



RISK MANAGEMENT SYSTEM:

RISK PERCEPTIONS

A HIGH RISK CATEGORY:

Under this category following type of Investors do fall (i)

NRIs and Foreigners

- (ii) Clients/Investors trading in the 'T' Group and 'Z' group covers under High risk category.
- (iii) Clients/Investors with High turnover coupled with delayed payment of more than 3 days of track record.
- (iv) trusts, charities, NGOs and organizations receiving donations
- (v) politically exposed persons (PEPs) of foreign origin

B MEDIUM RISK CATEGORY:

Under this category following type of Investors do fall:

- (i) Clients/Investors trading in "C' group scrip
- (ii) Clients/Investors with low turnover coupled with delayed payment of more than 3 days track record

C LOW RISK CATEGORY:

Under this category following type of Investors do fall:

- (i) Clients/Investors trading in 'A' Group, 'B1, B2' Group.
- (ii) Clients/Investors with High Turnover coupled with prompt payment track record.
- (iv) Clients/Investors with low turnover coupled with prompt payment track record.
- (v) entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile

GOAL:

The goal of a risk management system is to measure and manage the company's exposure to various risks identified as central to its franchise, clients, branches etc. For each risk category, the company employs a four-step procedure to measure and manage the exposure. These are:

- 1) Establish Standards and Reports;
- 2) Impose Position Limits and Rules;
- 3) Set Investment Guidelines and Strategies; and 4) Align Incentive Contracts and Compensation.

ESTABLISH STANDARDS AND REPORTS:

A standard is a point against which a client is measured. A report given to management may follow a standardized format that requires presentation of information in a structured way for ease of use or understanding. Standardized financial reporting is essential for investors to gauge asset quality and company-level risk.

IMPOSE POSITION LIMITS AND RULES:

A key element of financial and market risk management is deciding which risks to bear and to what degree. A company needs to impose limits to cover exposures to counter-parties, credit, and overall position concentrations relative to systematic risks. Summary reports to management can periodically show counter-party, credit, and capital exposure by business unit. Principles of accountability, transparency, and improved financial performance are being translated into demands to quantify and measure as much operational activity as possible and correlate that activity to the business plan

SET INVESTMENT GUIDELINES AND STRATEGIES:

Risk management involves determining what risks a company's financial activities generate and avoiding unprofitable risk positions. The board's role is usually described as setting the risk appetite of the organization; however this is not possible if risks are understated or ill defined. Guidelines can advise on the appropriate level of active management, given the state of the market and senior management's willingness to absorb the risks implied by the aggregate portfolio.

ALIGN INCENTIVE CONTRACTS AND COMPENSATION:

The need for elaborate controls lessens when management can enter into incentive-compatible contracts with line managers and relate compensation to the risks they bear. For example, management can offer a salary level without commission. Commissions encourage salesmen/traders put in more transactions because of the commissions.

KEY RESPONSIBILITIES FOR COMMUNICATIONS (TIER WISE)



Tier 4 :(The Basic Tier)

Who should call RMS (Tier 4)?

Authorized persons only from Branch / Associate (Business manager, Authorized Person in absence of Business manager)

All Communications regarding requests and queries to RMS Department from Branches and Business Associates (Authorized persons only from Branch / Associate (Business manager, Authorized Person in absence of Business manager) should be addressed to this Tier only.

Reasons to call RMS (Tier 4)?

- 1) Trading requests in emergency conditions (Like VSAT or Internet connectivity is broken)*
- 2) Requests to leverage Client Accounts limit up to 10% of available margin in cash segment. (Subject to sufficient liquidity in margin and intraday Mark to Market on open positions in Client portfolio).
- 3) Mapping and Password Related Queries.

