

KCSPL RMS Policy

Member: BSE, NSE, MCX, Depository Participant: CDSL.

Risk Management Policy

ROLES & RESPONSIBILITIES: Role of Risk Management Department start from client registration like client categorization, daily limit setting, monitoring of daily transactions, margins etc. checking and monitoring of risk at various level and implementation of Risk Policy.

CLIENT CATEGORIZATION: Classification of both existing and new clients into difference risk categories in back office like Low, Medium, High or CSC depending on the various parameters like client identity, background, financial, transactions pattern etc.

EXPOSURE / LIMIT SETTING: Daily limits will be set and updated in RMS software on the basis of available balance /eligible collateral (50:50). Also, certain clients limit can be given against pledged stocks after appropriate haircut as approved by Exchange.

MARGINS: In derivative segment upfront margin will be collected as per Exchange requirements. Futures trading involve daily settlement of all positions. Every day the open positions are marked to market based on the closing level of the index / derivatives contract. If the contract has moved against you, you will be required to deposit the amount of loss (notional) which is generally in the range of average historic volatility. This is also called daily settlement price. This amount will have to be paid latest by the next day morning before the commencement of trading. (For Eg a derivative contract worth Rs 100 requires Rs 20 as margin for carried forward trade. The price fluctuates daily, suppose the price rises to Rs 102 for a short position, then the trader has to deposit Rs 2 as margin money next day before the start of market) If you fail to deposit the additional amount by the deadline or if an outstanding debt occurs in your account, KCSPL may liquidate a part of or the whole position or can sell securities to recover the amount. In this case, you will be liable for any losses incurred due to such close-outs

QUANTUM OF MARGINS: The client shall pay applicable initial margins, withholding margins, special margins or such other margins as are considered necessary by the stock broker or the Exchange or as may be directed by SEBI from time to time as applicable to the segment(s) in which the client trades. The stock broker is permitted in its sole and absolute discretion to collect additional margins (even though not required by the Exchange, Clearing House/Clearing Corporation or SEBI) and the client shall be obliged to pay such margins immediately failing which the position of the client is liable to be squared off at the sole discretion of KCSPL.

In case of commodity segment many contracts expiry results into delivery transactions/positions, KCSPL do not allow delivery transactions in commodity segment, therefore in case of tender period which starts before certain day of expiry date, client has to square off or roll over his/her positions prior to beginning of tender period, KCSPL does not allow to take fresh positions in tender periods of any security. If any trade is executed by client in this period and transaction results into delivery client has to pay required full amount and any loss incurred for whatsoever reason on this account shall be to the client's account.

RISK AND COLLATERAL MANAGEMENT: KCSPL has an online real time basis risk monitoring system for each client. If on a real time basis, at any time during the day (including pre-opening gaps) the losses(mark to market) exceed more than 80% of the client's total deposits, KCSPL shall initiate the square off of the position of the client on a real time basis without even informing the client. (Eg. A derivative contract worth Rs 100 requires Rs 20 as margin for carried forward trade or lesser if the trade is for intraday, as the case may be, if at any point of time during the day, price fluctuates more than 16% or more, which means that 80% of the deposit amount is wiped out, (i.e. $20 * 80/100 = 16$) KCSPL RMS team in such cases will square off the position) Such eventuality may be rare but often happens in financial markets and therefore it is not feasible to inform the client about auto square off being undertaken by KCSPL's RMS team. Such huge volatility should not be construed as normal volatility and such losses have to be replenished immediately otherwise the position will be squared off subject to 80% condition. Clients should not wait for next day to settle such margin calls on the positions on the pretext that this falls under daily settlement process. There is a difference between daily settlement which is nothing but generally average historic volatility and extraordinary volatility which needs to be replenished immediately, daily settlement price can be paid next day morning but losses beyond average historic volatility or in other words extraordinary large loss has to be replenished on an immediate and real time basis otherwise KCSPL's RMS team will square off if losses exceed 80% of the deposits at any given time. Such losses shall be of the client and KCSPL in no way will be held responsible. The client therefore in general is advised to maintain more margins than is required by the Exchanges for his/her safety due to such black swan movement (means massive or abnormal volatility either intraday or due to overnight events) in the prices of the securities. KCSPL shall endeavour to close out the position once 80% losses of the deposits are triggered but, KCSPL in no way, guarantees that the losses will be squared off at such percentage, in reality, it can be more or less. (E.g. continuing from the above example if the price of derivative contract moves quickly by 20% without giving an opportunity to KCSPL's RMS team to square off at Rs 16 i.e. at 80% but eventually the square off happens at Rs 20, and then the client is liable to deposit Rs 4 as the loss amount due to adverse price movements)

TRADING RESTRICTIONS: Restrictions in certain Securities shall be done periodically by RMS Team. KCSPL shall from time to time classify a list of securities which are illiquid as per the list of illiquid securities notified on a periodic basis by the Stock Exchanges concerned and / or based on such internal criteria as KCSPL may deem fit. KCSPL reserves the right to refuse execution of any transaction requests of the Client on such illiquid securities or to reduce the open market interests of the Client in such securities. KCSPL also reserves the right not to allow any trades or transactions in respect of certain securities or segments or orders/requests which may be below / above certain value / quantity as may

be decided by KCSPL from time to time. Trading in Illiquid Scrip may be restricted as per management directives. RMS Team will closely monitor such type of transactions. Such list of illiquid stocks is updated on the website. In F&O segment no new position will be permitted in Ban Period securities. Penalties if any due to such transactions if initiated by the client shall be borne by the client solely.

