

DOCUMENT ON
RISK MANAGEMENT POLICY

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Table of Contents

I.	Introduction.....
II.	Scope.....
III.	Risk Assessment, Sensitivity and Criticality
	Risk Assessment Team :
	Risk Assessment Fundamentals :
IV.	Risk Management Plan and Procedure
	• Client Acceptance Policy :
	• Client Risk Category
	• Client Due Diligence
	• Live Surveillance System :
	• Client Obligations and Payment Terms :
	• Surveillance Reports including e-BOSS alerts
	• Policy for dealing in Penny Stocks
	• Liquidation Policy
V.	Testing and Awareness
VI.	Responsibility Statement

I. Introduction

Safeguarding of **SHAH INVESTOR'S HOME LTD's (SIHL)** 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 to follow the Risk Management Systems Policy (RMS Policy) to counter the situations which may result in loss to the organization.

These guidelines identify the set of measures that form part of the company's security programs. Risk Management policy is a policy aimed to create safe and secure environment with respect to client obligations and to achieve minimum risk possible for such events.

The underlying document outlines various policies and procedures the Company has framed on the basis of various rules, regulations and circulars of the Regulatory Bodies with respect to its dealing with clients for capital market transactions to ensure transparency and facilitate understanding on various aspects related to service delivery. Kindly note that the below stated policies and procedures are subject to changes from time to time depending upon our internal risk management framework and market requirements.

II. SCOPE

Various circulars of SEBI, Depositories, Exchanges and other governing bodies have laid down the principal of Risk Management with respect to Intermediary Transactions.

SIHL needs to balance the need for expansion and growth of the organization to survive in highly competitive industry on one hand and managing the financial risk posed by various market scenarios on the other hand.

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

Various circulars of governing body like SEBI, Exchanges, NSDL, CDSL etc.. have thrown emphasis on the surveillance of client activities. 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 Benami account is opened
- 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. KRA – KYC registering Agency has been established by the government and access of KRA facility should be availed for better KYC compliance.
- e. Details about previous trading activity, experience in the trading, business outline, etc needs to be observed and reflected at specific places.

- f. Residential address, Office address, Phone numbers, PAN, Aadhaar copy are need to be verified at different levels of client opening.
- g. E-trading client needs to be separately educated for systems operations and importance of passwords and risk exposures of e-trading.
- h. 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 Risk Category :

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 is called as Special Category (CSC) when he is identified / grouped as

- NRI client,
- All the Sub- brokers/ Authorized Persons
- Politically Exposed Person and family members
- Companies offering Foreign Exchange Offerings
- Client having turnover more than Rs. 1 Crore in a month for intra-day activity
- Client having monthly turnover of Rs. 50 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. 1 Crore in a month.
- Upon receipt of frequent alerts for the client from the Depository / Exchange / SEBI.

-Clients in high risk countries where existence of money laundering control is suspected and the same is reported under the FATF statements and published at www.fatf-gafi.org

(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 being routinely identified

(C) Low Risk Client:

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

C. Client Due Diligence :

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 Proof & Income Tax Documents and resolutions etc
- Photograph
- Proofs of identity and address
- MAPIN / PAN / Passport / Driving License / Ration Card / Aadhaar
- Nature of Transaction being undertaken

Adequate separation of duty should be imposed between (a) back office personnel responsible for trade reconciliation, margin, position limits, preparation and maintenance of books and records and other similar matters as well as compliance personnel, risk management personnel and treasury or funding personnel, and (b) personnel responsible for customer relationships. The authority of appropriate personnel in these areas should be clearly established. This will add CDD quality.

D. **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 limits and restrict any client from placing transactions beyond a particular exposure level per day and / or per script.

There are following limitations placed by the live surveillance system:

- Trading terminals have Trade & Order Level limits of quantity, value, etc to ensure there are no large orders placed in the system by mistake.
- Trading terminals allow placing or orders only up to the limits allowed by RMS system for each trading code.

- After the orders are placed, the surveillance system monitors live exposure of each trading code and alerts the RMS manager as well as terminal operator to take corrective actions as required.
- Scrips in ASM / GSM / SMS / Video transactions framework are banned from CTCL terminals. Only transactions through Corporate Dealer terminals are allowed in such scrips.

Depending upon the risk profile of the customers, each customer is assigned particular RMS scheme. As per the assigned scheme, trading terminal allows / rejects orders placed in respective customer code.

