PKC STOCK BROKING PVT. LTD.
RISK MANAGEMENT SYSTEM

RMS stands for Risk Management System i.e. to manage the risk of the Company / clients from the volatility of the stock market

The Company has a system of online risk management (including upfront real - time risk management) is in place for all orders placed through exchange provided terminals/ NNF terminals i.e. CTCL terminals.

It has the system of pre - defined limits/ checks such as Single Order Quantity and Single Order Value Limits, Symbol Wise User Order/ Quantity Limit, User / Branch Order Value Limit, order price limit, Spread Order Quantity and Value Limit, Cumulative open order Value Check (Unexecuted orders) are in place and only such orders which are within the parameters specified by the RMS are allowed to be pushed into the exchange trading engines. No user or Branch in the system is having unlimited limits on the above parameters.

The Trading Systems of NOW has the capability to generate alerts when orders are placed above the limits. However, when certain limits are exceeded, prior management approval is required before allowing the client to execute further trades.

The Systems has the capability to facilitate review of such orders that were not validate by the system.

The system has capability to identify trades which have exceeded the pre - defined limits (Order Quantity and Value Limits, Symbol wise User order / Quantity Limit, User/Branch Order Limit, Order Price Limit). Deviations from such pre-defined limits are captured by the system, documentary only for CTCL system and corrective steps taken.

The system maintained logs of alert/ changes/ logs of changes to the risk management parameters maintained above. The system allows only authorised user to set the risk parameter in the RMS.

The Organisation has implemented a comprehensive integrated risk assessment, governance and management framework. The Standards, Guidelines, templates, processes, Catalogues checklist, measurement metrics part of this Framework. The risk identification and assessment processes repeated periodically i.e. on a quarterly basis to review existing risks and identify new risks.

Mr. Abhishek Kayan, Managing Director of the company along with Miss. Shiksha Agarwal and Mr. Ranjan Raj Verma are authorised for the purpose of modification of Risk Management System parameters.

The organization has defined procedure / process for Risk Acceptance.

The Installed NNF system provides for reconciliation if orders which are larger than that as specified by the Company's risk management system.

The system has a manual override facility for allowing orders that do not fit the system based risk control parameters.

Publication of Reports and real time dash boards are not applicable to the company.

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1. Setting up of Client Exposure Limits and Allotment of Debit Points :

It is the policy of the Company to fix Turnover and Obligation Limits for new clients based on the Income Range declared by them whether individual or HUF. Such Limits fixed for clients shall be subject to review depending upon their turnover, payment pattern, background, references etc. Limits for delivery based clients are determined based on their performance and/ or their ability to meet obligations. Square up clients only indulging in square up deals are given maximum flexibility. The obligation parameters have been considered for fixing variations for 100% square up clients, only delivery based clients or 50-50 square up or delivery based clients. In some cases Turnover is important consideration but for other transactions obligation is the final consideration. The most important consideration is their meeting the T + 2 days obligations. It is the policy of the Company to allot Debit Points to clients who exceed limits for turnover and obligation fixed for them keeping in mind their meeting of respective payment obligations. If a client crosses his/her obligation limit and does not make payment within T + 2 days, then 1 debit point is allotted. If a client crosses the obligation and turnover limit and does not make any payment within the pay- in obligation due date, then 2 points are allotted. However, no Debit Point is allotted if only turnover limit is crossed and the obligation limit is not crossed. If the number of Debit Points allotted to a client in a Financial Year exceeds 25, he shall be initially warned, then the Company shall take steps to reduce his/her limit and on repeated failures, his/her account may be temporarily suspended by taking prior approval of the management.

In the process of diminishing risk regarding clients not meeting their end of the day obligation, debit points are also allotted to them based on the monitoring of their debit balances. Continuous debit of Rs. 25,000/- or more for 7 days calls for a point being debited to the client. However, debit on debit balance should not be allowed beyond 2-3 days. Further as per the SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/137 dated November 19, 2019 and NSE Circular No. NCL/CMPT/42691 dated 20.11.2019, it becomes compulsory to collect up front margin from clients for Capital Market Segment also, effective from 01st Jan'2020. In Futures & Options Segment Exposure Limit of each client is set, based on Funds for Margin provided by the client, as per the Exchange Regulations. Up front margin is collected from clients in the form of Cheque and/securities and limits are provided after applying hair cuts.

