

**SIGNIFICANT POLICIES AND PROCEDURES OF KARVY STOCK BROKING LIMITED  
PURSUANT TO SEBI'S CIRCULAR MIRD/SE/CIR-19/2009 DATED DECEMBER 3, 2009**

**1. Refusal of order for Penny stocks:**

- KSBL shall have the absolute discretion to accept, refuse or partially accept any buy or sell order for execution from a client in respect of penny stocks, illiquid stocks, stocks having low liquidity, illiquid "options", far month "options", writing of "options", stocks in S,Z and B2 category and any other contracts which as per the perception of KSBL are extremely volatile or subject to Market manipulation.
- KSBL may permit restrictive acceptance of orders in such scrips/contracts in controlled environments like asking clients to place orders at a centralized desk at HO instead of allowing trading in such scrips/Contracts at branch level or through Online trading platform. KSBL shall not be responsible for delay in execution of such orders and consequential opportunity loss or financial loss to the client.
- KSBL may cancel orders in such scrips received from clients before execution or after partial execution without assigning any reasons thereof. KSBL may seek appropriate declarations from the clients before accepting such orders.
- KSBL shall have the prerogative to place such restrictions, notwithstanding the fact that the client has adequate credit balance or margin available in his account and/or the client had previously purchased or sold such securities / contracts through KSBL itself.

**2. Risk Management Policy:**

**Setting up client's Exposure limits:**

**Client-wise differential Limits:**

KSBL shall have the prerogative to allow differential purchase limits and sell limits varying from client to client, depending upon credit worthiness, integrity and track record of each client.

KSBL shall have the prerogative to determine and prescribe rules for exposure limits for trading in "CM", "F&O" and other products. The client cannot claim any minimum level of exposure, as a matter of right.

- **Purchase Limit:** KSBL may provide a exposure limit for intraday and delivery based purchases by a client which would be a multiple (varying between one to four times) of the clear ledger balance in the account of the client plus value of paid up collaterals computed after appropriate haircut. The value of the "multiple" and the "haircut" is decided by KSBL based on Market Volatility and quality of collaterals.
- **Sell Limit:** KSBL may provide a sell limit to the client equivalent to the value of securities held by the client in his POA enabled Demat account plus the collateral held by KSBL on behalf of the client in its Beneficiary and Margin Pool account after making appropriate adjustments for the unsettled delivery positions of the client.
- **Exposure for DERIVATIVE:** KSBL may provide exposure for Derivative trading on availability of initial margin (SPAN + Exposure) in the form of cash and approved securities (with appropriate hair cut).
- KSBL has the discretion to decide the stocks which can be provided by client as margin/collateral. Where the client has authorized KSBL through POA, KSBL may transfer securities from client's DP account to its Margin account towards the exposure utilized in "Capital Market" and Derivative segment and to clear the Margin shortfall and other dues, if any.
- KSBL has the discretion to decide whether the margin will be taken in cash or in stocks and/or whether to consider uncleared cheques/ bank drafts / pay-orders deposited by the client with KSBL as margin until KSBL receives clear proceeds in its bank account. Even though the client might be having adequate margins in the form of stocks, KSBL may demand the margins in cash, depending on market conditions and/or track record of the client.

**T+3 liquidation Policy:** As per KSBL's internal guidelines a client is not allowed to carry forward debits beyond T+3 days. In the event debits are not paid, Risk Management Team at Head Office has the right, without any obligations, to liquidate securities of the client to the extent of the debit balance which is more than 2 days old. KSBL may hold securities, even in cases where the client has debit balance beyond T+3 day, at the sole risk and responsibility of the client. Only the cheques received and updated in the client's ledger and trades executed up to 12:30 PM on T+3 are taken into account before liquidation.

