RISK MANAGEMENT POLICY

BACKGROUND:

SEBI has issued comprehensive guidelines and has laid down detailed norms for Stock Exchanges, Stock Brokers and other intermediaries in the secondary market.

As a Share Broker and Depository Participant, Peerless Securities Ltd (PSL) has to consider the Risk Management Policy 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.

Risk Management Measures of PSL:

PSL maintains client level exposure policy. Total deposits of the clients are uploaded in the system at the BOD and client may take exposure on the basis of margin applicable for respective security as per VaR based margining system of the stock exchange or at a higher level which depends upon the market situation.

The following measures are maintained for giving exposure to the client:

- Trading is allowed only against available margin in client's account either in the form of clear credit balance and/or approved securities after appropriate haircut held by the client with PSL.

- Effective margin is computed as under:
  In cash segment, we provide exposure limit to a client which would be a **multiple** of the available margin

- In the Derivatives segment, the client margins which are required to be compulsorily collected by PSL includes initial margin, exposure margin/extreme loss margin, calendar spread margin and mark to market settlements.

- Selling (delivery) is allowed to the extent of holding of stocks or un- settled purchase position with PSL. In case, Sell from Out side DP, it is the sole discretion of PSL.

- Risk Management Section perform a real time monitoring of carry forward and intraday position of the client

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

- If purchases are carried to the next day by the client, branches / authorized person / sub-broker (herein after refer to as branch) have to collect cheque from the concerned clients covering the relative debit raised in the client account (purchase price + brokerage + Taxes) on T+1 day. If payment is not forthcoming, Branch should pursue with the client for payment as early as possible. In any case, if debit is not adjusted by client either by payment or by sale of securities, branches have to square off the debit within stipulated time period which is presently 5 days.

- In the event of client's failure to clear the debt and the market conditions remain turbulent, the position may be squared off immediately if the available cushion reduce significantly.

- Usually PSL runs auto-square off module all intra-day positions extinguished at 3.10 p.m. for cash market, 3.20 for F&O market and 4.50 for Currency Derivatives.

- No trades will be allowed in physical scrip in cash segment and in banned securities other than square up trades in F&O segment.

- PSL shall have the prerogative to allow differential purchase limits and sell limits varying from client to client, depending upon credit worthiness, integrity , past conduct of each client etc.

- It is to be ensured that client's ledger is periodically settled monthly or quarterly as opted by the client but between two settlements the time gap should not be more than 90 days.

A) Collection of Margin :

The margin is collected through fund or approved securities.

<u>Fund</u> :

The clear balance available in the client's ledger account.

<u>Approved Securities</u>:

Only approved securities notified by the stock exchanges and circularized by PSL are accepted from the clients as margin.

B) Recovery of MTM Loss:

MTM loss would be collected from the client on T+1 basis. On the client's failure to put in additional margin to make good the MTM loss, it is imperative that the relative F&O position may be squared off even before margin short collection positions are uploaded to NSE.

C) Intimation of F&O/CDS margin shortfall positions:

Clients will be intimated through e-Mail/SMS for their margin shortfall and their failing to meet the Margin Shortfall, will attract penal action.

If MTM losses reaches 80% of the deposit at any point of time, RMS may take a suitable action even square up the open position may be before above stipulates days.

D) Refusal of order for illiquid contracts:

In case of F&O segment, by default all Option contracts beyond the three Month will not have any buy and sell limit due to its illiquid nature. However in all above cases if client wishes in these contracts to trade then the client needs to coordinate with the respective branch and the limit will be set by Head Office after analyzing the requirement.

Setting user (Dealer) limits:

User limit is created in such a manner that a definite barrier is created against execution of any unduly large value orders on the trading terminal, either intentionally or inadvertently and at the same time there are no operational hurdles for genuine orders to put through.

The user limits currently sets as:

ODIN User deposit value limit: Rs.50 lakhs per terminal for branches
Rs.20 lakhs per terminal for Sub- brokers

Clients' trading Limit:

Order limit: Maximum quantity is 10000 shares. Maximum value Rs. 10 lakhs
Turnover Limit : Rs. 50 lacs

(In the light of long history of high volume of trading on a terminal, higher turnover limit may be set at the discretion of the Management)

Funds pay-in from clients:

The client can meet up the obligation by three ways.

(i) By paying cheque - On receipt of cheque from the client the details of the cheque is entered by the branch in specially designed software alongwith scan copy of the cheque. After through checking by the appropriate authority credit is allowed.

(ii) By Transferring of Fund:

a) Directly from Client's Bank - Proper documentation to prove the transfer of fund from client's registered Bank account need to be provided.

b) Through log-in in our portal – Adequate control is there to restrict from third party transfer.

