

PCS SECURITIES - RISK MANAGEMENT POLICY

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RISK MANAGEMENT POLICY

(Internal Procedures and Conduct)

CASH SEGMENT

Introduction:

SEBI vide its Circular No. **MRD/DoP/SE/CIR-07/2005** Dated **23rd 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 the Cash Segment.

In order to improve the Risk Management at the member- broker 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).

PCS is providing an integrated platform for Equities, Derivatives and Currency Derivatives segment in NSE, Equities & F&O, in BSE and Commodity Derivatives in MCX for retail investors. Clients are allowed to trade on the following basis:

The following product variants are to be offered in

- Delivery Trading, Intraday Trading and Cover order- Equity
- Intraday and Carry Forward Trading and Cover order– Equity Derivatives
- Intraday and Carry Forward Trading – Currency Derivatives, Commodity Derivatives
- NSE/BSE MFSS

For all the product variants, the margin limit of the clients will be monitored on a combined (across all Exchange/Segment) basis as per the current product program.



Centralized margin limit monitoring is required for any specific product variant / client type; PCS Risk management team will monitor the margin limits accordingly in the ODIN Administrator.

Collateral Haircuts:

Cash and stocks will be eligible as collateral for clients to avail trading facilities with PCS Securities Ltd. All collateral haircuts for shares are subject to ongoing review and change by PCS Securities Ltd

Securities which are not under Illiquid Scrip, Z category, T2T and SME segment would be treated as approved securities for maintenance of up-fronts margins / deposits from the Clients. Graded Surveillance Measure (GSM) category scrip's, Additional Surveillance Measure (ASM) category scrip's and Exchange debarred scrip's and also as per our internal parameters matched excluded scrip's.

The margin collected in the form of Cheque/Securities 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.

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.

This process note is subject to ongoing review and changes from time to time. PCS Risk Management Team will be responsible for framing and executing procedures as per the approved PCS Risk Policies and Guidelines. This team will have control measures: Client-level Risk Management and TM margin monitoring (Intraday) & Risk Management in Derivatives including Commodity Derivatives.

PCS SECURITIES LTD. (herein after referred to as "PCS") 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 businesses 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.

'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:

- Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;
- Derivative;
- Mutual fund Units or any other instrument issued by any collective investment scheme to the investors in such schemes;]
- Government securities;
- Such other instruments as may be declared by the Central Government to be securities; and rights or interest in securities;

"Commodities" includes:

- Precious metals and base metals.



Key Process:

(Base Capital) shall consist of Actual Margin received from the client, Ledger Balance lying in Client Ledger Account (credit), Dmat stocks lying in Client Beneficiary account where POA issued in favour of PCS for the settlement and margin obligation and other related balances of clients (if any).

CLIENT CODE	CLIENT NAME	LEDGER	SPAN	COLLATERAL	ADDITIONAL COLLAT	BO STOCK	CDSL STOCK	TOT STOCK	NET AMT	EXPOSURE	PERC	BASE CAP
002 XYZ02 0	XYZ	73066. 8	0	0	0	118215	81471 3.8	932928 .8	- 73066.8	85986 2	0.921 7	5799 83.3

(Aforementioned calculations are for Example purpose only)

The above examples shows the status of client xyz in the margin file,

1. LEDGER Column shows the Ledger Debit /(-) Credit balance of client with PCS.
2. SPAN Column shows the Margin Debited in Futures Segment.
3. COLLATERAL Column shows the Value of Securities /Commodities given for Collateral against Derivative Position.
4. BO STOCK column shows the value of running stock (shares yet to be recd/delivered from/to Exchange).
5. CDSL STOCK column shows the value of shares in the Client's Dmat Account.
6. TOTAL STOCK column shows the total value of BO STOCK & CDSL STOCK.
7. NET AMOUNT column shows the total Debit/ Credit.
8. EXPOSURE column shows the value derived by deducting Net amount from Total Stock i.e (Total Stock- Net Amount).
9. PERCENTAGE column shows the value derived by dividing Exposure with Total Stock i.e (Exposure/Total stock).
10. BASE CAPITAL Column shows the clients BASE set for trading exposure
11. Exposure can be given one time to ten times of base capital in cash market (it may defer from Client to Client)

***Subject to market conditions**

Base capital = (Total Stock value –Hair Cut as per Var Margin) (+/-) ledger debit.

- Exposure will be given up to 10* times (in cash segment along with F&O segment as per span margin) on the available value of shares in the beneficiary account (after applicable hair cut as per scrip category), and addition/deletion of ledger balance.

*Subject to market conditions

- At any given point of time Client can sell his/her/its holdings from their Dmat account(with POA)
- Whenever client trades he gets balance confirmation via SMS on the same day or next day. Financial Ledgers are mailed to the Clients on Quarterly/Monthly Basis and Clients are given 7 Days time to report any Discrepancy in the same.
- For Clients opting for Bill to Bill settlement ledgers are sent on Quarterly Basis with 30 days time to report any discrepancy in the same.
- Fresh Exposure shall not be allowed to Clients where Debit balances continue beyond 5 Trading Days from the Date of Pay-in.

