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In Pursuit of Excellence in Capital Market

Code of Conduct for members

Association of National Exchanges Members of India

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PREAMBLE

Any activity, including Commercial, Corporate and Business needs to be undertaken within the Laws of the Land. The constituent of such activities be it a firm or a company or any legal entity would be governed by the laws as applicable to it. The persons forming the entity, the persons responsible for compliance of applicable laws are accountable to ensure that all applicable laws are followed/ complied with. Such persons would also need to comply with certain legal/procedural requirement not only in their personal capacity but also as an individual associated with the entity concerned. While there are plethoras of laws to be complied, each activity would need to focus on major enactments that are applicable to it. The Companies Act, 1956 for example is a comprehensive enactment that govern the formation and running of an entity formed under such Act.

Association of National Exchanges Members of India (ANMI) is a company formed under Section 25 of the Companies Act, 1956. Section 25 companies as they are called generally, are those that are formed to undertake activities that are essentially to promote aspects that are non-commercial in nature and as such are known as "Non Profit Companies". ANMI which was formed in the year 1996 has its basic charter in the form of "MEMORANDUM OF ASSOCIATION "which describes one of its main objects as under.

"To develop and maintain sound business practices, ethical code of conduct, standard principles and practices between members of the company and others engaged in the stock broking activities including authorities and agencies connected or involved in the field of Capital Markets."

1. ANMI Code

- 1.1 ANMI CODE herein endeavours to lay down processes aimed towards enhancing ethics, values,

transparency in the business activities of its Office Bearers and Members over and above the applicable procedural and regulatory requirements governing the Stock Market and Stock Broking activities being undertaken by its Members.

- 1.2 The Code provides a benchmark of best practices which are being followed in the contemporary world in the securities market and that should be adopted by the Indian industry as well. High ethical standards are critical to achieve and maintain public's trust in the capital market.
- 1.3 Several key requirements prescribed by the Regulatory Agencies including SEBI, Stock Exchanges have also been briefly covered in this code with the objective of providing additional emphasis on the same for strict compliance by Members of ANMI.

2. Board of Directors/Managing/Regional Committees

- 2.1 Board of Directors
- 2.2 Managing Committee
- 2.3 Managing ANMI at the apex level is the Board of Directors, and at the Regional levels is the Executive/Managing Committee/ Specific Committees comprising of individuals of stature and impeccable records, are formed to assist Board or Managing Committee to take decisions.
- 2.4 At the professional level are individual members represented either by themselves or by their business entities across the country. ANMI desires that not only ANMI but also the firms/individuals associated

with ANMI are seen at high levels from Governance perspectives.

- 2.5 Companies incorporated under the Companies Act, 1956 and listed with the Stock Exchanges are required to develop internal "CODE OF CONDUCT" that is applicable to the Board of Directors and senior management personnel as mandated by SEBI vide Clause 49 of the Listing Agreement with Stock Exchanges.
- 2.6 ANMI, on similar lines, desires to adopt a voluntary self developed Code of Conduct to be followed by officials associated with ANMI as well as its members. It will be called as the ANMI CODE OF CONDUCT.

3. Definition/Interpretation

In this Code of Conduct, the words and expression shall have the meanings indicated and defined in Article of Association of ANMI Clause 1 as amended from time to time.

4. Applicability of The Code

This code will be applicable to the following persons:

- Board of Directors
- Regional/Managing Committee
- Committee Members
- Members/Member Firms of ANMI

5. ANMI Code of Conduct for Members

5.1 *Key Requirement for Members of Board/Managing/Regional Committees*

- 5.1.1 The above-mentioned Members shall endeavour at all times, to function within the

ambit of the role and authority conferred on them by ANMI, keeping always in mind the best interests of ANMI.

