



SPFL Securities Limited

CIN No. : U74899DL1995PLC069581
GSTIN No. : **09AABCS2452C1ZP**
Member : NSEIL & BSE LTD.
D P : NSDL & CDSL
15/63-L, Civil Lines, Kanpur - 208001 (Uttar Pradesh)
Ph. : 7376325889, 7376335889

Risk Management Policy & Internal Controls Policy of SPFL SECURITIES LIMITED.

Preamble

Our Company believes that there should be a constant balance between risk and returns. Our policies and actions are guided giving due weightage to risk factor. In our industry major part of revenue is eroded due to bad debts resulting through client defaults. We have identified issues crucial to our business and have tried to address the risk arising from such entities and situations. Risk arising from client default, Business Associates, employee turnover and operational risk is discussed here. Back up for technology risk is also covered here.

Selection of Client

We mainly acquire retail clients from 2 different channels comprising direct clients serviced from our office and through Business associates (BA) i.e. Authorised Persons (AP) and Referral Agents (RA).

Internet client: We have facility to allow clients to trade through internet. The clients who are interested in carrying out internet trading are permitted only after signing all the relevant papers as stipulated. We set trading limits in advance for all such clients depending on his risk bearing capacity of the client or deposit with us.

Direct clients: We do not have a marketing setup for acquiring clients to be serviced from our office. Clients serviced are those who have been acquired through relationships and referrals from known sources or existing clients.

Through BA: Our large number of clients is sourced through BA. We appoint a BA and enter into a service level agreement with them defining respective role and responsibilities. The main responsibility



SPFL Securities Limited

CIN No. : U74899DL1995PLC069581
GSTIN No. : **09AABCS2452C1ZP**
Member : NSEIL & BSE LTD.
D P : NSDL & CDSL
15/63-L, Civil Lines, Kanpur - 208001 (Uttar Pradesh)
Ph. : 7376325889, 7376335889

of the BA is to introduce clients in our books and service clients as per his need. Our other stated policy on client selection is to acquire clients whose basic belief is investing and less of speculation. We ensure through various measures including risk management measures that we are able to attract more of delivery base client rather than speculative based. This policy is explained to the BA. The BA are requested to generate a prospective list of clients based on financial and social standing of a person. We insist that before we introduce the client to our company, they complete documentation like KYC, Client Broker Agreement etc. and register the details into the UCC module of BSE.

AP Selection

We collect information about the background, financial status, local standing about the lead who agree to become our AP. We also collect information on availability of adequate infrastructure. All documents are collected, scrutinized and if in order sent to exchange for further processing. We also enter into a business agreement with the AP detailing the roles and responsibilities of both parties along with commercials. In the meantime, the AP along with his key staff member is invited to our Kanpur office to undergo 3-day intensive training on our value system and methodology of working.

We go through the websites of SEBI and Reserve Bank of India in order to check whether there is any penal action against the AP. Our staff also enquires about the integrity and social standing of the person. Adequacy of infrastructure is checked.

RA Selection

Same as AP selection

Receiving, validating & entering the orders.

Most of our traders and investors carrying out full time investment activities are invited to our front office. They give orders themselves to our dealers who enter the order into the BOLT/NEAT system in the respective client codes. Client's codes are generated by back office on completion of registration process. For validating client codes online communication channel is established between front office and back office. We also receive orders from our clients through telephone and fax. These orders are



SPFL Securities Limited

CIN No. : U74899DL1995PLC069581
GSTIN No. : **09AABCS2452C1ZP**
Member : NSEIL & BSE LTD.
D P : NSDL & CDSL
15/63-L, Civil Lines, Kanpur - 208001 (Uttar Pradesh)
Ph. : 7376325889, 7376335889

executed into the BOLT/NEAT system only after ascertaining the identity of caller and validating client codes as explained above.

Our BA collects orders from their clients and gives instructions to our dealers to execute them and sometimes they themselves execute if present in our front office.

At end of the day all the trades are processed and contracts /bills are generated showing executed trades, market rate, net rate, brokerage and other statutory/non-statutory levies. The contracts/bills are delivered to clients within stipulated time.

Policy for dealing with wrong trades

Wrong trade necessitates client code changes. These client code changes are done during post-closing session. Sometime if the changes are not carried out in the post-closing session for any reason, then they are done after trading hours by a request to the back office. The client code changes in relation to AP clients are done at the request of the AP. In case of direct clients and trades done from the back office the client code changes are authorized by the head at the dealing desks.

Client Default Risk

In line with our thought process, we decided on a policy of monitoring risk at client level. The clients are acquired directly by us or through BA's. Few years back this industry had the system of billing the BA and not the ultimate client. Due to this the risk on account of each client cannot be measured. At the time of BA default the main member was faced with litigations. This system also encouraged misuse by BA as credit of one client was adjusted against default of another client. To overcome this, we introduced the concept of registering clients directly in our books through BA's and started motivating our BA to adopt this system. Though we faced some resistance in the beginning but after realizing the plus point of this system our existing BA started converting to this system. In due course SEBI realized the benefit of this system and made it compulsory in the whole industry.

