

# Alpha Capital (Pvt) Limited

## Internal Audit, Compliance & Risk Manual

RISK AND  
COMPLIANCE



## RISK MANAGEMENT

### Industry Risk

Brokerage is a high-risk industry and it is the duty and responsibility of Board of Directors (“BOD”)/ Management to assess, evaluate and manage risk constantly.

The BOD shall consider the following elements when managing risk;

- Nature of risks and loss bearing capacity of the company.
- The probability and impact of the risk.
- Managing unacceptable risks.
- Effectiveness of the risk management process.
- Risks associated with the decisions of BOD/Management.
- Standard industry practices to remain competitive.

The BOD/Management is responsible to create an environment for effective risk management. Risk management is supervised by an executive or the audit committee.

### Client Risk

Traditionally, client risk refers to the risk which arises when a client fails to meet his obligations. However, the risk is not limited to this traditional definition. The organization can also be exposed to various other legal and social risks. The following steps and actions are taken to mitigate all aspects of the client risk:

<ol style="list-style-type: none"> <li>1. Know Your Client (KYC) shall be an integral part of account opening compliance procedure.</li> <li>2. Anti money laundering procedures shall also be integral part of the account opening compliance procedures.</li> <li>3. FATCA Undertaking is a mandatory part of account opening form.</li> <li>4. All accounts shall be classified, and the exposure limits shall be assigned on the basis of client background, collateral quality (if applicable), house exposure and margin policy.</li> </ol>	<p><i>Compliance Ref: K.Y.C</i></p> <p><i>KYC of all AOF shall be properly read, filed &amp; signed by trader or sales executive.</i></p> <p>←</p>
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## Operations Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems and/or external events.

The connection of a discrete set of actions into a procedure, and subsequently a formal process, offers huge benefits to the institution. These benefits pertain to scaling, risk control and standardization.

Processes also help to defuse the risk by institutionalizing skills that would otherwise reside in a single individual. But processes can make a firm vulnerable in many other ways.

Few employees understand the complex brokerage process, so the implications of sloppiness or breakdowns in the process are often unclear. The operation risk of the Alpha Capital (Pvt) Limited is managed through the following key steps and actions:

Operational Risk Management Cycle	
1) Identify and Assess	2) Analyse Risk Controls
3) Rank and Classify	4) Communicate and Report
5) Monitor Risk	

## Identify and Assess

Risk identification sets out to identify organization's exposure to uncertainty. This requires in-depth knowledge of the organization, the market, the legal, social and political environments in which it exists as well as the sound understanding of its strategic and operational objectives.

- i. Over Exposure on Client.
- ii. Wrong Execution
- iii. Abnormal fall in market due to external factors.
- iv. Client's Bankruptcy.
- v. Unexpected Client's settlement default.
- vi. Non-acknowledgement of Trade.
- vii. Counter Member's default.

- viii. System/technology Failure.
- ix. Fraud & theft threat.
- x. Long overdue Balances.
- xi. Contingent liability.
- xii. Change in Industry Laws.
- xiii. Natural Disaster.
- xiv. Key Risk Indicators / Industry benchmarks.
- xv. Capital Adequacy and House Limit.
- xvi. Non-Availability of Funds and Margins.

### **Analyse Risk Controls**

After identification of risks, the next step is to test controls in place for prevention of loss and risk and effectiveness of accountability and reporting lines.

### **AASL's Standard Controls**

#### ***Client Classification and Exposure.***

- a. No account shall be opened with incomplete account-opening formalities
- b. All AASL clients shall be classified into the respective category
- c. There shall be exposure limits assigned to each client (Institution, High Net Worth or Individual).
- d. As a standard practice all online trades shall be routed through an automated system which will process trades for execution. In case of over exposure, the system shall reject the order for execution.
- e. All offline trades shall be executed manually on KATS terminals which execute orders subject to PR trade exposure margins and on next day morning call for deposits, for buying or margins (in case of shortage of margins). If amount is not deposited/receipt of cheque till the date of settlement then trades shall be squared.
- f. Trades, which result in overexposure, are not permitted. However Alpha Capital (Pvt) Limited allows as a special case to trade, which may result in over exposure on client.

This permission shall not be construed as permanent increase in exposure assigned to the Client. This service is provided to high net worth clients with respective approvals.

- g. Any change in classification shall be effected only after the approval of the C.E.O.

