

## **RISK MANAGEMENT POLICY**

(Internal Procedures and Conduct)

### **CASH SEGMENT**

#### **Introduction:**

SEBI vide its Circular No. **MRD/DoP/SE/CIR-07/2005** Dated **23<sup>rd</sup> February' 2005** has advised that Members should have a prudent system of Risk Management to protect themselves from client default. Margins are likely to be an important element of such a system. The same shall be well documented and be made accessible to the clients and the Stock Exchanges. However, the quantum of these margins and the form and mode of collection are left to the discretion of the members.

In order to improve the risk management at the members- brokers level, it is advisable to have "Risk Management Policy" which will safeguard the financial interest of the broker member. Collecting margin from the client is the way to mitigate risk of loss on account of non-receipt of dues from clients.

The margin shall be in the form of Cash or Approved Securities (valued after prescribed haircut).

Securities that are approved by the Exchange towards additional capital / base minimum capital / margin, etc. would be treated as approved securities for maintenance of up-fronts margins / deposits from the clients.

The margin so collected shall be kept separately in the designated client's bank account and may be utilized for making payment to the Exchange for margin and settlement obligation with the written consent of the client.

When client gives or deposits securities to the broker as a margin, it is to mitigate the risk of settlement default by the clients and is in the form of collateral which can be utilised by broker only in the event of default by the client.

The beneficial ownership of securities therefore continue to be with the clients and the broker only hold a lien thereon and in case the client were to default on his commitments, then only can the broker after giving a notice of demand / sale of 2-3 days or any no of days as decided by the management to utilize the securities to cover the dues..

**Purpose of Risk Management Policy:**

The basic motive of Risk Management Policy is to minimize the losses / prevent the occurrence of loss due to the "Credit Risk" to which company is exposed to while dealing with the clients on day to day operations. The Company is committed in adopting appropriate mechanisms.

**ASIAN MARKETS SECURITIES PVT. LTD.** (herein after referred to as "the Company") hereby notifies that this Risk Management Policy is to be followed by all directors, officers & designated employees.

**Part A**

**Definitions:**

**'Risk Management'** is the identification, management, measurement and oversight of various business risks and is part of a firm's internal control structure. These risks typically arise in such areas as proprietary trading, credit, liquidity and new products. The elements of a comprehensive risk management system are highly dependent on the nature of the broker-dealer's business and its structure. Due references can be made to factors such as senior management's involvement and oversight of the process, the internal audit function and other elements of an internal control system.

**'Company'** means **ASIAN MARKETS SECURITIES PVT. LTD.**

**'Compliance Officer'** means the person appointed under Regulation 18A of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992;

**'Director'** means a member of the Board of Directors of the Company.

**"Securities"** includes:

1. shares, scrips, bonds, debentures, debenture stock or other marketable securities of a like nature,
2. such other instruments as may declared to be such by the Compliance Officer from time to time;

**Notional Margin (Base Capital)** is ad-hoc margin allowed to all clients irrespective of actual margin received.

**Additional Capital** shall consist of Actual Margin received from the client, Ledger Balance lying in Client Ledger Account (credit) and other related balances of clients (if any).

**Part B**

**Due Diligence of prospective clients**

- Due Diligence of prospective client shall be carried out before registering him/her/it as a Client in terms of their Financial Background, Investment Experience, Income Range/Level, Net worth of corporate, etc
- Supporting documents provided by prospective client should be verified with originals. Also, PAN card details should be cross verified with Income Tax site.
- Account for prospective client who has ever been convicted of offence involving moral turpitude or any criminal offence or has any criminal background should not be opened.
- The prospective client should be either introduced by someone like, director / Designated employee of trading member, sub-broker, etc. or interview should be carried out of prospective client by the designated employee of the company.
- All the documents, information required by SEBI / Exchanges should be obtained and maintained.

**Categorization of clients:**

Client shall be divided into following categories after considering the factors like Income Range, Investment Experience, Trading Preferences, etc.:

I ) Retails Clients

Presently retail clientele is only through reliable references hence exposure will be decided by the management / compliance officer / authorize person of Equity Desk at the time of placing order if trade value exceeds 50 lacs.

II ) Group Companies/ Firm / Family Clients

As there is no risk of default, there will not be any limitation on exposure limit for Group Company / Family clients of Asian Markets Securities Pvt. Ltd.

**Additional Capital / Margin:**

- Additional Capital / Margin shall include the following:
  - Actual Margin Received from the client (kept in separate bank account namely Client Margin account) Normal Cash Segment Ledger Balance of the client.
  - Collaterals received from the client (after deducting appropriate hair cut based on VAR Margin Rate or any other rate decided by the management from time to time) kept separately in Collateral account.
- **Additional Capital shall be calculated on End-Of-Day (EOD) basis.**
  - Normal Cash Segment Ledger Balance means T-1 day Ledger balance on EOD basis. Example: For calculating Exposure for Tuesday, Closing Balance of Monday shall be taken.
  - Posting of Bill for the trade shall be done on T+2 day basis. Example: Bill for Trade done on Monday should be posted on Wednesday.

**Collaterals:**

- Margin can be accepted in the form of Collaterals i.e. approved securities, Bank Fixed Deposit, Bank Guarantees, etc.
- Collaterals for the purpose of additional capital / margin are securities specifically given by the client for the purpose of Margin.
- Scrips which are under the approved list of the exchange are only considered for the purpose of collaterals Margin.
- Collaterals should be transferred to company's designated client demat account only from the notified demat account of the client.
- Collaterals should be valued at Market Rate i.e. closing price of T-1 day. However, management reserves the right to value the securities on CMP in exceptional cases.
- The haircut for each scrip shall be applied on the basis of VAR Margin Rate declared by the exchange from time to time.
- **Example:**

Scrip – Wipro Ltd.	10000 Shares
Closing Market Rate on T-1 day	Rs. 515/-
Total Value of Shares	Rs. 51,50,000/-
Haircut – VAR Margin Rate 7.50%	Rs. 3,86,250/-
Collaterals (after Hair cut)	Rs. 47,63,750/-

**Funds Received for Margin:**

- In case of Funds Received for the purpose of Margin, amount received shall be considered as Additional Capital / Margin received from the client, provided Cheque or Demand Draft received from the client is deposited into designated Client Bank Account.
- Additional Capital / Margin shall be considered for Funds received for Margin irrespective of clearance of those cheque or demand draft.
- In case funds received during the trading time, manual intervention shall be made for changing additional Capital / Margins in system only after taking prior approval of Compliance Officer / Managing Director of the company.

**Monitoring & Reviewing of Limits**

- Exposure limit will be monitored by authorize person of Equity Back office.
- Exposure limits needs to be reviewed at least once in a month or other shorter period.
- Exposure limits may be freezed in case of doubtful accounts where amount receivable from the clients is due for more than 30 days and there are no movements in the account.

**Reporting Requirements**

- Exception transactions done with or without the approval of authorized person also shall be reported t o Compliance Officer on daily basis.
- Follow the practice of reporting al l pay in defaults to the top management & decide whether to deal w i t h t h e said client s in future & al so appraise the category of client.