We have designed our software in such a way that client level risk monitoring is feasible. In fact we are one of the very few in the industry who has individual client level risk management. The underlying



SPFL Securities Limited

CIN No. : U74899DL1995PLC069581
GSTIN No. : **09AABCS2452C1ZP**
Member : NSEIL & BSE LTD.
D P : NSDL & CDSL
15/63-L, Civil Lines, Kanpur - 208001 (Uttar Pradesh)
Ph. : 7376325889, 7376335889

principle behind this policy is to ensure client with good credentials backed with security are encouraged. Good clients are not put to hardship due to defaulted clients. To identify the potential of the client we have our own internal mechanism by which clients can be categories into 2 categories namely No risk Category & Risk Category. We use different parameter to carry out this exercise. These parameters include financial background of clients, references and past dealings. The limits are set based on money credit and valuations of their stock available in their depository account with us. The exposure differs for every client and is set based on their individual grading. To safeguard our interest against limit extended against stock valuation we have a limited power of attorney in our favor for delivering shares from their depository account against their sales to exchanges.

Our business associate is responsible for bad debts arising on account of clients introduced by them.

In case of client selling shares the same are accepted only from his designated account. If the client wants to deliver from account other than his designated account then he has to submit proof of ownership of the other account. No third-party shares are accepted. Likewise, shares are released only to designated account. We are adopting this process for our clients in "No Risk Category". For Clients in Category "Risk" the shares are released after verifying the client has clear credit or nil balance in his ledger account. In case of debit balance the system ensures the shares are withheld to the extent of debit subject to not releasing partial settlement.

In case of fund payout, it is done in the name of the client only and no third-party cheques are issued. This is to safeguard from misuse by any individual. This also takes care of the benefit of limited POA and is not misused by the associate.

We have a clear-cut policy of not adjusting one client's debit against another except if the client belongs to one family or belongs to single AP. We allow offsetting interfamily debit credits by passing journal vouchers only if the instruction is received in writing. This is done to safeguard from misuse of accounts among family members and a later date dispute, which may result in liability to us.

Business Associate Risk:



SPFL Securities Limited

CIN No. : U74899DL1995PLC069581
GSTIN No. : **09AABCS2452C1ZP**
Member : NSEIL & BSE LTD.
D P : NSDL & CDSL
15/63-L, Civil Lines, Kanpur - 208001 (Uttar Pradesh)
Ph. : 7376325889, 7376335889

As regards business routed through BA, the clients' accounts are maintained in our books so that it is transparent and we are aware of the client default risk. The clients are provided with a facility to view their holdings of securities in their depository account through Internet on 24X7 and their financial balance with us on live basis. This will bring to light misuse if at all, committed by BA to the client at a very early stage and remedial course can be taken. We take upfront deposit before the relationship is started to protect against any dues arising out of client default for clients under "Risk" Category.

Operational risk:

We believe in technology to such an extent that we bring innovative products and practices in the industry. The usage of technology also ensures reduction of operational risk to a large extent. We also constantly work towards automating all our process, which is manpower intensive. Due to automation the error % is reduced leading to lesser risk. By implementing automation, we have achieved standardization resulting in quality improvement.

Manpower risk:

The industry is prone to high attrition. To overcome this, we believe in recruiting fresher and train them. Due to training and imbibing our value system at the initial stage of a person's career the attrition is comparatively low. We also ensure to recruit 10-15% extra staff to take care of work not affecting due to employee churning. The job profile and expectations are made clear at all levels. Second rung leaders support the head of the department and we ensure they are groomed so that replacement is not a factor. We take care to avoid over dependence on any single individual by either readjusting the portfolio and or by training the next in command

Business Continuity Planning:

We give very high importance to business continuity in case of disaster as we are highly dependable on technology & infrastructure. Keeping this in mind we have designed very strict schedule and we follow them religiously. Most of our trading terminals have UPS (Uninterrupted Power Supply) to take care of power break down. Similarly, all our back-office servers are connected to UPS. We backup all our



SPFL Securities Limited

CIN No. : U74899DL1995PLC069581
GSTIN No. : **09AABCS2452C1ZP**
Member : NSEIL & BSE LTD.
D P : NSDL & CDSL
15/63-L, Civil Lines, Kanpur - 208001 (Uttar Pradesh)
Ph. : 7376325889, 7376335889

database on daily basis. We create this backup on different medium. On daily basis we create copy of database on standby PC. On weekly basis the entire database is backed up in 2 media namely DAT drive and Portable HDD. These backups are stored either at Director's residence or in safe deposit vault. We have also established connectivity through Lease Line for trading from our back office. In case of disaster if our front office is inaccessible the trading activity is carried out from back office. Even to safe guard failure of lease line we have stand by ISDN line to carry out trading activities.

Facility of voluntary freezing/blocking of Trading Accounts by Clients

It was prescribed by SEBI Circular No. SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024, on "Ease of Doing Investments by Investors- Facility of voluntary freezing/blocking of Trading Accounts by Clients" and Exchange Circular No. NSE/INSP/61529 dated April 08, 2024 on "Framework for Trading Members to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients".

Vide the aforesaid circulars, trading members were advised to formulate the policy in line with the framework prescribed by the Exchange and members were also advised to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients with effect from July 01, 2024.

In relation to above we have the facility of voluntary freezing/blocking of Trading Accounts by Clients through the modes as below:

- i. Through email at stoptrade@spfl.co.in
- ii. On Mobile No. 7376325889 & 7376335889
- iii. Through directly coming to office and submitting the form for voluntary freezing/blocking of Trading Accounts