- 5.1.2 Members shall guide and endeavour that the activities of ANMI are undertaken in a streamlined and transparent manner within the ambit of all applicable laws. They shall direct setting up of proper systems and procedures for ANMI and for preparation of and maintenance of required Books of Accounts and Records.
- 5.1.3 Ensure at all times that there are no conflict of interests leading to personal gains or financial benefits while dealing with matters concerning ANMI.
- 5.1.4 Function within the scope of the basic charter of ANMI viz: the Memorandum and Articles of Association.
- 5.1.5 At all times, function in good faith also having regard to the fiduciary obligations without allowing their independence of judgment to be compromised.
- 5.1.6 Shall not, while managing the affairs of ANMI, undertake any such activity intended for personal gain, opportunity or benefits.
- 5.1.7 Shall not commit any offence involving moral turpitude or any act contrary to the Laws of the Land or opposed to Public Policy of the Government of India.
- 5.1.8 Protect all the assets of ANMI and shall not use the same for any personal gain.

- 5.1.9 Not to become office bearer of any other Association pursuing similar objectives or becoming director of any Stock Exchange without obtaining Board's approval.
- 5.1.10 To disclose to Board if he or his firm or group directly or indirectly holds or acquires any interest in any of the Stock Exchanges.
- 5.1.11 To disclose to board if any regulatory action is initiated by SEBI against him or his firm or entities on which he is associated.

5.2 *Key Requirement for General Members of ANMI*

Members in their activities shall endeavour to keep in mind the best interests of ANMI and in their business operations observe the following:

- 5.2.1 Should fully familiarise themselves with the provision of the *Securities Contracts (Regulation Act (SCRA), 1956* (No. 42 of 1956) which seeks to prevent undesirable transaction in Securities by regulating the business of dealing therein by providing for certain matters connected therewith.
- 5.2.2 Shall comply with the requirement of SCRA as provided therein in respect of the members of the recognized stock exchanges.
- 5.2.3 Shall fully familiarise themselves with the provisions of the SEBI (Stock brokers and sub-Brokers) Regulations 1992 and shall comply with the various requirements as provided therein.

- 5.2.4 Shall endeavour at all times to exercise skill, care, fair practices, and confidentiality in their activities including various transaction with their clients and customers.
- 5.2.5 Shall facilitate their clients/customers to exercise their best judgement and assessment in making their investment decisions and shall not in any manner influence such decision making process.
- 5.2.6 Shall endeavour to be fair and prompt in settling transaction accounts of the customers and shall ensure at all times the required confidentiality in respect of the same.
- 5.2.7 Shall maintain proper books and records of accounts of the firm and retain them for a period as per statutory requirement and shall make them available at all times for inspection if any called by the SEBI.
- 5.2.8 Shall not undertake any activity which is not in the best interests of ANMI and shall always endeavour to function within the ambit of this code.
- 5.2.9 Maintain professional independence and make fair and objective judgments when making investment recommendations, analysis and engaging in other professional activities.
- 5.2.10 Practice and encourage others to practice in an ethical and professional manner that reflects credit on themselves and the profession.

- 5.2.11 Continuously strive to maintain and enhance performance and competence in the profession.
- 5.2.12 Act in the best interests of clients.
- 5.2.13 Maintain appropriate records to support their reasonable-ness of investment research.
- 5.2.14 When using materials/data prepared by others, care should be taken to acknowledge the author, publisher or source of such material.
- 5.2.15 Always function to the best of their ability with skill, integrity, diligence and care.

6. Compliance of Laws

Board Members, Regional/Managing Committee and Members of ANMI in their individual capacity as well as in respect of any firm / institution they represent or owned / formed by them shall at all times comply with applicable laws, rules, regulations etc for the time being in force or as amended from time to time and as prescribed by various statutory authorities of both State and Central Governments including Regulatory Bodies, Exchanges.

7. Governance in operations

7.1 Members shall function in a free, independent and objective manner in pursuing their business interest us. However they shall function within the boundaries of regulations and in an atmosphere of healthy competitions with co-members which is important for the strength and development of capital market. They shall perform their duty in an honest, competitive and efficient manner.