### ***Margin Policy.***

- a. As a general rule and business policy all accounts classified, as Retail shall be subject to margin / FPR margin requirements.
- b. There shall be real time online and as well as offline margin / FPR margin monitoring of these accounts.
- c. All trades shall check for margins / FPR margin prior to execution. In case of margin shortfall, trader shall reject the whole or part of order to the extent required margins i.e. VAR Basis.
- d. The C&R keeping in view the circumstances if deem necessary, shall in consultation with Sales and C.E.O revise the margin policy and parameters as a whole or in part.
- e. In case the sales representative requires relaxation in margin requirement, the Head of Sales shall request the C&R for the same with reasons. The request shall be reviewed approved by CEO.
- f. There shall be a quarterly review of margin eligible instruments. The Sales and C&R department shall jointly carry out review and recommend accordingly.
- g. As a business policy only CDC eligible instruments shall be eligible for margin.
- h. All scrips lodged for conversion into CDS on behalf of clients shall be treated as margin only after the conversion.

### ***Order and Execution.***

- a. AASL shall be fully compliant with relevant provisions of SECP Ordinance 1969, SECP Act 1997, Securities Act 2015 & Broker's regulation 2016, PSX Rule book, NCCPL Regulations and other laws applicable.
- b. AASL shall not trade on its own behalf in preference to client by trading ahead of a limit order.
- c. All orders shall be treated as **non-preferred** and will be processed as per receipt sequence.
- d. All orders shall be processed by entering client codes/Ids. The automated system shall

reject processing if found any invalid code.

- e. All orders shall be time stamped by the system and terminal identified.
- f. Sales shall notify any change in code after the execution to OPS and R&C along with the reasons. R& C reserves the right to advise Ops and Sales to book whole or part of trade in original code. All such changes shall be recorded and archived with the final approval of C.E.O
- g. It is understood that errors may occur during the course of trading and AASL recognizes those in the following case:
- h. *Wrong Execution* – Buy order executed as Sale order or vice versa.
- i. *Wrong Execution* – Excess bought or Sold
- j. *Wrong Execution* – Limit Order executed as Market Order.
- k. *Wrong Execution* – Wrong Scrip bought or sold.
- l. *Wrong Execution* – Excess badla/ C.O.T
- m. *Wrong Execution* – Cancelled Order executed in market.
- n. All errors shall be reported to R&C and CEO as and when they are found.
- o. Error Reporting Form (**ERF**) shall be prepared by relevant Sales Person; counter signed by H.O.S and shall be forwarded to C.E.O/C.O.O for review and approval.
- p. All ERF(s) shall be maintained by OPS and system shall recognize each Error against Sales Person.
- q. All such trades shall be booked in Error Account/House Account/Correct Account
- r. It shall be mandatory upon the Sales department to close out all error trades in the same day, if possible. If due to nature of error (e.g. excess finance C.O.T) it cannot be closed within due date.

### ***Settlement Controls.***

Being the core support department OPS has the prime responsibility to settle business. The following minimum procedure shall be followed on continuous basis:

- a. Trades are booked in respective client accounts.

- b.** Trades are matched with counter parts (KSE and Members)
- c.** Corporate and Foreign accounts are pre matched.
- d.** All clients are assigned to sales representative(s).
- e.** Short sales and deliveries are identified and arranged. If not arranged, R&C, Sales and CEO are duly informed at least one day prior to settlement.
- f.** Commission charged to all Clients is as per slabs defined. Any deviation requested by sales, shall be approved by the CEO.
- g.** All costs and proceed bills are generated and distributed.
- h.** All TOs from retail clients are to be received one day prior to settlement.
- i.** Stock sold but pledged (in MTS/MFS) shall be identified and released one day prior to settlement.
- j.** Fund requirements to be intimated to Finance department two (02) days prior to settlement.
- k.** There shall be daily reporting of **House Exposure** to COO, CEO and R&C.
- l.** There shall be annual circulation of account and custody balances to all clients for confirmation purposes. The standardized Balance Confirmation Letters (BCL) shall be sent covering all Clients. Every reasonable effort shall be made to get reply of BCLs. Unreplied/ Undelivered and BCLs with difference shall be reported to relevant sales representative, C&R and Internal Audit.

### ***Custody Risk Control***

- a.** Scrip whether in CDS or Physical form shall be maintained by Custody Unit, which shall be under the supervision of Head of Custody.
- b.** There shall be a system generated Delivery Report for each settlement. This report shall form a basis of scrip movement for the settlement.
- c.** Free incoming and outgoing deliveries shall be supported by an authority document as described in Compliance section and shall be approved by CRO & Head of Operation.
- d.** Daily report containing all free delivery movements shall be generated and verified by Head of Custody.

