Risk Management Policy

(Version 1.03)
October 2019

Preamble

The company is regulated by the Securities and Exchange Board of India (SEBI) as a stock broker. Further, we are regulated by stock exchanges through their notices, circulars, rules, regulations, and bye laws.

Risk is the potential harm that may arise from some present process or from some future event. It is often mapped to the probability of some event which is seen as undesirable.

Risk Management is process of measuring, or assessing risk and then developing strategies to manage the risk. Typically involves utilizing a variety of techniques, models and financial analyses.

MEMBER is exposed to variety of risks including market, credit, liquidity, operational and other risk that are material and require comprehensive controls and ongoing oversight.

The risk management framework of MEMBER for its business is based upon the different client segments, applicable settlement mechanism and SEBI/Stock Exchange/Depository regulations.

We set out below the principles of our risk management framework:

1. RISK MANAGER

For smooth operational efficiency, a full time Risk Manager will be available with full control a tool that manages the surveillance system. However Risk Manager is bound to perform some of the operations which are listed below

- There may be cases when client is not able to connect the online trading program, may be because of Internet failure, system breakdown etc. At these situations, it will be responsibility of RM to execute trade on telephonic conversation with respective client, if the client wants to do so. But only in clients login.
- If the total margin required at the commencement of the day falls short by more than 10% (Expressed as a % of margin required i.e. IM + EM), the risk manager will be authorized to square off open positions of his choice and client will be able to trade only to close positions already open. (GE = 0) However Risk manager will take oral confirmation for such square off.

- Our risk manager will be authorized to cut off client's position at the end of the day if the positions are exceeding margin requirements by 3:10 PM. Risk manager will be free to select which position he should square off under due intimation to client.
- Risk Manager is required to give margin utilized details, M2M details, account position details etc. at any time to the clients who requires the same.
- Risk Manager will be available to monitor the operations and for solving queries arising during trading hours.
- Risk Manager is liable to restrict the client if he is not following trading standards set.
- Risk Manager shall take proper steps to prevent clients from trading in illiquid scrips.
- Risk Manager shall be authorized to refuse acceptance of orders in penny stocks.
- It shall be the duty of risk manager to report any significant event, which may have adverse impact on company's business, to the senior officer.
- Risk Manager has to continuously monitor margin utilization of the company and report immediately to the senior officer or designated person if it crosses beyond 80%.
- Risk Manager has to identify list of Securities placed in Graded Survelliance Measure and S + Surveillance by Exchange. Additional Surveillance Margin levied on S+ Scrips based on Stage in which scrip falls. Ensure proper Surveillance Margin are available before trade. Ensure that no trades in such shares are executed without approval of Risk Admin.

2. REGISTERING A CLIENT

While registering a client, due care is required to be taken regarding identity of clients. Due diligence process as enumerated in the Anti Money Laundering Policy with regard to registration of clients and continuing updation of client information shall be followed.

3. CLIENT ADMINISTRATION

Any changes, locking, unlocking, swapping in Client, Client Profile, and Segment shall be done by Sr. Executive –Risk under specific approval from Risk Head.

4. EXPOSURE AND LIMIT SETTINGS

Risk control parameters are inbuilt in the front end system on the basis of which the clients are prevented from taking further position and risk.

Such parameters are;

- Gross Exposure Limits
- Turnover Limits
- Mark to Market Limits
- Buy and Sell Limits

Above parameters are expressed as multiplier of deposits.
Deposit Means: Available Ledger Balance only
Client wise deposits and multiplier are required to be inserted in the front end system. On the above deposit, different limit multipliers are set base on the risk profile of the client. Collection of upfront margin in the cash segment is at the discretion of dealer. The above monitoring is done on a daily basis and at the end of trading day, value of deposits and multiplier are set for the next trading day.

Exposure shall be provided to clients on the basis of available deposit and client risk profile. Such Exposure Value shall be derived from Value at Risk (VAR) Margin and/or pre-defined margins by member.

Further In cash segment collection of Margin in cash segment for non institutional clients' is at the discretion of dealer as they are the best persons to judge the financial positions and trading activity of the clients.

Further Exposure beyond 5th Day from the date of pay in shall not be granted unless, client fulfills the outstanding obligation, However in case where debit balance is below Rs. 500/- or debit is arised out of Delayed Payment Charge, Demat Instruction Slip Charge, DP AMC, etc, further exposure shall not be denied.