- 7.2 Members and employees of the firm shall strictly adhere to the policies and procedure laid down by the management of the undertaking.
- 7.3 Members should conduct their activities within the realms and integrity of the Capital Market.
- 7.4 Members shall not undertake or support any activity that could disturb or vitiate the normal stock market activities leading to avoidable turbulence in the Capital Market.
- 7.5 Transparent oral and written communication practices should be followed. Clients who are not clear or are not familiar with the trading processes and standard market terminologies should not be misled into reaching a buy/sell decision which is not intended by the client or which is not in the best interests of the client.
- 7.6 Members and their employees should constantly upgrade their skills and knowledge of the Capital Market so as to provide high quality advice and service to the clients.
- 7.7 Members should similarly upgrade the office infrastructure from time to time so as to ensure that they are in tune with the development that take place in the capital market.
- 7.8 All transactions should be concluded in the manner intended by the client and as per applicable procedure in that regard. A completed transaction should not be reversed/amended/ cancelled without the knowledge or consent of the client.
- 7.9 Errors, if any, noted during or after a transaction is completed should be rectified immediately

irrespective of the impact of the error and thereby the interests of the Client or the Firm as the case may be, is protected.

- 7.10 Members shall not indulge in any unfair trade activities which could be construed as money laundering process or insider trading process or willful manipulation of market or conflict of interest between the objective of the firm and client.

8. Relations with Customers

Capital market brings in various types of clients. Some are informed and well to do clients, some are high net worth and high risk appetite client, some cautious and risk averse and some young and impulsive clients seeking quick gains.

- 8.1 Members in their dealing with all such clients shall adopt a fair and transparent business practice aimed towards the welfare of clients.
- 8.2 Members in the initial discussion with the clients, and also subsequently shall always bear in mind the best interest of the client at all times. He should endeavour to meet the client's requirements by understanding their intention, their knowledge, their financial position purpose of investment etc. He should explain to the clients the essential aspects of the sale or purchase transactions and obtain the confidence of the investors for long association with the firm.
- 8.3 Personal information provided by the clients in confidence during the discussions should be kept confidential.
- 8.4 The governing factor to conclude a transaction should be more in favour of the client in ensuring a

considered investment decisions rather than the outcome to the firm out of the transactions. In this process members should ensure the rights of the clients.

- 8.5 The agreement signed with the customers shall contain no terms which will affect the rights and benefits of the customer and which will also be against the principle of ethics and goodwill.
- 8.6 Members shall make at most efforts to avoid conflicts of interest in their dealing with the customers. All actions should be fair and impartial towards the customers.
- 8.7 If any research reports which are unpublished are being used for making investment decision the client should be informed about the same.
- 8.8 Customers/Clients with limited knowledge of stock market operation should not be induced towards investment which may not be beneficial to them but to the firm.
- 8.9 Fees charged for the services rendered to the customer should be strictly as per the rules of the firm and as covered in the agreement with the customers.
- 8.10 The activities relating to trading, clearing, settlement and post settlement should be completed in a streamlined manner.
- 8.11 The process of execution of order, issue of contract note and conclusion of the transaction should be undertaken well within the period specified by the authorities.

- 8.12 It is extremely important that a client is facilitated only with regard to the completion of his investment decision (BUY/SELL). In other words a member should not unless he is requested and if he is capable should provide any assistance or information which a client may seek during his decision making process.
- 8.13 It is important that only published information or information accessible to the public are provided to the client during this process and under no circumstances a member should encourage a client towards a decision which would not be in the interest of the client.

9. Conflict of Interest

- 9.1 Members should always endeavour to avoid any conflict of interest situation in their trading activities as well as the relationship with the customers. An arm's length approach should always govern all transactions which should be concluded in a fair and impartial manner.
- 9.2 Each firm should outline its policy for managing potential areas of conflicts of interest that may arise and influence the investment recommendations which should be reviewed on a regular basis.
- 9.3 Members recognize that it is their fundamental duty to put the interest of the clients first and should not be influenced by own or their firms' interests. Priority is to be given to the transactions and investments of the client over their own personal account transactions.
- 9.4 Members must setup processes to identify, and manage any type of conflict of interest situation both in respect of business and personal conflicts.

