RISK MANAGEMENT AND SURVEILLANCE POLICY

Risk Management & Surveillance is integral to an efficient risk system. We have put in place a comprehensive risk management system, which is constantly upgraded as per the Exchanges, SEBI & PMLA norms and as per market movement.

Risk Management Policy

The Model of RMS is framed for Branches and Authorized Person and clients. All the Staff, Branches, Branch Managers, Authorized Persons, clients need to understand and follow the policy as it is an integral part of company.

RMS Function includes:

- To check capital adequacy for exposure and requirements of the client.
- Monitoring of Clients Order, Patterns of Trade, Order rejections, increasing of Exposure/Limits if required.
- Monitoring MTM profit/loss incurred out of trades and outstanding positions.
- Decision taking about squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may come across.

Limit construction derived by formula: -

Limit/Margin = [Combined Ledger Balance as on day across all Segment and exchange + Pledge value after appropriate haircut (minimum Var + ELM) + successful EPI value + online fund transfer on Trading Day + 80% value to limit on Sale Stock]

– [MTM Loss (Booked and open both) +Pay out request + unclear cheque receipt (if any) + any unsettled amount]

Equity segment

We allow exposure in equity market according to below mentioned product wise.

Product wise Limit Setting:

1. **Intraday:** Under this category we set limit fix 5 Times or we charged only 20%value of the stock based on Limit Set. The exposure set or given in this category is on auto squared off mode irrespective of margin available.
2. **Margin:** The exposure given in the category is fixed 2.5 times the available margin in predefined script only allowed script is available on our website. Exposure set for the product on the basis on limit set.
3. **MTF:** Under this category limit is set for margin trading facility as per required initial margin for availing fund of that script.
4. **CNC:** The exposure given in the category is fixed 1 time. Exposure set for the product on the basis free credit ledger balance available. Stock buy in this product will be in nature of delivery.

Derivative and Commodity Segment

Limit setting in All Derivatives segment as per span margin includes all types of margins like initial, exposure, Ad hoc, tender, additional and delivery. Exposures are based on product limit setting, mentioned below:

Product wise Limit Setting:

1. **Intraday/Cover Order/Bracket Order:** Under this category limit set on Span Margin. (Means 1 time). The exposure set or given in this category is on auto squared off mode irrespective of margin available.
2. **Margin**: under this category limit is set 1 time as per the available balances according to span margin. Position can be carried forward only on 100% margin available.

SQUARE OFF POLICY AND CONDITIONS

- All intraday positions will square off at or after 3:08 PM Equity and Equity and Index Derivatives and for Commodity - 11:15/11:40 PM).
- The positions taken for Intraday/CO/BO should be cleared up within the last 15 minutes of the respective market close. LISL shall not be responsible for any Loss/uncovered open position on account of any technical failure/ Circuit.
- Once the MTM loss reach 80% of the margin available, Positions will be squared off irrespective of any product.
- In case client MTM loss reaches 60-70% at the end of the day, clients will have to reduce their position up to the level of 50% or need to enhance the limit by additional fund/security deposit.
- If the open position clearance is not initiated from branch and AP, then the same would be cleared from RMS department. In this regard, the company shall not be responsible for any loss that is incurred to the client on an individual basis.
- Any NEFT/IMPS/RTGS is to be done, and then it should be before 2:00 pm for ignoring the ageing square off initiated by Branch and RMS.
- T+1+5 (T denotes Trade Day) ageing debit must be cleared by 2:30 PM by client. If the debit is not cleared by client Compulsory Square off by RMS in the case of non-payment of debit balance in the same day. The cheque would not be considered as payment on the same day.
- Any debit outstanding for more than 90 days will be squared off by RMS, irrespective of the segment, in case of non-receipt of payment.
- Debit clients/UCC more than T+1+5 (T denotes Trade Day) will be on square-off mode. No fresh trade will be allowed in such cases even if the client squared off his/her position.
- Any probability or guarantee of client cheque receipt/fund transfer request will not be considered on the day of square off.
- In case stock valuation falls below 20% of the total ledger debit, square off can be done even before 5th day of debit.
- If having more than 25 % debit concentration in single stock, stock will be liquidated by RMS (MTF and Non MTF both segment).
- All outstanding positions will be squared off, and Client will be responsible to pay the Dues to clear the outstanding in his/her ledger.
- In any Circumstances client fails to pay the dues, Company will switch to Legal activities to recover such amount from client.
- Margin Shortfall client's position may be squared off or reduced to margin available.
- All Physical Delivery Contract of NSE derivatives will be on square-off mode at its last trading day. Outstanding Position will /may square off after 3:00 PM, if the client has not sufficient margin towards his delivery obligations or client has not given any instructions to take / provide delivery.
- No fresh positions shall be allowed in options contracts on the day of expiry, and no fresh positions shall be allowed in futures contracts post 3:00 PM on the day of expiry.
- All Position in Commodity will be at square-off mode at the first day of their Tender Period.
- The MTM loss arising in F&O positions needs to be paid on the same day (Trade Day) so that MTM settlement can be performed properly, failing which the positions will be reduced to the available margin level.

