

## **Policies and Procedures**

The underlying document outlines various policies and procedures HSBC InvestDirect Securities (India) Limited (HISL) has framed with respect to its dealing with clients for capital market transactions to ensure transparency and facilitate understanding on various aspects related to service delivery. Kindly note that the below stated policies and procedures are subject to change from time to time, depending upon our internal risk management framework, market and external environment; and clients can refer the HISL's website for the updated documents.

### **1. Refusal of orders for penny stocks etc:**

Generally, HISL alerts clients to desist from trading in any penny stocks in view of the associated risk element while dealing in such stocks. Further, the client is also required to adhere to Exchange/ Members' guidelines and due diligence while trading in such stocks. Also SEBI / Exchange from time to time issues directives necessitating additional due diligence for dealing in such stock(s).

We at our sole discretion, may impose certain restrictions and/ or conditions (on case to case basis), subject to rules, regulations, byelaws, circulars, directives and guidelines of SEBI and Exchanges as well as considering the prevalent market and other circumstances and risk policies at a related point in time. These restrictions/ conditions include but are not limited to the following -

- a) restrict wholly or partly for trading, in certain security(ies) or category of security(ies) / contracts viz. -
  - i. illiquid stocks / stocks having low liquidity,
  - ii. illiquid options /far month options / long dated options,
  - iii. writing of options,
  - iv. securities listed in Z, T, TS, S, B group or 6 lakh series available for institutional category on BSE and/or securities listed in BE, IL, BT or EQ series on NSE,
  - v. any other securities/ contracts which as per the perception of HISL are volatile or subject to market manipulation or has concentration risk at client level or at the company level,
- b) accept or partially accept an order for buy and/or sell. Such acceptance may require execution in a controlled environment (for e.g. from centralised desk instead of from designated dealing area or online platform),
- c) cancel orders in above securities / contracts received from clients before execution or after partial execution without assigning any reasons thereof,
- d) require the client to provide appropriate declarations before/after accepting such orders.

HISL shall –

- a) not be responsible for non-execution / delay in execution of such orders and consequential opportunity loss or financial loss to the client,
- b) have the discretion 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 HISL itself,
- c) have the right to revise the list of such securities / contracts on a periodic basis.

Client can obtain the information about the updated list of securities from the Relationship Manager / Dealing Branch office / Sub Broker.

## 2. **Setting up Client's Exposure limit:**

### Settlement / Margin obligation:

The Exchange bye-laws requires a member broker to adhere to various trading and settlement obligations and conditions which include but are not limited to -

- a) upfront margin maintenance requirements with the Exchange/ Clearing Corporation prior to taking an exposure in the market,
- b) cash and collaterals / securities deposit, in prescribed ratio, for margin maintenance,
- c) certain margins to be paid for in cash only, for instance mark-to-market,
- d) settlement obligations in respect of funds and/or securities to be honoured as per the settlement calendar prescribed by the exchange from time to time.

In order to enable HISL to meet the obligation on behalf of the client, HISL seeks client's cooperation to maintain adequate margin, make timely settlement of obligations, top-up margin by scheduled date, etc.

### Exposure setting:

Margin based limit / exposures will be set for clients for transacting in Cash and F&O segment. While computing the available margin, clear credit lying in client's settlement and margin ledger, securities held in client's beneficiary account with Member and securities held in client's demat account for which limited power of attorney is available with HISL etc. may be considered.

Margin can be paid in form of cash and approved collateral. Collateral will be valued on daily basis at latest / previous day's closing price and appropriate hair-cut shall be applicable. List of approved collaterals / securities along with applicable haircut, is subject to revision from time to time based on Exchange approved list, market volatility, quality of collateral and internal guidelines; and same can be obtained from the Relationship Manager / Dealing Branch Office/ Sub broker.

HISL shall have the discretion to allow differential limits / exposures varying from client to client, depending upon client's trade history/experience, if available, his financial capacity and/or credit worthiness and referral of each client.

## 3. **Brokerage Policy**

HISL may charge a brokerage for all trades facilitated on BSE, NSE or any other recognised exchange of which HISL is a Member. Brokerage rate may vary from client to client, as per the terms agreed with the client at the time of registration or by way of any subsequent written agreement between the client and HISL. The rate of Brokerage shall not exceed the maximum permissible brokerage stipulated by Exchange/ SEBI.

The slab rates of brokerage fixed by HISL may be function of the quality and cost of services provided to the client and the volume and revenue expected from a relationship. It shall be reviewed by HISL from time to time and may be changed in such manner as HISL may deem fit provided that the same would not contradict the regulatory provisions.