ONLINE PAYMENT: KCSPL shall give credit to client accounts when it receives the payment advice from IMPS, Payment Gateway, NEFT, RTGS and cheques. Credit limits will be given only on confirmation which generally takes time because KCSPL has no control over banks or payment gateways. Delays if any in receiving payments by KCSPL and thereby causing a consequential loss to the client either due to KCSPL's RMS auto square off policy or otherwise shall be sole responsibility of the client, KCSPL in no way shall be held responsible for the delay of any third party payment systems. KCSPL shall not process payouts on bank holidays although exchanges may remain open for trading. All ledger debits are liable for payment of interests to KCSPL in addition to any penalties that are levied by the exchanges.

KCSPL's RIGHT TO SQUARE OFF: Without prejudice to KCSPL's other rights (including the right to refer a matter to arbitration), in the event of the Client failing to maintain/supply applicable margin money required to sustain the outstanding market positions of the Client, KCSPL shall be entitled, at its option and liberty, to liquidate/ close out all outstanding market positions or any part thereof such that the outstanding market positions are either zeroed out or reduced to an extent where available margin covers the market positions remaining after such square off. The Client understands and accepts that authority of KCSPL to square off outstanding market positions of the Client in the event of the Client failing to furnish margin money immediately on demand is carte blanche qua the entire outstanding position and the Client shall not, as a matter of right, be entitled to reduction of the outstanding positions in stages in order that positions to the extent of available margin are retained in the Client's account. KCSPL may also sell off all or any securities of the Client lying with KCSPL as collateral or otherwise, for any amounts due by the Client and adjust the proceeds of such liquidation/close out against the client's liabilities/obligations to KCSPL. Any and all losses and financial charges on account of such liquidation/closing-out shall be charged to and borne by the client. Such liquidation/ close out may be without any prior reference or notice to the client. Client shall keep and hold KCSPL indemnified and harmless from any loss arising out of such closing out/squaring off. Such liquidation or close out of positions shall apply to any segment in which the Client does business with KCSPL. It shall be the duty of the client to be self-vigilant and adequately replenish/deposit the margins and mark to market losses on a immediately basis which are calculated on a real time basis by KCSPL

SYSTEM/NETWORK CONGECTION RISK: Trading on the Exchange is in electronic mode, based on satellite/ leased line communications, combination of technologies and computer systems to place and route orders. Thus, there exists a possibility of communication failure or system problems or slow or delayed response from system or trading halt, or any such other problem/glitch including delayed or missed OTPs whereby not being able to establish access to the trading system/network, which may be beyond the control of and may result in delay in processing or not processing buy or sell orders either in part or in full. You are cautioned to note that although these problems may be temporary in nature, but when you have outstanding open positions or unexecuted orders, these represent a risk because of your

obligations to settle all executed transactions. The losses if any arising out of such systems/network risk shall be of the client alone.

The Client shall not have any claim against the Exchange or the Stock broker on account of any suspension, interruption, non-availability or malfunctioning of the KCSPL trading system or Service or the Exchange's service or systems or non-execution of his orders due to any link/system failure at the Client/Stock brokers/Exchange end for any reason beyond the control of the KCSPL/Exchanges

Charts are formed using limited tick data (multi cast data) whereas the number of ticks recorded on the exchange are tick by tick (unicast) which are far more higher thus there may arise a perceived difference on the price action observed on the chart and that of actual price action on the exchange. KCSPL has zero control on such data feeds and is totally dependent on external sources to receive such feeds. Therefore charts may not truly capture all the price actions transpiring on the exchanges.

Demat Debit and Pledge Instruction: Clients who have opened their trading accounts online are expected to sign Demat Debit and Pledge Instruction'(DDPI)(Annexure-A), under which the clients shall explicitly agree to authorize the stock broker and depository participant to access their BO account for the limited purpose of meeting pay-in obligations for settlement of trades executed by them. The DDPI shall serve the same purpose of PoA and significantly mitigate the misuse of PoA. The use of DDPI shall be limited only for following purposes

For transfer of securities held in the beneficial owner account of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by such a client on the Stock Exchange through the same stock broker.

For pledging / re-pledging of securities in favor of the trading member (TM) / clearing member (CM) for the purpose of meeting margin requirements of the client in connection with the trades executed by such a client on the Stock Exchange.

Mutual Fund transactions being executed on Stock Exchange order entry platforms.

Tendering shares in open offers through Stock Exchange platforms.

DORMANT CLIENTS RMS: Team will update the dormant client list (inactive from more than 12 months) & restrict their trading rights. Activation of such clients will be done as per Dormant Client policy.

PAY-IN & PAY-OUT OF FUNDS & SECURITIES: Third party pay-in of funds & securities will not be accepted. Same way pay-out of shares and fund will be directly done to client account only. No securities belonging to one client be used/transferred for other client or for Own purpose. Securities sold by client on intraday basis which for whatsoever reasons are not squared off, then such losses, on account of price difference between the selling price and auction purchase price shall be on the account of the client alone and KCSPL shall not, in any way, be responsible for such losses. Client initiating buy today and sell tomorrow strategy is prone to security shortage risks which eventually, if any, will result into losses on account of difference in auction price and client's original trade price, the losses arising on such transactions shall be of the client's account and KCSPL in no way is responsible for any such losses.