5. MARGINS COLLECTION

Collection of Margin in cash segment for non institutional clients' is at the discretion of dealer as they are the best persons to judge the financial positions and trading activity of the clients.

In case of F&O and currency derivative segment, company is required to collect initial, Exposure and Net Buy Premium margin from respective constituents on an upfront basis. It is to be ensured that the adequate margin amount from respective client is available with the company, on the day the relevant trades are done.

It is mandatory for all trading / clearing members to report details of such margins collected on an upfront basis to the Clearing Corporation.

Company may collect margins from its respective client in any of the following forms only, after taking into account their risk management systems and liquidity aspects.

⇒ Funds
⇒ Bank guarantee issued by any approved bank
⇒ Fixed deposit receipts (FDRs) issued by any approved bank
⇒ Liquid securities in dematerialized form, actively traded on the National Exchanges, which are specifically not declared as illiquid securities. (List of illiquid securities are declared on a regular basis by the Exchanges) with appropriate hair cut as the case may be

⇒ Units of liquid mutual funds in dematerialized form, whose NAVs are available and which could be liquidated readily with appropriate hair cut as the case may be.
⇒ Government securities and Treasury bills in electronic form with appropriate hair cut as the case may be.
⇒ Any other such collaterals, as may be specified by Clearing Corporations from time to time

Margin shall be calculated as per exchange and SEBI guidelines issued from time to time. The following is an indicative list of collaterals that shall not be considered towards margin collection:-

1) Immovable properties
2) Securities declared as illiquid by the National Exchanges
3) Post dated cheques
4) Cheques not cleared / bounced back / returned unpaid
5) Cheques not banked till the margin date
6) Value of BG created by the member against funds / FDR's / any other collaterals received from clients / constituents
7) Free Balances available in the commodity exchange.

6. <u>MARK TO MARKET (MTM) COLLECTION</u>

The mark to market margin (MTM) shall be collected from the client before the start of the trading of the next day.

The MTM margin shall be collected on the gross open position of the client. For this purpose, the position of a client would be netted across its various securities.

There would be no netting off of the positions and setoff against MTM profits across two rolling settlements i.e. T day and T-1 day. However, for computation of MTM profits/losses for the day, netting or setoff against MTM profits would be permitted.

7. <u>LIQUIDATION/SQUARE OFF OF INTRA DAY POSITION</u>

All outstanding intraday position shall be squared off daily at 3.10pm at Market rate. All pending intraday order in Cash Segment shall be cancelled prior to Intraday Square off execution.

For Intra Day Trades, Warning shall be issued to clients when 60% of available margin is eroded. Further, In case Margin Eroded Exceeds 80%, client is informed to make RTGS of amount equal to margin eroded to carry forward his position, and if he fails to do, Trades shall be squared off by member.

Upon payment of full margin/settlement obligation, such intra day position can be coverted to delivery or overnight position, before 3.00 pm.

8. HANDLING OF CLIENT 'S SECURITIES AND LIQUIDATION/SQUARE OFF OF DELIVERY TRADES

Pursuant to SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated 20/06/2019 and SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated 29th August, 2019 and further circular issued by SEBI and Exchange along with FAQs /Clarification issued by Exchanges, It shall be obligatory to have clear policy on above matter.

- As required by circular and exchange clarifications, we have opened Client Unpaid Securities Account and Client Collateral Account.

- Shares of Debit & Creidt Clients first of all to be received in POOL Account hen Shares received in pay out for all credit clients shall be transferred directly to Clients' Demat Account.

- Shares received in pay out for debit clients shall also be transferred to Client's Demat account except in case of identified clients for whom, shares has to be transferred to Client Unpaid Securities Account (CUSA) to the extent of debit balance. Further, to meet such margin /settlement obligation, shares so transferred from POOL to Client's Demat account, shall be transferred from Client's Demat Account to CM - Client Collateral Account. Stock selection for such transfers shall be at our discretion.

- Risk Manager /Admin in consultation with senior officer shall make a list of such identified clients whose shares are to be transferred to CUSA before releasing the Pay out to Client's Demat Account. In absence of any information related to identified client list before exchange's Pay out time, Demat staff shall transfer all shares received in pay out directly to clients' demat account. In case of Partial Payment, entire holding shall be retained in case of such identified clients.

- Shares lying in CUSA account, shall be either be transferred to Client's demat account or be transferred to POOL account as Exchange Pay in. Deadline for Transferring shares in above accoutns is 5 Trading Days from the pay-out date.

