

# ॥ श्री ॥ LAKSHMISHREE

*The Quality of Being Virtual*

## **POLICY & PROCEDURES**

**RMS stands for Risk Management System - To manage and overcome the risk of the company from the volatility of the market.**

### **(1) RMS works on the following concepts:**

- **Cash:** The clear balance available in the customer's ledger account in our books. It includes cheques deposited and online transfer entry only in the client's ledger for Limit trading enhancement.
- **Margin:** The underlying stake provided by the customer in the form of cash and/or stock to mitigate market (price) or settlement (auction) risk.
- **Exposure:** The aggregate of the customer's obligations arising out of buy + sell trades awaiting settlement in the cash segment and the span + exposure + mark-to-market margins underlying the customer's open positions in the F&O segment and profit/ loss amounts that are yet to be settled on the closed positions.
- **Stock qualifying for margin in cash segment transactions:** List of approved securities from the exchange as per Sebi guidelines.

### **(2) NATURE OF CUSTOMER TRANSACTIONS**

- **Intra day - Cash segment:** The amounts 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 the exact same quantity, thereby nullifying the original position.
- **Delivery Trades:** The net purchase or sale of a scrip in a client account that is settled by way of a delivery on T+2. 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. Else the client faces the risk of auction. A purchase transaction in the cash segment would fall into one or more of the following categories:
- **Sell against Buying :** 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.

**Note** LISPL will not be responsible for any Short payout of security from the exchange

- **Derivatives segment:** All clients must tender an upfront initial margin as stipulated by the RMS from time to time. It will constitute the sum of SPAN and exposure margins (MTM) stipulated by exchange. Mark to market losses /profits are required to be settled on a T+1 basis.

**NOTE :** The client must square-up all the extra positions that have been created on an intra-day basis before 15:00 hrs or Square up will then can be done for the open position, for which the RMS will not bear any responsibility of any nature whatsoever, if there is a grievance from the client wherein the intra-day positions are retained without appropriate feedback even one minute beyond 15:00 hrs.

### **(3 i) MANAGEMENT OF RISK**

- **(1) Futures and Options:** The clients must settle the debits, if any, arising out of MTM settlements. Since, due to limitations in the present banking system, timely payments cannot be received from the clients on a T+1 basis; it is advisable that clients be advised to keep sufficient credit balances with us to nullify such debits.
- **(2) Intraday Square-off** in respect of client wills happen in case of F&O positions. Against MTM: Such square-ups can take place any time during the trading day, when the MTM losses reach 90% of the existing collateral of client.

- **(3) Against exposure:** Any position where the initial margin available in the client's account is less than the requirement for SPAN, i.e. There is a possibility of violation being reported to the exchange, the position will be reduced to bring it within the SPAN stipulation.

### **(3 ii) Cash Segment**

- **(1) Intra-day:** These transactions are allowed at higher exposure multiples than the normal Buy/Sell transactions on the cash segment as they have to be terminated by day end. If not terminated, then transaction has to be brought within the delivery based exposure multiple by either terminating part of the transaction or through availability of higher margin 20 minutes before the close of trading day (i.e. by 3.10 pm, if trading hours conclude by 3.30 pm).

In the cash segment, only the underlying transaction would be terminated in whole or in part (and not the stocks held as margin). In F&O, the open positions would be terminated.

### **(4) Square off Process**

- The termination of client exposures on the market- Whenever the margin value falls below a certain percentage of the exposure on account of market volatility or due to MTM losses (the comfort level of the margin is the sole discretion of the Broker), the Risk department would square-off the transactions (positions) in the exposure so that the exposure is either fully terminated, or partially terminated in a manner that the margin value rises to acceptable levels. Positions can be terminated on the date of transaction itself or at any time till customer fully settles.

### **(5) Cash withdrawal Process**

- Client or Branch manager will mail for the payout instruction in the account section. After receiving the request, back office will then process the sheet. Finally the sheet will be checked and verified for payment by RMS Team.

### **(6) Stock withdrawal process**

- Client will sent instruction of stock withdrawal through email only. The request sent to stock team to verify it, than we again check the sheets to verify it.

**Note -** In either of the case of cash withdrawal or stock withdrawal, final process will only be done after the approval of the Operation Head / RMS Head or any other approved RMS person depending on the amount of withdrawal.

### **Treatment of Cheque for limit/square off purpose:-**

In normal course of business we accept cheque of Designated Bank Account only.

In case of cheque there are Three situations: -

- Transfer cheque of same bank in which we have branch during the banking hours.
- Cheque that can be presented for normal clearing (cheque of local bank / at par facility).
- Outstation bank cheque for outstation clearing.

In case clients margin felt short & he is giving transfer cheque at our office then we should get it transferred & extend the benefit if the same is cleared. However if the client belongs to any branch/franchise then it is the duty of branch manager/ franchisee to get it transferred and inform RMS. We can rely on their information if they submit the proof of deposition of cheque by sending photo copy/scan copy of cheque & deposit slip through fax/email. We will always consider the past track record of the client/franchisee.

