

Authorised Persons: Dealing & Internal Control Document

Authorised individuals are crucial participants in the capital market and serve several significant responsibilities. Authorised people have certain important obligations and play a big part in the stock market. You should trade on the capital market through an authorised person, a knowledgeable individual who can help you navigate the equity market.

Individuals or institutions cannot make direct stock and share investments. Investors must use brokers or broking companies to achieve this. These brokers are authorised to trade on these stock exchanges as members of those exchanges. However, because there aren't many brokers, authorised individuals do most of the labour involved in investing.

Authorised Person Meaning

An authorised person meaning as defined by Exchanges, is a registered stock exchange member who is authorised to buy and sell securities on behalf of their clients. Trading Members and authorised individuals are required by law to execute a contract. The obligations and rights of both parties are outlined in this agreement.

However, authorised persons are not directly registered with the exchange. As a result, they are employed by stockbroking firms, which helps them develop a comprehensive business network. Authorised persons play a vital role in the stock market by providing liquidity and facilitating price discovery. They also provide a link between investors and listed companies.

Role of an Authorised Person

The role of an authorised person is subject to regulation by the Securities and Exchange Board of India (SEBI). SEBI has established several rules and regulations to protect investors from fraud and unfair practices. Authorised persons must comply with these rules and regulations to maintain their membership with Exchanges.

Authorised Persons are expected to play a variety of responsibilities across many frontiers. It may be included under the functions of stockbrokers and investors.

With a stockbroker

Authorised personnel carry out their duties for the stockbrokers' employer and work under the stockbrokers' brand. The following are some of the functions that authorised persons perform for stockbrokers:

Business growth

An Authorised Person's fundamental duty is to support the maximisation of deals under his jurisdiction. By finding a lot of investors interested in buying securities and equities, he is in charge of expanding company volume.

Maintain transaction quality

The authorised persons are in charge, and it is up to them to guard the integrity of the financial market by prohibiting investors from presenting fraudulent papers to the stockbroker.

Assist a stockbroker in sales

They are obligated to send sales alerts to stockbrokers on the part of the trading company and to give stockbrokers information on all transactions made by their customers.

Keep negotiations transparent

The authorised person collaborates with the stockbroker to keep track of and index every documentation related to every transaction that goes through his desk. They operate in the client's best interests regarding dividends, shares, bonus rights, and other assets. They must also assist the stockbroker in altering papers that have been identified as inappropriate.

With stock market

Since authorised persons are not officially stock exchange members, they are not directly subject to the stock exchange's authority. But to support it, an authorised individual carries out specific tasks.

A stockbroker is the source of a franchise for an authorised individual. After getting the franchise, an authorised person's responsibility is to give clients helpful stock market advice and help them make smarter investment choices. So, regarding the stock market, a sub-broker's responsibility is to maximise trades in his region.

With Clients

Authorised Persons spread awareness about the Stock Market. Authorised persons are important in helping investors to maximise their return on investment. The authorised person's capacity to find profitable transactions for clients and persuade them to increase their investment is very important. In this approach, they accomplish dual goals of assisting the Stock Broker house's company expansion and assisting clients in receiving a fantastic yield on their investment.

Who can Become an Authorised Person?

A higher education degree or years of professional experience are not required to become an authorised person. But if you wish to succeed, you'll need certain fundamental traits like enthusiasm for winning and devotion. The eligibility criteria to become an authorised person in India are as follows:

- A person, a partnership, or a limited liability corporation can choose to appoint an authorised Person.
- If it's a partnership business, LLP, or an individual, the individual should be at least 18 years old.
- The authorised person should have designated the matrix as meeting the 10th standard.
- An authorised individual shouldn't have a bad reputation or any past convictions.
- It is recommended that the authorised person has a stock market understanding.
- The required materials should be available to the authorised person, including workspace, personnel, tools, etc.

The ability to confidently counsel a customer is necessary for an authorised person. Excellent communication abilities and the ability to persuade clients that investing in stocks is a good idea is important. Getting a lot of clients is also important because revenue will solely be based on commissions generated.