- RMS may Square off the positions in case of: -
    1. Script highly volatile
    2. Margin /MTM Shortfall
    3. Cheque bounce / third party cheque deposit
    4. Scrip is banned / not allowed for trading / withdrawal from F&O/ as per exchange
    5. Suspicious trade or transaction under PMLA Act
    6. Synchronized trading.
    7. Regulatory body Prohibits or suspends the client.
    8. Circular Trading.
    9. Pump and dump.
- Any type of consideration shall not be given to the client if any instances of cheque bouncing or cheque reversal have taken place in the account.

Margin Trading Facility (MTF)

- Margin Trading Facility is Available for Equity Segment Only.
- Funding is Possible only in Exchange and LAKSHMISHREE Approved Stock available in Group 1 Securities.
- MTF Eligible Stock list is available on our website lakshmishree.com
- We require a minimum initial margin of funded stocks as per SEBI/Exchange guidelines.
- Initial Margin can be deposited in the form of funds and Approved stock after haircut.
- Client should have upfront Initial Margin (Upfront means before purchasing/selling/trading stock)
- Clients can place an order for MTF as a normal equity trade.
- Clients funded securities kept in MTF4 & client collateral kept in MTF3.
- Clients can avail of up to 25% funding of available margin in single stock only.
- The interest rate will be charged up to 24%.

Shortfall in Margin Trading Facility (MTF)

- Clients should have an initial margin at each point of time.
- 3 Days Consecutive Initial Margin shortage in MTF will lead to force square off by RMS/reduce client position/terminate the MTF facility.
- Client must be active once in 90 days.
- Non-Active MTF clients MTF facility will be terminated after 90 days

AMO order (After Market Order)

- AMO order can be placed at after-market hours. AMO orders release is being checked and placed at the time of market open.
- AMO can be cancelled if the client does not have sufficient funds/stock balance at the time of order placed.

General Rules and Guideline:

- Trading is not allowed in illiquid stock (declared by Exchange), GSM and SMS stocks (sole discretion).
- Exposure is not allowed on any banned script in FO segment.
- Any banned open Position will be on square off mode only.
- Intraday trading is not allowed in banned scripts.
- Client is solely responsible for any loss, shortage and Auction in BTST trades.
- RMS may increase the minimum required margin in any or all product type of trading.
- 20 % Margin will be blocked in T1 Stock Selling.
- Trading in commodity contracts will be banned a day prior to the delivery intention period.
- Trading in Far months contracts in MCX and NCDEX are not allowed. Only current and next expiry contracts are allowed for trade.
- Option Contracts in commodity segment are subject to open according to open interest and volume in that stock.
- Any delay payment (after T+1) will attract up to 24 % interest P.A.
- Any penalty by the exchange on transaction will be debited to the respective client only.
- In case of regulatory body suspend or client name appear under debarred list.
- Any observation like false commitment, fake deposit slip, cheque scanned but not deposited, false receipt of the cheque, cheque reversal instances, cheque bouncing instances and or any such instances come to the notice of the Risk department; no further exposure shall be given to the client and strict action shall be taken against respective person.
- No family adjustment of ledger or cheque is allowed.
- No limit or exposure on uncleared cheques.
- No third-party cheque or collateral securities will be accepted.
- No need to square off your margin trading debit balance in T+7.
- For Authorized person, risk will be considered up to the level of available deposit /brokerage
- Positions taken as intraday is allowed to convert to Delivery Product subject to the availability of credit balance or on confirmation of fund transfer.
- All cover order, bracket order and intraday positions will be automatically squared off in the last 15 min of respective market close
- Positions will be squared off immediately, if a cheque bounces (due to any reason).
- Any unethical and unpractical practice seen, observed or done by client or dealer or BM or AP or staff, strict action will be taken, and the decision will be made solely by the department.
- Margin Shortage Penalty shall be levied in case of short reporting by trading/clearing member per instance as per exchange rule and guidelines.
- Margin shortage penalty will be applicable in case of an increase in margins on account of change in hedge position by client/ expiry of some leg(s) of the hedge positions of the clients.
- Margin shortage penalty will be applicable in case of Cheque issued by client to member is dishonored.

