Risk Management Policy

BACKGROUND AND INTRODUCTION:

We present below our Risk Management Policy, which is built, with a database that learns from our experience.

This RMS policy shall supersede the provisions of our previous RMS policy adopted by the Management.

Regulators are now insisting on new regimes of compliance measures to make sure that risks are recognized and something is to be done about them. Risk Management is the answer and the policy below is the key to effective compliance and comprehensive management of risks.

A number of professionals and User Groups have contributed towards the development of the practical methods for risk compliance, internal audit processes and procedures that have been built into the current policy.

Definitions:

Cash: The clear balance available in the customer's ledger account in our books

Margin: The underlying stake provided by the customer in the form of cash, FDR and/or stock to mitigate market (price) or settlement (auction) risk

Exposure : The aggregate of the customer's obligations arising out of the buy + sell trades awaiting settlement in the cash segment and profit/loss amounts that are yet to be settled on the closed positions.

Exposure multiple: The number of times that exposure is allowed on the underlying margin on the cash segment would have to be made either on the availability of cash margin or on the availability of the stocks (which are to be sold) in our margin account, by executing a transfer before any order is initiated.

Stock qualifying for margin in the cash segment transactions: Securities in the approved list of the Company.

Total Deposit: The aggregate of client deposit available with us in the form of cash, shares (after applicable hair cut) and FDR.

Nature of Customer Transactions

Intraday – Cash Segment: The amount of purchase (or sale) in a scrip on any trading day that is reversed by the end of the day by making a contra sale (or purchase) of exactly the same quantity, thereby nullifying the original position.

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Delivery Trades: The net purchase or sale of scrip in a client account that is settled by way of a delivery on T+2 (or as per settlement schedule). Delivery in respect of sale transactions in the cash segment has to be settled by the client by tendering securities in demat form before the pay-in deadline, failing which the client faces risk of auction.

Sell against Buy before delivery: A purchase order executed on the Exchange today and the (undelivered) purchased stock sold in its entirety on the next trading day. In this case the first transaction would be settled on T+2 while the sale would be settled on the third business day after the purchase transaction.

RMS Policies and Procedures

a. Setting up client's exposure limits

The Exchange may from time to time fix client exposure limits in the interest of orderly working of the markets. Within that overall ceiling, a client can trade within the exposure limit set from time to time by the Broker for the client.

Exposure Limit shall be on the basis of the funds and value after haircut of the securities, BG, FDRs and other collaterals accepted by the Clearing Corporations/Clearing Members, provided by the client for margin. Clients are requested to adhere to the exposure limits as crossing the limit may involve either a call for margin or restriction on further position / exposure.

The Company may need to vary or reduce or impose new limits urgently on the basis of risk perception, risk profile of the client and other factors considered relevant by the Management of the Company but not limited to limits on account of exchange / SEBI directions / limits (such as broker level / market level limits in security specific / volume specific exposures etc.).

Sometimes the Company may be unable to inform the client of such variation, reduction or imposition in advance. The Company shall not be held responsible for such variation, reduction or the client's inability to route any order through trading system on account of any such variation, reduction or imposition of limits.

While computing the available margin, following parameter shall be consider

- Consolidated funds balance across all segments and Exchanges (including Commodities)
- Bank guarantee received towards margin, issued by any approved bank and discharged in favor of the Member.
- Fixed deposit receipts (FDRs) received towards margin issued by any approved bank and lien marked in favor of the Member.
- Securities (including mutual fund, Government securities and Treasury bills) in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges, with appropriate haircut. (List of illiquid securities are declared on a regular basis by the Exchanges)2.
- Any other such collaterals, as may be specified by clearing corporation from time to time.

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Note:

1. Free and Unencumbered funds where funds are available in the bank account of client and specifically blocked by member on T day and actually moved to client bank account maintained by the member by T/T+1 day.
2. With effect from August 01, 2020, TM shall, inter alia, accept collateral from clients in the form of securities, by way of 'margin pledge', created in the Depository system (in accordance with the SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020).
3. The TM shall be allowed to accept client securities as collateral by way of title transfer into the Client Collateral Account as per the present system. The system of parallel acceptance of the client securities by way of title transfer shall be available only upto August 31, 2020.

Exposure limits shall be only against approved securities as decided by the Exchanges/the Company from time to time. The Company may from time to time change the applicable hair cut or apply a haircut higher than that specified by the Regulators/Exchanges.