**Payments of Margins:** The client is required to pay all the applicable margins within the stipulated time prescribed by Exchanges/ SEBI/KSBL. Client is advised to monitor the adequacy of the collaterals and the market value of such securities given as collaterals on a continuous basis more particularly in volatile markets. If due to price fluctuations, there is erosion in the value of securities given as

margins, the client is required to replenish shortfall in the value of margins immediately, whether or not KSBL intimates client of such shortfall.

**Automatic Square off for Intraday Transaction:** Where a client places an intraday online buy/sell order, which gets converted into a trade, and the client does not square off “open” intra-day position by 3:10 pm, then all outstanding intra-day positions are squared-off through an automated batch process. All square off orders may get executed at prevalent market rate anytime between 3:12 pm to 3:30 pm. In case the scrip goes for buy / sell freeze, square off trade may not get executed. It may result in “auction” loss or close out loss to the client. Where the client is short and may result in conversion of Intra-day purchase into delivery based purchase where client is long and the client agrees to pay for the same.

### 3. Applicable Brokerage Rates

Brokerage shall be applied as per the rates agreed upon with the client in the KYC at the time of registration of the client and/or subsequently through a written agreement between the client and KSBL. The rate of Brokerage shall not exceed the maximum brokerage permissible under Exchange bye-laws.

The slab rates of brokerage fixed by KSBL are function of the quality and cost of services provided to the client and the volume and revenue expected from an account. It shall be reviewed by the KSBL from time to time and may be increased with prospective effect at a notice of 15 days sent to the E-mail address or postal address of the client registered with KSBL.

The following fees/charges are in addition to the brokerage:

DP Annual maintenance fees

DP transaction charges / Pledge / Re-pledge / Demat / Remat charges

DP Inter settlement charges/Inter segment charges (minimum of Rs 10 per scrip per transaction)

Account Opening charges

Delayed Payment Penalty (DPP) charges

Penalties levied by Exchange

Research advisory charges

Courier charges

Handling charges

Bank charges towards the cheques received unpaid,

DP, Bank and other processing charges towards periodic settlement of Funds/Securities on periodic basis

Statutory charges payable to Exchange/SEBI/Govt. Authorities, etc.

SEBI/Exchange/Clearing Member Turnover charges

Other out of pocket and service related charges

### Minimum Brokerage per Scrip

KSBL offers its clients brokerage rates in percentage term, with a minimum brokerage charged per scrip, which is defined in terms of paise per scrip. Value of brokerage per scrip is worked out on both formulae and higher of the two is applied to arrive at final brokerage levied on a transaction.

Illustration on computation of Brokerage charged in the Contract note for a given scrip X					
	Delivery	Intra day			
Applicable Brokerage	1%	0.50%			
Minimum per share	10 paise per scrip	5 paise per scrip			
	Formula/ values	Delivery Based		Intra day	
NARRATION	Formula	Scrip value < Rs 10	Scrip value > Rs 10	Scrip value < Rs 10	Scrip value > Rs 10
Market Rate per scrip	Mkt Rate	0.30	50	4	50
Number of shares	In Qty	100	100	100	100
Value of Trade		30	5000	400	5000
Brokerage per Scrip on Percentage Basis	Mkt Rate x Applicable Brokerage	0.003	0.50	0.02	0.25
Brokerage per Scrip on minimum paise Basis	Minimum per share	0.10	0.10	0.05	0.05
Higher of the two mentioned above		0.10	0.500	0.05	0.25
Hence brokerage applied for 100 shares in Rs.	Qty x brokerage per share	10	50	5	25

### Handling charges:

Where clients place orders of very small value resulting in brokerage accrued there upon less than Rs. 25 per contract, the handling charges shall be levied as follows:

- 1) The clients generating brokerage less than Rs. 25 per contract, per exchange segment, would be levied handling charges such that sum of brokerage plus handling charges becomes equal to Rs. 25.
- 2) Details of brokerage and handling charges will be reflected separately in the contract notes.
- 3) Service tax will also be levied on the "handling charges" at the applicable rates.