As far as high value cheque is concerned benefit is given only if the same is deposited and reflected in bank statement as under clearing at the specified time. Cheque should be given to branch manager/ franchisee or given at HO before the high value time (As per banking practice followed by different bank). RMS team can give benefit of high value cheque upto Rs.10 lacs based on the past experience / track record of branch manager/ franchisee. Otherwise if the clients margin available with us fall short as per the criteria mentioned in Risk Monitoring then branch manager/ franchisee has to take the responsibility for holding the client position & RMS should hold position considering the current m2m status only otherwise RMS should square off the position.

In case of clearing cheque of local bank/ cheque with at par facility benefit should not be given until unless it is cleared. However benefit can be given if branch manager/ franchisee takes the responsibility for the same and also on the basis of past track record of the client and branch

Outstation cheque should not be accepted in any situation, no benefit will be extended for outstation cheque.

## **Limit for Trading**

We have margin based RMS system.

## **Cash Segment**

Total deposit of client is uploaded in the system and client may take exposure on the basis of margin applicable for respective security as per VAR based margin system of the stock exchange.

Client may take benefit of credit for sale i.e benefit of share held as margin by selling the same by selecting delivery option through order entry window on the trading platform. The value of share sold will be added with the value of deposit and on the basis of client may take fresh exposure.

## **Derivative Segment**

Trading in equity , currency and commodity futures is purely margin based . Adequate margin either in cash or in security form as prescribed by the exchange is required for derivative trading.

Approved stock will only be considered for computation of security based margin valuation will be given only on approved stock to the client.

Authority for changing above mentioned trading limits:

RMS Team: RMS team member can increased limit on the branch feedback or as per status of the client rejection or on the approval of designated person

RMS Head: RMS Head can increased limit of the Client on the branch feedback or as per status of the client rejection query raised by team members or on the approval of designated person

Directors: Directors can increase limit up to any amount.

It is important to note that RMS team will increased limit only on the basis of written approval through Email / fax / messenger, (Only on the basis of documentary proof of the instruments) however they can give on the basis of recorded telephone lines subsequently confirmed by written documents.

**The above mention process is for the RMS (Risk Management System).**

## **RMS Working Process**

### **Files Updating on Admin:-**

- **Margin File:-** Making margin file as per client ledger and also upload client stock lying in margin account, stock after Haircut also add with the ledger balance for exposure purpose. These files are prepared through Back Office Software or manual, and update through admin.
- **Stock File:** - Making stock file as per client's holding, through Back Office Software or manual, and update in manager.
- **Future & Option position file:-** Making F&O file as per client's position, through Back Office Software or manual, and update in manager.
- **Client Master:** - Update client master file as per the data received from Account opening Department.

## **Risk Monitoring :-**

- **Margin Call Making & Monitoring:-** Making Margin Call through Back Office Software or manual and confirm to all branches and square off as per their risk. The monitoring of margin call is mainly based upon the risk %age considering their debit ledger balances.
- **Intraday Monitoring:-** Monitoring MTM (Mark To Market) as per Market volatility and squared the risky position. The intraday square-off depends upon following conditions:

**(1)** Risk % increases dependent on available stock valuation with the ledger.

**For Example:** If the bought stock valuation decreases during the day with volatility of the market considering the ledger balance.

**(2)** MTM loss increases during the market hours.

**For Example (a):** If the value of the stock bought during the day decreases with the volatility of the market considering the ledger balance, effecting on its MTM loss.

**For Example :** Suppose a client has bought the stock in intraday and bears the loss of 90% of the initial margin value then it means its margin is been finished, then in that condition RMS will square-off all stock bought in intraday without feedback

**For Example (b):** If the MTM loss increases in the holding FO position with volatility of the market considering the ledger balance. Intimation to the braches will be sent either through email or recorded lines for their margin shortage. Finally if the MTM % age will breach 90% level then the position will be squared at RMS Level.

**(3)** Position carrying more than the allowed delivery limits ie 2 times of the available limt after given time limit.

Excess position carrying more than the allowed delivery will be squared by 3:10 pm to the level of allowed delivery limit.

**All above Policy and rules are subject to change as per market conditions and according to the decision of the approval management committee. If however the above said guidelines are not followed by team RMS either due to unavailability of proper tools or facilities, it can't be blamed until starting of the execution of a specified process by team RMS.**

## **Five Days Square Up A Compliance Action**

To maintain the compliance related to client in default and as per the guidelines issued by NSE and SEBI it is decided by LISPL to run a square up process to bring the five days old debit of clients in credit. E.g. if T being the trading day in which client took some extra position creating debit balance in the ledger the client has to make payment before the pay in schedule of the stock exchange or latest by T+ 4, if the payment is not received till that time then RMS will square up the portfolio on T+5 day.

