

DOCUMENT ON
RISK MANAGEMENT POLICY

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I. Introduction

Safeguarding of **SHAH INVESTOR'S HOME LTD'S** financial transactions and Credit worthiness is critical to the functioning of SIHL. Our business transactions are at risk from potential threats such as bad intent of our clients, Excess exposures positions, Problem with Payment and Delivery obligations etc.

Such events are the situations where SIHL has apply Risk Management policy to counterfeit these situations which may result in loss to the organization.

These guidelines identify the set of measures that are part of company's security programs. Risk Management policy is a policy towards safe and secure environment with respect to client obligations and to achieve risk at the minimum level possible.

II. SCOPE

Various circulars of SEBI, NSDL and other governing body has laid down the principal of Risk Management with respect to Intermediary Transactions.

On one side the expansion of business of SIHL become inevitable for the Growth of our organization and on the other side there is urgent need of sound and efficient control procedure to create an environment where there is Tracking and Scanning of Client transactions and a particular path of the same.

With these in mind, we have developed the following as a Policy which gives Risk Management norms accepted by the management and applicable across all the levels of employees including Managers and Directors.

III. Risk Assessment, Sensitivity and Criticality

Our company ensures that risk assessments are conducted to identify the Point of Transaction (POT) where the Risk Management Theory needs to be applied.

POT require protection and to understand and document risks from default by client or delay by client that may cause loss to the out put of that transaction or may result into additional level of procedure like – Auction of Shares, Pay in Problems, etc.

Risk Assessment Team :

SIHL has developed a Group of people that are part of Risk Assessment Team and are continuously identifying for the potential Client Risk Areas. The team is also active for the Risk assessment for **Information Security** Procedures, **Anti Money Laundering Standards** and **bifurcation of client into Critical Level** considering size and volume of transactions, Nature of transaction etc.

Risk assessments have been conducted by teams composed of appropriate administrators, managers, staff and other personnel associated with the activities subject to assessment.

Risk Assessment Fundamentals :

We define the following as :

Risk : Potential of any action or event occurrence which will adversely affect business

Threat : An action or event that will compromise desirable outcome of business process

Vulnerability : Weakness in a system that can be exploited by a threat

Control : Tools and techniques for mitigating risks

Exposure : Risk – Control

We foresee the following are top threats which can adversely affect our functioning :

Bad intent of Client / Fraud

Undue Exposure

Problem with Pay in / Delivery

Critical dependencies :

- Current Locational Setup :

IV. Risk Management Plan & Procedures

This section addresses the security measures related to Client POT that are identified by Risk Assessment Team.

A. Client Acceptance Policy :

SIHL strictly believe in full implementation of KYC norms and total observation of client risk levels. SIHL has developed a Client Application form where in, total documentation for each category of client has been outlined and check list is being filled by the person who is collecting client application form.

- a. No account is being opened in Benami Name
- b. All the required details are being physically checked, marked and verified by different degree of persons from Client Account Opening section, Trading Division personnel and also from DP Division for the sufficiency and accuracy of information.
- c. At both the Trading and DP Division, client reference needs to be checked
- d. Details about previous trading activity, experience in the trading, business outline, etc needs to be observed and reflected at specific places.
- e. Residential address, Office address, Phone numbers and PAN are needs to be verified at different levels of client opening.
- f. E-trading client needs to be separately educated for systems operations and importance of passwords and risk exposures of e-trading.
- g. In all our Client Application Forms, authority is being obtained for Usage of Funds / Shares at time of any of the Defaults by client for pay ins and also Holding of Funds for outstanding payment obligations.

B. Client Due Diligence

CDD is to be performed for KYC norms and Internal observation of flow of transactions. Continuous tracking of Client transaction, verification of financial and correlating the same is part of monthly routine of SIHL surveillance team.

Clients are being bifurcated into different risk category for better monitoring :

(A) **High Risk Client:**

A client is under a high risk when he is identified / grouped as

- NRI client,
- All the Sub- brokers,
- Politically Exposed Person
- Companies offering Foreign Exchange Offerings
- Client having turnover more than Rs. 10 Lacs in a month for intra day activity
- Client having monthly turnover of Rs. 40 Lacs in a Demat account
- An ID wherein trades less than 5 share has been found
- Clients who perform off market Traders more than Rs. 20 00 000/- in a month.

(B) **Medium Risk Client:**

A client is under a medium risk when he is identified / grouped as

- Not in the category of high risk but still the volume and activity is Critical
- Turnover in the account is not been routinely identified

(C) **Low Risk Client:**

A client is under a low risk when he neither in (A) nor in (B).

For CDD the measures that need to be taken are as follows :

- a) Identify your customer and verify his identity by using independent source document.
Client needs to be identified for residence, business set up, reference etc and related proofs needs to be verified for completeness of KYC norms and correctness of information.
- b) Identify Beneficial Owner, verify his identity and get information about ownership and control structure of your customer.
- c) Obtain information on the purpose of business relationship and more importantly intended nature of the same and also ensure that whether the customer is a politically exposed person.
Team has to perform for the business relationships, trading experience and whether client or nominee has been politically exposed.
- d) Undertake risk profile of your client by utilizing KYC document.
The same to be done by collecting Financial of clients, bank account details, trading cycle and experience, mode of payment and volume with respect to each points.

