

**SAZ CAPITAL**  
Securities (Pvt.) Limited

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## **INTERNAL CONTROL & AUDIT POLICY**



**SAZ CAPITAL**

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## **1. Introduction**

SAZ CAPITAL SECURITIES (PVT) LIMITED established to provide capital market brokerage. SAZ CAPITAL SECURITIES (PVT) LIMITED would be governed by the rules and regulations set by the Securities and Exchange Commission of Pakistan (“SECP”), Pakistan Stock Exchange (“PSX”).

The policies and guidelines contained in this manual will provide the basis for managing the business of the entity as well as for development of further detailed procedures for day-to-day operations.

These policies are in compliance with the guidelines issued by prevailing rules and regulations of the SECP, PSX and have also adopted the industry best practices. This version of the policy primarily focuses on the equity brokerage business from retail clients given the company’s priority to initiate business with equity brokerage.

## **2. Objectives**

All the transactions undertaken by SAZ CAPITAL SECURITIES (PVT) LIMITED have to be in compliance with the policies and guidelines highlighted in this policy manual. It is incumbent on all the head of departments to ensure compliance with the laid down principles.

The key objectives of this policy are:

- 2.1. To ensure the protection of the interests of all the stakeholders including but not limited to the clients, shareholders and employees;
- 2.2. To form the basis for seamless operations of the company;
- 2.3. To develop the framework to manage all risks including but not limited to operational, legal, market and credit risks arising out of transaction with individual clients;
- 2.4. To ensure compliance with the requirements of the regulatory authorities;
- 2.5. To protect the integrity and reputation of the company, directors, shareholders, associated companies, directors and employees; and
- 2.6. Any other objective that the management deem appropriate

## **3. Nature of Equity business Transactions**

The company would undertake the following types of transactions on behalf of retail client unless the PSX introduces new types of transactions:

### **3.1. Ready Board Transactions**

All the stocks listed at the PSX are traded at the Ready Board Counters.

The settlement of these trades can be undertaken through T+2 under normal circumstances that are settled through T+1 and T+0 for spot transactions (stock is declared spot during the book closure period for the companies that have announced dividends or other benefits).

### **3.2. Future and Provisional Transactions**

The PSX has developed an organized market for certain scripts for the trading of future contracts of sale-purchase of stocks listed on the ready board. The trading is undertaken in exactly the same manner as ready board transactions through KATS; however these are settled at the value date of the future contract.

The companies that apply to the PSX for listing after the approval of the prospectus and 7-14 days prior to the subscription date comes on the provisional counter for trading. The transactions are settled once the company is listed on ready board counter.

### **3.3. Margin Trading and Margin Financing**

Margin trading as defined by the Margin Trading Rules, 2004 is purchase of securities by broker on behalf of his client through financing provided by him against certain margin deposit.

Margin trading (MTS) is being established as a replacement of the Badla transactions as a mean of financing. In this respect PSX has laid down a time bound action plan under which the Badla transactions will be completely phased out till August 2005 or such other date as notified by PSX.

Under these transactions financing for purchase of securities will be available from the brokers upon deposit of certain amount of margin and execution of a margin agreement with the broker. Under this agreement the broker will be authorized to mortgage, pledge or hypothecate the securities deposited as margin or bought on behalf of client against the financing provided. Margin deposited as collateral against

financing will be maintained at level prescribed by SECP at all times and the client will be required to replenish the margin in case of any shortfall.

Under Margin trading rules limits are imposed on the maximum amount of financing provided to individual and corporate clients and these limits are linked to the capital adequacy requirements.

## **4 Segregation of Operations**

Operations will be segregated between the front office and back office.