Illustration of a case where clients has made a delivery based and Intra-day trade and where Handling charges are applicable

ILLUSTRATIOON	Formula/ values	Delivery Based	Intra day
NARRATION	Formula	Scrip A	Scrip B
Market Rate per scrip	Mkt Rate	20	8
Number of shares	In Qty	50	100
Brokerage per Scrip on Percentage Basis	Mkt Rate x Applicable Brokerage	0.2	0.05
Brokerage per Scrip on minimum paise Basis	Minimum per share	0.1	0.05
Higher of the two mentioned above		0.20	0.05
Hence brokerage applied for 50/100 shares in Rs.	Qty x brokerage per share	10	5
Brokerage Charges as per contract		15	
Handling Charges as per contact		10	
Brokerage and Handling charges		25	

**4. Imposition of Penalty / delayed payment charges by either party, specifying the rate and the period**

**Delayed Payment Penalty charges / Charges on Exposure against collaterals:**

Pursuant to Exchange Bye-laws, the Member broker is currently required to make pay-in of funds to the Exchange by T+2 morning and arrange delivery of securities to the Exchange latest by T+2 morning. Further Member broker is also required to maintain adequate upfront margins with the Exchange to avail exposure for trading. The Exchanges have also defined the ratios in which the cash and collaterals are to be deposited and maintained by the Member broker. In addition the Exchange requires the member broker to deposit some of the margins like MTM, in Cash only.

In order to enforce financial discipline, KSBL charges Delayed Payment Penalty (DPP) charges not exceeding 2% per month, on account of delays/failure by the client in meeting the pay-in obligations on the scheduled date and also where the clients take exposure in "F&O" segment by depositing collaterals in a ratio which is disproportionate to the Cash versus collaterals ratios prescribed by the Exchanges.

While levying Delayed Payment Penalty (DPP) charges on the debit balance in the running account of a client, KSBL does not consider any credit balance in other family or group account of the client.

**Penalties levied by Exchanges:**

Exchanges levy various penalties on the Trading Members on auction resulting from short deliveries, non adherence to client-wise exposure limits, client-wise shortfall in F&O Margin and for other reasons which may be defined by the Exchange and SEBI from time to time. KSBL shall recover from the client any penalty imposed by the Exchange/SEBI and or any other regulatory authority on KSBL, which arises on account of the violation by the client.

**Interest Free Margin/ Deposits:**

KSBL provides exposure against the upfront margin received in the form of cash / collateral from the client and the client also has the prerogative to demand withdrawal of cash and collaterals at his discretion. KSBL does not pay any interest or other benefit to the client for maintaining cash balances or paying advance deposit / subscription for concessional brokerage schemes or depositing collateral margins with KSBL.

**5. The right to sell clients' securities or close clients' positions, without giving notice to the client, on account of non-payment of client's dues**

KSBL shall have right to sell client's securities, both unpaid securities as well as collaterals deposited towards margins, or close out client's open positions, without giving notice to the client where there is a delay/ failure of the client to meet the pay-in obligations and/ or there is a failure of the client to bring additional margins to cover the increase in risk in the dynamic market conditions.

**a. Unpaid Securities in Capital Market:**

- i. In case of unpaid obligation on T+3, KSBL may sell the unpaid/ partially paid securities. In addition KSBL may sell the collaterals deposited by the client towards margins and/ or paid securities purchased by the client in earlier settlements where the sale of proceeds of unpaid securities are inadequate to cover the pay-in obligations and/ where the unpaid securities appear to be comparatively illiquid and cannot be sold at reasonable rates to the extent required.
- ii. KSBL may follow the LIFO method for liquidation of securities but it shall not be binding on KSBL to follow this method in all cases where some of the unpaid positions are not liquid.

