MOHANLAL HEMCHAND SHARES & STOCKS PVT.LTD.
Member – BSE Clg.No: 488
SEBI REGISTRATION NO: INB011240430

POLICIES AND PROCEDURES FOR CLIENT DEALINGS – ALL EXCHANGES - MANDATORY
(as required by SEBI circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009

1. Policy on refusal to deal in 'Penny stock'

The securities listed on the stock exchanges are classified into various groups by the stock exchange, based on certain points such as, liquidity, impact cost, volatility index, etc. Investor should be aware about the same.

Attention of the Client is drawn to SEBI circular defining penny stocks as the stock which are appearing in the list of illiquid securities issued by the exchange through various notices and circulars every month. In a common parlance, Penny stock is stock which is less liquid in nature, trades at less than face value, has very low market capitalization and unsound fundamentals and hence easy to manipulate. Further illiquid stock per-se should not be misunderstood as penny stock. Investor should be careful while dealing in such stocks. The Member reserves the right to refuse to execute any trade in the stock, which it thinks is a 'Penny stock' and client, should take a note of the same. The decision of the Company having ill liquid stocks will be taken in the wider interest of the smooth functioning of the market and the operations of our Company.

2. **Limits on client's exposure**

In case of all purchase/sale orders, the clients are usually asked to deposit the entire amount/securities with the member on the same or next day of the execution of the trades to receive the credit of fund/securities before the pay in.

The Client agrees to abide by the exposure limits, if any, set by the member or the Exchange or SEBI from time to time. The client is liable to pay an initial margin up-front, such margin shall be decided upon by the Member or Bombay Stock Exchange Ltd from time to time. Furthermore the client is liable to pay (or receive) daily margins, the Member or the Exchange considers, or special margins or such other margins as are considered necessary from time to time. The Member is permitted in its sole and absolute discretion to collect additional margins (even though not imposed by the Clearing House, Bombay Stock Exchange Ltd., or SEBI) and the client shall be obliged to pay such margins. Client shall deposit with Member monies, securities and money in the account/ running account of the Client which the member may be treated as margin received by the Member from the client. The client authorizes the member to pledge the securities with the Exchange or with any financier to meet margin/capital adequacy requirement of the member. The clients further authorize the Member to sell these securities to recover any dues payable by the Clients to the Member.

While setting the exposure limit for a client, risk management will be guided by the following criteria:

- Financial position
- Purpose of trading (Delivery based or intra-day trading)
- Trading habits (Delivery based or intra-day)
- History of any previous default/s
- Promptness in honoring the pay-in obligations for funds and the securities.

Exposures are decided by the management for each client only after considering the aforementioned factors. These limits are reviewed periodically. The authority to set or change the limit for the clients lies solely with the management.

For a new client; limits will set based on his annual income and investible corpus with the client, which has been declared by the respective clients, first hand information received from the respective clients. Under exceptional cases the decision will be at the discretion of the management of the company.

While assessing the financial position, the following points will be considered;

1. Client's annual income and source of income
2. Investment/ savings garnered by the client over the period
3. Inheritance if any
4. Gifts received, if any.

The Risk Management department will take into consideration, all the above factors about the client in addition to the hand feedback received from the relationship manager/dealer, which has been approved by the management and accordingly the limits will be set for respective client. The decision of the risk management department will not be questioned by the client.

3. Applicable Brokerage rate

The member shall charge brokerage to the clients at a rate as may be mutually agreed from time to time. The member shall also charge the client other charges like stamp duty, transaction charges, Clearing charges, Service tax, Securities Transaction Tax, SEBI Fees etc. However, the Member shall not in any event charge brokerage, commission exceeding the maximum limit permitted by the Rules, Bye-Laws and Regulations of Exchange or SEBI guidelines from time to time.

Illustrative maximum brokerage rate payable by client will be as under:

Segment	**Brokerage Rates. (Maximum)**
Cash segment	0.25 Rs. per share or 2.5% of the contract price (whichever is higher)
Futures segment	2.5% of the contract value exclusive of statutory levies.
Options Segment – Call Option	2.5% of the premium amount or Rs 100/- whichever is higher.
Put Option	2.5% of the premium amount or Rs 100/- whichever is higher.

4. Imposition of penalty/charges for the delayed payment from either side

Client should make payment before the pay-in obligation (T+2). In case client does not make the payments towards the pay-in obligation, member will be entitled to charge daily penal interest at the rate of 1.5 % per month or on such instances client's exposure limits will be restricted. The member will have the absolute discretion to charge the interest to a particular client.

In cases of cheque bouncing, member will recover the bank charges plus applicable taxes from the clients. Client will also be liable to return the securities delivered to his DP account through auto payout system and manually. Any penalty levied on member on account of non-disclosure or false disclosure of material information by the clients will be recovered from the clients.

In case of client maintaining credit balance in running account, Member will make the account balance nil once in every quarter but no penal clause will be applicable and for the clients who will maintain debit balance in the running account for more than 2 days, the penal clause for T+2 days will be applicable.

Penalty and other charges levied by BSE or SEBI pertaining to the trading of the client shall be recovered from the respective client.