Authorised Persons and How they Earn

Stock Broker appoint Authorised Persons to perform certain tasks, and Authorised Persons earn commissions from these activities. Clients pay Stock Broker a fee for certain transactions, and the commission for Authorised Person comes from this. The commissions earned by Authorised Persons are the main sources of income for these individuals. The Authorised Persons can become an extension of any Stock Broker and have an Authorised Persons franchise status. In this way, the Authorised Persons gets to use the Stock Broker's brand and can concentrate on attracting clientele. The more clients there are for a Stock Broker, the more an Authorised Person can potentially earn. Earnings of an Authorised Person Stock broker commission is the earning for an Authorised Person. Therefore, any Authorised Person is motivated to obtain more clients for any main Stock Broker and perform a host of services for a fee. In a sense, Authorised Persons are the middle people between brokers and investors.

Authorised Persons Commission Structure

The income that an Authorised Persons earns may vary depending on the Stock Broker that the Authorised Person is attached to. The way that most earning structures for Authorised Persons work is in terms of a percentage earned, which is charged by brokers to clients. Thus, the more clients the Authorised Person attracts, the more they can earn. Large and established Stock Brokers may offer a large percentage of Stock broker commission to Authorised Persons, recognizing that they do all the leg work and bring a large number of prospective investors to the Stock Broker for business. For instance, a percent-oriented model of any Stock Broker would go like this:

If an investor purchases 100 stocks worth Rs. 10,000, with each stock priced at Rs. 100, the value of this transaction would be Rs. 10,000. If the Stock Broker charges 0.5% as a Stock Broker fee, then a percentage of this goes toward the Authorised Persons commission.

Procedure to be adopted before Appointing an Authorised Person

The company complies with each and every directives / circular in its true letter and spirit by the Exchange / SEBI from time to time. At the time of Appointment of the AP, the company took utmost care / due diligence that the AP (its Director / Partner / proprietor / Authorized Signatory etc.) shall be qualified / eligible to be a registered sub-broker / authorized person / fall within the criteria of fit and proper person by checking / verifying Background / Area / Premises/ KYC Documents, like PAN (not barred by any regulators), Aadhar, Bank Details, Age, Education, etc.

Further, ensures that the AP (its Director / Partner / proprietor / Authorized Signatory etc.) shall not have any connection / concern directly - indirectly w.r.t the following:

1. Association with any other trading member or a defaulter / expelled from any stock exchange.
2. Convicted for any offence in past or have any complaint against him/her/it and under trial
3. Have words in his/her/its name which may mislead the clients like Advisory, portfolio, wealth management, investment planner, capital advisor etc.

Inspection Of Authorised Persons

The Authorised Person (AP) inspection process is a critical component of a comprehensive risk management program and can help protect investors and the interests of the company.

SEBI/Exchanges also issued circulars/guidelines about inspection of Branch/AP from time-to-time states that, it shall be the primary responsibility of the affiliated Stock broker / Trading Member to inspect the registered Branch/AP periodically.

In view of the above, Pace Stock Broking Services Private Limited (PACE) has decided to implement the requirement of Inspection of APs in its true letter and spirit. PACE decides to inspect every year at least 30% of its active APs and also ensure that each active AP is inspected at least once in every three years. APs meeting any of the below criteria shall be inspected annually, irrespective of when the last inspection was carried out:

- APs with more than 500 registered clients across Exchanges
- APs with more than 20 trading terminals across all segments/Exchanges.
- APs against which more than 3 complaints have been received during the previous year.

The Compliance department of PACE shall form an "Inspection Team" within their department, consisting of persons having sufficient knowledge and experience to evaluate the activities of the AP, and should be overseen by senior personnel. Inspection team shall shortlist the APs that are required to be inspected during the period on the basis of trading terminal provided, turnover of AP, number of clients associated and last inspection conducted. The list of shortlisted APs shall be shared with the senior designated personnel of the Compliance department.

Inspection team shall formulate an inspection questionnaire. The inspection shall be on the basis of prior notice or surprise visit, the option to choose lies with the "Inspection Team". The inspecting personnel shall act diligently and should take due care of the regulatory compliances needs to be followed by the AP. In case of any adverse observations, inspecting official shall take corrective measures to rectify the deficiencies and shall maintain the process followed for the same. The Inspection Report shall be prepared in due time and shall also be shared with the inspected AP. Confidentiality shall be maintained in relation to Inspection report prepared, and the same shall not be shared to any third party except with the prior approval of the senior designated personnel of the Compliance department.

The Inspection team shall take note of deficiencies and areas of improvement as well as outline agreed-upon actions, including timelines, to correct the identified deficiency. Proper follow-up procedure should be implemented in regard to correcting the deficiencies. In case of any continued non-compliance, Inspection team may take appropriate action viz. blocking of exposure or may impose penalty on the concern AP.