- 9.5 Members should desist from accepting any gift or other gratification that may be offered either by clients or firm's business partners.
- 9.6 Members/Member employees should not use their position to obtain personal benefits for themselves or family members from the clients or other business associates.
- 9.7 Members must apply strict procedure and control to monitor their representatives trading on their own account based on own or other insider information.

10. Insider Trading

Regulatory Authorities have laid down norms for prevention of INSIDER TRADING in activities which have a bearing in share broking activities. Encouraging or undertaking trade on certain securities based on information which is price sensitive and not published or not in public domain is against laws and would invite penal action from the Authorities.

A Member shall establish streamlined process for the firm to prohibit unauthorized insider trading on the basis of unpublished information known internally to the firm and or its employees. The process should also include the required "Fire-wall" between the various departments based on the activities undertaken by each department.

11. Business Competition

- 11.1 Members in their professional activities should compete with other members in a professional manner which is also an essential factor for further progress and development of the capital market.

- 11.2 Members should endeavour to support at all times steps initiated by the regulatory authority to further streamline the stock market operations.
- 11.3 Members should not undertake any activities which will be professionally unethical and detrimental to the interest of other professional firms.
- 11.4 Members shall ensure that professional data in respect of the firm that are published in routine manner are accurate and should not indulge in any activities to artificially present a higher than actual scale of operations to influence the customers.

12. Conciliation

- 12.1 Members must provide adequate information to clients that will enable the client to give informed consent in relation to the work to be undertaken and the fees and payments to be charged.
- 12.2 It would be open for any member/s to refer to ANMI any dispute connected with the activities of Member/s including dispute if any between members of ANMI or between Members and ANMI would endeavour to resolve such disputes through an appropriate process of Conciliation.
- 12.3 Notwithstanding the above, members are free to take recourse to other machineries/avenues for settlement of disputes as laid down under applicable regulations if they so desire, within the period of limitation.

13. Operational Requirement for Members

The Regulatory Bodies including the Securities Exchange Board of India (SEBI), and the Stock Exchanges have laid

down detailed procedure and processes governing the Capital Market and Stock Broking activities.

Model Code of Conduct has also been published by these institutions to be adhered to by the Stock Market Intermediaries /their personnel. ANMI Members shall ensure that the procedure/processes/code of conduct is followed in their activities undertaken in their main office and Branch offices, if any. It would include the under mentioned major areas.

13.1 ***Registration of Office/Firm***

Steps should be taken for registration of the unit formed for undertaking share-broking activities under various enactments including relating to SEBI, Shop and Establishment Act, applicable Tax Laws etc. It should also be ensured that such registrations are renewed well before the date of expiry.

13.2 ***Insurance***

Insurance is an effective medium of Risk Minimisation process. Hence steps should be initiated for Insurance coverage of a Quantum having regard to the scope and scale of operations. The Certificate of such Insurance should be filed with concerned authorities including stock exchanges and should be renewed at an appropriate period based on tenure of Insurance.

13.3 ***Compliance Officer***

All business, commercial and other activities are governed by several Regulations which need to comply in a streamlined manner as per the prescribed process and within the time-limit set by the

Regulatory Authorities. It is important that such an important segment of activity is given due focus for strict compliance through appointment of a senior and qualified Officer as "Compliance Officer" responsible for various compliances required of the members. The said appointment or change if any thereof should be intimated to the Authorities concerned. In case of Corporate Member such appointment will be made by its Board.

The Compliance Officer will not only ensure various compliances but also submit periodic Compliance report status to the higher authorities. The Corporate Houses shall submit such reports to its Board.

13.4 ***Grievance Redressal***

Notwithstanding the fact that the various activities of the members' firm are undertaken through well laid Systems and Control processes, it is likely that the clients/customers may have some grievances that need to be attended to and redressed in a manner satisfactory to them.

Setting up a transparent "Grievance Redressal Mechanism" to deal with investor grievances if any in a fast and effective manner is important.