Each of these RMS schemes is verified by the RMS Manager of our company and there is monthly scrutiny of Master Data Updation by RMS Manager in case of change in RMS Scheme of clients. The system also prevents transactions wherein no trade is allowed temporarily or wherein the trade is required to be blocked due to norms of SEBI or exchange etc.

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

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

- For all the Futures and Options transactions in equities, currency & commodities, each client has to give 100% of the required margin and the same is adjusted as per MTM positions.
- For client collections, we have a separate nominated bank account called “SIHL Client Bank Account” and there is Online Real time system of Bank Reconciliation to track any of the defaults by client.
- In Derivatives market, as there is T+1 settlement, cheque has to be collected from the client and deposited in SIHL Client Bank Account before the appropriate time to enable T+1 clear balance in the SIHL Client Bank account.
- As per the Client Application Form agreement of SIHL, company has right to Hold or Use funds / shares in case of any of the pending payment / delivery obligations that are not fulfilled by the client. Detailed policy for Aging Debit Squareoff is as follows:

F. Ageing Debit Square off (T+1+5) - Clients unpaid Securities Account debit

- As per the SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated 20th June 2019 to be implemented from 1st October 2019, if the client defaults on the payment, brokers have been asked to hold the securities up to 5 days after payout day. After this they can liquidate the securities in the market and recover dues on or before 5 days from the date of payout if dues are not recovered.
- Further, SEBI has said the securities which are lying with brokers for non-receipt of payment from clients, which may now be called unpaid securities from clients, cannot be used by the broker as collateral margin or cannot be pledged with financial institutions like banks /NBFC's to raise funds but is to be transferred to Clearing Corporation.
- As per the FAQs published by the NSE & the BSE on this matter, SIHL is following clarification allowing SIHL to transfer securities from the exchange pool account directly into the client's Demat account instead of transferring it to the CUS Account. Risk arising from the Debit exposure of such client is mitigated with auto-payin POA that the client has given to SIHL.
- It is client's obligation to clear his / her outstanding dues by T+ 1(T indicates Trading day). The client shall ensure timely provision of funds / securities to SIHL so as to meet exchange obligations. SIHL reserves the right to close the positions / sell securities to the extent of ledger debit and / or to the extent of margin obligations.
- If any client's funds got reversed or bounced or the client debit is not fully recovered, then the SIHL has the right to liquidate the securities held in Client Collateral or POA account of the respective client.
- No fresh exposures should be granted to any client if debit is not cleared by T+1+5 Days (T indicates Trading day), and account will be in square off mode only.
- If any securities lying in client collateral account with SIHL, which is provided by client as collateral margin for their trading exposures and margins in markets is found lying unutilized in periodic interval of times, the unutilized collateral will be returned to the client's Demat account. Rest of client securities lying in client collateral account with us will be settled as per settlement cycle opted by client i.e. monthly / quarterly.

G. **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. The same also includes downloads of alerts from exchanges.

H. **Policy for Dealing in Penny Stock :**

A Security that trades at a relatively low price (generally such securities are trading below face value of the security) and has small market capitalization, is called a penny stock. These types of stocks are generally considered to be highly speculative & high risk because of their lack of liquidity, large bid-ask spreads, small capitalization and limited following and disclosure. The Company recommends that its clients desist from trading in any penny stocks in view of the associated risk element while dealing in such stocks.

Depending on the market condition, applicable regulatory guidelines and applicable risk policy of the Company, the Company at its sole discretion, may impose certain restrictions and/ or conditions (on case to case basis) including but not limited to refusal, wholly or partly, for trading in penny stock. Company has decided to revise a list of penny stocks as per the exchange list and norms.

I. **Liquidation Policy :**

(The right to sell client's securities or close client's positions, after giving notice to the client, on account of non-payment of clients dues as an act of risk management towards bad intent of client)

One of the threats of risk management is towards bad intent of client and undue over limits. Act of liquidation, after giving notice to the client for non-payment of margins or other amounts including the pay in obligation, outstanding debts, etc to the extent of client's settlement / margin obligation is towards the risk minimization and part of present day financial markets where client exposure setting has been failed due to market inequalities.

The proceeds of such liquidation / close out, if any, would be adjusted against the clients liabilities / obligations. The client would be required to make good the shortfall, if any post liquidation, immediately on being intimated of the same by the Member.

In the event of such square off, the client agrees to bear all the losses based on actual executed prices.

V. 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.

VI. 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.

Risk management policy is approved by the board after required deliberations. Also, it is decided to put Quarterly MIS for the details of alerts pending at end of the quarter – as a step towards continuous monitoring on compliance aspects of company.