

Fair Practices Code of the Company

1. Introduction

Reserve Bank of India (RBI) has prescribed guidelines on Fair Practices for all Non Banking Financial Companies (NBFC) on the basis of which Fair Practices Code (FPC) shall be put in place by NBFC's. RBI has prescribed broad guidelines on fair practices which, inter alia, include processing of application for loans, appraisal of loan, loan disbursement including changes in terms and conditions and certain other conditions/aspects which NBFC's need to follow.

The Fair Practice Code of the Company has been prepared in accordance with the RBI master circular / notifications to the extent applicable.

2. Background

STCI Primary Dealer Limited (STCIPD/Company) is incorporated under the Companies Act, 1956 and is registered with RBI as a Primary Dealer. The Company is required to be registered with RBI under Section 45 IA of the Reserve Bank of India Act, 1934 as a non-deposit taking NBFC (NBFC-ND) for undertaking the business of a Primary Dealer. The Company is also a Member of Primary Dealers Association of India (PDAI) and Fixed Income Money Market and Derivatives Association (FIMMDA) and abides by the code of conduct framed by them. This Code has been prepared in accordance with the guidelines as prescribed by RBI as well as the publications/code/general market practice guidelines released by FIMMDA/PDAI.

3. Organisation of the Company

The fundamental principle of maintenance of internal controls is the functional segregation of the front office and back office and settlement functions. The present structure is as under:-

| Function | Responsible for |
|-----------------|--|
| Front office | Dealing |
| Mid-Office | Risk management, accounting and management information |
| Back office | Confirmations, settlement and reconciliation |

4. Applicability

The general principles and procedures/market practices are applicable to Financial Instruments that the Company deals in. Specific mention of the major products that are currently dealt with in (indicative list) are:

- Call Money / Notice Money
- Term money
- Ready Forward (Repos)
- Dated Government Securities including SDLs
- Treasury Bills
- Commercial Paper (CPs) & Certificate of Deposit (CDs)
- Bond / Debenture
- Interest Rate Derivatives

5. Management Controls

The management has put in place suitable controls and procedures in respect of the dealings of the Company in the markets. The Company personnel who deal in the market and the other support staff follow the controls and procedures. The management periodically reviews the controls and procedures.

The Company will ensure that the individuals acting on its behalf are fully trained and completely aware of the rules and regulations, conventions, practices of the markets in which they deal. The Company will maintain the highest standards of conduct so as to enhance the reputation of the markets it deals in. The Company will ensure that all new individuals authorized to use the NDS OM System are trained for at least 15 days, before being allowed to handle the system.

The Company has in place an Investment Policy for its personnel to ensure that there is no conflict of interest when the dealers wish to make personal investments in the products which the institution is dealing in.

The Company will ensure that its authorized personnel conduct deals only from the normal place of dealing i.e. from the dealing room and the office premises and off premise deals are avoided.

The Company will ensure that users accessing the NDS OM system are duly authorized. The Company will ensure that procedures are laid down to prevent unauthorized access to the system (User ID, passwords) etc. are properly followed to prevent abuse of the system.

6. Know your counterparty

The Company conducts basic due diligence and “Know Your Counterparty” checks before dealing.

7. Recording of conversations

The Company has a system in place of recording all calls into the dealing room are recorded as these prove to be invaluable in speedy resolution of differences and disputes. The recordings are generally kept for at least three months. Tapes relating to disputed/unconfirmed transactions will be retained until the disputes have been settled/confirmed. The access to the recording equipment will be strictly controlled so that they cannot be tampered with.

8. Dealing in the Fixed Income Markets :

8.1. Negotiation of terms

The Company will ensure that all individuals who commit on behalf of the Company in the OTC market adopt a health practice of stating all terms and conditions to which the deal will be subject to. The Company will further ensure that any individual who commits on its behalf is acting within approved authorities. The Company will stand by the commitment made by an individual acting on its behalf.

The Company will ensure that all individuals who transact on its behalf clearly state at the outset, prior to a transaction being executed, any qualifying conditions to which the deal will be subject to. Typical examples of qualifications include where a price is quoted subject to the necessary credit approval, limits available for the counterparty, inability to conclude a transaction because offices of the member in other centres are not open.

The Company will ensure that all individuals who transact on its behalf ensure that is absolutely clear whether the prices they are quoting are firm or merely indicative. In volatile markets, or when some news is expected, the dealers quoting a firm price or rate will indicate the length of time for which their quote is firm.

8.2. Rates & Prices

The Company will observe high standards of integrity and just and fair principles while trading either on its own account or on behalf of its clients. The Company abides by the NDS OM Code of Conduct while executing trades on NDS-OM and in the OTC Market.