Whistle Blowing

Members must setup appropriate whistle blowing mechanism in their offices to enable reporting of any activity falling outside the ambit of laid down systems and procedures and there by facilitate appropriate action on the same.

13.5 *Trading Terminals*

13.5.1 SEBI Regulations as notified by its various circulars as well as Exchanges requirements provide for detailed process for setting up of exchange trading terminals. It is important that the laid down processes and requirement are complied with for setting up these facilities.

13.5.2 In case Internet trading facilities are provided to clients, such facilities must contain required security, reliability with features for "audit trail" if required.

13.5.3 Members should also comply with other aspects like net worth requirements, operational and systems requirements, customer/firm relations requirements, for providing WAP platform etc as laid down by the SEBI.

13.6 *Audit*

Audit is a process that is important for any business whether commercial or trading and other activities forming part of the economy. Statutory Regulations provide for the manner in which the Audit process, be it Internal Audit or Statutory Audit, should be set up and functional.

Companies Incorporated under the Companies Act, 1956 are governed by the applicable provisions of the Act. It also provides for Setting up of An Audit Committee and the composition of the Audit Committee.

13.6.1 Members should set up a streamlined Audit process including Systems Audit mechanism which should be undertaken periodically as per provisions in that regard.

13.6.2 Audit comments, errors, compliance failures, systems weaknesses if any are pointed out after such audit review or after any inspections undertaken by regulatory authorities, steps should be taken to initiate such remedial measures as may be considered necessary. It should also be ensured that such instances do not recur.

13.7 ***Know Your Client (KYC)***

Before commencement of transactions with any client an important step to be completed is the client registration process called the "know your client" (KYC). This is an important process which must be completed in all aspects as laid down under the applicable regulations.

13.8 ***Brokerage***

Brokerage should be levied on all trades executed on behalf of all clients which should be within the limits specified. Brokerage quantum agreed with the client should be included in the KYC. An arms-length approach should be followed in the matter and client's interest should be always the basis for concluding transactions.

13.9 ***Risk Management***

13.9.1 An appropriate Risk Management /Risk Mitigation process should be developed and

put in place after carefully identifying, reviewing, analysing all activities of broking operations. It should include the required systems and controls based on the policies, procedures and practices adopted by the members firm so as to reduce the impact if any on the occurrence of any risk or for that matter for prevention of such risks.

13.9.2 An *Information Risk Management* process should also be in position for covering accuracy, integrity, confidentiality and availability of the information generated by the organisation during the course of business is a *Critical Asset of Immense Value* to the organisation and can be the basis for future plans, development, strategy and MIS to top management. Such information/ Data should be developed and stored in an appropriate IT infrastructure of high integrity and reliability.

13.10 ***Prevention of Money Laundering***

Money Laundering refers to a process wherein wealth accumulated through illegal means is converted into a legal currency by circulating them surreptitiously into the country's financial system. In other words incomes gained through unlawful manner are put into lawful use without leaving an audit trail for the transactions.

Members shall ensure compliance with the requirements of PREVENTION OF MONEY LAUNDERING ACT, 2002 through appropriate processes which would include training programmes to employees.

13.11 *Branch Office/s*

A streamlined process should be followed not only for opening new branches but also for closing any of the offices. Such a process would also cover appointment of sub- brokers. The operations of Branch Offices should be closely monitored to ensure compliances of applicable regulatory requirements.

14. Amendment to the Code

The provision of the code may be amended / modified by ANMI from time to time if considered necessary and all such amendments/ modifications shall take effect from the date notified.

15. Code on ANMI Website

This code will be posted on the website of ANMI.

16. Non Compliance/ Breach of Code

In the event of non compliance or breach of the code ANMI Board will in its absolute discretion initiate appropriate action against the person concerned including deleting the name of such person from the list of members of ANMI.

17. Acknowledgement

All Board/Regional/Managing Committee Members and other Committee Members and members of ANMI shall be deemed to have accepted this code.