

## **RMS MANUAL AND POLICIES**

### **Introduction**

This document details the guidelines and procedures to be followed by the Risk management department for managing the risky client's portfolio.

### **Objectives**

- ✓ To set standards for all associated steps and activities
- ✓ To define a clear and simple procedure
- ✓ To ensure consistency, uniformity, zero errors and transparency
- ✓ To assist in faster turnaround time thereby higher customer satisfaction and higher revenues

### **Scope of Document**

The scope is limited to the procedure for the managing the risky client's portfolio by risk management department.

### **Limitations of the document**

The document is intended to be used only as an aid and is made after considering the current activities of the FRR SHARES Risk Management Department.

## **FRR RMS Set Up**

FRR RMS is divided into two set up H.O. and R.O. where in we have 400 locations

- ✓ **HEAD OFFICE** – sets macro clients limits as per margin and deposit available with us through uploading from super admins.( H.O. team consist of 5 members)
  
- ✓ **REGIONAL OFFICE**- which is headed by vice president of respected regions which have 70-80 branches under them where limits can be modified from mini admins as per receivable of the clients which are monitored H.O.( 5 R.O. with team of 2 members)

## Policies and Procedures related to Risk Management & Controls mandatory document

### A) Setting up of client exposure limits:

- ✓ On Activation, what will be the default limit be in the new client code?
- ✓ MTM - 0.7 in cash and 0.2 in F&O
- ✓ Margin – VaR System in Cash and Span in F&O
- ✓ Quantity – 15000
- ✓ Max Value – 15 Lac
- ✓ Pending Order Limits – 10 Lac
- ✓ VaR : Value at Risk margin covers potential losses for 99% of the days
- ✓ Exchange has specified VaR margin in Three Broad Categories and also determined the scrip wise margin requirement for the specified listed scrips.
- ✓ For all new registrations, a default gross exposure will be allowed which attracts a Rs. 1000.00 exchange levied VAR margins. However the member may at its own discretion allow additional exposure as per cash margins / collaterals deposited by the clients. This system charges differential margin to different category of scrips For all existing clients exposures allowed will be based on the credit balance in ledgers + stocks lying in beneficiary account + margins (securities and cash).

Margin Calculation:

Although VaR Margins keep on changing on a daily basis, the following table will be an indication of the exposure given to the clients (Cash Segment):

Group	Margin Required (avg)	Exposure
A	12.5%	$100 \div 12.5 = 8$ times
B	30%	$100 \div 30 = 3.33$ times
T	100%	$100 \div 100 = 1$ times
Z	100%	$100 \div 100 = 1$ times

### B) Cash and FNO Surveillance

#### Background

Continuous watch is required to identify those clients, who came in risky position due to heavy trade executed by them, although it might possible that they were not in risky position in BOD. But due to huge trading in the day, his/her position shifted towards Risky for company. Follow up them to reduce their positions or to deposit the required fund to get the limit.

## **FNO Surveillance**

- ✓ For FNO Surveillance @Risk software of Reliable Pvt. Ltd. is available and software reflects all those clients who have done trading in FNO or having any FNO position in BOD holding.
- ✓ Various parameters like Networth, Inc/Dec, Future MTM, PSPAN, Ledger, Collateral value are reflected on real time basis for every client who has FNO position.
- ✓ Again MTM losses are compared with Networth of client. If MTM loss is 50% or more than 50% of networth then id is considered in risk and follow up is taken for the same to sq off the position.
- ✓ Any position taken in call/Put option also gets reflected in FNO surveillance and follow up for the same is also taken.
- ✓ Every day after market we would take the region wise losses for each region and mail the concern VPs and AVPs the losses over and above 10000.
- ✓ Steps taken ones the hard loss is confirmed and not recovered from is either the client is suspended or we go legal over and above 6000.

