



## **POLICY ON RISK MANAGEMENT SYSTEM**

### **ANJANEY STOCK BROKING LTD**

#### **INTRODUCTION:**

**ANJANEY STOCK BROKING LTD.** (hereinafter referred to as the 'Company') incorporated on 21<sup>ST</sup> June, 2005 under Companies Act, 1956 as a Company, is registered with Securities and Exchange Board of India (SEBI) and member of the National Stock Exchange of India Ltd. (NSEIL), BSE LTD and depository Participant of National Securities Depositories Limited (NSDL).

#### **BACKGROUND:**

Far reaching reforms have been undertaken by Securities & Exchange Board of India (SEBI) to promote stock market and protect investor interests. Major initiatives taken are in the areas of structure and functioning of stock exchanges, automation of trading and post trade systems and the introduction of surveillance and monitoring systems. Computerised online trading of securities, and setting up of clearing houses / settlement guarantee funds have paved way to expansion of trading locations even at far flung places and bringing about the desired level of transparency and promptness in trading and settlement of dues between the traders and the counterparties.

SEBI is the primary body responsible for regulation of the securities market, deriving its power of registration and enforcement primarily from the SEBI Act. SEBI's functions include:

- Regulating the business in stock exchanges.
- Registering and regulating the working of collective investment schemes, including mutual funds,
- Prohibiting fraudulent and unfair trade practices relating of securities market
- Prohibiting insider trading in securities, with the imposition of monetary penalties, on erring market intermediaries
- Regulating substantial acquisition of shares and takeover of companies
- Calling for information from, carrying out inspection, conducting enquiries and audits of stock exchanges.

SEBI has issued comprehensive guidelines governing issue of shares and other financial instruments, and has laid down detailed norms for Stock Exchanges, Stock Brokers and other intermediaries in the secondary market.

As a Share Broking firm and Depository Participant, **Anjaney Stock Broking Ltd.** has to consider the risk management issues on two fronts viz. meeting the requirements of the Regulators / Stock Exchanges on risk containment issues and setting its own operational guidelines with proper parameters to combat various risk related issues like regulatory risks, market risks, client risks, employee risks etc. In the following pages we discuss the above issues in two parts, viz. (i) risks containment measures as set in by the regulators/stock exchanges and (ii) our own risk containment measures.

## **PART A: TAKING CARE OF RISK MANAGEMENT ISSUES AS STIPULATED BY REGULATORS AND EXCHANGES:**

SEBI has taken several measures to improve the integrity of the secondary market. Legislative and regulatory changes have facilitated the corporatisation of stock brokers. Stock brokers are now subjected to capital adequacy norms. With the advent of screen based trading discarding the age old open outcry trading system through the establishment of National Stock Exchange of India Ltd. (NSE) in 1994, the regulatory responsibilities have largely shifted to the stock exchanges. The stock exchanges are the primary regulators for detection of market manipulation, price rigging and other regulatory breaches regarding capital market functioning. The stock exchanges in turn are subjected to surveillance and inspection by SEBI.

SEBI exercises its regulatory role on the share broking firms primarily through Stock Exchanges who act as first level regulators. Stock Exchanges conduct inspection of the member stock brokers in the Capital Market segment as well as Derivative Market segment as per regulatory requirements every year. In turn, we are also regularly inspected by SEBI/Exchanges/Depository with whom we are registered as Member/Depository Participant. During such inspections the inspection team verify the compliance of the provisions of applicable act, rules, regulations, bye-laws, guidelines and circulars by trading and clearing members. The Exchanges initiate necessary disciplinary action against the members in respect of the violation observed during the course of inspection.

In order to protect our image and reputation and at the same time to check any onslaught on our revenue stream, our risk management measures have to essentially remain alive on the compliance to the regulatory issues on the one hand and contain the client risks accentuated by the volatility / uncertainties thrown up by the stock markets, on the other hand.