Password Policy

Password reset for dealers/ clients are through option forgot password. Reset password will be sent on registered mobile number or registered email id.

Surveillance Policy

The objective of this policy is to have in place an effective market surveillance mechanism to ensure investor protection and to safeguard the integrity of the markets. The goal of surveillance is to spot adverse situations in the markets and to pursue appropriate preventive actions to avoid disruption to the markets. The fairness of the markets is closely linked to investor protection and to the prevention of improper trading practices. This monitoring is required to analyze the trading pattern of the clients to observe whether any transaction (buying / selling) is done intentionally, which will have an abnormal effect on the price and / or volumes of any share, which is against the fundamental objective of the Securities Market.

It is mandatory under the exchange/regulatory directives to have in place appropriate Surveillance Policies and Systems to detect, monitor and analyze transactions. For the above we must co-relate the transaction data with their clients' information/data and. Detect suspicious/manipulative transactions is an ongoing continuous process with analysis of trades and transactions and carrying out Client Due Diligence (CDD) on a continuous basis.

In-order to implement the exchange directives, they have provided us with alerts which have to be generated by us.

EXCHANGE ALERTS

Sr. No	Transactional Alerts	Segment
1	Significant increase in client activity	Cash
2	Sudden trading activity in dormant account	Cash
3	Clients/Group of Client(s), deal in common scrips	Cash
4	Client(s)/Group of Client(s) is concentrated in a few illiquid scrips	Cash
5	Client(s)/Group of Client(s) dealing in scrip in minimum lot size	Cash
6	Client / Group of Client(s) Concentration in a scrip	Cash
7	Circular Trading	Cash
8	Pump and Dump (Pump-and-dump" involve the touting of a company's stock (typically, small, so-called "microcap" companies) through false and misleading statements to the marketplace.)	Cash
9	Wash Sales (A wash sale is a trading activity in which shares of a security are sold at a loss and a substantially identical security is purchased)	Cash & Derivatives
10	Front Running (Execution of orders in a security for its own knowledge of orders from its customers)	Cash
11	Concentrated position in the Open Interest / High Turnover Concentration	Derivatives
12	Order book spoofing i.e. large orders away from market	Cash

Steps for Transaction Alert:

To maintain the records of the transactional alerts received from exchanges or generated at our end, the following steps would be taken to review and dispose the alerts

- Review the type of alert downloaded by exchange or generated at our end.
- Financial details of the client.
- Past trading pattern of the clients/client group.
- Bank / de-mat transaction details.
- Other connected clients have common email/mobile number/address or any other linkages etc.
- Other publicly available information.

On receipt of the above information, analyze the alerts generated and in case of any adverse findings/comments, the same shall be communicated to the Exchange within 45 days from the alert generation. In case analysis is taking time due to complexity, an extension may be taken from the exchange to review the alert(s). To have in-depth analysis of the above transactional alerts, the following due diligence shall be taken.

ANALYSIS

To analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified based on the alerts received from the Exchange, the following information shall be sought from clients:

- Seek explanation from such identified Client(s) / Group of Client(s) for entering such transactions. Letter/ email to be sent to client asking the client to confirm that client has adhered to trading regulations and details may be sought pertaining to funds and securities and other trading pattern.
- Seek documentary evidence such as Bank Statement / Demat Transaction Statement or any other documents to support the statement provided by client.
- In case of funds, Bank statements of the Client(s) / Group of Client(s) from where funds are paid have been met, to be sought. Sources of funds in the bank statements to be verified. In case of securities, Demat account statements of the Client(s) / Group of Client(s) from where securities pay-in has been met, to be sought.
- The period for such statements may be at least +/- 15 days from the date of the transactions to verify whether the funds / securities for the settlement of such trades belong to the client for whom the trades were transacted.
- After analyzing the documentary evidence, including the Bank / Demat statement, the observations shall be recorded for such identified transactions or Client(s) / Group of Client(s). In case of adverse observations, the same will be reported to the Exchange within 45 days of the alert generation. Extension of the time from the Exchange will be sought, if required.
- In case the client does not cooperate or does not revert within a reasonable period, Exchange to be informed based on the information available with the member.

