

# SHERMAN SECURITIES PVT. LIMITED

TREC Holder, Pakistan Stock Exchange Limited

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## **INTRODUCTION**

SHERMAN Securities (Private) Limited is a Trading Right Entitlement Certificate (TREC) Holder of Pakistan Stock Exchange registered with the Securities & Exchange Commission of Pakistan as broker under Brokers & Agents Registration Rules, 2001.

The company was established in October 2002 with a capital base of Rs. 25 million and later extended up to 120 million.

## **NEED FOR POLICIES & PROCEDURES**

The company has adopted various policies & procedures for internal control measures & tools for compliance for various Acts, Rules & Regulation of the Exchanges.

There are four very basic reasons that necessitate writing policies and procedures.

### **Operational needs**

Policies and procedures ensure that fundamental organizational processes are performed in a consistent way that meets the organization's need.

### **Risk Management**

Established policies and procedures creates environment that ensures control activity needed to manage risk.

### **Continuous improvement**

Procedures can improve processes by implementing a Plan-Do-Check-Act approach by building important internal Communication practice

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## TABLE OF CONTENTS

SR. NO.	PARTICULARS	PAGE NO.
1	CLIENT REGISTRATION	1
2	ORDER AND TRADE MANAGEMENT	4
3	SETTLEMENT OF FUNDS AND SECURITIES	5
4	SEGREGATION OF CLIENT'S ASSETS	6
5	PERIODIC STATEMENT	7
6	CLOSURE OF CLIENT ACCOUNT	7
7	RISK MANAGEMENT	8
8	INVESTOR REDRESSAL MECHANISM	9
9	BRANCH OFFICES	10
10	POLICY ON UNAUTHENTICATED NEWS CIRCULATION	11
11	BACKUP POLICY	11
12	KYC/ CDD POLICY	
13	ANTI MONEY LAUNDERING POLICY	

## 1. CLIENT REGISTRTION

- 1.1 SHERMAN accepts those clients who have proper reference viz., Director, Existing Clients, Employee or any other reputed person. However walk in clients are also entertained subject to provision of complete documents by the respective clients.
- 1.2 Potential clients have to make a request to open an account by filling in and signing the SECP/CDC Standardized Account Opening Form (SAOF) and SHERMAN's own account opening form, which will include KYC-CDD and any other Form deemed necessary from time to time.
- 1.3 Clients must provide all the required documents which are mentioned in the forms.
- 1.4 In case of Joint account holders, an affidavit as per SHERMAN format must be submitted with the SAOF.
- 1.5 E-mail is a must to open any account with SHERMAN.
- 1.6 In case of Branch Office, Branch Manager checks the form, verifies the supporting documents, and also verifies the client's identity personally by seeing his original CNIC. He then sends the forms to the CDC Department at the Head Office of SHERMAN.
- 1.7 The Compliance Officer (CO) checks the forms and rates the client according to the category of risk falls in (High, Medium, Low Risk or rejects the forms). In case the request is rejected, the CO records the reason(s) and returns the forms to the originator with a letter of rejection stating the reason(s) thereof.
- 1.8 Compliance Office approved the verified SAOF along with documents and ensure that:
  - i. Back office executive creates a trading code through the Back office software.
  - ii. National Clearing Company Limited (NCCPL) operator feeds the detail in NCCPL system and create a new Unique Identification Number(UIN) of the client.
  - iii. Central Depository Company (CDC) operator creates a CDC Sub-Account for the respective client.
  - iv. The UIN of the client is tagged with the respective CDC Sub-Account
  - v. Trading Manager to provide exposure limits to new client as per company policy.
  - vi. Inform Traders about registration of new clients.

- 1.9 CDC Setup report and Back Office Client information report are generated by CDC Department Official and sent to CO, who verifies and matches the information and corrects errors (if any).
- 1.10 The client is required to sign the Setup report and acknowledge it by signing the Setup report and returning it to the CDC Department, this then becomes part of the form.
- 1.11 Once this Setup report is received than the account will be operational
- 1.12 All Clients' documents will be kept in safe custody at the Head Office of SHERMAN or at any other safe location deemed fit for such safe keeping by the management of SHERMAN.
- 1.13 Client account is closed either by client instruction or action initiated by the SHERMAN. On receipt of written request from the client, the Compliance Officer deactivates the client code in the front & back office.

## **2. ORDER & TRADE MANAGEMENT**

### **2.1 Client Orders**

- 2.1.1 KATS Operators have authority to feed orders in the trading terminals after receiving the orders for respective client either the client is physical present in the office or through Telephone.
- 2.1.2 All orders received via telephone (landline) communication are routed through the recorded telephone lines.
- 2.1.3. A reliable security and efficient Telephone Recording System is installed at all offices of SHERMAN.
- 2.1.4 The telephone recording is retained for a minimum period of six months. The recording is kept in the Head office under the custody of Compliance Officer.
- 2.1.5. The Trading system generated daily activity log is maintained.

### **2.2 Confirmation**

- 2.2.1 The confirmation of order executed transmitted through email or sent through courier (where applicable) and uploaded on the SHERMAN within 24 hours of execution of client order.