As the most important risk management tool to have effective control on defaults by clearing members/ trading members the Stock Exchanges have introduced margin and exposure limit concept. In addition a mark-to-market and trading limit have been imposed. In order to contain excess volatility exchanges have put in place circuit breakers. Stock brokers are now required to disclose at the end of the day extent of short sales and long purchases to reduce price volatility and further enhance the integrity of the secondary market.

## **MARK TO MARKET MARGIN AND INTRA-DAY LIMIT**

For retail investors, it is not necessary to take or deliver the shares if equal number of same stock are purchased and sold or vice-versa, during the same settlement period. Thus, squaring-off of the trading position during the same settlement period results in non-delivery of shares that the investor traded. This gives rise to opportunity and temptation to make a short-term and speculative investment at a relative low cost. To contain the risk of settlement chaos that may be caused by an increasing number of non-delivery transactions, SEBI has introduced a daily mark-to-market margin and trading limit. The daily mark-to-market margin is a margin on broker's daily position. The intra-day trading limit is the limit to the broker's trading volume. Every broker is subjected to these requirements.

Each broker's trading volume during a day is not allowed to exceed the intraday trading limit. The limit is 33.3 times the base minimum capital deposited with the exchange on a gross basis, i.e. purchase plus sale. In the event of brokers wishing to exceed this limit, they have to deposit additional capital with the exchange and this cannot be withdrawn for 6 months.

The primary focus of risk management by SEBI has been to address the market risks, operational risks and systematic risks. To this effect SEBI has been continuously reviewing its policies and drafting risk management policies to mitigate these risks, thereby enhancing the level of investor protection and catalyzing market development. The key risk management measures initiated by SEBI include:

- Categorization of securities into groups 1, 2 and 3 for imposition of margins based on their liquidity and volatility.
- VaR based margin system.
- Specification of Mark to Markets margins.
- Specification of intraday trading limit and gross exposure limits.
- Real time monitoring of the intra-day trading limits and Gross Exposure Limits by the Stock Exchanges.
- Specification of time limits of payment of margin.
- Collection of margins on T+1 basis (since modified).
- Index based market wide circuit breakers.
- Automatic de-activation of trading terminal in case of breach of exposure limits.
- VaR based margining system has been put in place based on the categorization of stocks based on the liquidity of stocks depending on its impact cost and volatility. It addresses 99% of the risks in the market.
- Additional margins have also been specified to address the balance 1% case.
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An analysis of the above issues are detailed in the subsequent paragraphs in this note.

From February 2005 SEBI modified the above mentioned risk management framework by putting stress on upfront collection of VaR margin (instead of margin collection on T+1 basis). In the revised framework the liquid assets deposited by the broker with the exchange should be sufficient to cover upfront VaR margin, Extreme Loss Margin, Mark to Market margin and the prescribed Base Minimum Capital. The Mark to Market margin would be payable before the start of the next day's trading. The Margin would be computed based on gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including the proprietary position. The exchanges will monitor the position of the brokers

online real time basis and there would be automatic deactivation of terminal on any shortfall of margin.

### **Notes on various Margins / Base Minimum Funds:**

**VaR Margin** – The VaR Margin is a margin intended to cover the largest loss that can be encountered on 99% of the days (99% Value at Risk). For liquid stocks, the margin covers one-day losses while for illiquid stocks, it covers three-day losses so as to allow the clearing corporation to liquidate the position over three days. For liquid stocks, the VaR margins are based only on the volatility of the stock while for other stocks, the volatility of the market index is also used in the computation.

The VaR margin is collected by the exchange on an upfront basis by adjusting against the total liquid assets of the member at the time of trade. Collection on T+1 day is not acceptable.

**Extreme Loss Margin** – It covers the expected loss in situations that go beyond those envisaged in the 99% value at risk estimates used in the VaR Margin.

The Extreme Loss Margin is collected / adjusted against the total liquid assets of the member on a real time basis. The margin so collected is released along with the pay-in.

### **Shortfall of Margins / Pay-in of funds**

#### **a. Margin shortfall**

In case of any shortfall in Margin the terminals of the broker shall be immediately deactivated.