**b. The margin shortfall in F&O:**

- i. Positions of the client may be closed out to the extent of margin shortfall on the T+1 basis.
- ii. While computing margin shortfall, value of unapproved securities shall not be considered.
- iii. As per the current Exchange requirements, the Member Broker is required to maintain a specified ratio between cash component and collaterals margin deposited with the Exchange. KSBL shall therefore have the prerogative to insist for 50% of margin in cash and may not consider the value of securities over and above the cash component for the purpose of calculating margins shortfall and close the "F&O" position where it finds the deviation. However, sales made in Capital Market segment are not considered while closing F&O positions on T+1 basis due to margin shortfall.

**c. Intra-day Positions:**

KSBL shall have right, without any obligation on its part, to close any intra-day positions taken by the client after a defined "Cut-off" time (Presently 20 minutes before the close of the market).

**d. General Rules for closing Positions :**

- i. While selling the securities/ closing the clients positions, KSBL may take into account the sales made by the client, positions closed by the client or collections received from the client till a cut-off time (presently 12.45pm).
- ii. If client has placed any limit orders, which are not executed by 12:45 pm, the client must cancel pending orders as otherwise it may lead to double sale of same securities leading to short sale and consequential loss due to auction or close out.
- iii. While selling the securities/ closing the client's positions, KSBL may not take into consideration Cheques/Bank drafts/Pay orders deposited by the client with KSBL until clear proceeds of such instruments are received by KSBL in its bank account.
- iv. KSBL has the right to sell client's securities or close out client's open positions but it shall not be under any obligations to undertake this exercise compulsorily. KSBL is therefore under no obligation to compensate/ or provide reasons of any delay or omission on its part to sell client's securities or close open positions of the client.

**6. Shortages in obligations arising out of internal netting of trades**

KSBL shall have the right to adopt a policy of its choice for internal auctions arising out of internal netting of trades and charge to the defaulter seller and compensate the impacted purchaser as per the said policy, which may be amended from time to time with prospective effect after publishing the same on the corporate website.

**Current Internal Auction Rules:** Shares delivered short by a client are auctioned at the Exchange, if KSBL has net obligation to the Exchange. In case shares delivered short by a client are adjusted against the delivery to be received from the Exchange on behalf of another client of KSBL, then the short delivery is closed as per internal auction rules. Internal auction price is calculated on the basis of Trading day weighted average price and auction day closing price, whichever is higher, which is further marked up by the following percentages

Scrip Value Rs. 0.00 to 20.00 : 10%

Scrip Value Rs. 20.05 to 250.00: 5%

Scrip Value Rs. 250.05 and above : 2%

Trading day weighted average price = Total Traded Volume / Total Traded Qty (NSE Bhav Copy)

**7. Conditions under which a client may not be allowed to take further position or the broker may close the existing position of A client**

The following are the conditions, in which KSBL may, not allow the client to take further position or may close client's existing positions.

**a. All Markets:**

Where client is not having adequate margins as per conditions defined in Risk Management policy under Section 2.

**b. Capital Market:**

- i. Where the client has not able to meet his pay-in obligation in cash by the schedule date of pay in irrespective of the value of collaterals available with KSBL.
- ii. Clear proceeds of the cheque deposited by the client to meet the pay-in obligations has not yet been received by KSBL.
- iii. Where the client is trading in "illiquid" scrips and volumes in his account exceed internal cut off limit fixed by KSBL.
- iv. Where KSBL's exposure at "house level" in a specific scrip / contract exceeds the internal limits fixed by KSBL.

**c. Derivative Segment**

- i. Where the client has not met Market to Market loss in cash
- ii. Where the "open" positions in a contract exceed or are close to market wide cut-off limits
- iii. Where the client's position is close to client-wise permissible "open" positions
- iv. Where there is shortfall in Clients margin.

**d. Intra-day:**

Clients will not be able to place intra-day orders after a cut-off time fixed by KSBL. (Presently 20 minutes prior to close of market)

- e. Event Based:** Where based on happening of an event, KSBL has the risk perception that further trading in a particular or group of securities/ contracts may not be interest of its clients and/or the market irrespective of the fact whether the clients have taken position in the given securities/contracts during earlier part of the day through KSBL itself.