- e. Client Securities are pledged against exposure margins with PSX by Custody Manager except those accounts that specifically refuse for pledging their securities.
- f. There shall be **Custody Module** in settlement system, which shall be run parallel, and independently by the head of custody. There shall be a periodic comparison and reconciliation in CDS and NCCPL.
- g. CEO and Head of C&R shall decide CDS user authority levels. Authority to operate and save trades may be assigned to one person and final authority of posting may be assigned to another person or one same person can perform both functions.
- h. Possession of passwords shall be with authorized personnel only. It is strictly prohibited to share or reveal passwords to unauthorized persons. If need arises, CEO or C&R shall instruct authorized personnel in writing to share the password to an unauthorized person. If it is found that passwords have been shared or revealed to unauthorized person, it shall be deemed as a fraud and strict action shall be taken against the respective person which may include but not limited to immediate termination from service, forfeiture of dues if any, and start of legal proceeding.

#### ***Long and overdue Balances.***

- As a business policy balance becomes due on settlement day. Clients are required to pay balances as and when they become due.
- The receivables from different categories of clients shall be managed as follows:
  - a. **Corporate Clients.** Normally corporate clients deal on delivery versus payment (**DVP**) basis. Under normal circumstances the balances should not be appearing after the settlement day. However if the balance is appearing unsettled/ receivable after the settlement date, C&R send the email to trader and ask for payment or square the position within time limit given by C&R.
  - b. **Online Clients.** They belong to Retail category, who can trade on cash basis only. They are not allowed to mark delivery against the margins. Hence under normal circumstances there should not be a debit balances in these accounts. Any debit appearing in said category to be reported **immediately** by C&R along with the reason thereof.
  - c. **Offline Retails Clients.** These clients are allowed to mark delivery against margins and may start trading with non-cash margins. The debit in these accounts may because of losses or delivery purchased or a combination of both. As a general business policy they are required to settle balances on settlement day.
  - d. Head of C&R will send the email to the traders on daily basis and demand the cash



deposit in client account and square the positions.

- e. Concerned Sales Person shall initiate exception if any; to above Policy with the approval of C.E.O.

### ***Corporate Finance and Contingent liability.***

- a. Contingent Liability is an expense which may or may not eventuate, but which might need to be highlighted and provided for in the company's accounts. The corporate finance department by virtue of its operations may enter into deals having potential and substantial element of contingencies, especially on liability side. To protect company against such contingencies, as a policy matter following procedures shall be in place:
- b. All proposed CF agreements shall be reviewed by CEO and it shall be prerogative of CEO to suggest changes he deemed fit, if any. The C.O.O shall not discuss without prior approval of CEO, the sensitive information he might have received during the review with employees on other side of Chinese wall. The suggestions consequent to review shall be directly addressed to CEO. CEO & COO jointly make the final decision.
- c. Owing to the nature of transactions, CF deal involve substantial financial interests, number of parties to agreement, price sensitive information and attracts various statues and rules concerning the transaction. As a policy matter, all agreements shall be reviewed and vetted by a Law Firm and inter office memo will be signed by all executive directors, employees not to deal in restricted securities, as a part of insider trading policy by the company.

## **COMPLIANCE SECTION**

### ***Compliance Procedures***

## **Processing for Opening of Account.**

After completion of KYC procedure, A.O.F shall be forwarded to C&R department for review and comments. C& R shall check the following:

- a. Classification of the client has been (Retail or Corporate)
- b. All authorized personnel have signed the AOF.
- c. All required documents and information described in KYC procedure have been procured and attached with AOF.
- d. Authorized person, if applicable signs CDC AOF. It shall be mandatory for Retail Clients to open CDC sub account with AASL.
- e. Exposure Limit has been assigned by H.O.S
- f. Margins requirement has been recommended, if applicable. All retail account shall be subject to margin requirements.

If satisfied C&R shall sign the AOF and forward to Head of custody for data entry.

## ***Client Exposure***

Client exposure can be defined as a maximum amount of business AASL shall be willing to enter into. This can be clean exposure or may be margin / FPR margin protected, as the case may be.