#### **b. Pay-in shortfall**

- i. In cases where the amount of shortage in a settlement for a trading member is in excess of the Base Minimum Capital (BMS) prescribed, the trading facility of the member shall be withdrawn and the securities pay-out due to the member shall be withheld.
- ii. In cases where the amount of shortage exceeds 20% of the BMC but less than the BMC on six occasions within a period of three months, then also the trading facility of the member shall be withdrawn and the securities pay-out due to the member shall be withheld.
- iii. Upon recovery of the complete shortages, the member shall be permitted to trade subject to his providing a deposit equivalent to his cumulative funds shortage as the 'funds shortage collateral'. Such deposit shall be kept with the Exchange for a period of ten rolling settlements and shall be released thereafter. Such deposit shall not be available for adjustment against margin liabilities and also not earn any interest. The deposit may be by way of cash, fixed deposit receipts and bank guarantee.
- iv. The exchange may levy a penal interest of not less than 0.07% per day on the pay-in shortage of the member.

### **Additional Margin**

The Exchanges /Clearing Corporations have the right to impose additional risk containment measures over and above the risk containment system mandated by SEBI. Additional risk management measures (like ad hoc margins) would normally be required only to deal with circumstances that cannot be anticipated or were not anticipated while designing the risk management system. Any additional margins that the exchanges may impose shall be based on objective criteria and shall not discriminate between members on the basis of subjective criteria.

### Methodology for computation of MTM Margin

For a Client A, his MTM profit/loss would be calculated separately for his positions on T-1 and T day (two different rolling settlements). For the same day positions of the client, his losses in some scrips can be set off/netted against profits of some other scrips. Thus, we would arrive at the MTM loss/profit figures of the two different days T and T-1. These two figures cannot be netted. Any loss will have to be collected and same will not be set off against profit arising out of positions of the other day.

Thus, as stated above MTM profits/losses would be computed for each of the clients of the member. As regards collection of margin from the broker, the MTM would be grossed across all the clients i.e. no set off loss of one client with the profit of another client. In other words, only the losses will be added to give the total MTM loss that the broker has to deposit with the exchange.

|          |            | T-1 day | day   | Total profit/loss of Client | MTM for broker |
|----------|------------|---------|-------|-----------------------------|----------------|
| Client A | Security X | 800     | 300   |                             |                |
|          | Security Y | -500    | -1200 |                             |                |
|          | Total      | 300     | -900  | -900                        |                |
| Client B | Security Z | 700     | -400  |                             |                |
|          | Security W | -1000   | 800   |                             |                |
|          | Total      | -300    | 400   | -300                        |                |
| Client C | Security X | 1000    | 500   |                             |                |
|          | Security Z | -1500   | -800  |                             |                |
|          | Total      | -500    | -300  | -800                        |                |
| Client D | Security Y | 700     | -200  |                             |                |
|          | Security R | -300    | 800   |                             |                |
|          | Total      | 400     | 600   | 1000                        |                |
| BROKER   |            |         |       |                             | -2000          |

In this example, the broker has to deposit MTM Margin of Rs.2000.00.

It would be observed from the above, as of now the issue of meeting margin requirement as stipulated by SEBI assumes the most vital and crucially important factor as even a nominal shortfall in margin would automatically lead to deactivation of the broker's trading terminals throughout the country. Such an event would be disastrous for the broker and would dent a heavy blow to its reputation within the broking community. Any broking firm thus can hardly afford to neglect its liquidity.

## **PART B : TAKING CARE OF RISKS AS PERCEIVED BY ANJANEY STOCK BROKING LTD.**

### **Risk Management Measures of Anjaney Stock Broking Ltd. in Cash Segment:**

It is, therefore, clear that all branches must have systems and procedures to ensure the above concerns of SEBI. In Anjaney Stock Broking Ltd. we have taken care of the above concerns as under.