The Company does not deal at rates, which are not market related. The Company has in place proper procedures are in place to ensure this, including the periodicity of taking rate scans. The Company ensures that the bids/offers placed on the NDS OM System, are free from market manipulation and fraudulent practices. Examples of such bids and offers are:

- i) The practice of entering into arrangements for sale or purchase of a Government security where there is no change in beneficial interests or market risk or where the transfer of beneficial interest or market risk is only between parties who are acting in concert or collusion.
- ii) Deliberately trying to manipulate the prices of infrequently traded securities at quarterly/annual closing dates.
- iii) Deliberately putting wide bids and offers on the NDS- OM for the frequently traded securities, such that the party buying or selling at the price displayed commits a “big-figure” mistake.

FIMMDA has in place a Price/Yield range/band for trading on the NDS OM. The Head of Treasury is responsible for the internal discipline of ensuring that the FIMMDA trading bands are not breached under normal circumstances.

8.3. Confirmations

Deals recorded by the traders will be confirmed independently by the back-office. All confirmations will include the date of the deal, the name of the counterparty and all other details of the deal. The back office will immediately take action on instances where confirmations received do not have a corresponding trade.

Any discrepancy between a confirmation and significant details of the trade, and even the existence of a trade, will be brought to the notice of the concerned officials. A written confirmation of each deal is sent out and a return confirmation is asked for from the counterparty. The confirmation provides a necessary safeguard against dealing errors. Confirmations are checked promptly.

8.4. Settlement of deals

Deals in Government Securities and T-Bills may be conducted either on the NDS OM Trading platform or in the OTC market. Trades done outside the NDS OM Trading platform, are entered on the NDS OM Reporting platform within the stipulated time of conclusion of the trade. The approval of the deals is done within the stipulated time from the moment of conclusion of the deal.

8.5. Reversal of erroneous trades

In case erroneous trade with a “big-figure” mistake trades get executed, Company will ensure that no undue enrichment and/or losses occur to either itself or its counterparty. When the Company’s dealers notice the big-figure error, (irrespective of whether the Company has lost or gained due to the big –figure error) they will immediately inform the Head of Treasury who will in turn inform FIMMDA about such a deal. As far as possible, a reversal deal will be put through on the same day, on the NDS OM system, for the same security, same amount (face value), and at the same price. In case this is not possible; the difference will be settled in cash the next day.

9. Dealing in the money markets :

9.1. Lending in Call/Notice/Term Money Market:

The Company is permitted to lend funds in Call/Notice/Term Money market to specified participants viz. Banks and other Primary Dealers subject to dealing / exposure limits as fixed for the counter parties in accordance with relevant investment guidelines as approved by the Board of Directors of the from time to time and in accordance with the various rules and regulations. The Company will ensure that the rate of interest of all such transactions is market determined. The Company is also a member of Negotiated Dealing System (NDS) and all Call/Notice money market deals are required to be reported on NDS platform. Each deal thus is transparent and rates are market driven.

9.2. Lending in Repo Market:

The Company is permitted to lend in Repo Market. Repo transactions are undertaken only in securities as permitted by RBI from time to time. The dealing/exposure limits are fixed for the counter parties by the relevant investment guidelines as approved by the Board of Directors of the from time to time in accordance with the various rules and regulations. The Company will ensure that the rate of interest of all such transactions is market determined. The repo transactions in SLR are settled in NDS OM through the SGL Account/CSGL Account maintained with the RBI with CCIL acting as a central counter party. Each deal thus is transparent and rates are market driven.

9.3. Lending in CBLO Market:

CCIL provides an automated dealing system to all the members of CBLO segment through Indian Financial network (INFINET) to enable them to borrow and lend

funds. CCIL acts as a central counterparty for both borrowers and lenders and there is no settlement risk involved as CCIL guarantees all the trades. The Company will ensure that the rate of interest of all such transactions is market determined. The Company is a member of CBLO segment and all deals are conducted on the electronic order matching system thereby ensuring that each deal is transparent and rates are market driven.

10. Grievance Redressal Mechanism

Clients can forward their grievances / complaints at the correspondence / registered address of the Company. The Company has grievance redressal mechanism within the organization to resolve disputes with its clients.

All grievances in respect of the Company's transactions in the market and in respect of this code will be addressed to the Head of Treasury, who will be the nodal officer in respect of compliance with this code. In case the grievance is not satisfactorily addressed, the same may be escalated to the Managing Director of the Company.

The Company will periodically review the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management. A consolidated report of such reviews shall be submitted to the Board at regular intervals.

The Fair Practice Code will be subject to modifications and amendments, subject to directives received from RBI from time to time.

11. Regulation

In case of any contradiction between the provisions contained in the Code and any other law or regulation/guidelines laid down by any other statutory authority like RBI, the latter shall prevail. In case of deals settled through CCIL, the bye-laws, rules and regulations of CCIL will be applicable.