In case of derivatives, Clients shall be allowed to trade only up to the applicable client wise position limits set by the Exchanges/Regulators from time to time

List of approved collaterals / securities along with applicable haircut, is subject to revision from time to time based on Exchange approved list,

In order to ensure smooth settlement on T + 2 day, client has to ensure that entire balance payment against purchase and entire delivery against sale orders reaches the broker's specific bank and DP a/c on T + 1 day or latest by 9.30 a.m. on T + 2 day.

In case of clients' failure to deliver shares against their sale orders by the above time schedule, penal action will be taken by the stock broker at his discretion which will include penalty for short delivery as imposed by the Exchange, auctioning of shares by the Exchange, debiting on account of internal shortage.

<u>Setting up Terminal/Branch Level limits</u>

Trading Terminals are allotted to Members by exchanges. These terminals enable members to place, modify and execute orders on behalf of clients. There may be instances where due to punching error unusual orders may be placed at high prices which might lead to execution of unrealistic orders or orders being executed at unrealistic prices. In cases where the order/price of such orders is high, it might lead to huge losses to broker. In order to avoid such a situation it is imperative that certain limits are prescribed for each terminal allotted to member broker.

We ensure documentation of internal controls on areas like order modification / cancellation, client code changes and post-trade activities are in place and are being updated from time-to-time.

We ensure monitoring mechanism for client's debits / obligations and appropriate collection procedures.

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The following limits shall be defined for each terminal:

- Quantity Limit for each order
- Value Limit for each order
- User value limit for each user ID
- User quantity limit for each user ID
- Branch value limit for each Branch ID
- Spread Order Quantity and Value Limit (Derivatives & Currency Derivatives segment) Checks in place
- We have a dedicated Risk monitoring team of 6 people who monitor the exposure, limit, etc.
- We have NEAT/NOW/BOLT Terminal which has a facility to block the client as well as restrict to useover exposure.
- Terminals limits will be set up by the Front Office official designated at Corporate Office.
- Direct terminals will be allotted on exceptional basis only.
- No user/ branch will be provided unlimited limit.
- Limits shall be monitored on daily basis, taking following criteria's: Turnover, Exposure, past trends, Location, Deposit/Collateral.
- Trading in illiquid scrip shall not be permitted.

Order Receipt and Execution

All Orders routed through trading terminal are monitored by our risk department and after their confirmation about client's financial and margin status order get executed.

The dealers take utmost care while executing the trades of the clients regarding the accuracy of Client Code, Quantity and Price etc. The orders from the clients are promptly executed by the dealers and the oral confirmation of the placement of the orders is immediately provided to the clients.

Moreover, only registered clients are allowed to enter the dealing room for placing the orders.

The clients are divided into groups among the dealers and Authrised Persons (AP) at head office level, so that particular dealer can serve a particular group of clients which helps dealer to understand the client investment strategy in a better way & serve them accordingly. The orders are entered instantly by the dealer on the instruction given by the client. On execution of valid order into trade, dealers confirm the trade with the client so as to avoid any future dispute.

We have telephonic recording system for receipt of order and maintained the said record in machine and increased the hard disk capacity to store increase data and also transfer the same record in tape and maintained the said tape in safe custody forever.

Monitoring of Debit Balances

We have system of monitoring client debit balances on a daily and online basis. We have dedicated resources to monitor the debtors as well as asking for the margin cheque. Clients are followed up by tele-calling, sending SMS and e-mails and remarks are noted for each client.

- ➢ No trade is allowed if debit balance continues for 7 trading days.
- ➢ No fresh trade is allowed unless old dues are recovered.

- Clients of Authorized Persons are handled by them and us both.

As per the company policy the customers need to pay the debit balance on the day of purchase itself or on next day. The left out clients' debit will not be allowed to carry forward beyond 5 days. No extension is possible beyond 5 days in whatsoever circumstances. All the debits aging more than 5 days will be cleared from Surveillance dept without further intimation to branches.

Client Code Modification

Trades are done only on the exchange platform and if any trades need to be transfer become of wrong punching code it is done in the exchange platform system. Client code modification is accepted only through an email or written letter prior to post closing session. Client code modification will be done within the time limit given by the respective exchange.

Every request for client code modification is to be sent to RMS dept in the predefined format and proper care should be taken in filling the Exchange order number, trade number, old client code, new client code, and the reasons for wrong Punching.