### **4.1 Front Office**

Front office (sales department) shall be responsible:

- 4.1.1 For developing client base and generating business;
- 4.1.2 For development of business generation plan and preparation of reports for the perusal and information requirement of the management;
- 4.1.3 To ensure that no business is carried out with any suspended, expelled or defaulted members of the Stock Exchange;
- 4.1.4 To ensure that the client has a valid account with the company before entertaining any trade request;
- 4.1.5 For taking orders from clients on recorded lines and executing them through KATS or directly through members of the exchange;
- 4.1.6 To ensure that no trade is carried out with clients who has failed to carry out his commitments in relation to securities with another broker as required by Clause A (II) sub clause (6) of 3<sup>Rd</sup> Schedule to Broker & Agent Registration Rule, 2001;
- 4.1.7 To ensure that no trade is carried out on behalf of those clients who have not settled the previous trades carried out by them;
- 4.1.8 To ensure that every deal is executed within the parameters approved by the management including but not limited to client trade limits, margin requirements etc.;
- 4.1.9 For verbal confirmation of orders placed by the client on recorded lines;
- 4.1.10 To liquidate the position of the client on instruction of the Risk Department and upon approval of the CEO if margin is not replenished by the client within one business day of margin call;
- 4.1.11 To ensure that no margin financing and margin trading facilities are extended to individuals and entities who are not eligible under Margin Trading Rules, 2004;

- 4.1.12 For taking all the necessary steps that includes market information and verification of margin to ensure adherence of commitment by the client;
- 4.1.13 For maintaining the knowledge base to be able to not only advice the client but also advice the management on risk attached to the open or possible exposure; and

## **4.2 Back Office**

The back office comprises of the Operation & Risk Department and Finance Department. The Operations & Risk Department will be responsible

- 4.2.1 To ensure compliance with account opening policies of the company;
- 4.2.2 For credit risk assessment of the new client;
- 4.2.3 For placing the orders executed in the system for formal confirmation of the clients;
- 4.2.4 To check the details on deal ticket with the confirmation for the purchase and sale of shares;
- 4.2.5 For charging brokerage commission to clients in accordance with brokerage rates approved by Credit Committee;
- 4.2.6 Generation of confirmations and their communication to the clients as per the guidelines in the section 13 of this document;
- 4.2.7 The settlement of trades with the clearing house of PSX;
- 4.2.8 The settlement of trades with the clients in accordance with client settlement policy as laid down in the section 17 of this document;
- 4.2.9 For monitoring clients' margin position, investigation of exception and intimation to the Head of Sales in case of excess over the limit or its possibility in accordance with guidelines laid down in section 9 of this document;
- 4.2.10 For market to market of margin and outstanding position of the clients in accordance with policies laid down in section 9 of this document;
- 4.2.11 For giving margin call to clients in case of shortfall in margin deposited;
- 4.2.12 For communication of up-to-date margin position of client to the sales department;
- 4.2.13 For communication of client wise detail of financing provided to the sales department;
- 4.2.14 For monitoring the compliance with the exposure deposit and capital adequacy requirements of the PSX;
- 4.2.15 For daily and weekly reporting to Stock Exchange in accordance with Margin Trading Rules, 2004;
- 4.2.16 For CDC account handling in accordance with CDC rules and regulations;
- 4.2.17 For follow-up of receivables and will be accountable for recovery;

- 4.2.18 Head of Settlement in the Back Office will be responsible for extracting printouts from CDS of various account positions at the end of the session (before 5 pm) and put his initial as an evidence of review for the accuracy of the position;
- 4.2.19 Head of Settlement will also be responsible for extracting printout from CDS of the daily activity reports; in-coming, outgoing, intra account movement (movement of shares form sub-account of clients) and inter participant movement reports (movement of shares to participants);
- 4.2.20 The above mention printouts will be presented to Head of Operations for his review. Head of Operations will put his initial to document his review; and
- 4.2.21 CDS Operator will keep proper record of these documents.

## **5 Type of Clients**

The company will cater to individual clients of small and medium size. The company may need to avoid dealing with individuals who can try to influence the company due to their positions like government higher ups, judges, army generals, politicians etc.

## **6 Risk Management**

Risk management, like in any other financial institutions, is the most critical element in the brokerage house. The risk is mitigated or managed thorough risk assessment, margin requirement and trading limits. All these tools are used on different classes of clients based on their risk profile.