(iii) By paying Prefunded Instrument – The Pay Order/ Demand Draft of less than Rs. 50,000/= are accepted by the Branch Manager only if it is accompanied by written request from the client. The Branch Manager is responsible for the necessary Due Diligence before accepting the Demand Draft e.g purpose of giving Pay Order/ Demand Draft, source of money etc. If the response of the client is satisfactory, the Branch Manager forward the scanned copy of the Demand Draft/Pay Order along with the Client's request letter to the higher authority (Not below the Head, Risk Management Dept) at Head Office for approval. Risk Department will tally the client's signature on the request letter and after tallying the signature, will give instruction to Accounts Department for necessary entry.

To accept the Pay Order/Demand Draft for more than Rs. 50,000/= it is must be accompanied by such a statement which proofs that the instruments has been purchased with the client's money and before crediting the client's account proper approval is required from Whole Time Director/Managing Director.

<u>Funds payout to clients:</u>

Routine Payouts are made to the clients against their specific requests by client or branch on behalf of the client after verifying their settlement and margin obligations. On receipt of Requisition Request from the branch or clients through portal, position in client account and settlement and margin obligations are verified by risk management desk who forward the matter to Finance & Accounts Section for Payment through NEFT/RTGS. In case NEFT / RTGS fails, payment is made through account payee cheques.

E) Margin Trading Facility:

- Margin Trading Facility (MTF) will be provided to those clients who have signed the Separate Agreement to avail the same.

- Funding will be done only as per SEBI Guidelines and Group 1 securities and/or fund taken as collateral.

- Clients are getting their MTF position daily through e-Mails. In case of Margin Shortfall, the same should be informed to the client. Non-Payment/continuous shortfall, PSL has every right to liquidate the position at any time.

- Stagnant position need to be settled within 90 days.

Other risk related issues:

Stock Brokers are subjected to monitory penalties / strictures for committing any violations of the rules and regulations, notifications, guidelines, instructions etc., issued by SEBI or the Central Govt. or the Exchanges. Each Stock Broker, therefore, carries certain risks in the area of compliance. There are myriad numbers of instructions which a Stock Broker should meticulously comply every day. Important issues which on violation attract strict penalty are indicated below:

- Non-preservation of all records for 5 years. Certain records are required to be retained for 8 years to meet the requirement under Anti Money Laundering Act.

- Failure to comply strict adherence to KYC norms at the time of opening of Demat and Trading Account of clients.

- Failure to exercise proper due diligence for verification of all client details regarding bank accounts details, in-person verifications, proper execution of member constituent agreement, issue of risk disclosure document etc.

- Failure to issue of statement of accounts for funds and for securities to the clients.

- Failure to take redressal measures on customer grievances on being directed by SEBI or the Exchanges within the stipulated time period.

- Doing business for defaulting clients.

- Failure to exercise proper watch in newly opened account leading to suspicious transactions not having any bearing on the financial status of the client.

➢ At PSL we have put in suitable measures to maintain high standard of work procedure so that the relative guidelines are strictly complied with by the operative staff. With majority of the functions being centralized at Head Office, there is constant monitoring of the quality of working. The quality of compliance by our branches is also supervised through periodical inspection of the branches. Remedial measures are initiated immediately on detection of shortcomings.

➢ On opening of Demat / Trading Account the client should be issued a suitable letter from Head Office drawing his / her attention to the client's rights and obligations and the need to discharge such obligations on being intimated by PSL. Such letters will be mailed by Head Office direct to the client's recorded address.

➢ The system of checking by Internal Auditor has to be strengthened in regard to verifying that at all levels (branches as well as Head Office) there is due diligence in opening of accounts, complying with KYC requirements, in ensuring with systems safety in complying with the client instructions, manner of uploading client instructions, verifying client signatures and in maintaining client records etc.

- Contract notes are to be generated digitally and e-mailed to client within the stipulated 24 hours.

Communication:

Client can view details of his / her ledger balance, margin provided, shortfall if any etc through his secured login on PSL website. The client has to be aware about his position, outstanding balance and Risk. PSL is under no legal obligation to send any separate communication but as a customer centric company; we may take extra efforts generally to ensure that client is well informed about the Risk and the possible actions, which may follow. The communication would generally be through SMS / Email on registered contact details with PSL.

Employee Risk:

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 behavior and dishonesty manifested in employee-client nexus. Keeping the above factors in mind, PSL: have put in the following measures to safeguard against willful wrong behavior 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) It has been made mandatory for all employees to avail at least 10 days leave in a year.

iii) 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.

iv) 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 informing the orders entered into the system on their behalf during the day

iii) Sending SMS to clients direct reporting the transactions made by him during the day.

Disclaimer

PSL Management will have a discretion to alter/change any of Exposure limit, selling parameter defined in this policy on the basis of prevailing market conditions with or without prior intimation and can use their discretion to grant any kind of exemption/permission in case they deem fit on case to case basis.