5. Right to sell client's securities or close client's positions, without giving notice to the client on account of non payment of client's dues

Cash Segment-

Client is required to make payment towards his pay-in obligations on T+2 days (i.e. before the pay-in obligation). If client fails to make the payment towards his pay-in obligations, in such case the member reserves the right to close out the positions of the clients on maximum up to T+5 basis and any loss suffered on account of close out of positions will be recovered from the clients in form of cash/securities.

Member also reserves the right to sell the securities standing in the clients account on T+5 basis and to set off all outstanding debit amounts in client's account including interest on delayed payment. Client will also be liable to return the securities delivered to his DP account through auto payout system.

Member also reserves the right to set off all outstanding debit amounts in client's account on T+5 basis against any collateral received from them in the form of cash/securities.

The Client is responsible for all order including orders that may be executed without the required margin in the client's account. If the client's order is executed despite the shortfall in available margin, the client shall whether or not the member have intimated such shortfall in margin to the client, Instantaneously make up the shortfall either through delivery of shares in the event of sale or credit the required fund in the bank account via personal cheques, cashier's cheques or money order or account transfer or any other mode. More time (if necessary) will be allowed on case basis after taking in to consideration the following;

1. The risk profile of the client;
2. History and traits of the client;
3. Market conditions;
4. Inconvenience that may cause to the client;

The above decision will be the sole discretion of the risk management department and client is bound by any decision taken by the risk management department in pursuance of the company's policy. Investor should note that the decision of the risk management will based on the company's policy and relevant regulatory requirements from time to time.

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6. Shortage in obligation arising out of internal netting of trades

In case of sale transactions, the Securities shall be delivered by the Client to the Member before the pay in for the sale takes place. The Client will agree that the member does not allow internal netting of the trades executed by the clients.

7. conditions under which, a client may not be allowed to take further position or situation where the member may close out the existing positions of client :-

A. Additional Exposure for client:-

Member shall have absolute discretion and authority to limit client's volume of business or to close any existing position of the client without giving any prior notice to the client under following mentioned conditions:

a. Extreme volatility in the market or in particular scrip.

a. In case of shortfall in the margin deposited by the client with the member. Also in case of non receipt of payment before pay in.

b. If there is an insider trading restriction on the client.

c. If there are any unforeseen adverse market conditions or any natural calamities affecting the operation of the market.

d. If there are any restrictions imposed by BSE, NSE or SEBI on the volume of outstanding positions of the market.

e. If the client is involved in any illegal trading practices or the client is suspected to be indulging in money laundering practices.

f. If the member has reached its limit in that scrip.

g. When the market is closed due to abnormal rise/fall.

h. If the client does not deliver the securities before pay on number of instances in case of sale transaction.

Client should note that the, giving additional exposure to client is at the sole discretion of the management and decision of the management will be final.

B. Close out of existing position of client

Client's position will be closed out under the following instance:

- Non receipt of payment before pay-in obligation

The above instance is not exhaustive, but merely illustrative in nature.

8. Temporary Suspending and closing a client account at a client request:-

A. temporary suspension of client's account:-

A client if desires, may request the member to suspend his account provided following procedure is followed:-

- A written request from client stating the reason for temporary suspension
- Period of suspension.

Client should take note that the at time of reactivation of the account; member reserves the right to ask for fresh details for the purpose of KYC, in the wider interest to comply with prudent practice to company with the relevant regulations.

B. Closing of client's account:-

A client if desires may close his account maintained with the member after servicing notice of 30 days. Member will complete the procedure for closure of account within 15 days of receipt of the written notice. On completion of this process, member will inform the client by written letter or designated email or any other communication.

Account closure procedure will be completed within 15 days, provided there is no debit balance in client's account and there are no outstanding issues between the 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 these agreement shall continue to subsist and vest in /be binding on the respective parties or his/her/it's respective heirs, executors, administrators, legal representatives or successors, as the case may be.

9. De-registering a client:-

The Member may in its absolute discretion decide to deregister a client due to various reasons such as

a. BSE, NSE or SEBI has passed an order against the client, prohibiting him from participating in capital market.

b. The client has been indicted by SEBI or any regulatory body in cases of market manipulation, insider trading, money laundering, or any such cases involving violation of any law, rules, regulations or guidelines governing capital market.

c. The client is suspected of indulging in criminal activities.

d. The client's name appears in the debarred entities list published by SEBI.

e. The client's account is dormant since a long time and the client is not traceable.

f. The client is declared insolvent or any legal proceedings against him /her have been initiated.

g. the client is irregular in his obligation to pay funds/securities to the Member.

The Member may de-register a client after 30 days notice as required by the member client agreement. While taking any such decision, the company will guided by the relevant regulations.

10. Inactive accounts:-

The client who has not traded with member for more than 5 years will be treated as inactive accounts unless the Member is satisfied that the client is a long term investor and does not trade on a regular basis. To activate the same the client has to send written request to member requesting him to reactivate the account. At the time of reactivation of the account, member reserves the right to ask for fresh details for the purpose of KYC, in the wider interest to comply with prudent practice of the member along with the relevant regulations.

ADDITIONAL LITERATURE FOR AML REQUIRMENTS

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 programmes.

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.

<u>How is money laundered?</u>
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 channeled 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.

<u>Where does money laundering occur?</u>
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 programs. 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.

<u>How does money laundering affect business?</u>

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 centers, 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 program. 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.
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.

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