## **7 Client Selection Criteria**

Only those clients would be entertained who have gone through a system of KYC and CDD

In view of the guidelines of the regulators to prevent money laundering and bad credit, it is incumbent on the credit document initiators and evaluators to make all the reasonable efforts to know the client and be prudent in disposing their fiduciary responsibilities. The policy advises that the following steps may be undertaken before accepting any account:

## **8 Credit Risk Assessment**

- 8.1 The Head of Sales or their authorized representatives meet with the client in person to ascertain the identity of the client and ensure that he completely understands his rights and obligations as an investor and risk involved in equity investment.
- 8.2 The following information will be obtained from the client in the credit proposal:
- Personal Information about the client including the address, contact no, and employment details;

- Financial information about the client including major source of income, average monthly income, bank details, tax status etc., where possible;
- Trade limit sought by the client;
- Margin deposited by the client (in the form of cash or shares of approved securities);
- References;
- CDC Account handling details;
- Nature of account (i.e. single or Joint); and
- Relationship with joint account holder (if any)

8.3 The CEO would have the authority to recommend for consideration of competent authority any case rejected considering the case as “Business Decision”.

8.4 CEO will have the authority to approve / reject the case.

## **9 Margin Requirement**

### ***10 The margin requirement guidelines are as follows:***

- 9.1 No margin requirement will be placed for clients trading only in ready delivery market.
- 9.2 The margin requirement in case of client availing margin financing facilities shall be fixed in accordance with Margin Trading Rules.
- 9.3 Margin deposited can be in the form of cash and / or “Acceptable Securities”.
- 9.4 Only CDC eligible shares and securities approved by CEO will be accepted as valid securities.
- 9.5 In case of client having a margin financing agreement with the company, shares of listed companies and government securities approved by the PSX and SECP for the purpose of margin trading and margin financing will be accepted as valid securities.
- 9.6 Different slabs for haircut/discount will be used to value securities. The haircut/discount will depend upon the fundamentals and liquidity of stocks.
- 9.7 The list of securities shall be reviewed every month and changes will be made accordingly and intimated to clients.
- 9.8 For any change in policies on margin requirements, the client is to be given a three day notice to adjust margin as per the SECP regulations.
- 9.9 Only the authorized person in the operation department will be authorized to input or make any changes in the security deposit position in the system. This will be done only upon receipt of written confirmation either from the Accounts Department or the Settlement that the security deposit has been received.
- 9.10 Margin deposit from client availing margin financing facilities will be maintained in accordance with limit specified by the SECP at all times.
- 9.11 The margin requirement may be reviewed and revised periodically by the management based on the credit worthiness and the financial strength of the client. The requisition for revision in



margin requirement shall be raised by CFO along with detailed justification of the any recommended change. The request of revision in margin requirement shall be checked against the credit history and financial position of the client.

## **10 Trading Limit**

- 10.1 Trading limit would be determined in order to rationalize the risk exposure inherent in transaction being executed between SAZ CAPITAL SECURITIES (PVT) LIMITED and its clients. The policy for setting up of trading limit is as hereunder:
- 10.2 The trading limits would be set based on the financial soundness and credit worthiness of the client, margin placed and capital strength of SAZ CAPITAL SECURITIES (PVT) LIMITED.
- 10.3 Credit worthiness of the client would be accessed through his financial strength, previous track record, portfolio size and market reputation.
- 10.4 However, it would be the discretion of the management of the SAZ CAPITAL SECURITIES (PVT) LIMITED to either refuse or give a lesser limit than sought.
- 10.5 The management may decide on its discretion to suspend the trading limit of any account without giving any reasons. The margin will be returned after deduction of any receivables in case of suspension of the limit.
- 10.6 The trading limit of clients may be reviewed and revised periodically by the management on the basis of credit history, financial position and volume of deals carried out by the client. The change in the trade limit will be calculated on the basis of change in margin requirement.
- 10.7 Cap on total margin financing facility extended to a single client shall be set in accordance with range fixed by the Securities and Exchange Commission of Pakistan under Margin Trading Rules, 2004.