## **C) BLOCKING AND SELLING POLICY**

Ageing analysis for the client is done whoever is in debit for more than 3 days. We ensure the cheques are received as on the front end the limits are blocked. This ageing analysis is done by H.O. On daily basis and the same is sent across all the R.O. to take action on the same. The role of the R.O. Includes action to be taken for debit clients which could be receiving of cheques or selling of their stocks who are in debits.

We follow the policy of selling of the stock of the clients which are in debits for more than t+3 days, which means if the client has debit on Monday we take action on Thursday by selling his stock if cheque not received till Wednesday evening. The list for the same is sent by R.O. to H.O. whereas the selling takes place from H.O.

## **D) Restrictions or Regulations on Dealings of clients:**

We follow the below mention restrictions and due diligence for the clients, from time to time, the volume of business which the client shall be allowed to transact. However we shall have absolute discretion of reducing / curbing the volumes of the client without any prior intimation/notice to the client interalia, in particular F&O segment having regards to :

- ✓ Volatility in the market
- ✓ In view of impending price sensitive announcements

- ✓ Any restrictions in relation to volume of trading / outstanding business or margins stipulated by exchanges
- ✓ Political instability in the country
- ✓ Presence of any other price sensitive factors
- ✓ Failure by the client to maintain the applicable collaterals / margins
- ✓ Delays by the client in meeting its obligations / dues relating to the business / dealings done by the client under this agreement
- ✓ Observing /discovery any abnormal behavior / action / deed /trading pattern of the client's dealing with the member for e.g. cheque bouncing, non fulfillment of sale obligation, any regulatory action taken by any of the regulators.
- ✓ In shares of a company where the merchant banking department is doing some due diligence or managing a assignment for the company
- ✓ In scrips which are relisted and where the circuit filters are not applicable on the day of relisting.
- ✓ One share orders will be not allowed except for high value scrips after considering the client's history and trading pattern.

**E) Refusal of orders for penny stocks**

Trading in penny stocks / T2T / Z category scrips will be strictly regulated and almost zero limits will be allowed. Trades will have to be executed thru RO or HO. However if observed that client is indulged in trading in only penny stocks or any insider trading activity, the account maybe suspended without any intimations. Further also client's traded volumes vis-à-vis market volumes will be considered and 10-15 % of market volumes will be allowed, subject to due diligence of the RMS and Compliance department. Further limits will be also allowed subject to the history of the client, trading pattern, intention of doing the trades.

## LIMIT SETTING ON ONLINE MODE

Online software available for trading are FT and Asian. Where uploading of file for stock as well as margin takes place, which means whatever debit and credit the client would have that would be his limit opened on the other day and 5 times exposure on that would be available.

When there is a debit we have online fund transfer facility affiliated with UTI and HDFC bank, where the client can transfer money online.

The software also enables him to view his POA stock and beneficiary stock lying with FRR.

The same policy is followed for selling and limits setting as offline. But for online clients we have an auto square up at 3:15 P.M.

- ✓ Keep sufficient credit in ledger or keep the proper share margin
- ✓ Orders placed in margin will square at 3:20 P.M. as you will not be able to place any fresh orders after 3:15 P.M. in margin and all pending orders will be cancelled.
- ✓ Orders to be placed two ways only, second order can be square off or stop loss, if you want to square up you have to remove stop loss order and then do the square up.

Miscellaneous:

- ✓ Z group trades done from H.O.
- ✓ Re-listed scrips will be blocked from H.O.
- ✓ Same for volume less scrips
- ✓ Trade confirmation sms-delivery trades
- ✓ Trades are initially not allowed in scrips which are getting relisted to avoid any violations of order book manipulations due to non applicability of circuit filters on the day of listings.
- ✓ Trade are not allowed in any listed companies for whom any of our group companies are doing any due diligence or undergoing assignments. For eg merchant banking.

BSE/NSE logged off:

- ✓ Call us for any square up trades. Will be done from bolt / neat
- ✓ Messages constantly flashed on terminals of trading calls / connectivity / general information etc.