The reason for the modification is to be analyzed by the Management of the Company with regards to clients ledger a/c; demat a/c; trading pattern etc. and if found to be genuine then modification will be approved modification will be allowed only in delivery trades in which error was occurred genuinely.

Penalties & actions taken by the exchange against the broker / member shall be passed on to the respective client.

Margin Collection Procedure

The Company has a RMS (RISK Management System) Team, who is responsible for setting up the Client wise Trading limits, Margin collection & Reporting procedure as described below:

Client Limits are allowed as per margin norms of the relevant exchanges. Clients are required to provide upfront margin in the form of funds / securities (after appropriate haircut as prescribed by Exchange from time to time) before any trade.

RMS department monitor all orders & trades given by clients and executed in the trading terminal. The departments are also vigilant about all order rejections and spurt in exposures. The Company takes proper and adequate margin from clients as per the exchange/SEBI norms in the form of funds/Securities and report the same to the exchange as per the guideline of exchange.

We take Margin in the form of Funds through Account Payee Cheque, Electronic Fund Transfer and Securities. We have system to monitor the acceptance of third party cheque. In case, client provide securities towards margin, we accept only liquid securities received from registered DP ID of client. On receipt of securities, RMS applied the required hair cut as per exchange VAR.

At the end of the day, Shortage of Client margin is calculated and reported to the Exchange. During the trading hours if any short margin observed, RMS team follow internal RMS policy, due diligence and update the status to the respective branch/ AP and to clients. In case client doesn't respond RMS team may Square off the open position and subsequently intimate to the client.

Trading limit is set by RMS based on the available margin amount and calculated by considering the trading price prior to trading day (T—1 day) on daily basis. The debit and credit status is sent to the client on daily basis. In case of debit balances regular follow-up has been done. The RMS team do monitor the debtors and if client exceeding the exchange norms of T+5 day the trading is been halt, unless and until the debit is not clear by client.

Margin Reporting Procedure

On a daily basis exchange provides Margin Files to the Trading member in F&O and Currency Segment and Commodity Segment.

The Company report details of Margins collected from their clients for F&O Segment by uploading MG13 file through the Collateral Interface for Members (CIM) and other user interface of the Exchanges. Mechanism for regular reporting of Margin

- Free Balance available on current day (T Day) with client in different segments (BSE/NSE/FO/CURR) of the Exchange will be consider for margin collection.
- Only exchange approved stock in Pool Account (Company Beneficiary account.) & Collateral Account will be considered for margin collection
- Value of securities will be considered with subject to a haircut of VAR margin as per Exchange.
- Margins taken in the form of securities in the approved list to be valued as per the closing rate on the previous trading day and not the trading day, with an appropriate hair-cut
- Only free and unencumbered balances of scurities available with the Member for respective client in different segments of the Exchange shall be considered for margin collection and reporting.
- Accordingly, only securities received in pay out shall be considered only after it is actually received from the clearing corporation. However pay-in received from clients for such securities may be considered while calculating the ledger balance for the purpose of reporting of margins till T+1.
- Cheques dishonored/reverse or not cleared up to T+4 working days should not be considered for

Margin Money

After preparing margin report file, RMS person forward reporting file to person who is authorized to recheck the report file before uploading on Collateral Interface for Members (CIM).

Status of the file uploaded shall be checked regularly on the day of uploading after a few hours of uploading the same.

Penalty if any occurring out of the short payment will be debited to the respective client's account after t+5 days Information related to margin applicable, utilized and required / balance in respect of each client is to be sent on a daily basis to the respective clients in both the segments.

Margin Shortfall Penalty

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Client shall be liable to pay short margin penalty as charged by the Exchange. In case of upfront margin shortage, the penalty shall be liable as per the provisions of the Exchange.

Right of Sale of client's securities or closing the client's open position without giving notice

In the event of the Client failing to maintain / supply applicable margin money required to sustain the outstanding market positions of the Client, the company shall be entitled, at its option and liberty, to liquidate / close out all outstanding market positions or any part there of such that the outstanding market positions are either zeroed out or reduced to an extent where available margin covers the market positions remaining after such square off.

Any and all losses and financial charges on account of such liquidation/closing-out shall be charged to and borne by the client. The company shall also have right to close out any intraday positions taken by the client, in above circumstances. Such liquidation/ close out may be without any prior reference or notice to the client.