***(In case of emergency situation all persons calling RMS Department for trading or squaring off the positions shall keep in mind the net positions hence arrived after such trades as it might be done on direct terminals of exchanges and may or may not reflect as positions open or squared at branch terminals, the persons calling for such trades should ensure that there is no duplicity of trade is being performed after the systems at branch or client locations gets connected.)**

Authorized Persons calling RMS for trades should also note if you are calling for squaring off a open position in cash segment which was actually created in Margin/Intraday account and were subject to square off while trading should be converted into delivery trades as the counter trades done to square off may not reflect at master terminals at branches and can be re-subjected for square-offs by system once the system recovers for operations.)

Tier 3 :(Intermediate Tier)

Who should call RMS (Tier 3)?

Authorized persons only from Branch / Associate (Business manager, Authorized Person in absence of Business manager) Reasons to call RMS (Tier 3)?

- 1) Trading requests in illiquid securities and BSE T2T segment which is not allowed at branch locations up to 1 time of available margin in portfolio.
- 2) Trade Back-Up related

Notes:

Branches which do not have requisite Certification to Trade in any segment (NSE/NSEFO/BSE) need to submit the required Certificate otherwise they would not be allowed to place the order in that segment even from Head Office

Tier 2 :(The Middle Part)

Who should call RMS (Tier 2)? State Head/ Cluster Head

Reasons to call RMS (Tier 2)?

- 1) All Communications and clarifications regarding confirmation of Client positions and Mark to Market losses.
- 2) MIS and Stock Related Queries
- 3) Queries and unresolved issues / Requests would be heard at this Tier.
- 4) Software Related understanding of reports. 5) For creation/deletion of IDs.

Tier 1 :(The Manager)

Who should call RMS (Tier 1)? Cluster Head / State Head/ Country Head

Reasons to call RMS (Tier 1)?

- 1) Communications regarding HNI / Approved Clients.
- 2) Communications regarding request for holding of position (which are subject to RMS square off) or special leverage under exceptional circumstances.
- 3) Trading Platform(ODIN/OMNESYS) Application Tier issues **(For Connectivity related issues contact IT Department)**
- 4) All critical and disputes which were not resolved to the satisfaction of concerned persons at previous Tiers would be addressed at this Tier.

Head of Department

Who should call RMS Head of Department?

1. For all Exchange related issues and queries.
2. All critical and disputes which were not resolved to the satisfaction of concerned persons at previous Tiers would be addressed at this Tier.

BASIC RULES FOLLOWED IN RMS DEPARTMENT IN RESPECT TO:



- 1) Negotiable Instrument Guidelines**
- 2) 7 Day Debits Guidelines**
- 3) Short Margin Guidelines**
- 4) Negotiable Instruments updating Guidelines**
- 5) Payout Requests Guidelines**
- 6) Intraday Square Off Guidelines**
- 7) Near Circuit Scripts Square Off Guidelines**
- 8) M2M Loss Guidelines**
- 9) Special Extra Intra Day Limit Guidelines**

1) Negotiable Instrument Guidelines

A Negotiable instrument payable to us is a mode for monetary transfer from Client side.

A negotiable instrument is categorized in following breakdowns according to their nature and relevance for necessary consideration and benefits thereto.

Negotiable Instrument (Class A)

Fund Transfers

(A fund transfer by the mode of registered bank account of client with us is considered as a liquid fund reported for consideration of margin money available with us.)

Same Day Same bank Cheque Clearing

(A Same Day Same bank Cheque Clearing is a cheque issued in the name of Company deposited in the same bank to us; the submission of such cheques should be reported in stipulated format.)

Negotiable Instrument (Class B)

Cheque Deposited to Other Banks

(A Cheque Deposited to Other Banks is a Cheque issued in the name of Company deposited in the different bank from the issuer bank in accounts of Company for clearing to us; the nature of clearing is moderate and may take from 2-7 days time, the submission of such cheques should be reported in stipulated format.)