- i) Trading is allowed only against available margin in client's account. For this purpose, margin should be actually available at the time of entering trade in the cash segment of NSE / BSE either in the form of credit balance in the trading account and/or securities held in Client's margin account.
- ii) Shares held in margin account and trust account (shares on hold pending receipt of cheques from clients) are subjected to suitable hair-cuts and such hair-cuts are reviewed from time to time depending on the market condition. In a turbulent and chaotic market condition hair-cuts are appropriately raised and in stable market conditions comparatively low hair-cut percentages are maintained. At present hair-cut for shares are : Shares in Margin Account – 25%, shares in Trust Account- 35%.
- iii) We are giving exposure limit (buying & selling) at 8 times of effective margin to the client during the day. Within the exposure limit, a client can do intra-day trading a number of times, the aggregate volume being controlled by an overall turnover limit. For example, if client margin is Rs.5000.00 and Gross Exposure limit is Rs.40000.00, a client may be allowed to do aggregate intra-day 50 times of his margin i.e. Rs.250000.00 but at any point of time during the day total exposure would not exceed his Gross Exposure limit of Rs.40000.00.
- iv) Effective margin is computed as under:

Client Ledger (Cheque updated up to 5 p.m. of the previous day) + securities given as margin deposit with appropriate (20-25%) haircut + hold back securities kept in trust account with appropriate (30-35%) hair cut – 0.15 % of open Purchase – 0.15% of open Sales.

An illustration on computation of effective margin is furnished below.

### **Computation of effective margin:**

Suppose a client has deposited Rs.10000/- cash and securities margin amounting to Rs.20000/-. He has a ledger balance of Rs.1000.00 Cr.

He has done the following transactions:

| Date  | Settlement No. | Buy (Rs.) | Sale (rs.) | Total obligation | Net obligation |
|-------|----------------|-----------|------------|------------------|----------------|
| T     | 1              | 20000     | 10000      | 30000            | (-)10000       |
| T+1   | 2              | 25000     | 2000       | 45000            | (-) 5000       |
| Total |                | 45000     | 3000       | 75000            | (-)15000       |

## Margin Computation

| Particulars                                | Hair cut        | Amount                     | Amount in Rs.  |
|--|-----------------|----------------------------|----------------|
| Cash Margin                                | 0%              | A                          | 10000          |
| Share Margin                               | 15%             | B                          | 17000*         |
| <b>Total Margin</b>                        |                 | <b>A+B</b>                 | <b>37000</b>   |
| <b>Effective Ledger Balance (E)</b>        |                 |                            |                |
| Ledger balance                             | L               |                            | 1000           |
| Open settlement 1                          | Sett-1          |                            | (-)10000       |
| Open Settlement 2                          | Sett- 2         |                            | (-) 5000       |
| Net Obligation                             | L+Sett-1+Sett-2 |                            | (-)14000       |
| Add purchase of open sett                  |                 | P                          | 45000          |
| Total                                      |                 | O+P                        | 31000          |
| Less: Sale of open sett.                   |                 | S                          | 30000          |
| Less: 10% of Purchase of open sett.        |                 | 0.10P                      | 4500           |
| Less: 15% of Sale of open sett.            |                 | 0.15P                      | 4500           |
| <b>Net Balance (E)</b>                     |                 | <b>(O+P-s)-0.10P-0.15S</b> | <b>(-)8000</b> |
| Net Margin on which exposure will be given |                 | (A+B+E)                    | <b>29000</b>   |

\* after 15% hair-cut

### Margin exemption on early pay-in of securities:

In cases where early pay-in of securities is made up to 3 p.m. on a day, such positions for which early pay-in of securities is made shall be exempt from margins. The margin file upload is done at the following intervals 11 a.m., 2 p.m. and 3 p.m. The benefits of early pay-in done after 3 p.m. on a day will be available on the next trading day. The branch should execute early pay-in instructions before that time limit.

v) Buying exposure is not allowed without being backed by adequate margin but selling is allowed to any extent if the client wishes to sell from his holdings in Demat account. Branches are required to ask for selling exposure only in those cases where client ledger account shows debit balance which is more than the balance of share margin after hair cut as in such cases in the morning in the Exposure Limit screen zero margin is uploaded for which branches have to specifically ask for sell limit.