## **11 Account Opening Policy**

The policies and guidelines for account opening are given as under:

- 11.1 All new clients of the company shall be required to sign Account Opening Form and standard terms and conditions.
- 11.2 Account opening form shall be based upon the standard format of account opening form prescribed in General Rules and Regulations of Pakistan Stock Exchange.

11.3 The Head of Operations or his authorized representative would only open the accounts. In usual course of business, the Head of Settlement will act as the representative of the Head of Operations for this purpose.

11.4 The following documents have to be submitted by the client before the account opening unless an exception has been approved by the CFO:

11.4.1 Individuals

- ▶ Attested copy of N.I.C of the resident applicant (single or joint);
- ▶ Attested copy of N.I.C of nominees (resident) (if applicable);
- ▶ Attested copy of passports of the non-resident applicant (single or joint);
- ▶ Attested copy of passports of the nonresident nominees (if applicable);
- ▶ Letter from the account holder(s) authorizing another person to trade on his behalf (if required by the client)(found within the account opening form);
- ▶ Signed and accepted schedule of charges and fees.

## 12 Order Execution

The usual mode of order taking would be over the telephone or through written instructions.

12.1 The order would be noted in the automated information management system or in absence of such system on a manual register.

12.2 The order from the client shall be checked against its account details to ensure the validity of account, settlement of previous trade balances and compliance with trade limit policy.

12.3 It is the responsibility of the salesperson to forward the order to the dealer (KATS operator) for execution.

12.4 After executing the order, the dealer is responsible to confirm the following to the salesperson: scrip, quantity, price and mode of transaction.

12.5 In case of sale of physical shares, it will be the responsibility of the salesperson to ensure, prior to the execution of the trade, that the stocks are in saleable form.

12.6 The physical stocks are saleable only if the transfer deed is verifiable, the lot is a marketable lot and the stocks are not soiled.

12.7 The company will make all the provisions for voice recording system and all the conversations in relations to order taking will be voice recorded and archived.

12.8 Any dealing error committed by sales or dealing should be communicated immediately to the Head of Sales.

12.9 Head of Sales has the authority to rectify the error (square the position).

### **13 Confirmation of Trades**

The following guidelines should be adopted during execution:

- 13.1 Once the order is executed, salesperson will confirm the details of the transaction to the client over the recorded lines where applicable.
- 13.2 The confirmation of margin trading deals shall include the following details:
  - Name of security
  - Quantity purchase
  - Price of security

### **14 Fees and Commission**

- 14.1 The brokerage commission may differ for trading, delivery (both sale and purchase), ready and future and for margin trade deals.
- 14.2 The Head of Settlement would be responsible for entering and maintaining the approved commission structure for a client in the system and gets Signature from client.

### **15 Settlement with the National Clearing House (NCSS)**

In case of most of the stocks the NCSS is the clearinghouse. A tripartite agreement is to be executed amongst the member, NCCPL and the settlement bank for start of work. The following guidelines govern the settlement with NCSS:

- 15.1 Arrangements to be made in order to enable the NCCPL to directly debit and credit the settlement account nominated by the member for this purpose.
- 15.2 The member posts all the stocks in a sell trade before 3:30 pm; the credit is given on the settlement day. The credit for the stocks posted later than 3:30 pm is given next day (in case of time extension due to any technical problem at NCCPL). Trade will not be accepted after 3.30pm and will be squared from the system next day in the first session.
- 15.3 In case of purchase of shares by the member, NCCPL will debit the settlement account of the member by 10:00 am on the day of settlement and will credit the shares same day.

## **16 Settlement with the Clients**

- 16.1 For Purchases/Payables by client, the settlement will be done on SD-1 basis (SD: Settlement Date). Client has to give the cheque during the banking hours so that the amount can be credited the next day. Shares to client will be transferred after the payment has been credited in the account of SAZ CAPITAL SECURITIES (PVT) LIMITED.
- 16.2 In case of sale of securities on behalf of client the payment to client shall be released after securities are received in the CDC account of the company.
- 16.3 In case of margin financing deals the settlement will be done after settlement of the deal with the Stock Exchange. The period would be finalized after the implementation of margin finance.
- 16.4 In case of sale of securities on behalf of client the payment to client shall be released after securities are received in the CDC account of the company. Failure to give delivery in case of sale, any cost of square-up will be recovered from client.
- 16.5 In the instance where the client fails to make the payment on time, the company will be liable to settle the trade with the exchange. However, the company may keep the stocks with itself or liquidate the position up to required level upon approval from CEO.
- 16.6 The Client Settlement In-charge will be responsible for tallying the amounts, quantities and stocks involved. Any kind of discrepancy has to be highlighted by him to the Head of Settlement.