2) 7 Day Debits Guidelines

Guidelines 1). 7 Day cases will be squared off from 9:15 AM and **no fresh buying** will be allowed to that client on the 7th day (even if that client sells stock, future or options more than his 7 days debit)



Guidelines 2). Stock selection category is not a practice (RMS 7 Day square off of stocks is a random process of selection and request to consider selective stock for square off is not considered)

Guidelines 3). All Collection of Negotiable instrument for 7 Day instances should be informed, collected, deposited and reported in stipulated format at T+4 or T+5 Day, No Negotiable instrument will be considered to hold the positions unless there is a fund transfer reported before market opens in stipulated format at designated mail address.

Guidelines 4). No Calls is accepted for holding 7 Days Debits.

3) Short Margin Guidelines

Guidelines 1). **Cash Short Margin** will be squared off from **9:15 AM** while **F&O Short Margin** will be squared off from **9:30 AM**, In Case of market Volatility the same will be squared off from 9:00AM without a prior notice thereof.

Guidelines 2). Stock or FO selection category is not a practice (RMS square off of stocks or F&O is a random process of selection and request to consider selective stock or contracts for square off is not considered)

Guidelines 3). All Collection of Negotiable instrument for Short Margin instances should be informed, collected, deposited and reported in stipulated format, Negotiable instruments (Fund Transfer, Same day same bank Clearing) will be considered to hold the positions reported before 9:00 AM in stipulated format at designated mail address.

Guidelines 4). In case of Short Margin Square Off in cash segment, If **Group 1 Approved stocks** are squared off the amount to the extent the stocks will be squared off will be **4 times of the short margin** amount being reported, **Group 2 Approved stocks** are squared off the amount to the extent the stocks will be squared off will be **3.3 times of the short margin** amount being reported and If **Group 3 Approved stocks** are squared off the amount to the extent the stocks will be squared off will be **2 times of the short margin** amount being reported, If Un-Approved Category stocks are squared off the amount to the extent the stocks will be squared off will be 1 times of the short margin amount being reported. (Approved List is sent to official email id of Branch Manager and Business Associates on regular basis)



Guidelines 5). No Calls will be entertained to hold the positions unless there is a mail with details of acceptable negotiable instrument stipulated earlier on with proper details like Scan Copy, Excel Details, No details of funds will be considered after 9:00 AM

4) Negotiable Instruments updating

All negotiable instruments collected and deposited must be reported in stipulated format with Scan copy, Excel Format, Covering letter at *designated email id for this purpose*; For limit updates thereto is uploaded in systems **Four** times during trading hours at 10:00 AM, 11:00 AM, 12:00AM and 1:00 PM, all mails reported in the context is collected and reviewed for limits approval, Only Class A category Negotiable instruments are subjected for limits.

5) Payout Guidelines

All Sales persons or Business managers must post Payout Requests at designated email id for this purpose.

The limits will be decreased from trading accounts once accounts sections intimate us about such payout requests.

All requests to entertain limit or hold positions in short margin will only be allowed if client requests to cancel payout being processed after we receive a request from Branch manager or above only after providing the scan copy of across cancelled issued negotiable instrument at designated email id for this purpose..

6) Intraday Square Off Guidelines

All intraday / Margin positions created in cash Segment is subject to square off around 3:10 PM to 3:20 PM, all product conversion must be done before 3:00 PM.

7) Near Circuit Scripts Square Off Guidelines

All the Intraday positions will be squared off from RMS when the scripts breaches the **4%Tier (for Scripts with 5% Circuit), 8% Tier (for Scripts with 10% Circuit), 16%Tier (for Scripts with 20% Circuit Tier),**

Also note that it is the prime responsibility of the Branch to square off the Near Circuit Scripts positions of its Clients. The position will be squared off from RMS in case of failure of Branch in fulfilling its responsibility.

8) M2M Loss Guidelines

Client id whose liquidity erodes more than 70% during the intraday is squared off immediately from RMS and intimation will be sent to branches after such square off.

9) Special Extra Intra Day Limit Guidelines

Special extra Intraday Limit provided to clients would be withdrawn at 2:45 PM and needs to be squared off before 3 o'clock otherwise it would be squared off by the RMS Department without any prior intimation thereof..Also note that no request to hold the position would be entertained except in case of fund transfer.