RMS Team may initiate liquidation of securities in following circumstances:

In case of Margin Trades, if the open position is neither squared off nor converted to Delivery by Client(s) within the stipulated time.
In case of Margin Trades, where Mark to Market Loss on the open position has reached the
70% of the margins placed with the Company and the Client(s) have not taken any steps either to replenish the margin or reduce the Mark to Market Loss.
In all other cases where the margin or security placed by the Client(s) falls short of the requirement or the limits given to the Client(s) have been breached
Where the Client(s) have defaulted on their existing obligation/ failed to make payments/deliver securities to the Company with the stipulated time
Extreme volatility in the market in particular scrip of both the segment
There are any restrictions imposed by exchange or regulator on the contract(script)
The client is undertaking any illegal trading practice or the client is suspected to be indulging in the money laundering activities or suspicious trade or trading in illiquid stock
The client has taken or intends to take new position in a security which is in the banned period
There are any unforeseen adverse market conditions or any natural calamity affecting the operation of the market.
When margin amount due from the client is not received by T+2 days.
When any initial margin available in the client's account is less than the requirement for SPAN margin
Once MTM loss crosses -70% the Company shall have the right to liquate client's position if client have not paid for loss arising in outstanding open position or have squared off open position.
The Company has proper system to maintain all records of communication done with clients and sub brokers/authorized persons.
RMS Team can add some of the more criteria based on the circumstances as they may deem fit.
All positions squared off by RMS Team must be intimated to the client at the earliest, but not later than the same calendar day, and contract notes be dispatched as per exchange stipulations without any exception.

Refusal of orders for "Penny Stocks" (Illiquid stocks)

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A Security that trades at a relatively low price and has small market capitalization is a penny stock. These types of stocks are generally considered to be highly speculative and high risk because of their lack of liquidity, large bid-ask spreads, small capitalization and limited following and disclosure. Depend on the market condition and RMS policy of the company RMS reserve the right to refuse to provide the limit in Penny stocks and losses if any on account of such refusal shall be borne by client only.

The Company may refuse to execute any client's orders in "Penny Stocks" without assigning any reason for the same.

Any large order for purchase or sale of any penny stock shall be taken prior approval from RMS and the dealing of such stock will only be allowed through Head Office

It will be client responsibility and respective Branch Manager/Dealer or RM duty to ensure that trading in "Penny stocks" does not result in creation of artificial volume or false or misleading appearance of trading

Further it also does not operate as a device to inflate or depress or cause fluctuations in the price of such stocks

Dealer/RM/Branch Manager should ensure that the Clients should not place orders in "Penny stocks" at prices which are substantially different from the prevailing market prices. Any such order is liable to be rejected at the sole discretion of the Company.

In case of sale of penny stocks as approved by RMS, clients shall ensure the delivery of shares to the Company before the pay-in date

The Company shall not be responsible for non-execution / delay in execution of such orders and consequential opportunity loss or financial loss to the client

The Company has the right to revise the list of such securities / contracts on a periodic basis.

Client can obtain the information about the updated list of securities from the Relationship Manager / Dealing office

Graded Surveillance Measure (GSM)

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, had been introduced GSM.

The main objective of these measures is to, Alert and advice investors to be extra cautious while dealing in these securities and advice market participants to carry out necessary due diligence while dealing in these securities.

In continuation to various surveillance measures already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with the aforesaid measures there shall be additional Graded Surveillance Measures on securities which witness an abnormal price rise not commensurate with financial health and fundamentals like Earnings, Book value, Fixed assets, Net-worth, P/E multiple, Market Capitalisation etc.

The list of such securities identified under GSM shall be informed to the market participants from time to time and shall be available on the exchange's website.

The Company shall have the duty to adhere with the provision in this manner and to treat accordingly with the clients.

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Additional Surveillance Measure (ASM)

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, after GSM introduced ASM.

Under this arrangement, SEBI have decided that along with the other measures there shall be Additional Surveillance Measures (ASM) on securities with surveillance concerns based on objective parameters viz. Price / Volume variation, Volatility etc.

ASM is based on an objective criteria as jointly decided by SEBI and Exchanges covering the following parameters:

High Low Variation
Client Concentration
No. of Price Band Hits
Close to Close Price Variation
PE ratio
Market Capitalization
Volume Variation

The Company shall have the duty to adhere with the provision in this manner and to treat accordingly with the clients.