- Every day a report will be sent to all concerned branches/ franchisee through Email which will contain detail of above mentioned clients. RMS also communicate verbally through telephone
- Square up for Ledger Debit Less than Rs. 5000/- will not proceed at RMS. Branch / Franchisee will maintain client's debit balance at their end. But if the debit and holding depletion collides (means result to m2m loss), Rms will clear on intimation for the same.
- It will then the duty of Branch / Franchise to work on this report on daily basis and call those clients for Margin up gradation / Position liquidation and the reply for the same in RMS dept through mail or telephone. Till 2.00 p.m. in absence of feedback, portfolio of the client will be squared without further any notice.
- If a client appears in square up cases, position of that client will then only be liquidated at RMS in absence of margin fulfillment after the stipulated time ie 2.00 Pm.

- For each and every case Branch / Franchisee will send the reply back to RMS confirming the status of debit balance latest by 1.30 Hours
- Reply must be proper and to the point indicating Transfer Cheque/ Liquidation of position at RMS.
- Where the square up is waived off on the basis of commitment of any instrument, the documentary proof of the same will be received either through fax or email latest by 1.30 P.M.
- If however the instruments will not received by 1.30 P.M. at RMS, the square up will then be proceeds without further any intimation.
- If the square up will be processed at RMS, the portfolio will then be liquidized equivalent to the ledger debit + 1% of the debit amount (due to brokerage and other charges). Portfolio square up will be carried out in the manner first settled stock and then if not sufficient than unsettled stock.

### **Square up process**

It is observed that some of the clients carry forward those positions which are built by taking extra exposure provided by the system for intraday. By keeping in mind the risk thereof it is decided that RMS will run a square up process every day to regularize those accounts which are in Risk diameter or in Margin Call. This process can be named as **Square up Process for Margin short** The main features of this process can be summarized as below

- Every day a report will be sent to all concerned branches through Email. This report will contain the list of those clients which are in margin call due to shortfall of necessary required margin.
- It will then the duty of Branch / Franchise to work on this report on daily basis and will call those clients for Margin up gradation / Position liquidation and reply to the RMS team
- If a client appears in square up cases, position of that client will then only be liquidated at RMS to the extent of margin shortage
- For each and every case Branch / Franchisee will send the reply back to RMS confirming the status of margin latest by 1.30 Hours in absence of which portfolio of client will be squared without further any notice.
- Reply must be proper and to the point indicating Transfer Cheque / Stock Transfer from other DP / Liquidation of position at RMS.
- Where the square up is waived off on the basis of commitment of any instrument or stock transfer, the documentary proof of the same will be received either through fax or email latest by 1.30 P.M.
- If however the instruments will not received by 1.30 P.M. at RMS the square up will then be proceeds without further any intimation.
- Every client whose margin %age falls below 50% of the holding valuation (arrived by deducting holding valuation from twice the ledger debit) will fall in square up process.

### **Limit Rules**

The rules for providing the limit for clients can be summarized as under

- Deposit uploaded on ODIN/NOW admin through the automated file prepared as per the cash margin of client available with us
- Benefit of stock of is provided after applying the haircut which is based on security VAR.
- No limit is provided on the basis of uncleared funds until and unless approved by the authorized personnel.
- No limit is there in Currency, FO and Commodity Segment on uncleared funds.
- Option buying depends on the ledger of the client. If a client is in debit, he is not allowed to trade for option and if he is to write the option margin is levied on the positions as per the exchange norms as in Futures.
- No limit is provided for creating fresh positions for those clients which are not maintaining the T5 compliance or appearing in margin shortage
- Deposit file is prepared nullifying the effect of outstanding sales and considering the shares value of shares deposited in FO margin account.

- Margin trading facility is provided in cash segment. The margin trading facility shall carry interest at 18% per annum payable monthly.
- The client who does not want to fall under T+5 compliance can avail margin trading facility at 18% interest per annum.
- No limit is provided on the outstation cheques.
- Extra exposure is provided to the clients as per the request and approval of the different authorized personnel as per their limitations.

### **Password Policy**

Password reset for dealer / Diet Clients can only be happen if mailed to the RMS team

If however mailing is not possible due to some technical problems then Branch Manager / Franchisee will request to designated Head for the same.

Password for ODIN Diet / Odin ID will be reset only after confirmation of Identification Proof of the client) which will be on recorded telephonic lines.

**Important to note:-** All the branch and sales personnel would be bound with RMS policy. Authorized persons can use their rights to approve for anything within their limitations whatsoever is fixed. In any case Sales personnel must not interfere in performing the duties by the RMS team. For any issues pertaining to the activities of RMS department, RMS Head / Operation Head is to be reported first.

If there is any grievance related to the RMS policies it can be requested for rethinking and in that case RMS committee together with the Directors will decide for the changes if any.

**For Lakshmishree Investment & Securities (P) Ltd.**

**Compliance Officer**