- e) Obtain sufficient information in order to identify person who is beneficially the owner of the transaction. Whenever it is being found that, the beneficially owner is different person than who is acquiring or dealing the security, the account needs to be scrutinized by the team for cross verification in detail and will be shifted at High Risk Client Group.

Team has to finalize a list of client IDs who are segregated for detailed verification in a month considering Risk Profile and Activity conducted. Each of the client is demanded for required information and necessary clarification pertaining to the activity undertaken in the respective account. Send all such writings by registered post and the details of the same with the list of IDs needs to be kept in the file for future reference.

Team has to verify the same by independent source document and following is insisted for detailed scrutiny :

- Client Information given at the time of account opening
- Bank and Depository Account details
- Investment / Trading Experience
- References : positive references of existing customers, friends
- Financial & Income Tax Documents and resolutions etc
- Photograph
- Proofs of identity and address
- MAPIN / PAN / Passport / Driving License / Ration Card
- Nature of Transaction being undertaken

C. **Live Surveillance System :**

To safeguard against the Undue Exposure by any of the Client of SIHL, company has a live surveillance system to track the client Exposure Limit and Restricting any of the client from making transaction beyond the particular exposure level per day and /or per script.

Each of these Exposure limit is being verified by the General Manager of our company and there is monthly scrutiny of Master Data Updatations by System Admin in case of change in Exposure limits of clients. The system also prevents transactions wherein no trade is being allowed temporarily or wherein the trade is required to be blocked due to norms of SEBI or exchange etc.

D. **Client Obligations and Payment Terms :**

To safeguard against various client obligations including payment and delivery issues, SIHL has developed the environment as follows :

- For all the Futures and Options transactions, each client has to give 100% of the margin and the same is adjusted as per MTM positions. Client funds or Shares can be taken for the same.

- Against the payment issues by client, SIHL has the system in place that, in Cash market, as there is T+1 settlement, cheque has to be collected from client in the next day of transaction.
- For client collections, we have a separate nominated account and there is Online Real time system of Bank Reconciliation just to track any of the defaults by client.
- As per the Client Application Form and KYC policy of SIHL, company has the right to Hold or Use funds / shares in case of any of the pending payment / delivery obligations that are not been fulfilled by our client.

These Guidelines do not require any specific technology to be employed for the Security as, these steps are performed much before the Potential Client Risk Area and SIHL has all the rights to HOLD fund / shares of client.

E. **Surveillance Reports :**

For better risk management SIHL has developed various surveillance reports like : High value client amount and shares, turnover details, penny script turnover etc.

V. Anti Money Laundering Measures

Fundamental reason of these detailed guideline on AML is to follow the Prevention of Money Laundering Act, 2002 which is being introduced for finance companies also.

Circular issued by SEBI dated January 18, 2006 on Prevention of Money Laundering Act, 2002 laying down broad guidelines on Anti Money Laundering Standards.

As per the circular, all the intermediaries of financial market, registered with SEBI/RBI under Section 12 of the SEBI Act are advised to ensure that a proper policy framework on anti-money laundering measures is put into place within one month from the date of the circular. Requirement of PMLA is as follows :

- Maintain record of all the prescribed transactions, whether comprising of a single transaction or a series of transactions, integrally connected to each other taking place within a month
- Furnish information of the transactions referred above, to the Financial Intelligence Unit, India –within a prescribed period

- Verify and Maintain the records of the identity of all the clients in the prescribed manner

On one hand, there is expansion of a client base, branches and networks and on the other hand scanning of information of client vis a vis KYC, and Client Due Diligence become inevitable for the organization and hence there is urgent need of sound and efficient procedures to create AML environment.

AMLP is made to follow the regulation, guide personnel, and create common environment of vigilantly identify suspicious client so that the same can be reported as per the requirement.

Our Scope of AMLP covers total process of Client Account Opening till recovery of funds and thereafter continuous flow and activity generated by him. The same include all the financial instruments and is for identifying, monitoring and reporting suspected money laundering to FIU. It is also been clarified that, for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' should also be considered.

The Principal Officer should record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion. It is been clarified that Intermediaries should not put any restrictions on operations in the accounts where an STR has been made. Further, it should be ensured that there is **no tipping off to the client at any level**. Staff awareness program need to be organized for continuous updation and focus of AML action plan.

VI. Testing and Awareness Building

SIHL implementation of these Guidelines also include procedures for testing of these guidelines and norms.

We have established a timetable for regular review of the Risk Management policy to keep in step with the evolving needs, and with changes in the business processes.

VII. Responsibilities

It is the responsibility of the Top level management to devise the guidelines for Risk Management policy and procedures and to maintenance, update and implement the same in compliance with the legal and regulatory norms of exchanges and SEBI.