## **17 Receivable Policy**

- 17.1 The following guidelines will govern the management of receivables by SAZ CAPITAL SECURITIES (PVT) LIMITED
- 17.2 The commission to the salesperson will not be credited unless the amount due on that specific trade is recovered from the client.
- 17.3 The client will not be able to trade unless the client has paid the amount due from him on settlement despite the fact that his account is showing a margin higher than

required by company (margin can be higher due to high market value of shares kept as security/margin).

- 17.4 The overdue account will be reported to the CFO with details regarding the amount due, reason and the position of the client. The trading will only be resumed in that account after the approval of the CFO.

## **18 Cash flow Management Policy**

The following guidelines will govern the cash flow management for SAZ CAPITAL SECURITIES (PVT) LIMITED:

- 18.1 It will be the responsibility of the Settlements and Accounts Departments to keep sales updated on the cash flow position.
- 18.2 Cash flow forecast will be carried out on daily basis to identify funding requirement before the settlement date of trades carried out.
- 18.3 The sales team is advised to limit the business in case the capital adequacy limit or credit lines are near exhaustion.

## **19 Personal Trade Policy**

The integrity of a brokerage house is its prime asset and the following personal trade policy is there to safeguard the interest of the clients:

- 19.1 Employees will only be allowed to trade on their own behalf through the Personal Trade Accounts held with the company.
- 19.2 To make sure that clients get the best execution and no front running is conducted on client orders, rules will be framed for employees wishing to conduct trading in stocks.
- 19.3 Employees will not be able to trade in a stock, 3 days prior to and after a research report is printed on that stock.
- 19.4 Employees can sell a stock a day after the stock is settled on cash basis.
- 19.5 No short selling will be allowed to employees.

## 20 Guidelines regarding appointment and tenure of the dealers

The appointment, termination and tenure of the dealers will be decided on the basis of the relevant General Rules and Regulations of the PSX (section 12,14 and 16 PSX regulations).

## 21 Guidelines on CDS operations

The opening of the CDC sub accounts of the client and CDS operations will be governed by the following guidelines:

- 21.1 Any of the clients wishing to execute deal in the securities, which are included in the CDC, will be required to open a sub-account with the company on the CDS system.
- 21.2 In order to open a sub-account into a CDC clients are required to enter into an agreement with the company. Agreement shall be signed by client or any other person authorized by client in account opening form.
- 21.3 Under this agreement client shall authorize SAZ CAPITAL SECURITIES (PVT) LIMITED to:
  - Receive and hold Securities subscribed, acquired, owned or purchased by the Client in safe custody in his Sub-Account and/or SAZ CAPITAL SECURITIES (PVT) LIMITED Group Account with Central Depository Company of Pakistan Limited (CDC);
  - Sell, deliver or effect deliveries of the Securities sold by the Client;
  - Accept, receive, collect and realize dividends and profits payable on the Client's Securities on his behalf;
  - Receive and transmit to the Client notices of shareholders' meetings, dividend notices and any other related information;
  - Sign in the client's name and on behalf of the client all transfer deeds, documents, agreements or other instruments necessary for the transfer and/or registration of securities subscribed, acquired, owned or purchased by the client in the books of Issuers;
  - Receive and realize on behalf of the client, all benefits in respect of right issues or bonus shares/ securities, sign Letters of Rights, renounce Letter of Right upon instruction from client; and
  - Move/handle the Client's Securities from his Sub-Account and/or from **SAZ CAPITAL SECURITIES (PVT) LIMITED** Group Account from time to time, including for settlement purposes, to dispose them off at any time without any notice to the Client and to apply the net proceeds thereof towards the adjustment of the Client's outstanding(s) that may be due directly or indirectly to **SAZ CAPITAL SECURITIES (PVT) LIMITED**, including under normal settlements as well as against the Client's losses and exposures.

