POLICY ON CONTROL PROCEDURE IN TERMS OF SEBI (RESEARCH ANALYSTS) REGULATIONS, 2014

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Reviewed By:

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On 01-11-2019

Internal Policy & Control Procedure in terms of SEBI (Research Analysts) Regulations,2014

1. ***Preamble:***

SEBI vide its Notification No. LAD-NRO/GN/2014-15/07/1414 dated 1st September, 2014 has notified SEBI (Research Analysts) Regulations, 2014 which shall be effective on / after expiry of 29th November, 2014 (Ninetieth day from the date of their publication if official gazette). These regulations have been introduced by SEBI with the objective of fostering transparency in security research and provide the investors with more reliable and useful information to make investment decisions.

According to the Regulation, Chapter III of the Regulation 15 of SEBI (Research Analysts) Regulations, 2014 the Company shall have written internal policies and control procedures governing the dealing and trading by any research analyst. In compliance with the said Regulation the Company has formulated this policy and control procedure.

VERTEX SECURITIES LTD. (herein referred to as “the Company”) is a SEBI Registered Research Analyst.

2. ***Objective:***

1. To establish proper internal control and procedures and to govern the dealing and trading by any research analyst.
2. To address actual or potential conflict of interest arising from such dealings or trading of securities of Subject Company and promoting objective and reliable research that reflects the unbiased view of research analyst.
3. Preventing the use of research report or research analysis to manipulate the securities market.
4. To implement appropriate mechanisms to ensure independence of its research activities from its other business activities.

To ensure compliance with SEBI rules and regulations, we being the Stock Broker registered under SEBI, is required to adopt and adhere such Research Analyst Regulation., subject to the following policies and procedures.

3. Scope /Applicability:

The policy shall be applicable to all employees of the Company engaged in Research Department as a Research analyst i.e. a person primarily responsible for preparation or publication of the content of the research report; or providing a research report or Making 'buy sell/hold' recommendation or giving price target or offering an opinion concerning public offer with respect to securities that are listed or to be listed in a Stock Exchange whether or not such person has the job title of 'Research Analyst'.

4. Definitions:

Research Analyst:

"Research Analyst" means a person who is primarily responsible for: -

i. preparation or publication of the content of the research report; or
ii. providing research report; or
iii. making 'buy/sell/hold' recommendation; or
iv. giving price target; or
v. offering an opinion concerning public offer, with respect to securities that are listed or to be listed in a stock exchange, whether or not any such person has the job title of 'research analyst' and includes any other entities engaged in issuance of research report or research analysis.

Explanation. -The term also includes any associated person who reports directly or indirectly to such a research analyst in connection with activities provided above;

Research Entity:

"Research Entity" means an intermediary registered with Board who is also engaged in merchant banking or investment banking or brokerage services or underwriting services and issue research report or research analysis in its own name through the individuals employed by it as research analyst and includes any other intermediary engaged in issuance of research report or research analysis.

***Research Report**:*

"Research Report" means any written or electronic communication that includes research analysis or research recommendation or an opinion concerning securities or public offer, providing a basis for investment decision and does not include the following communications:-

i. comments on general trends in the securities market;
ii. discussions on the broad-based indices;

iii. commentaries on economic, political or market conditions;
iv. periodic reports or other communications prepared for unit holders of mutual fund or alternative investment fund or clients of portfolio managers and investment advisers;
v. internal communications that are not given to current or prospective clients;
vi. communications that constitute offer documents or prospectus that are circulated as per regulations made by the Board;
vii. statistical summaries of financial data of the companies;
viii. technical analysis relating to the demand and supply in a sector or the index

Significant news or event:

Significant news or event" means any news or event which is expected to have a material impact on or that reflects a material change to, the subject company's earnings, operations or financial condition, other than unpublished price sensitive information, as specified in the internal policies and procedure of the research analyst or research entity.

Subject Company:

Subject Company" means the company whose securities are the subject of a research report or a public appearance.

