

Controls Implemented by Trading Members to Caution Investors on Risks

In financial markets, HDFC Securities Limited(HSL) plays a crucial role in safeguarding investors from potential risks associated with various schemes and practices. Below is an outline of the controls and measures in place at HSL to address these concerns:

1. Dabba Trading

Dabba Trading refers to off-the-record trading outside the formal stock exchange system, often involving unregulated transactions that take place through unofficial routes. To counteract Dabba Trading, trading members implement the following controls:

- **Client Verification:** Strict KYC (Know Your Customer) processes are enforced to ensure that all clients are properly verified, and their transactions are conducted through legitimate channels.
- **Monitoring of Transactions:** Regular monitoring of trade patterns and discrepancies helps in identifying unusual or suspicious trading activity that may indicate off-the-record transactions.
- **Mechanisms for Reporting:** There are well established channels for reporting suspicious activities or irregular trading patterns to the relevant regulatory authorities which is followed at HSL.

2. Assured Returns

Assured Returns schemes promises fixed returns on investments, which is often a indicator for potential financial fraud. To mitigate the risks associated with such schemes, trading members adopt the certain measures, they are:

- **Investor Advisory:** HSL offers advice & warnings about the risks of guaranteed return schemes, emphasizing that authentic investments in financial markets cannot offer guaranteed returns due to various factors that affect the market as a whole over a period of time.
- **Due Diligence:** Enhanced due diligence is conducted on products and schemes offered & marketed by third parties to ensure they are legitimate and do not offer unrealistic returns to investors.
- **Regulatory Alerts:** Regular updates and alerts from regulatory bodies are communicated to investors, informing them about the risks and scams related to assured returns schemes.

3. Portfolio Management Services (PMS)

Portfolio Management Services involve professional management of investments, but can sometimes be misused or inadequately managed. To protect investors, trading members implement these controls:

- **Regulatory Compliance:** Ensuring that PMS providers comply with regulations set forth by the Securities and Exchange Board of India (SEBI) or relevant regulatory bodies.
- **Transparency Requirements:** Mandating full transparency regarding the PMS provider's performance, fees, and investment strategies. This helps investors make informed decisions based on accurate information.

- Regular Audits: Conduct regular audits and reviews of PMS providers to ensure compliance with regulatory standards and adherence to ethical practices.
- Disclosures and Agreements: Ensuring that all PMS agreements and disclosures are clear, comprehensive, and provided to investors before engaging in services.

General Controls

In addition to the specific controls for Dabba Trading, Assured Returns, and PMS, trading members implement general safeguards such as:

- Departments: Dedicated teams ensure adherence to all regulatory requirements and internal policies.

By following the above mentioned controls, trading members aim to create a safer trading environment and protect investors from illegal schemes and fraud investment practices.