- 21.4 The completeness and accuracy of registration details provided by potential sub-account holders should be ensured in every respect before opening a new sub-account in CDS. In case the registration details obtained from the client are prima facie inaccurate or are otherwise incomplete the sub account should not be opened.
- 21.5 If at any time, notification is received from the sub-account holders regarding change in his registration details, these changes should be made in sub-account of client in CDS.
- 21.6 The securities entered in the sub-account of the client maintained under the main participant account of the company should not be handled without the permission of the client.
- 21.7 Particular care should be taken to ensure that book entry securities owned by the company are entered in the house account of the company with CDC and are not entered in any sub-account of the clients maintained by the company.
- 21.8 No officer of the company and no other person who has by any mean knowledge of any information or document whatsoever relating to the affairs of the account-holders, and in particular relating to their accounts or sub-accounts, shall give, divulge, reveal or otherwise disclose such information or documents to any other person.
- 21.9 All possible efforts should be undertaken to ensure the seamless operation of the CDS

## 22 Guidelines on Access Rights

The following is the policy on managing the access levels of various employees:

- 22.1 The Head of Sales will be responsible for proposing a detailed policy and procedure on access control for the front office.
- 22.2 Each salesperson will have access on settlement system to only view his commission against transactions executed on a day.
- 22.3 Head of Sales would have access to settlement system to view the commission of all the salespersons.
- 22.4 Head of Operations will be responsible for proposing access levels for the back office.
- 22.5 The following are some indicative guidelines on setting access levels for CDS and KATS system:
  - ▶ **CDS Level 1:** (Head of Settlement/Head of Operations) can make transactions, save them, post them to counterpart, open and post a new sub-account within the participant account or can take print out of any report or transaction screen.
  - ▶ **CDS Level II:** (CDS Operator) can make transactions, save them, save information on new accounts and can take print out of reports.

- ▶ **CDS Level III:** (Head of Operations) can only post transactions.
- ▶ **KATS:** (KATS Operator) the Head of Sales will designate dealers that will input trades in the KATS. Passwords for each terminal will be given to its operator.

### 23 **Guidelines on Document Archival**

The record of following documents has to be maintained:

- ▶ Shareholding
- ▶ Account Opening Form
- ▶ CDC Sub-account opening Form

### 24 **General Guidelines and Controls**

The following are general-purpose guidelines issued in order to further ensure seamless operations of the company:



- 24.1 Controlling the activities of all personnel will be the responsibility of the management. The management will develop clear cut policies on the authorities and responsibilities of the employees.
- 24.2 Salesperson, dealers and other staff share equal responsibility for maintaining confidentiality of their transactions. No information should be disclosed to a third party without explicit permission from all the parties involved and the management of SAZ CAPITAL SECURITIES (PVT) LIMITED rights.
- 24.3 The amount deposited as security margin by the account holder (s) with the broker shall only be used for the purposes of dealing in securities, such as trading and settlement of securities.
- 24.4 The SAZ CAPITAL SECURITIES (PVT) LIMITED, as per the regulations of SECP, shall be authorized to act on the verbal instructions of the account holders. However, the company will provide confirmation of the executed transactions by email or sms.
- 24.5 All the rules and regulations of SECP and PSX along with other law of the land will be complied with and will not engage in any transactions that are not in conformity with the prevalent laws.
- 24.6 Clients have to inform the company of any discrepancy in confirmations and ledger statements within one business day of the receipt of the statements.
- 24.7 The company is not bound to disclose any information regarding clients to any third party unless there is a written request from regulators.
- 24.8 The management may appoint Head of Settlement as Head of Operations in his absence.
- 24.9 It would be the responsibility of the company to make an effort that the clients are aware of the rules and regulations of the company and the risk to which they are exposed.