Senior Management:

“Senior management” shall mean officers/personnel of the Company who are members of its core management team excluding board of directors and normally this shall comprise all members of management one level below the executive directors, including all functional heads.

Third Party Research Report:

Third Party Research Report" means a research report produced by a person or entity other than Research Analysts of VSL or by VSL itself.

5. ***Management of Conflict of Interests and Disclosure Requirements:***

Establishing Internal policies and procedures.

The Company and its Research Analysts shall maintain arms-length relationship between its research activity and other activities. To prevent the misuse of

information from Research Analysts the Company has adopted **a 'Chinese Wall' policy** which separates the research activities from its other business activities. The Employees working as Research Analysts shall not communicate any information to anyone in other department. The employees in Research Analysts are physically segregated from employees of other departments. Demarcations of the Research Analysts departments are implemented by the Company. In exceptional circumstances, employees from the Research Analysts departments may be brought "over the wall" and given confidential information on the basis of "need to Know" criteria, under intimation to the Compliance Officer.

The Research Analysts for addressing actual or potential conflict of interests arising from such dealings or trading of securities of subject Company, promoting objective and reliable research that reflects the unbiased view of research analyst; and preventing the use of research report or research analysis to manipulate the securities market.

Limitations on trading by Research Analysts

i. Personal trading activities of the individuals employed as research analysts shall be monitored, recorded and wherever necessary, shall be subject to a formal approval process.

ii. Research analyst shall not deal or trade any securities that the research analyst recommends or follows within 30 days before and 5 days after the publication of a research report on the subject company. Research analyst shall not deal or trade directly or indirectly any securities that he reviews in a manner contrary to his outstanding recommendation, etc

iii. Purchase or receive securities of the issuer before the issuer's initial public offering, if the issuer is principally engaged in the same types of business as companies that the research analyst follows or recommends.

iv. However, the above restrictions to trade/ deal in securities shall not be applicable in case of significant news or event concerning the subject company or based upon an unanticipated significant change in the personal financial circumstances of the research analyst, subject to prior written approval from Compliance Officer.

v. Further, all the research analysts shall always adhere to the Conflict of interests Policy of the Company, developed and implemented by the Company pursuant to SEBI Circular dated 27/O5/2013. For the sake of brevity of this policy the same is not narrated herein, however, this policy shall be read, understood and complied by all Research Analysts in conjunction with the said Conflict of Interest Policy as may be prevalent from time to time.

Compensation of Research Analysts:

The Research Analysts in the employment of the Company shall not be entitled to any bonus, salary or other form of compensation that is based on specific brokerage services or transactions. Further, compensation of all research analysts shall be reviewed, documented and approved annually by the Committee of Board of Directors of the Company. Such Research Analysts shall perform his/her/their duties independently and shall not be under supervision /control of any employee of brokerage services division of the Company.

Limitation on Publication of Research Report, Public Appearance, Conduct of Business etc.

i. The Company and/or its Research Analysts shall not publish or distribute research reports / analysis or make public appearance regarding a subject company for which the Research Analysts has period (i.e. 40 days immediately following the day on which securities are priced in case of IPO or 10 days immediately following the day on which securities are priced in case of FPO), unless a prior written approval has been obtained from Compliance Officer.

ii. In case if the Company is acting as an underwriter of any IPO/ FPO, it shall not publish or distribute research report or make public appearance regarding that issuer for 25 days from the 1st date of public offering of the securities.

iii. In case if the Company is acting as a Manager or Co-manager of any IPO / FPO,itshallnotpublishordistributearesearchreportormakepublicappearance regarding that issuer within 15 days prior to date of entering into and 15 days after expiration / waiver / termination of a lock-up agreement or such other agreement, unless prior written approval is obtained from Compliance Officer.

iv. The Research Report issued by Research Analysts of the Company shall be based on adequate documentary research evidence.

v. The Company and/or its Research Analysts shall not provide any promise or assurance of favorable review in research report to the Company or Industry as a consideration to commence or influence a business relationship of for the receipt of compensation or other benefits.