2. Categorization :

It is generally recognized that certain clients may be of a higher or lower risk category depending on circumstances such as the customer's background, type of business, our references, location, volume of transaction or payment pattern, etc. As such, the Compliance Officer and the Principal Officer shall apply to each of the customers due diligence measures on a risk sensitive basis and shall divide the same in three categories HIGH, MEDIUM AND LOW which shall be reviewed every six months. Initially all new clients are to be marked as high- risk category; however they may subsequently be recategorised depending on their performance based on our own experiences of funds and pay-out pattern including delivery based and square up transaction pattern. All clients

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trading in Futures and Options Segment are to be covered in High Risk category and shall remain so as long as they continue to trade in the F & O Segment. Some clients have been identified as Clients of Special Category (CSC), for whom enhanced due diligence shall be exercised. The basic principle enshrined in this approach is that the concerned persons shall adopt an enhanced customer due diligence process for higher risk categories of clients.

Conversely, a simplified customer due diligence process may be adopted for lower risk categories of customers.

However, square up client category of risk perception is based on his/her net outstanding position at the end of the day. Higher exposures on a day-to-day basis for F & O Segment as well as square up transactions result in higher risk. The clients who work both in square up and delivery based trade, may be categorized as Medium Risk or Low Risk clients depending on their capability to take delivery, keeping in mind their volumes and past payment pattern.

3. <u>Clearing and Settlement</u>

<u>In case of purchase on behalf of the Client</u>

<u>Delivery</u>

- The relevant scrip shall be delivered to the Client Beneficiary Account only within 24 hours of pay-out subject to receiving payment.
- In case the payment is not received, the shares are to be kept on hold and are to be released once the payment is received from the Client.
- Short delivery, if any shall be delivered to the Client's Beneficiary Account within 24 hours of the payout received on account of Auction or in case of square off payment to be made within 24 hours of the relevant Auction pay out.

<u>Payment</u>

- The Company requires the Client to deposit the upfront margin before the execution of the trade or on trade day itself for the Trades done in Capital Market Segment.
- Payment shall be received 24 hours before the pay-in or on the day of pay-in.
- All transactions with the clients shall be routed through separate "Client Account" Only.
- The Company shall ensure that the payments are received from the respective Clients only and is to be verified.
- In case of DD / Pay order / RTGS received from clients, a letter should be collected enclosing DD / Pay order alongwith an evidence of payment from the Bank Account registered with the Company as per the Company's Policy.
- In case, payment is not received within T + 5 days, the client shall not be allowed to trade except for squaring up of Debit Balance.
- Any Running Account Settlement shall be done either monthly or quarterly as per the instruction of the client.

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- As a risk management measure, the Company shall not allow Debit on Debit beyond T + 5 day on a continuous basis. For any act beyond the set policy, special permission is required to be taken from higher authorities.

In Case of Sales on Behalf of the Clients

Delivery

- The relevant scrip shall be delivered by the Clients on the Trade day or before the pay-in day. In case of large volumes, the Client shall be asked for early pay in of shares.
- Short delivery, if any by the Client will entail auction by the exchange and the amount so debited shall be payable by the Client and shall be charged from the respective clients.

Payment

- Payment shall be made by the Company to the Client through online Banking channels only and account payee cheque favoring the client
- Payment shall be made as aforesaid within 24 hours after the relevant pay out of the Exchange or as per the instruction of the Clients in case of Running Account.
- All transactions with the clients shall be routed through Separate "Client Account".

4. Margin & Exposure

The Company will collect margin from the client on the day the client trades or before. In case, the Cheques are not collected on the same day, the same shall be collected on the very next day before the pay -in. Day traders are allowed to take position for the purpose of square - up within limits approved but shall not do trade of one share unless the value is high.

5. Margin Collection and Reporting Procedure

Margin Collection

- The Company shall collect Upfront VAR margin and Extreme Loss Margin(ELM) from clients trading in Capital Market Segment in the form of cash and securities as specified by the Exchange and limits are accordingly set after accounting for hair cut.
- The Company shall also collect additional margin, as decided by the Exchange for F&O segment and/ or optionally as and when required, the MTM Margin shall be collected from the clients.
- In addition to the above, additional margins may be collected from the clients depending on market conditions.
- Clients are allowed to trade on the basis of margins received and if any shortfall arises from exchange in both Cash and F&O Segment, the same shall be regularized within 'T+1' days.