**8. Temporarily Suspending or Closing a Client's Account at the Client's request**

KSBL may carry a periodic review of the client accounts and may suspend the accounts from Trading in the following circumstances, after the closing/squaring off open positions:

- Where the client is inactive for more than six months
- Where the client has not cleared the naked or uncovered debits which are more than 7 days' old.
- Where the account is under investigation by any regulatory body.
- Based on the recommendations made by the Branch Manager due to excessive speculations, un-cleared balances.
- Where Physical contract notes are received back undelivered due to reasons like "no such person", "addressee left", refusal of client to accept mails, POD's signed by the third persons, signature mismatch on POD's or other reasons which may create suspicion.
- DCN failed (Bounced email) on more than 3 instances until client submits and registers new email id.
- Statement of Account sent on periodic basis.
- Non updation of communications details viz., email id, Mobile no, Land line details or it is found to be belonging to a third person.
- Client lodges a compliant either directly with KSBL or through Exchange relating alleged unauthorized Trades being executed in client's account, which is under investigation and found to be false.
- On notices received from statutory, Government or Local authorities and Income Tax, Service Tax, a Judicial or a Quasi Judicial authority, etc
- Where a client is reported to or known to have expired.
- KSBL may also suspend or close the account on receipt of written request received from the client.

**Inactive accounts policy:** KSBL, shall at regular intervals, fixed by the Board, shall review and analyze the client trading accounts and classify and flag them as "Dormant", "Inactive" or "Inoperative" accounts, as part of customer due diligence.

**Classification of Dormant and Inactive Accounts:**

- **"Dormant Account"** is an account where no trades have been executed by the client during the last six months or for a period exceeding six months.
- **"Inactive Account"** is an account where client has not executed any trade for the last one year or a period exceeding one year.

**Resumption of Trading:**

Dormant Account: The "on-line" Dormant account may be suspended for trading by disabling the user-id. The "offline" dormant account may also be temporarily suspended from trading and the customer be allowed to place order only after the Branch / Regional Broking Head has satisfied himself in respect of identity and bonafide of the client.

The client may be asked to visit the branch and submit the "request letter" for activation of trading account along with one of the following supporting documents:

- PAN Card
- Latest Address proof
- Bank Account statement

**Inactive Account:** The "Inactive" account may be reactivated for trading on receipt of application for re-activation from the client along with necessary supporting documents.

KSBL employee may carry out "In person" verification of the Inactive client and shall validate the supporting documents submitted by the client with the originals. The trading account may get reactivated within 7 to 15 working days of submission of the application of re-activation with valid supporting documents.

**9. Deregistering a client**

KSBL may de-register a client without notice based on action taken by SEBI/NSE/BSE/MCX-SX or being part of list of debarred entities published by SEBI.

KSBL may also initiate action for deregistering a client on basis of information found on the sites of CIBIL, Watch-out Investors, World Check or client having suspicious back ground, link with suspicious organization, etc.,

KSBL may freeze the assets of the client where it deems prudent, at time of de-registering a client.

KSBL shall have right to close out the existing positions, sell the collaterals to recover its dues, if any, before de-registering the client.

KSBL shall have the right to deregister a client after serving a 30 days written notice without assigning any reason thereof.

**Declaration by the Client:**

I/ We have clearly understood and agree to abide by aforesaid policies and procedures.

I/We also understand and agree that these policies and procedures can be changed by KSBL from time to time subject to posting of the amendments and modification therein on its website <http://karvyonline.com> and their applicability with prospective effect.

**Signed & Delivered by:**

Client Name : \_\_\_\_\_

Address : \_\_\_\_\_  
\_\_\_\_\_

**Signature of the Applicant** : X \_\_\_\_\_

Place : \_\_\_\_\_

Date : \_\_\_\_\_