vi. Research Analysts shall not (a) engage directly / indirectly in any communication with a current or prospective client in the presence of personnel from brokerage service divisions or Company Management (b) engage in sales

or marketing related activities related to Brokerage Service divisions nor engage in any communication with a current or prospective client about transactions of such Brokerage Service Division; (c) make any

promise or assurance of favorable review in its research report to a company or industry or sector or group of companies or business group as consideration to commence or influence a business relationship or for the receipt of compensation or other benefits; (d) participate in business activities designed to solicit investment banking or merchant banking or brokerage services business such as sales pitches and deal road shows.

vii. Research Analysts shall have adequate documentary basis, supported by research, for preparing a research report.

viii. Research entity shall ensure that the individuals employed as research analyst are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research report: Provided that the individual employed as research analyst by research entity can receive feedback from sales or trading personnel of brokerage division to ascertain the impact of research report.

Disclosures in Research Report

Research Analysts of the Company who are engaged in research activity and preparing research report shall disclose all material information about himself or the Company including the following in its report:

i. Business Activity
ii. Disciplinary History
iii. Terms and conditions on which it offers research report
iv. Details of Associates
v. Details with respect to Ownership and Material Conflict of Interest suchas:

a Whether the Company or any Research Analysts or its/his associate or relatives has any Financial interest in the subject company, if yes, together with nature of such financial interest.

b Whether the Company or any Research Analysts or its/his associate or relatives have actual /beneficial ownership of 1 % or more securities of subject company at the end of the month immediately preceding the date of publication of research report or date of public appearance, as the case maybe.

c Details of actual / beneficial ownership of one percent or more securities of the subject company, at the end of month immediately preceding the date of publication the research report or date of public appearance.

d Details of any material conflict of interest at the time of publication of research report or at the time of public appearance.

e Details of any compensation received by the Company or Research Analysts or its/his/her/their associates from the subject company in past 12months.

f Details of whether the Company or its associates have managed or co-managed the public offering of Subject Company in past 12months.

g Details of whether the Company or its associates have received any compensation for investment banking or merchant banking of brokerage services from the subject company in past 12 months.

h Details of whether the Company or its associates have received any compensation for products or services other than above from the subject company in past 12 months.

i Details of any compensation or other benefits received by the Company or Research Analysts or its/his/her/their associates from the subject company or 3rd party in connection with the research report.

vi. The Company and / or its Research Analysts shall disclose in public appearance with regard to receipt of compensation (a) whether the Company or Research Analysts or its/his/her/their associates have received any compensation from the subject company in past 12 months (b) whether the subject company is / was client of the Company during 12 months preceding the date of distribution of research report and the types of such services provided by the Company.

a Whether the Research Analysts has served as an officer, director or employee of the subject Company.

vii. Whether the Company or its Research Analysts has been engaged in market making activity of the subject Company.

viii. Such other disclosures in research reports / public appearance as specified by SEBI under any other regulations.

ix. Such Research Reports reflects the factual information about the subject company and are based on reliable information. Such reports also contain the definition of terms which are used in making recommendations and such terms have been used consistently.

x. If such Research Reports contain either a rating or price target for at least 1 year, the same shall also provide for the graph of daily closing price of such securities for the period assigned or for a 3-year period, whichever is shorter.

xi. Such Research Report shall not be issued selectively to internal trading personnel or to a particular client or group of other clients in advance of other clients who are entitled to receive the research report.

xii. In case of distribution of any 3rd party research report, Research Analysts of the Company shall review such 3rd party report for any untrue statement ofmaterialfactoranyfalseormisleadinginformation,providedthattheCompany or its Research Analysts do not have any direct/indirect business or contractual relationship with such 3rd party research provider.

xiii. In case, any Research Analysts or Executives Director or employee of the Company appears in public media and make any recommendation, the disclosure of his / its name, registration status and details of financial interest shall invariably be made at the time of making such recommendation or offering any opinion in his personal capacity, responding to any queries of audience or journalists in personal capacity and communicating the research report or its substance through public media.

