

PRABHAT FINANCIAL SERVICES LIMITED
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Internal memo

Most Important

To,

Chief Executive/Manager Account/

All Back Office Executives/Trading Terminal Dealers/Sub-Brokers/Franchisees

At various locations all over India

Date: October 13, 2010

Sub: Prudent system of risk management

As you are aware that market scenario and client profile has been changing day by day. We should be prepared for implementing an adequate system of risk management in respect of trading by our existing and future client to avoid default on their part.

1. Customer Due Diligence/KYC Standards

New customer acceptance procedures, inter alia, could include processes

- a) To cover customer identification and verification depending on nature /status of the customer and kind of transactions that are expected by the customer.
- b) To comply with guidelines issued by various regulators such as SEBI, RBI etc.
- c) For clearly establishing identity of the client, verification of addresses, phone numbers and other details.
- d) To obtain sufficient information in order to identify persons who beneficially own or control the trading account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by entity other than the client
- e) For verifying the genuineness of the PAN provided by the client such as comparing with original PAN, checking details on the Income tax website etc.
- f) To check original documents before accepting a copy.
- g) Apart from the mandatory information specified by SEBI, we should ask for any additional information as deemed fit on case to case basis to satisfy themselves about the genuineness and financial standing of the client.
- h) To check whether the client has any criminal background, whether he has been at any point of time been associated in any civil or criminal proceedings anywhere.
- i) To check whether at any point of time he has been banned from trading in the stock market.



- j) Reluctance on the part of the client to provide necessary information or cooperate in verification process could generate a red flag for us for additional monitoring.
- k) Clear processes for introduction of clients by the employees.
- l) Risk based KYC procedures should be adopted for all new clients.
- m) The information obtained through the above mentioned measures should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the Guidelines.
- n) Factors of risk perception (in terms of monitoring suspicious transactions) of the client to be clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters should enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher. Such clients require higher degree of due diligence and regular update of KYC profile.

For existing clients processes could include

- a) Review of KYC details of all the existing active clients in context to the PMLA 2002 requirements.
- b) Classification of clients into high, medium or low risk categories based on KYC details, trading activity etc for closer monitoring of high risk categories etc.
- c) Obtaining of annual financial statements from all clients, particularly those in high risk categories.
- d) In case of non individuals additional information about the directors, partners, dominant promoters, major shareholders to be obtained.

Risk based approach:

Classify both the new and existing clients into high, medium or low risk category depending on parameters such as the customer's background, type of business relationship, transactions etc. we should apply due diligence measures for each of the customer on a risk sensitive basis and adopt an enhanced customer due diligence process for high risk categories of customers and vice-à-versa.

2. Margin collection and reporting :

We shall collect upfront and required margin from constituents of F&O segment and shall send margin status report on daily basis to each constituents besides reporting to the exchange. As you are aware that we have been collecting sufficient margins from all our existing clients. You will not allow any new client to trade without receipt of sufficient margin. Mode of collection of margin will be funds as well securities. We shall accept only approved securities and shall apply proper haircut to allow benefit of the same. We shall report correct margin as per funds and securities available in account of the constituent short collection of margin will be reported an actual basis.

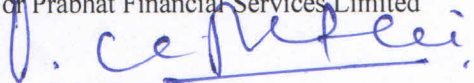


3. **Payment Control Report :**

This report is available to you on daily basis at back office terminals and at live database on our website. You should take full use of this report to ascertain payment and trading related outstanding position of each client for risk management on daily basis and to avoid possible default by the client.

All concerned are advised to implement the above mention system and report to the undersigned /Mr. S. P. Kabra/Mr. V. K. Sharma immediately about any default observed in respect of our clients.

For Prabhat Financial Services Limited


(Vinod Kumar Rathi)
Director and Principal Officer under PMLA