- a. There shall not be any account without assignment of exposure.
- b. If Sales department wishes increase exposure limit of a client, it shall be approved by C.O.O and C.E.O
- c. Any temporary increase in client exposure shall be initiated by responsible sales person
- d. and shall be approved by C.E.O.

## Margin Compliance

- a. All Retail accounts are subject to margin requirements.
- b. As a general policy, the leverage trading is on VAR basis as required by PSX and availability of FPR Margin for leveraged position.
- c. Physical and non-listed shares shall not be eligible for margins.
- d. More than five percent (5%) shares of any company shall not be taken as margin.
- e. Company on defaulters counter shall not be eligible for margins.
- f. Margin eligible securities shall be placed in margins on behalf of clients.
- g. Proceeds of unsettled sale positions and unsettled profits shall not be treated as margin.
- h. Where margin relaxation has been granted, Margin Relaxation form shall be submitted to C&R for record keeping and must be approved by CEO
- i. If margin is short C&R shall send email & call the respective sales person for demand of margin or square the position.
- j. If margins are not topped up within one working day of margin call, position(s) must be closed out. Any non-compliance must be reported immediately to COO and CEO.

## Orders and Execution

- a. Only authorized sales person (ASP) is permitted to take order from designated client. Only in the absence of ASP, other sales person can take order from non-designated client.
- b. The use of Cellular Phones by Sales Persons (SP) is **Strictly Prohibited**. In case of non-functionality of telephone lines only, cellular phones can be used.
- c. All telephone lines of Sales department shall be linked to voice recording system.
- d. I.T department shall be responsible for maintenance of Voice recording equipment.
- e. At least 5 years old voice recorded data shall be stored and safely kept by I.T department.
- f. COO or H.O.R.C if think necessary can hear recorded conversation for a particular date or trade.
- g. Before execution it is the duty of ASP to ascertain and satisfy himself about the identity of

Client on Phone.

- h. All orders passed for execution must bear the Client code/ Id. The system shall reject the order if client code/id is missing.
- i. No change in client code after execution shall be allowed unless Entry Change Form is submitted to R&C and R&C approves the same. The same form is finally to be approved by C.E.O.
- j. Entry Change Form (ECF) shall be prepared by relevant Sales Person and approved by C.E.O. The said form shall record reasons for change in client code.
- k. Best execution must be secured for both clients.
- l. No trade shall be executed for client whose account has not been opened. In case of non-compliance, the trade shall be booked in Error A/c and closed out / squared next day.

**In case of non-compliance disciplinary action will be taken.**

**Exceptions.**

Following situations may attract exception to the above compliance requirement:

- a. The prospective client belongs to the same group whose account(s) we are already maintaining and;
- b. The prospective client has completed and provided major documentation either through fax, e-mail including, Certificate of Incorporation/Trust Deed, Resolution, A.O.F and Custody details or;
- c. Written instructions from client to warehouse trade for a one (1) day only.
- d. Specific instructions from existing client to park shares in warehouse on his behalf. Warehousing can only be for one (1) day.

**Procedure:**

- a. Sales person shall send the document stating reasons for exception to C.O.O and C.E.O. After review of details C.O.O may approve/disapprove the exception.
- b. Only after approval from C.E.O trade shall be executed/ recorded.
- c. Sales person shall inform Operations department to warehouse the trade and copy to C.O.O, C.E.O, H.O.C.R. and C.F.O

d. 4) C.O.O or C.E.O shall instruct Operations to pass the entry or otherwise.

Further Regulatory requirements are mentioned in annexure A of this manual.

## INTERNAL AUDIT

### **Introduction**

The Internal Audit department at Alpha Capital (Pvt) Limited is responsible to provide the board and management with the evaluation of the system of internal controls, assessment of risks, testing of operations and recommendations for improvement.

Internal Audit systems include the hiring of qualified personnel with relevant experience in the field of audit and specifically internal audit.

The Internal Audit department is independent of the management and reports directly to the audit committee when conducting the audit.

The internal audit department is required to carry out periodic review of the internal control systems and reports the overall level of compliance of the company to the BOD or its audit committee. The Audit committee / Board review the activities of the Internal Audit department and ensure that the Internal Audit department is adequately resourced.

Alpha Capital (Pvt) Limited is bound to ensure compliance with the corporate governance code requirements. The Internal Audit department is responsible to make sure that company is in compliance with relevant regulations.

Compliance department is responsible for frequently monitoring different departments and processes of the company. Different departments may undergo an internal audit every quarter. During the internal audit a sample of policies of the respective department are highlighted to be checked for any weaknesses.