### **2.3 Trading by Employee**

- 2.3.1. SHERMAN employees can trade after approval from the management.

2.3.2 Employees who desire to trade have to go through the same process of registration as any other client and once the UIN is issued it is registered with PSX.

2.3.3 CO will periodically check trades of all employees and report any unusual activity to the management for necessary action.

## **3. SETTLEMENT OF FUNDS AND SECURITIES**

### **3.1 PAYMENT & RECEIPT POLICY**

The Company follows centralized system of accounting and as such all financial instruments / documents relating to the clients are issued from Head Office.

3.1.1 SHERMAN discourages receiving cash above the amount of Rs.25,000 except in exceptional circumstances. In such a case, it is reported to the PSX and reasons to justify of receiving cash is being provided.

3.1.2 All payment made by the SHERMAN are crossed cheques and in the name of client as mentioned in the SAOF (Title Account).

3.1.3 The SHERMAN receives payment by cheques or pay order or any crossed bank instruments.

3.1.4 All payment made/ received from clients are recorded in the respective clients account ledger in a timely & proper manner.

3.1.5 In capital Market SHERMAN settles account on T+2 day.

3.1.6 SHERMAN makes payment of funds within two working day of receiving the specific instruction from client.

3.1.7 Client who have debit balance in one segment and credit balance in other segment will be paid only If their net balance is credit.

3.1.8 No cash payment is made to clients however in case of emergency cash payment may be made upto Rs.5000/-

3.1.9 The branches email detail of the cheques received from clients and also email the scanned copy of deposit slip to Head Office so that the benefit of the payment made by the client can be posted to the ledger on the same day.

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3.1.10. Clients are advised not deposit any cash/cheque directly to the company's bank account. If cheque deposited then intimation must be given in writing along with pay in slips otherwise credit will not be given to the client till proper document are received from clients.

## **3.2 SETTLEMENT OF SECURITY**

3.2.1 SHERMAN Back Office reflects share custody based on trade date. However, share will be available in CDC based system on its settlement cycle.

3.2.2 The securities are transferred from the sub-account only as per specific instruction received from client.

3.2.3 SHERMAN collects securities from the respective clients before settlement of the respective exchange.

3.2.4 The securities will remain in the client's sub account and will only be moved to his CDC Investor account or his CDC sub account with another broker at his specific instructions. The client may give SHERMAN standing instructions or through our specific form.

## **3.3 SQUARE UP POSITION**

3.3.1 In case a client purchases shares and fails to make full payment before the settlement day, SHERMAN reserves the right to sell the shares unless client has an equivalent or excess amount of shares deposited as margin

3.3.2 In case a client sells shares and fails to deliver the same before the settlement day, Buy in are done as per exchange rules for recovery of shares. Loss on transaction, if any, will be met by the client.

## **4. SEGREGATION OF CLIENT'S ASSETS**

SHERMAN Securities keeps assets belonging to the clients separated from the its own assets.

4.1.1 The funds of clients are kept in a separate Bank account with word "Client" in the title.

4.1.2 The shares deposited/ bought by clients are kept in their respective CDC Sub-Account.

## 5. PERIODIC STATEMENTS

Trade Confirmation, Notes, Daily Accounts Ledger Statement, Share Holding and Quarterly statement of accounts are issued by the Head Office, irrespective whether the trade has been executed at the Head Office or at the Branch Office.

### 5.1 Ledger Statement

5.1.1 SHERMAN sends ledger statement of account (with error reporting clause) to all the clients within 24 hours of a trading activity.

- a) By hand or,
- b) By courier,
- c) By email

5.1.2 SHERMAN sends Quarterly CDC Account Balance Statement (after three months) to clients

through

- a) By hand or,
- b) By courier,
- c) By email

5.1.3 SHERMAN sends Quarterly Ledger Balance Account Statement (after three months) to clients through

- a) By hand or,
- b) By courier,
- c) By email

5.1.4 SHERMAN delivers Annual Capital Gain Tax (CGT) statement as deducted by the NCCPL, to the respective clients as and when demanded by the client.

5.1.5 SHERMAN maintains proof of delivery of Ledger Statement of Account, Quarterly CDC Account

Balance Statement and Annual Capital Gain Tax (CGT) Statement at its registered office.

## 6. CLOSURE OF CLIENT ACCOUNT

### 6.1 Closing Condition

Client Account are closed under following conditions;

6.1.1 On receipt of specific request from the client to close the account

- 6.1.2 On account of breach of terms and conditions of the Standardized Account Opening Form (SAOF) by the client.
- 6.1.3 On account of any action taken by SECP / Stock Exchange and other authority against the clients or its partner / promoters / directors / authorized persons.

## **6.2 After closing of Account**

- 6.2.1 After closing account SHERMAN returns clients assets viz, Ledger balance, securities etc, if any, within one month of closing of account.
- 6.2.2 If payment is due from the client, then any assets such as Securities etc will be returned after settlement of the outstanding payment.

## **7. RISK MANAGEMENT**

SHERMAN have a prudent system of risk management to protect itself from clients default. The risk management policy is framed in view of marking requirement of the stock exchange.