The brokerage shall however be exclusive of the following:

- Service Tax and Education Cess,
- SEBI/ Exchange/ Clearing member charges

- Stamp duty
- Statutory charges payable to Exchange/ SEBI/ Govt. Authorities etc.,
- DP Annual maintenance charges
- DP transaction charges / Pledge / Unpledge / Demat / Remat charges
- DP Inter settlement charges
- Account Opening charges
- Bank charges towards the cheques received unpaid
- Charges towards customized/ specialized service

#### **4. Imposition of Penalty / delayed payment charges**

##### Delayed payment charges / margin shortage charges:

As per the Exposure Limit section outlined earlier in the document, client shall maintain adequate margin / settle the obligation / top-up the margin by scheduled date. In case client fails to settle the dues in time, HISL shall reserve the right to -

- a) levy delayed payment charges, not exceeding 2% per month, or such other rate as may be determined by the HISL from time to time, on account of delays/failure by the client in meeting the pay-in / margin obligations / mark-to-market obligation on the scheduled date till the date of payment in Cash and/or F&O segment,
- b) levy a charge for disproportionate cash versus collaterals ratio prescribed by the Exchanges for deposit of margins in F&O,
- c) not consider any credit balance in other family or group account of the client while computing delayed payment charges on the debit balance in the running account of a client.

The above levy is only a penal measure in case of a client default in meeting settlement and margin obligation and should not be construed as funding arrangement by the client; and the client cannot demand continuation of service on a permanent basis citing levy of delayed payment charges.

##### Penalties levied by Exchanges:

Exchanges / Clearing Corporation/ SEBI levy penalties on the member broker for irregularities observed by them during course of its dealing with Members. HISL shall recover such imposed penalties / levies, by the Exchange / regulators, from the client which arises on account of dealing by such client. The illustrative list of reasons to levy penalty include but are not limited to –

- a) auction resulting from short deliveries,
- b) non adherence to client-wise exposure limits in Cash and F&O segment,
- c) client-wise shortfall in F&O margin,
- d) any other reasons which may be specified by the Exchange / Clearing Corporation/ SEBI from time to time.

##### Interest Free Deposits:

HISL 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 or collaterals at his discretion, subject to surplus margin in place. HISL shall not pay any interest or other benefit to the client for maintaining cash balances or depositing collateral margins with HISL except for the corporate benefit received on such collateral securities, if any.

**5. Liquidation Policy:**  
**(The right to sell Client's securities or close Clients' positions, without giving notice to the Client on account of non-payment of dues by Client)**

As per the Exposure Limit section outlined earlier in the document, client shall maintain adequate margin / settle the obligation / top-up the required margin by scheduled date. The client agrees and confirms that in case of any delay (beyond permissible time limit as per SEBI or Exchange's rules, regulations, byelaws, circulars and other applicable laws/ provisions) in making the payment, HISL shall have the right to sell client's security(ies)/ positions/ contracts, both unpaid securities as well as collaterals deposited towards margins or securities previously purchased by the client or close out client's open positions / contracts or offset credit balance in other segment / exchange against client's obligation / debit balances / liabilities, without giving any notice to the client, as per prevalent risk policy from time to time, in circumstances including but not limited to the following -

- a) where intra-day position, if any, not liquidated before prescribed time or placing of fresh intra-day order after a cut-off time fixed by HISL,
- b) where client is not having adequate margins, as per conditions specified in Exposure Limit section or on account of removal of a security from approved list of collateral and client's failure to top-up further margins,
- c) where client delays / fails to meet the pay-in obligation / mark-to-market (MTM) dues /clearance of debit balances / dues by scheduled date or realisation proceeds of the cheque(s) deposited by the client to meet obligation is not received,
- d) cheque bouncing / not honoring sale obligation by delivering shares in time or due to any reason, delays or fails in clearing outstanding dues to HISL,
- e) volume in excess of permissible internal limit cap in illiquid / penny stocks / long dated options / far month options or excessive speculative trading,
- f) scrip is moved in BAN list (due to breach of exchange limit defined for market wide position limit / trading member wide position limit / client wide limit in F&O segment, etc.),
- g) irregularities in dealing and other surveillance / anti money laundering (AML) related observations,
- h) client categorized as ineligible due to non-traceable, disputes, possible default by client and any other circumstances leading to raising non-confidence in client,
- i) disputed delivery/ trading position,
- j) any direction from SEBI/ Exchange or such other regulatory/ statutory authorities,
- k) under such other circumstances as HISL might think just and proper on case to case basis.

Such liquidation may be in full or partial to the extent of shortfall / debit and securities / position / contracts selection would be at the discretion of HISL. While selling the securities/ closing the clients positions / contracts, HISL may take into account the positions closed by the client or collections received from the client till a cut-off time. Securities previously purchased would be used for liquidation where the sale proceeds of unpaid securities are inadequate to cover the pay-in obligations and/or where the unpaid securities appear to be comparatively illiquid and cannot be sold at reasonable rates to the extent required.

HISL shall have the right to sell client's securities or close out client's open positions / contracts but it shall not be under any obligation to undertake this exercise compulsorily and therefore shall not be under any obligation to compensate/ or provide reasons for any delay or omission on its part to sell client's securities or close open positions / contracts of the client and client shall be solely responsible for the loss incurred on such liquidation.

**6. Shortages in Obligation and penalty for defaulting client:**

Clients are required to make Securities / Funds pay-in on or before T+2 day. In case of default in security pay-in by the client and the shortage is at member level i.e. internal shortage, a penalty as applicable from time to time, will be imposed on the defaulting client and the benefit will be passed on to the respective beneficiary client. Rate of penalty will be decided by member as applicable from time to time and published on our website.

