in still other locations if they were generated in unstable economies or locations offering limited investment opportunities.

### **How does money laundering affect business?**

The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is the one of the most valuable assets of a financial institution.

If funds from criminal activity can be easily processed through a particular institution - either because its employees or directors have been bribed or because the institution turns a blind eye to the criminal nature of such funds - the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries and of regulatory authorities, as well as ordinary customers.

As for the potential negative macroeconomic consequences of unchecked money laundering, one can cite inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers. Also, as it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law.

### **What influence does money laundering have on economic development?**

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centres, but inadequate controls are particularly vulnerable as established financial centre countries implement comprehensive anti- money laundering regimes.

Differences between national anti-money laundering Systems will be exploited by launderers, who tend to move their networks to countries and financial systems with weak or ineffective countermeasures.

Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organised crime can become.

As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organised crime. Fighting money laundering and terrorist financing is therefore a part of creating a business friendly environment which is a precondition for lasting economic development.

### **What is the connection with society at large?**

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.

The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue.

### **How does fighting money laundering help fight crime?**

Money laundering is a threat to the good functioning of a financial system; however, it can also be the Achilles heel of criminal activity.

In law enforcement investigations into organised criminal activity, it is often the connections made through financial transaction records that allow hidden assets to be located and that establish the identity of the criminals and the criminal organisation responsible.

When criminal funds are derived from robbery, extortion, embezzlement or fraud, a money laundering investigation is frequently the only way to locate the stolen funds and restore them to the victims.

Most importantly, however, targeting the money laundering aspect of criminal activity and depriving the criminal of his ill-gotten gains means hitting him where he is vulnerable. Without a usable profit, the criminal activity will not continue.

### **What should individual governments be doing about it?**

A great deal can be done to fight money laundering, and, indeed, many governments have already established comprehensive anti- money laundering regimes. These regimes aim to increase awareness of the phenomenon - both within the government and the private business sector - and then to provide the necessary legal or regulatory tools to the authorities charged with combating the problem.

Some of these tools include making the act of money laundering a crime; giving investigative agencies the authority to trace, seize and ultimately confiscate criminally derived assets; and building the necessary framework for permitting the agencies involved to exchange information among themselves and with counterparts in other countries.

It is critically important that governments include all relevant voices in developing a national anti-money laundering programme. They should, for example, bring law enforcement and financial regulatory authorities together with the private sector to enable financial institutions to play a role in dealing with the problem. This means, among other things, involving the relevant authorities in establishing financial transaction reporting systems, customer identification, record keeping standards and a means for verifying compliance.

### **Should governments with measures in place still be concerned?**

Money launderers have shown themselves through time to be extremely imaginative in creating new schemes to circumvent a particular government's countermeasures. A national system must be flexible enough to be able to detect and respond to new money laundering schemes.

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Anti-money laundering measures often force launderers to move to parts of the economy with weak or ineffective measures to deal with the problem. Again, a national system must be flexible enough to be able to extend countermeasures to new areas of its own economy. Finally, national governments need to work with other jurisdictions to ensure that launderers are not able to continue to operate merely by moving to another location in which money laundering is tolerated.

## **What about multilateral initiatives?**

Large-scale money laundering schemes invariably contain cross-border elements. Since money laundering is an international problem, international co-operation is a critical necessity in the fight against it. A number of initiatives have been established for dealing with the problem at the international level.

International organisations, such as the United Nations or the Bank for International Settlements, took some initial steps at the end of the 1980s to address the problem. Following the creation of the FATF in 1989, regional groupings - the European Union, Council of Europe, Organisation of American States, to name just a few - established anti-money laundering standards for their member countries. The Caribbean, Asia, Europe and southern Africa have created regional anti-money laundering task force-like organisations, and similar groupings are planned for western Africa and Latin America in the coming years.