OFFLINE ALERTS Generation

- Report on Delivery above Rs. 5,00,000 & turnover above Rs.25,00,000 – all segments of equities and commodities Placement of large orders with the delivery turnover contributing in value terms above Rs. 5,00,000 and trading turnover in terms of value above Rs.2,50,000/ for all segments are generated.
    1. In case if the name of any new client appears in this report and / or the name of the client comes again in the report after a period of 15 days to one month, then compliance team informs about the said trade details to the RMS team,
    2. Thereafter the RMS team does the trade/ledger confirmation with the end client and accordingly updates the compliance team.
- Illiquid scrip (equity segment) Trades in equity segment for the illiquid scrips (which have been identified as illiquid by exchange) are generated.
    1. The records generated compare visa vis. exchange volumes, repeated days of trading, price volatility in the script.
    2. Additionally, the financials of the company are also analyzed to ascertain whether the trading volumes and price movements are justified.
    3. In case any trading is found to be abnormal, initial alerts are sent to the branches. If repeated, after proper verification and analysis the script may also is blocked from further trading.
- F&O Profit/Loss & Futures Rate Fluctuation (equity derivatives) Trades in equity derivatives for the above referred parameter which are generated in case of clients executing trades at price above 20% of the previous closing price and or incurring huge profits or losses are generated.
    1. For the records generated under this alert are evaluated in case of any un-usual pattern clarification from the client/or branch is sought.

- F&O Excess Volume (more than 5% of market volume) (equity and commodity derivatives) Trades in derivatives and commodity derivatives are generated in trades are more than 5% of market volumes
    1. For the records generated under this alert are evaluated visa-vis the strike price, maturity date of the contract, type
    2. of derivative contract, underlying etc. are analyzed and evaluated.
    3. In case if the name of any new client appears in this report and / or the name of the client comes again in the report after a period of 15 days to one month, then compliance team informs about the said trade details to the RMS team.
    4. Thereafter the RMS team does the trade/ledger confirmation with the end client and accordingly updates the compliance team.
- Matching of Trades –The trades which get matched (applicable for all segments) at member level and or client level are generated under this alert.
    1. The records so generated, comparison is done to ascertain whether they have been carried out from the same trading terminal or same location or for group of same family codes.
    2. In case of illiquid script/contracts or significant volumes or price volatility observed, explanation is sought and or warning is issued to the client.

GENERATE ONLINE SURVEILLANCE ALERT

The following are the various alerts, wherein the records coming under these alerts are analyzed with the financials of the company, repetitive nature of the instances, volumes and our price volatility. These alerts are observed by the RMS on a real time basis and in case of any suspicious nature, appropriate reasons are sought from the branch/franchisee/clients. We have summarized the online alerts which are being monitored as on date:

1. Module of Online Trade Matching Popup: In this module all the trades that get matched can be viewed and thereafter further verification and/or analysis is done.
2. Module of Online Delivery Tracker: This report provides the trades of the clients who take delivery above Rs.5 lacs in terms of value or all delivery above 10,000 in quantity terms (these limits modified on a time-to-time basis).
3. Module on Online Ban Scrip Position Tracker: This report provides the records in case any client takes position in “Ban” security, then we can come to know via this pop up that position is open and may attract penalty in case position is carried further.
4. Matching of Trades (in commodities): The trades which get matched at member level and or client level are generated under this alert. The records so generated, comparison is done to ascertain whether they have been carried out from the same trading terminal or same location or for group of same family codes.

MONITORING AND REPORTING

The surveillance process shall be conducted under overall supervision of its Compliance Officer and based on facts and circumstances; he / she is required to take adequate precautions.

The Compliance Officer would be responsible for all surveillance activities carried out by the Trading Member and for the record maintenance and reporting of such activities. A quarterly review shall be done by the Management of the number of alerts pending at the beginning of the quarter, generated during the quarter, disposed of during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed, and appropriate action should be taken. In case of any exception noticed during the disposition of alerts, the same shall be put up to the Board/Partners/Proprietor.

Internal auditors shall review this policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditors shall record the observations with respect to the same in their report.

Kindly Note:

- LISL will not be held responsible for any consequence or loss arising out of the above policy, if any, client will have to bear the loss.
- LISL will have all the rights to change the policy.
- The above Risk policy is from the desk of Risk management, and it is for internal circulation, and it is mere a document for communication doesn't have any Legal stand and binding and it is restricted to the staff /Branch & AP and clients to follow the practice.
- All the above policies and rules are subject to change as per market conditions and according to the decision of the approval management committee.
- This RMS policy is subject to change without any prior intimation. For the latest update of policy refer to our website. - **www.lakshmishree.com**

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