IMPORTANT NOTES TO ABOVE GUIDELINES

No Calls would be entertained for working outside the below mentioned rules.

1. Limit against cheque collected from the client is given by RMS Department on the same day in case of Transfer Cheque (Where issuing bank and the bank in which cheque is deposited is same) and in case of other cheques it is given after it gets cleared and Accounts Department gives that confirmation to RMS Department. Please note that in case the client is in short margin or 7 days Debit or is a critical client(in terms of risk)the limit would be provided only on cleared funds i.e. after the cheque gets cleared and Accounts Department gives that confirmation to RMS Department.
2. The Cheque collected from the client is considered by RMS Department when a mail is sent by the Branch at designated email id for this purpose along with the *scan copy* of cheque as well as Excel containing Details as to serial number, Date, Cheque No., Client Code, Amount, Deposited Bank, Exchange.
3. (Approved List of Stocks) The Trading Limit for each client is fixed as the sum of his ledger balance and stock position after haircut. Hair-cut is determined on the basis of the category to which the stock belongs. If a stock belongs to **Group 1** then the hair-cut on such stock would be **25%**,

Group 2 then the hair-cut on such stock would be **30%** and if it belongs to **Group 3** the hair-cut is **50%** and if it does not belong to any of the above category then the hair cut would be **100%**. **Therefore, the client won't get any benefit in terms of limit on his unapproved stock holding while he would get 50% benefit on Group 3 stock, 70% benefit on Group 2 stock and 75% benefit on his Group 1 stock**

4. While determining the Trading Limit of Client stock which is there in beneficiary account is only considered. Stock in DP account of client is not considered.
5. **Short Fund Margin** of the client is arrived at by deducting the stock position after Hair-cut from the Overall debit ledger Balance of the client i.e. the clients whose stock position after hair-cut is not enough to cover the debit in his ledger Balance is in short margin. Such clients have to give a cheque to cover the short margin before 9:15 AM otherwise the position of such client is squared off at 9:15 AM by the RMS department at H.O to the extent of the short margin.
6. The client needs to be informed by the branch when their account comes in 4-days debit and the cheque should be collected from them and mailed till 5th day debit. If the client does not give payment till then the positions are squared off on the 7th day by the RMS Department.
7. The client needs to square off his intraday margin position by 3 o clock otherwise it's automatically squared off by RMS.
8. All Queries related to pending cheques deposited which is not cleared till date should be enquired in accounts section only, Limits will be provided once the pending cheques are cleared in our accounts, no calls for any update in pending cheques should be accepted from branches or business associates as the same is intimated through accounts only.
9. All High value same bank clearing deposited and reported at earlier trading sessions if not cleared will not be considered for limits until the same is fully cleared in our books and any update in the same context will only be updated in accounts section only.
10. In case of reversal or dishonor of a negotiable instrument RMS holds the right to square off the Open positions and stocks in portfolio subject to the margin shortage amount arising due to such reversal or dishonor (RMS Keeps the right intact for square off viewing the crucial conditions of portfolio and impact due to such reversals.)
11. If a Short margin instance which is squared off from RMS if reported later with fund transfers or other Class A Negotiable instruments with stipulated documents will be provided with the limits up to the amount reported to us by the way of such negotiable instruments (Only BM's and Authorized persons are allowed to contact TIER 4 RMS department for such limits, The executive will allow limit after properly scrutinizing of such reported negotiable instruments.



12. All Business managers are hereby advised to properly scrutinize the M2M losses and SPAN they are carrying for the next Day as the same will reveal the next day short margin.
13. No leverage will be allowed in F&O segment as we are already facilitating F&O trading with no Exposure margin which is normally 5%.
14. Note that the password of Online Clients would only be mailed at the client email Id that is registered with the CRF department. No request for sending at that any other email Id or on phone would be considered..

Any change in RMS Guidelines will be informed separately.