

# INTERNAL POLICY — PREVENTION OF UNAUTHORISED TRADING

**Effective Date:** As per SEBI Circular | **Classification:** Mandatory Compliance | **Applies to:** All Trading Clients

## 1. PURPOSE AND SCOPE

This policy has been formulated in compliance with SEBI Circular No. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, which is a master circular consolidating earlier circulars on the subject. The objective of this policy is to:

- Prevent unauthorized trades from being executed in client accounts.
- Establish a clear framework for maintaining evidence of client-authorized orders.
- Define the obligations of the firm, its dealers, and relationship managers.
- Protect investors and the integrity of the securities market.

This policy applies to all employees, dealers, sub-brokers, authorized persons, and any other representatives of the firm involved in receiving, processing, or executing client orders.

## 2. REGULATORY BACKGROUND

SEBI has previously implemented multiple measures to address the persistent issue of unauthorized trades, including Periodic Running Account Settlement, post-transaction SMS/email alerts by Exchanges/Depositories, and ticker displays on broker/DP websites. Despite these measures, unauthorized trades continue to represent a significant proportion of investor complaints received by SEBI and Stock Exchanges.

To further strengthen investor protection and harmonize requirements across markets, SEBI has mandated that all brokers maintain verifiable evidence of client order placement before executing any trade.

## 3. POLICY REQUIREMENTS

### 3.1 Mandatory Evidence of Client Order

No trade shall be executed on behalf of a client unless the firm has obtained and retained prior evidence of the client placing such order. Acceptable forms of evidence include, but are not limited to:

Sr. No.	Mode of Order	Evidence / Record Required
1.	Physical / Written	Physical record written and signed by the client, retained as original document.

2.	Telephone	Mandatory telephone recording system to record client instructions. Voice logs must be maintained as part of official records.
3.	Email	Email received from the client's registered / authorised email ID. Email records must be archived.
4.	Internet / Online Trading	System-generated logs of internet transactions, including order confirmation timestamps and client login records.
5.	Mobile / Messaging	Records of messages received through mobile phones (SMS, WhatsApp, or other approved messaging platforms).
6.	Other	Any other legally verifiable record approved by the Compliance Officer.

### 3.2 Telephone Order Recording — Mandatory Requirement

Wherever client order instructions are received by telephone, the stock broker shall:

- Mandatorily use a telephone recording system to record all such instructions.
- Maintain telephone recordings as part of its official books and records.
- Ensure the recording system is functional, calibrated, and backed up at all times.
- Immediately escalate any failure of the telephone recording system to the Compliance Officer and IT Head.

### 3.3 Record Retention Period

All records of client order placement as specified in Section 3.1 above shall be maintained for the following minimum periods:

Scenario	Retention Period
Standard / No Dispute	Minimum 3 (three) years (or as revised by SEBI / Exchanges from time to time)
Where a dispute has been raised	Until final resolution of the dispute, regardless of the three-year standard period
Where SEBI directs specific preservation	Until further intimation / specific direction from SEBI is received in writing

## 4. DISPUTE HANDLING PROCEDURE

In the event a client raises a complaint or dispute regarding an alleged unauthorized trade, the following procedure shall be followed:

- The dealing / back-office team must immediately retrieve all records related to the disputed trade(s) and escalate to the Compliance Department.
- The Compliance Department shall produce the relevant order-placing evidence within the timeline stipulated by the Exchange/SEBI.

- If the broker is unable to produce order-placing evidence (e.g., due to technical failure), the broker shall:
  - Document the reasons for failure in writing.
  - Submit detailed justification to the Compliance Officer and the relevant Exchange.
  - Provide alternative corroborating evidence such as:
    - Post-trade confirmation acknowledged by the client.
    - Receipt or payment of funds/securities by the client in respect of the disputed trade.
    - Any other appropriate evidence as deemed fit by the Arbitration Panel.
- All findings, evidence, and correspondence related to the dispute shall be documented and archived until final resolution.
- The Compliance Officer shall report all dispute instances to senior management monthly.

## 5. ROLES AND RESPONSIBILITIES

### 5.1 Dealing / Front-Office Team

Ensure every client order is backed by verifiable evidence before execution.

- Maintain and upload records of all orders received in the designated system on a real-time basis.
- Never execute discretionary or assumed orders on behalf of clients without documented authorization.
- Report any system failure or inability to record instructions immediately to the Compliance Officer.

### 5.2 Compliance Department

- Own and administer this policy; ensure it is kept updated as per regulatory changes.
- Conduct periodic audits of order placement records and telephone recordings.
- Handle and oversee dispute management procedures, including liaison with Exchanges and SEBI.
- Report compliance status in Monthly Development Reports to Stock Exchanges as mandated.
- Train all relevant staff on policy requirements at least once a year.

### 5.3 IT / Systems Department

- Ensure telephone recording systems and digital order logs are operational and backed up at all times.
- Maintain secure, tamper-proof archives for all electronic records for the prescribed retention periods.
- Immediately report and escalate any recording or system failure to the Compliance Officer.

### 5.4 Senior Management

- Ensure adequate resources are allocated for compliance with this policy.

- Review the Monthly Compliance Report and take prompt corrective action where required.
- Approve any exceptions or deviations from this policy with documented justification.

## 6. NON-COMPLIANCE AND DISCIPLINARY ACTION

Any violation of this policy may constitute a serious regulatory breach and shall be dealt with as follows:

- Immediate escalation to the Compliance Officer and Senior Management.
- Internal disciplinary proceedings against the responsible employee(s), up to and including termination.
- Reporting to SEBI and the relevant Stock Exchange as required under applicable regulations.
- The firm may face regulatory sanctions, fines, or suspension of trading membership for systemic non-compliance.
- Any employee who becomes aware of a potential violation of this policy is required to immediately report the same to the Compliance Officer, without fear of retaliation.

## 7. TRAINING AND AWARENESS

The Compliance Department shall ensure the following training and awareness measures are in place:

- All dealers, relationship managers, and authorized persons shall complete mandatory training on this policy before commencing operations and thereafter on an annual basis.
- New employees in relevant roles shall be briefed on this policy as part of their induction programme.
- Training attendance records shall be maintained by the Compliance Department.
- Any material regulatory update shall trigger an ad-hoc training session for affected staff.

## 8. POLICY REVIEW AND UPDATES

This policy shall be reviewed at a minimum on an annual basis, or earlier in the event of:

- Any amendment to the SEBI master circular or related regulations.
- A material change in the firm's business model or technology infrastructure.
- Significant regulatory action or adverse finding against the firm or the industry.