vi) Maximum exposure of a particular client is Rs.10 lacs at a time subject to fulfilling margin requirement as stated above.

vii) Risk Management Section performs a real time monitoring on the intra-day position of the client through NEATXS screen.

viii) A client's position across all segments and stock exchanges is considered by Risk Management Section while controlling the exposure of the client.

ix) If deals are not squared off same day by the client, branches have to collect cheque from the concerned clients covering the relative debit raised in the client account (purchase price + brokerage + security transaction tax) on T+1 day. If cheque is not forthcoming, Branch Manager should pursue with the client for payment through cheque as early as possible. In any case, if debit is not adjusted by client either by paying through cheque or by sale of securities, branches have to square off the debit on T+3<sup>rd</sup> day.

### **Funds pay-in from clients:**

On receipt of cheque from the client for meeting settlement obligations or margin deposits, the details of the cheque are entered by the branch in Cheque Received Register (CRR) which is maintained as per following format.

| Date | Client Code | Bank Account No. | Cheque No. | Amount | Date of Deposit | Date of Realised | Remarks |
|------|-------------|------------------|------------|--------|-----------------|------------------|---------|
|      |             |                  |            |        |                 |                  |         |

Simultaneously, the branch make entry of the cheque in back office (SharePro) software and sent an i-mail to Head Office (Risk Management) furnishing the details of the cheque through Branch Cheque Receipt Information sheet. A copy of the cheque is faxed also. Based on the above information Risk Management validate the entry in SharePro package and credit is then reflected in the client's trading account.

(Note: As of now we are crediting client's account some times before the cheque deposited by the branch in the local bank account of HDFC Bank / Axis Bank is credited to our account with the bank concerned. To safeguard against possible delay in deposit of the cheque in the bank by the Branch, the following action has been prescribed:

| Instances of delay in depositing cheques - No. of times in a financial year | Actions  |
|---|--|
| 1 – 2   | General Warning                                  |
| 3-5   | Specific Warning and report to Higher Authority  |
| More than 5   | Show cause notice and other disciplinary action. |

As regards dishonour of cheques, the client-wise position is reviewed on an on-going basis, and whenever there are two instances of cheque dishonour for a particular client,



any preferential treatment like giving higher trading limit or giving extended time for squaring off of debits in the account are kept suspended for a period of six months.)

### **Funds payout to clients:**

Cheques are issued to the clients against their specific requests after verifying their settlement and margin obligations. On receipt of Cheque Requisition Slips from the branch, position in client account and settlement and margin obligations are verified by risk management desk who forward the matter to Finance & Accounts Section for issue of cheques.

There have been a few occasions in the past, when cheques were issued immediately after the trading session without taking into account the possibility of any penalty being imposed by the Stock Exchange for auctioning of shares on account of short delivery which is normally done after a gap of 7 days. This resulted issuance of cheque to the client when there was actually debit balance in the account on account of auction penalty charged at a later date. In the light of the above, and also for the sake of keeping greater control on parting with money to the clients, **it is felt that issuance of any cheque should be invariably backed by authorization of Head Office.**

By adopting the above measures our Risk Management Department ensures two important regulatory issues, viz. collection of margin upfront and restricting aggregate exposure limits of all clients put together within the daily exposure limit fixed for us. At the same time, focus is given on the on-going need of collecting dues from the clients and release of money to them only after ensuring that there are no outstanding dues from the clients concerned.