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Margin Reporting

- On a daily basis NSCCL- Mass provides Trading Members detailed Margin Files for CM and F & O Segment. The Company shall report details of Initial Margins collected from their constituents for both the segments Capital and F&O Segment by uploading MG13 file through the 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.
- Clients shall be provided Initial Margin and MTM Margin related information on a daily basis and shortfall, if any, has to be collected from them. Margin information to the client and reported to the Exchange includes the following information :
- Client Code and Name
- Trade Day
- Total margin deposit placed by the Client up to day (T- 1) with break up in terms of cash, FDR, BG and securities.
- Margin utilized up to the end of 'T-1' day.
- Margin deposit placed by the client on' T' day.
- Margin adjustments for 'T' day.
- Margin status (balance with us / due from clients) at the end of 'T'day.

6. **Right to sell client's securities or close client's position, without giving notice to the client on account of non-payment of dues:**

If the client fails to pay his/her pay - in settlement obligation of funds on or before the Exchange Pay- in day, the Company shall give a call to the client , (in case of a direct client) or to related sub broker, who in turn will follow up with the client. If the fund is not received within 5 trading days from the Pay in day, the shares of the client bought by him will be sold out in the Exchange. If there is a loss in such sale transaction, then the loss shall be borne by the client. In case of any such sale, the client shall not be given any notice.

7. **Shortages in obligation arising out of internal netting off of trades:**

In case of shortages in obligations arising out of internal netting off of trades, short shares are bought in the market at market rate in the Defaulter Client Code. Shares are delivered to the Buyer client on pay-out day. The ledger of the client who failed to deliver shares is debited for such market purchase.

Conditions under which a client may not be allowed to take further position

Under the following conditions a client may not be allowed to take further position:

1. The client has a due / debit balance - Such clients are allowed to close out his/her open position but are not allowed to take any new position as per the Company's Policy.
2. The client has not been able to meet his/her pay - in obligation in cash by the schedule date of pay - in.
3. The client has not met Mark to Market loss in cash.

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4. The "open" positions in a contract exceed or are close to market wide cut - off limits.
5. The client's position is close to client - wise permissible "open" positions.
6. The client has defaulted in meeting cash or securities obligation leading to compulsory close out of the position.
7. The exchange is not allowing any further position in that scrip.
8. Based on the occurrence of certain events, the company has the risk perception that further trading in the securities/contracts may not be in the interest of its clients and/or the market.

As additional Risk Control measures in order to reduce the chances of erroneous orders being executed the following measures shall be adopted:

a. Pre Trade Risk Controls

Due to certain incidents of erroneous orders being executed on the Exchange Platform, SEBI has come out with directions to put checks and balances by the Stock Brokers.

To prevent aberrant orders or uncontrolled trades, Minimum Pre-Trade Risk controls for all categories of orders placed on Stocks, Exchange Traded Funds, etc. order level checks shall be placed in the Trading terminals as per the Exchange directions which shall be periodically reviewed.

b. Dynamic Price Brands

Individual scrip wise price bands in either directions are set by the Stock Exchanges for all scrips in the compulsory rolling settlement except for the scrips on which derivative products are available or scrips included in indices on which derivatives products are available .

For scrips excluded from the requirement of price bands, the Exchange has implemented a mechanism of dynamic price band (commonly known as dummy filters or operating range) which prevents acceptance of orders for execution that are placed beyond the price limits set by the stock exchanges as and when a market-wide trend is observed in either direction..

c. Risk Reduction Mode

(a) The Stock Brokers are mandatorily put in Risk - Reduction Mode by the Exchange when 90% of the Stock Broker's collateral available for adjustment against margins gets utilized on account of trades that fall under a margin system.

As a part of our risk management system, the Company shall also monitor the exposures of clients/Authorized persons on real time basis. During market fall, the Company shall observe the position of respective client as well as Authorized persons like his/her credit balance available or securities lying with the Company, etc. and depending upon the same, the Company shall allow them to create further position or to reduce their position.

The above policy was approved by the Board of Directors of the company at its meeting held on 27.12.2019.

For PKC STOCK BROKING PRIVATE LIMITED

Managing Director