In case of default of securities pay-in by the client and the shortage is vis-a vis the Exchange, auction value of the respective exchanges and all levies, as applicable, shall be recovered from the defaulting client.

**7. Conditions under which a Client may not be allowed to take further positions or the Member may close the existing positions of a Client:**

Under various circumstances outlined in the Liquidation Policy section of the document, the Client may not be permitted to take any fresh or further position until the full clearance of earlier dues, obligation, outstanding etc.

Further, it would be the duty of the client to monitor its position with HISL from time to time. In case of any delay or failure by the client in meeting any obligation, margin requirements etc. HISL, at its discretion, may close the open position / contracts without any further intimation to the client in this regard as per the Risk policy.

**8. Temporarily suspending or closing a Client's account at the Client's request:**

The client is required to submit written request for closure of account or for temporary suspension of account clearly stating period of suspension, to the nearest branch office, sub-broker office or central processing cell at the registered office of the Member. Upon receipt of request and after satisfying itself with respect to all information/ documentation and settlement of client dues, the Member shall act upon the request within reasonable time but not later than 30 days from the date of request.

**9. Suspension of trading account and Deregistering the client**

Suspension of trading account

HISL may carry a periodic review of the client accounts and may, at its discretion, suspend the client's accounts from trading in the following circumstances:

- a) where the client's status is dormant or inactive during last [ 24]<sup>1</sup> months from the date of last transaction,
- b) where the client has not cleared the naked or uncovered debits in prescribed time,
- c) default by the client in honouring its settlement / margin obligation including cheque bouncing / auction of shares,
- d) irregular trading pattern from surveillance / AML perspective,
- e) where HISL is unable to transfer the shares to the default demat account provided by the client, till the client submits the revised demat account details along with proof,

- f) where the client is categorized as ineligible due to being non-traceable, pending disputes/ complaints, possible default by client and any other circumstances leading to raising non-confidence in client including return of undelivered couriers citing reason of “no such person / addressee left /refusal to accept mails / POD’s signed by the third persons etc.” or Digital Contract Notes (DCN) failed (Bounced email) on more than 3 instances until client submits and registers new email id or non-delivery of the statement of account sent on periodic basis or non-updation of financial and other details viz., email id, mobile no, land line details or it is found to be belonging to a third person,
- g) where the account is under investigation by any regulatory body including receipt of notice from statutory, government or local authorities including income tax, service tax, a judicial or a quasi judicial authority, or client is arrested by way of court order, police action or any other legal action,
- h) where a client is reported to or known to have deceased,
- i) where client fails to provide executed or renewed mandatory documentary requirements as prescribed by Exchanges/ Regulators from time to time and /or refusal to do the periodic submissions as required by Exchanges/ Regulators,
- j) under such other circumstances as the HISL might think just and proper on case to case basis.

#### Deregistering a client

HISL may at its discretion de-register the client’s account in circumstances including but not limited to the following -

- a) action taken by Exchanges / Regulators or being part of list of debarred entities published by SEBI,
- b) where the client indulge in any irregular activities not limited to synchronized trading, price manipulation, etc. resulting in violation of rules, regulations of the exchange and any other such activity
- c) based on information found in sites of CIBIL, Watch out investors, World check or client having suspicious back ground, link with suspicious organization etc.,
- d) irregular trading pattern from surveillance / AML perspective,
- e) where the client is categorized as ineligible due to being non-traceable, disputes, possible default by client and any other circumstances leading to raising non-confidence in client including return of undelivered couriers citing reason of “no such person / addressee left /refusal to accept mails / POD’s signed by the third persons etc.” or Digital Contract Notes (DCN) failed (Bounced email) on more than 3 instances until client submits and registers new email id or non-delivery of the statement of account sent on periodic basis or non-updation of financial and other details viz., email id, mobile no, land line details or it is found to be belonging to a third person,
- f) right to deregister after serving a 30 days written notice without assigning any reason thereof.

In such case, HISL shall have the right to close out the existing positions / contracts, sell the collaterals to recover its dues, if any, before de-registering the client’s account.

**10. Policy for Dormant / In-active account:**

Where no transactions have taken place in client's account during the last [24]<sup>1</sup> months from the date of last transaction, then it will be considered as dormant / in-active account. If the account status is tagged as a dormant / in-active account, then the surplus funds or securities lying with HISL shall be refunded / returned to clients at his last known bank account / DP account for securities or at such other address as mentioned in the Account Opening Form.

**Reactivation:**

A client's account will be re-activated, subject to fulfillment of such conditions as HISL may consider fit and proper -

- a) on submission of proof of identity and proof of address, where the account is suspended due to dormant / inactive status or on client's request, or on submission of such other information/ documents as deemed fit by HISL,
- b) in other circumstances, at the discretion of HISL, provided there is no outstanding dues from the client or he has no open grievances pending against HISL or client has complied with all requirements of HISL of submission of information/ documents or on fulfillment of such other conditions that HISL may impose at its discretion.

<sup>1</sup>Substituted for '12' w.e.f July 1, 2010