### **Further Risk containing measures as should be adopted by us**

While mitigating the regulatory risks, our liquidity management should be rigorous. The important aspects are that we should not lose sight of the need to recover all our dues from our clients as accumulation of dues over a period of time poses problem of recovery since unlike banks/financial institutions, we in the capacity of Depository Participants / Share Broker do not enjoy unfettered rights to exercise set off on the securities retained by the clients in their Demat Accounts opened with us. Apart from making full recovery of dues, prompt recovery of all dues is also equally important since delayed delivery beyond settlement day would entail loss of interest following debits made in our settlement account maintained with the Clearing House (IF&CL) on T+2 day. If such delayed recovery is found widespread across all the branches, the quantum of interest loss will be considerable apart from the resultant strain on the overall liquidity of the company. Since we cannot take for granted the good intention of clients and their collaborative approach for recovery of dues, as stock broker we have to put in place automatic checks and balances to minimize loss on account of share broking activities. The following measures are considered prudent in this regard:

- Allowing trading only against prescribed margin in the client's account. Requests for allowing trading against cheque to be received during later part of the day should not be acted upon and if acted upon, this should be done very selectively for genuine high net worth clients with a solid trading history.

- Insisting of getting cheque from the client covering his purchase of securities on T+1 day (i.e. before the settlement day on T+2) and ensuring that such cheques are deposited in the local Bank on the same day or early next day.
- Exposure limit should be realistically set assuming that if the trade is carried over the next day, we have sufficient cushions in the form of initial margin which should be sufficient to cover any loss in the value of securities purchased in case of adverse movement in the stock price.
- On-going surveillance of MTM loss of securities bought should be done so that appropriate action of selling desired quantity of shares from margin account can be considered before MTM loss exceeds the cushion provided by the value of securities held in the margin over the debit balance in ledger account. Along with the risk management desk at Head Office, branches should be appropriately vigilant in regard to timely squaring off of debits instead of waiting till the final day set for squaring off.
- It is to be ensured that client's ledger is periodically brought to credit balance (at least once a week). Continuous debit balance in the account even without having any unsettled purchase transactions is to be discouraged. Continuous debits occur whenever purchase debits are squared off on an on-going basis through sale of securities and no cheques are issued by the clients towards cost of securities bought. On many occasions the value of debit balance is much in excess of the last trade obligation (for buying of shares).
- Branches should be asked to punch DI slips for selling of those securities which are lying in our Pool / Trust Account. We should insist on such shares first be transferred to Client's Beneficiary Account and then delivery from that account to Pool Account. Routing of securities through the Beneficiary Account will mitigate the risk of any dealer undertaking any trade without the knowledge / proper authorization of the client.
- Generation of contract notes and delivery of the same should be entirely confined at the Head Office without involving the branches. Routing the contract note for delivery to the client through the branch is time consuming and uncertainty remains as to actual delivery of all contract notes generated to the clients. Since issue and delivery of contract notes is a regulatory requirement and contract note is the only vital source for the client to know the genuineness of trade with full details of brokerage and other statutory charges, it is imperative that Head Office keep necessary control on prompt delivery of contract notes to all the clients and preservation of duplicate copies of contract notes is done in a systematic manner at Head Office.
- Putting in place a system restricting trade in banned securities in F&O segment as advised by Exchanges.

## The comparison of Exchange Regulation & Anjaney Stock Broking Ltd. regulations

| Particulars   | NSE's Regulation   | Anjaney Stock Broking Ltd. Regulations   | Remarks   |
|---|--|--|---|
| Form of Margin deposit  | Cash, Fixed Deposit, Bank Guarantee, Permitted Securities  | Cash & Permitted Securities  |   |
| Type of Margin  | VaR Margin, Mark to Market Margin                          | VaR Margin, Mark to Market Margin  |   |
| Gross Exposure Limit  | 8.33 times   | 8 times  |   |
| Intra-day Turnover Limit  | 33.33 times  | 50 times   | In NSE, order cancellation, order modification are not considered but in our software these are considered. |
| Violation of Gross Exposure                                       | Penalty of Rs.5000/-for each violation                     | No such penalty  |   |
| Penalty for auction (following short delivery of shares)          | 0.07%  | Rs.50 per ISIN   |   |
| Upfront collection of margin when the margin amount is Rs.50000/- | Group I 15%<br>Group II 30%<br>Group III 45%               | It is not covered  | Majority of the clients are small investors.  |
| Margin exemption upon early delivery of securities                | It is applicable up to 2.45 p.m. on T+1 day                | It is applicable up to 2.45 p.m. on T+1 day  |   |
| Other issues like dishonour of cheques                            | Disabling trading terminal and imposition of heavy penalty | Up to 2 occasions client is cautioned. Thereafter trading is allowed against clearance of cheque only. |   |
| Client Code Modification  | After certain limit a penalty is imposed                   | No such penalty system exists  | Each case of client code modification reported by branches is analysed to see whether any wrongful          |

|  |  |  |  |
|--|--|--|--|
|  |  |  | accommodation to a client is being done. |
|--|--|--|--|