### **7.1 Margin Collection**

- 7.1.1 SHERMAN compulsorily collects margins from the clients. The Management decided percentage of collecting margin on client to client basis.
- 7.1.2 In Future & Derivative segment of the market SHERMAN ensures strict margin collection from the clients before placing any order on behalf of them.
- 7.1.3 Margin is collected in the form of crossed banking instruments and / or eligible securities applying appropriate hair cut and other assets, as permitted by the Exchange.
- 7.1.4 SHERMAN may deduct extra margin as and when desired.
- 7.1.5 SHERMAN may increase or decrease the haircut levels on any of the margin eligible securities.

### **7.2 Exposure to the Clients**

- 7.2.1 In ready market segment clients exposure limit varies from client to client. Management decides on exposure limits to client to client basis however minimum margin is maintained at 25%.

### **7.3 Policy of Square off Position**



- 7.3.1 At the time of opening of client account, the clients are made aware of the fact that their positions would be squared off in case of margin / shares delivery default.
- 7.3.2 At the time of default the clients are further informed about the square off the trades over phone or in writing before square off the position.
- 7.3.3 KATS operators remind the client on a daily basis regarding the margin / shares delivery requirement and also gives final call before square off the trading.

## **8. INVESTOR REDRESSAL SYSTEM /MECHANISM**

This policy document aims at minimizing instances of client complaints and grievances through proper service delivery and review mechanism and to ensure prompt redressal of client complaints and grievances. The review mechanism is aimed at helping identification of shortcoming in service delivery.

- 8.1 Client can file a complaint with SHERMAN via e-mail / courier or in written form specifying the nature of the grievance and providing all the relevant information of the same.
- 8.2 The complaint is registered in the "Complaint Log Book" of SHERMAN maintained at the head office along with the date and time.
- 8.3 SHERMAN maintains record of client related complaint either received personally or through courier or via email.
- 8.4. The Branch Manager is responsible for sending the documents of complaint received at Branch Office within 24 hours of the receipt of the complaint to the Compliance Officer at Head Office through courier or via email.
- 8.5 On receiving the complaint, the Compliance Officer is authorized to dispose off the complaint on its merit and write personally to the client of all action taken by him for satisfaction of the client.
- 8.6 If the Compliance Officer deserves the attention of the Higher Management or if the Compliance Officer is unable to dispose off complaint to the satisfaction of the client or the exchange or the SECP, the designated directors are informed of the situation by the Compliance Officer and all documents are placed before them within seven days of the receipt of the complaint.
- 8.7 The designated director reviews the pending complaint (if any) every seven days along with matters needed their attention.

8.8 Investor complaint mechanism of the Exchange is displayed at the prominent place in all the offices of SHERMAN.

8.9 If the client (complainant) is not satisfied with final decision, he can file his complaint with the Pakistan Stock Exchange.

## **9. BRANCH OFFICES**

9.1 SHERMAN intimates exchange about opening of new branch.

9.2 SHERMAN obtains Certificate of Registration for all its branches from SECP and Pakistan Stock Exchange.

9.3 SHERMAN appoints an SECP approved accredited agent as the Branch Manager for every branch, who is responsible for activity at branch office. The Certificate of Registration is being renewed every year.

9.4 The Certificate of registration of the Agent & Branch is displayed at the prominent place in the Branch Office.

9.5 SHERMAN informs Branch Manager and other branch employees about policies and procedure of the company.

9.6 Branch is being opened for sole purpose of allowing clients to get their orders executed. Clients are allowed to trade from only one specified branch for better control & service.

9.7 Branch Manager is responsible for all activities & trades executed from its respective branch and solving any client related problem in consultation with Compliance Officer / Higher Management.

9.8 A notice board at a conspicuous place of the reception / front office is displayed which contains the requirements mentioned in regulations governing PSX Branch Office(s) for conducting the business.

9.9 SHERMAN maintains all the data of the Branch Office(s) at the Head Office.

9.10 In case of closing of branch, clients are informed one month prior to the closing of branch.

9.11 Compliance Officer monitors day to day activity of the branch(s).

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- 9.12 Branch Manager or any other employee is not authorized to receive cash or cheque from the client in the employee's own name and also not authorized to issue cash memos / receipt.
- 9.13 All correspondence including confirmation / contract notes/ cash receipt or any other documents are issued only in the Broker name along with address of principal place of business.

## 10. POLICY ON UNAUTHENTICATED NEWS CIRCULATION

- 10.1 Employees in our office are not be encourage or they are not allowed to circulate rumors or unverified information obtained from client, industry any trade or any other sources without verification.
- 10.3 Employees are directed that any market related news received by them either in their official mail / personal mail / blog or an any other manner, should be forwarded only after the same has been seen and approved by the Compliance Officer of the company.

## 11. BACKUP POLICY

Backup is taken to prevent loss of the data in the event of equipment failure or destruction. SHERMAN maintains backup of all important data on periodic basis or on daily basis keeping in view the importance.

## 12 KYC / CDD

As per KYC/ CDD policy and procedures.

## 13 ANTI MONEY LAUNDERING POLICY

As per Anti Money Laundering policy.