- In case shares are transferred to CUSA Account, Clients fails to make payment towards settlement obligation either Full or Partial, within 05 Trading Days from the date of Pay-in, shares shall be transferred to Clients' Demat account except for clients as identified by Risk Manager/Admin in cosultation with Senior officer, whose shares are to be liquidated on the exchange platform to the extent of unrecovered debit balance.

    - Stock Selection for debit recovery shall be at our discretion. We don't follow either FIFO or LIFO method for liquidation.
    - As the SEBI circular mandates liquidation of securities in case of non-payment within 5 days from the pay-out date, no pre-order confirmation is required. However, margin calls through contract note are issued to

clients to pay within 5 days.
    - "Securities kept in "Unpaid securities account" can be considered towards reporting of client's margin obligation in the derivative segment after adjusting any debit balances in such client ledger, across all segments and Exchanges
    - Sale of securities lying in collateral account, based on client's instruction, can be considered towards such unpaid securities provided clear funds are received within such 5 trading days
    - Further, we may opt to hold shares of such debit clients in respective client's demat account as we are having POA.
  - In case shares are transferred to Client's Demat account eventhough such securities are unpaid, we shall transfer such shares from Client's Demat account to Client Collateral Account based on POA to meet settlement/margin obligation.
  - Further, in case of default, it is at our discretion to liquidate shares lying in client collateral account, upon giving notice to clients to fullfill the outstanding balances.

9. CLIENT DEFAULT & OUTSTANDING

Contract slip/bills must be signed properly by the clients/authorized representatives. Proper authorization letter should be taken in case client sends somebody else for collection. Contract Notes are to be sent within 24 hours of execution of trades.

In case of default, if client is not able to pay his/her/its dues immediately adopt following procedure:-

- Try to take post dated cheque/s for amount due;
- Get the ledger and contract notes signed by the client;
- Obtain letter from the client covering the schedule of future payments;
- Preserve
  - Signed contract notes / bills ;
  - Proof of sending of bills/contracts by courier etc.; and
  - Proof of delivery of bills/contracts by courier etc.
  - Arrangement for recording of telephone conversations with defaulting client should be made covering Amount/s, Due Date/s, Date of recording Exchange/s and major scrips.

If hopes of recovery by follow up have faded, inform the designated department immediately but not later than 15 days in case of cheque bouncing and within 4 months in other cases. Also send original above mentioned documents to designated department. For small amounts i.e. below 50,000/- offer the client to settle the payment for lesser amount and close the business with him since it is not economical to initiate such cases.
Major defaults older then 6 months may also be intimated to the designated department for civil recovery.
When default has already occurred, do not pass JV for transferring funds. Obtain letters for

all the inter exchange, inter segment, inter family/friend transfers and third party payments should be backed by proper authorizations singed by all the parties.

Outstanding more than 90 days shall be closely monitored and recovery procedure shall be initiated for the same. Further, client shall not be provided Buy Limits and Only Sale Limits shall be made available if shares are lying with us. Account Department shall take all reasonable steps to clear such debits.

10. INTERNAL SHORTAGE & CLOSE OUT

Due to Internal shortages, company might not be in a position to deliver the shares purchased by the Client. In such circumstances, on T+1 day, company may buy the shares from the market and deliver the same to the client The Client undertakes that it will not hold company responsible for any loss/damages arising out of the same.

Similarly, if the Client fails to deliver shares against its sale transactions, the appropriate amount will be debited to the Client's ledger equal to the buy value of such undelivered shares. Such Amount shall include internal auction or close out charges @ 1% of Auction /Close out rate. The Client undertakes that he will not hold company responsible for any loss/damage arising out of the same.

In case where such buying is not possible from the market due to reasons beyond control viz circuit breaking, etc., exchange guideline for internal shortage and close out shall be followed.
Internal auction or Close out shall be done on T + 2 day.

11. RISK COVERAGE

The Company should have adequate insurance cover for different types of exposures, including but not limited to fidelity insurance, and replacement of equipment and other business and data processing devices.

To reduce the systematic risk, Stock Broker Indemnity Policy of Rs. 5 Lacs Which Covers losses on account of trading as well as back office losses shall be obtained.

The company's risk policies and measurements and reporting methodologies are subject to regular review on annual basis or when there are significant changes to the products, segments, services, or relevant legislation, rules or regulations that might impact the company's risk exposure.