Contents of research report

i. The facts in its research reports shall be based on reliable information and shall define the terms used in making recommendations, and these terms shall be consistently used.

ii. A rating system must clearly define the meaning of each such rating including the time horizon and benchmarks on which a rating is based.

iii. If a research report contains either a rating or price target for subject company's securities and the research analyst or research entity has assigned a rating or price target to the securities for at least one year, such research report shall also provide the graph of daily closing price of such securities for the period assigned or for a three-year period, whichever is shorter.

Recommendations in public media.

i. Research analyst or research entity including its director or employee shall disclose the registration status and details of financial interest in the subject company, if he makes public appearance

ii. If any person including a director or employee of an investment adviser or credit rating agency or asset management company or fund manager, makes public appearance or makes a recommendation or offers an opinion concerning securities or public offers through public media, all the provisions of regulations 16 and 17 of SEBI (Research Analysts) Regulations, 2014 shall apply *mutatis mutandis* to him and he shall disclose his name, registration status and details of financial interest in the subject company at the time of,-

   a Making such recommendation or offering such opinion in personal capacity;
   b Responding to queries from audiences or journalists in personal capacity;
   c Communicating the research report or substance of the research report through the public media.

Distribution of research reports.

i. A research report shall not be made available selectively to internal trading personnel or a particular client or class of clients in advance of other clients who are entitled to receive the research report.

ii. Research analyst or research entity who distributes any third party research report shall review the third party research report for any untrue statement of material fact or any false or misleading information.

iii. Research analyst or research entity who distributes any third party research report shall disclose any material conflict of interest of such third party research provider or he shall provide a web address that directs a recipient to the relevant disclosures.

iv. The above two points (ii) and (iii) shall not apply to a research analyst or research entity if he has no direct or indirect business or contractual relationship with such third party research provider.

Maintenance of records &Audit.

i. The Company and its Research Analysts shall maintain and preserve following records for a minimum period of 5years:

- Research Report duly signed and dated
- Research recommendation provided
- Rationale for arriving at research recommendation
- Record of public appearance

ii. Research Analysts shall forthwith inform the Company in writing about any information or particulars about him/her/them submitted to the Company which are found to be false or misleading in any material particular or if there is any change in information already submitted.

iii. The Compliance Officer shall monitor and comply in this regard.

iv. The Company shall conduct annual audit in respect of compliance with the captioned SEBI Regulations from member of ICAI or ICSI.

Appointment of Compliance Officer.

The compliance officer of the Company looking the Compliance as an intermediary shall be responsible for monitoring the compliance of the provisions of the Act, these regulations and circulars issued by the SEBI and his/her absence as may be decided by the Executive Directors of the Company.

General responsibility

i. Research Analysts of the Company shall obtain NISM certification or such other certification for research analysts as specified by SEBI and It shall the Company, as may be applicable, comply with the certification and qualification requirements under regulation 7 at all times. Research Analysts shall obtain NISM certification or such other certification for research analysts as specified by SEBI within 2 years of commencement of the captioned SEBI Regulations.

ii. Research analyst or research entity shall abide by Code of Conduct as specified below

a. ***Honesty and Good Faith***
Research analyst shall act honestly and in good faith.

b. ***Diligence***
Research analyst shall act with due skill, care and diligence and shall ensure that the research report is prepared after thorough analysis

c. ***Conflict of Interest***

Research analyst shall effectively address conflict of interest which may affect the impartiality of its research analysis and research report and shall make appropriate disclosures to address the same

d. ***Insider Trading or front running***

Research analyst shall not engage in insider trading or front running or front running of its own research report

e. ***Confidentiality***

Research analyst shall maintain confidentiality of report till the report is made public.

f. ***Professional Standard***

Research analyst engaged in research analysis shall observe high professional standard while preparing research report.

g. ***Compliance***

Research analyst shall comply with all regulatory requirements applicable to the conduct of its business activities

h. ***Responsibility of senior management***

The senior management of research analyst shall bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures

In case of change in control of the Company, prior approval from the SEBI shall be taken.

The Company shall furnish to the Board information and reports as may be specified by the SEBI from time to time