The Internal Audit department assures that it conducts the audit maintaining the highest standards of integrity, honesty and objectivity.

The Internal audit procedures involves various activities namely assessing risks, detecting frauds, identifying deficiencies in the internal controls and providing recommendations to convert weaknesses into strengths.

### **Duties and Responsibilities of Internal Audit Department (“IAD”):**

The IAD is responsible for providing advice and guidance to the CFO and other officers on internal audit with a view to improving the internal control system in departments.

The IAD is responsible to:

- a)** assessment of staff requirement in departments and taking appropriate action;
- b)** posting and transfer of staff if required;
- c)** maintaining a Management Information System (MIS) on issues relating to internal audit;
- d)** making recommendations with regard to creation of posts, promotions and disciplinary matters;
- e)** examine proposals made by finance department with a view to improving the financial management system, and refer the proposals to the senior management;
- f)** keep track of applicability of internal policies and identify any non-compliances;
- g)** review, update and circulate internal policies with respect to any change in relevant law or internal decisions;
- h)** deal with cases referred by department head on failures in internal control systems, departures from instructions and irregularities and fraud;
- i)** promptly alert the CEO/CFO whenever a weakness in the system is identified or an irregularity or a loophole is detected;
- j)** ensure that there is sufficient supervision at all levels of the internal audit process and uniformity in the application of internal audit procedures through:
  - (i) quality review assessment; and
  - (ii) quarterly meetings with department heads
- k)** ensure that the quality of audit meets the Institute of Internal Auditors (IIA) Professional Standards
- l)** liaise with external auditors, regulators in case of any non-compliance identified
- m)** discuss with CFO/COO on non-implementation of internal audit recommendations;
- n)** ensure follow-up exercise is carried out on Internal Audit/Control Reports;
- o)** every quarter select a department and prepare a report highlighting major internal audit findings and recommendations if any. The report will assign rating to the department as per the scales defined in Annexure A. The report will be submitted to the Head of Department and the CEO.

- p) conduct special investigations or inquiries at the request of the CEO/CFO or any HOD.

### **Internal Audit Reports**

Audit reports should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

The format of internal audit reports will generally be as follows:

- a) The date of the report, who the report is addressed to, and the title or subject of the audit.
- b) A brief description of the scope and objectives, background information of the audit and the time period covered.
- c) Assessment of reviewed processes with marking the status of each along with brief comments

Recommendation on significant audit findings/results along with marking the priority level as given in the recommendation scale in Annexure B

#### **Annexure A**

Following are the Regulatory and Legal Requirements that we need to follow during our operations of business, dealings with clients and to manage risk of Company.

1. Pakistan Stock Exchange Rule book
2. Companies Act, 2017
3. Income Tax Ordinance 2001
4. Sales Tax Act
5. CDC Regulations
6. NCCPL Regulations
7. Securities and Exchange Ordinance
8. Guideline on Net Capital Balance

This list is not exhaustive, further legal requirements can be included from time to time and amendments made in these regulations. Further Notices, Circulars, SRO's issued by SECP, PSX, NCCPL, CDC, FBR, SRB are the part of the above regulations.

## Annexure B

### Status Definitions:

#### **Controlled**

The control structure is strong but may include some improvement opportunities. Recommendations are expected to be addressed by the management.

#### **Satisfactory**

The control structure is adequate and there are no important control deficiencies, but there are a number of recommendations or housekeeping items that should be addressed. Recommendations are expected to be addressed by the management.

#### **Requires Improvement**

The control structure contains one or more important control deficiencies, or the number of recommendations is considered to be high. The deficiencies should be addressed immediately. The results of the audit are brought to the attention of upper management to ensure that adequate resources are provided to address the situation on a timely basis.

#### **Unsatisfactory**

The control structure is unacceptable with major control deficiencies. Immediate action on the part of upper management to address critical weaknesses is required.

### Recommendation Scale:

Each audit issue was assigned a priority rating to establish its criticality.

#### **High**

These issues involve a substantial and direct exposure to loss of assets, loss of revenue and/or substantially negative impact to operating efficiency and / or effectiveness.

#### **Medium**

These issues involve moderate exposure to loss of assets or revenue and/or negative impact on operating efficiency and/or effectiveness.

#### **Low**

These issues do not appear to have a substantial negative impact on operations or the control environment but have been brought to management's attention for informational purpose and consideration.