### **Areas requiring more focused attention by Risk Management Desk**

Risk Management Desk should closely monitors outstanding position of top buying clients and top selling clients on a daily basis. Considering the present size of branch network, top 10 clients from each category can be considered at present and reports should be generated based on certain pre-set parameters. These reports should be scrutinized to ascertain whether a client has built up excessive purchase or sale position compared to his normal level of business. Further, it should be examined whether purchases or sales are concentrated in one or more scrips, whether margin cover is adequate and the quality of exposure is satisfactory i.e. scrips are not mostly illiquid. Such monitoring will also throw light whether the share broking activities undertaken by the clients are in commensurate with the financial standing disclosed at the time of opening of demat and trading accounts with us.

### **EMPLOYEE RISKS**

The ambit of share broking activity is no longer confined to metro and big cities. With the coming up of plethora of share broking firms operating from all corners of the country including district towns, there is a constant pressure on acquisition of employees for running the show. Job hopping has become order of the day and under such a scenario, employee loyalty can hardly be taken for granted. Thus we have to face risks on employee front mainly on account of poor quality, impulsive behaviour and dishonesty manifested in employee-client nexus. Keeping the above factors in mind, we have put in the following measures to safeguard against willful wrong behaviour of employees:

- i) As far as possible while recruiting new employees, discreet enquiry is made with the previous employers about the antecedents of the prospective employees.
- ii) No person is appointed as dealer unless he has passed NCFM dealer's module certificate course.
- iii) It has been made mandatory for all employees to avail at least 15 days leave in a year.
- iv) Job rotations are done at Head Office from time to time.
- v) It is being considered to depute branch manager of one branch to another branch for 15 days in a year.
- vi) We insist that delivery instructions are obtained from all clients and shares before delivery to the stock exchanges are routed through the beneficiary accounts. Whenever it is found that a branch is breaching these instructions frequently, clients of the said branch are contacted at random to verify the genuineness of the transactions.
- vii) Meetings are held regularly at Head Office with group of employees like Branch Managers / Dealers to educate them on various aspects of their job responsibility and the danger in flouting the laid down instructions.

- viii) Circular instructions have been issued (i) in the matter of observing utmost caution in regard to custody/delivery of delivery instructions booklets to clients, (ii) issuance of proper receipts against payment made by clients towards trading/margin money and by cash towards various charges, (iii) maintaining complete secrecy of system passwords allotted to dealers/branch managers, and (iv) not to hold any blank delivery instructions slips signed beforehand by the client.
- ix) Any dubious/unauthorized transactions done by any employee or any attempt made to bend rules are to be reported by other employees at the branch to Head Office promptly.

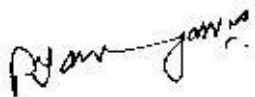
Further we are about to introduce certain other important measures which will have considerable effect on our efforts to reduce employee risk as well as increasing customer satisfaction. These measures are:

- i) Centralising entire contract notes related work including dispatch of notes direct to clients at Head Office.
- ii) Sending SMS to clients direct reporting the transactions made by him during the day.
- iii) Asking branches to send a fax of the relative cheque tendered by a client before depositing the same in bank account.

This apart we are examining the prospect of taking hedge cover from an insurance company to minimize loss arising out of complaint made against the company by our client citing employee dishonesty.

**SIGNED BY:**

**FOR ANJANEY STOCK BROKING LTD.**



**COMPLIANCE OFFICER**