All securities available in Client's Dmat account (with POA) shall be considered as Margin after appropriate Hair cut.

We reserve right to pledge/transfer the shares to our own account and/or liquidate the same in case of any Margin Requirement/to settle the dues arising from time to time.

Steps taken for recovery of old debts:

- i. Clients introduced by Authorized Persons
Debit balances of Clients(without any collateral) introduced by Authorized Persons are adjusted against their respective Sub- Brokerage ledger on monthly basis, shortage if any is adjusted against their deposit account.
 - ii. Clients at H .O & Branch Offices.
Clients who do not clear Debit balances (without any collateral) for more than Trading day + 7 days are informed over Telephone or Email clear the debits. Legal action will be taken to recover the amount on nonpayment of debit.
- Late Payment Charges are debited to the clients who do not clear the debits till Pay in Day.

Mechanism of pay-in and pay-out of funds and securities:

Collection and delivery of securities to the clients.

- Majority of Clients maintain Running account with us, Consent letter for the same has been taken from them. Credit balance lying in the Client Ledger is taken as margin for Exposure.
- Pay out of funds is given to the clients who place the request and have Credit on the payout date, Clients who have not consented for running balance payout is given bill to bill settlement basis.
- Deliveries are accepted for Pay- in only from Dmat Accounts Mapped to the Client Codes in our Back office.
- Deliveries are given in Pay –out only to the Dmat accounts mapped to the Client code in our Back office.

Client has Dmat account with PCS POA

- Securities of clients having Dmat account with PCS and given POA.
- Shares shall be transferred to the concerned client Dmat Account irrespective of Ledger Debit.

Client has Dmat account outside PCS /Non- POA Dmat Account with PCS.

- Client ledger is in debit on T+2 days (Pay-in day) shares would be moved to “Client unpaid securities account” (CUSA) and same shall be sold if he/she doesn’t clear their obligation within 5 trading days after pay-in date.
- In exceptional cases management may take call to transfer the shares to the respective Client Dmat Account.
- Only Cleared Cheques or NEFT/RTGS receipts shall be considered before liquidating shares in the above case.

Policy of square off of positions:

Clients who do not clear their Debits on 5 trading Days from the date of Pay-in and there is a shortfall towards required collateral in that case RMS Team may clear the debit by squaring off the positions of the Client after informing through SMS/email/Telephone to the client for the same.

- Ageing Debits will not be allowed to continue beyond 30 Days from the date of Pay-in for clients having POA of Dmat account with PCS.
- For Non POA Clients If Client ledger is in debit on T+2 days (Pay-in day) shares would be moved to “Client unpaid securities account” (CUSA) and same shall be sold if he/she doesn’t clear their obligation within 5 trading days after pay-in date PCS.
- Risk management Team of the PCS will have discretion to square off position of the clients shall have the right but not obligation to sell clients securities or close out client’s position.
- In case of client’s failure to deposit additional margin or repay the outstanding debit or fulfill any obligation or liability within stipulated time period, Risk management Team may exercise its discretion to buy, sell or close out a part or whole of his/her/it’s positions / future and options contract. Any loss or incidental expenditure incurred due to such close outs will have to be borne by the client.
- Only Cleared Cheques or NEFT/RTGS receipts shall be considered before liquidating shares in the above case.

Delivery of Shares:

- Delivery of Shares received in Payout shall be given to clients only on receipt of pay-in- of funds from the client (NON-POA).
- In case of non-receipt of delivery of shares from the client against selling, allow shares to go in Auction Settlement. The cases of Auction to be monitored regularly and such Client to be informed to do timely pay-in of shares.

Exposure restriction in case of cheque bounce/reversal:

- Clients will be given 2 times exposure whose cheque bounced with a reason of insufficient funds subject to having clear ledger balance.
- Cheque bounce cases need to be report to the Director on daily basis.

New Stock Listing

Newly listed stocks are treated the same way as non haircut stocks or non eligible stocks, and no leverage will be given to trade in these stocks. No short selling beyond limits available.

IMPORTANT:

- Trading in New Listing is permitted only in Delivery Mode.

Part B

Due Diligence of prospective clients:

- Due Diligence of prospective client shall be carried out before registering him/her/its 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 web 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.
- Once unique client code (UCC) is generated and client has been activated in PCS Back office, then client can start placing orders through PCS trading platform (operator base Trading Terminal or online i.e. Net).

- Order received from the client will be transmitted to the respective Exchange instantaneously subject to margin limit availability. RMS system will automatically reject all orders when client's margin is insufficient.
- Clients have to maintain sufficient margin before placing orders. The margin requirements will be intimated from time to time depending on the market condition, made by the concerned Exchange or SEBI and internal assessment of the client by Risk management Team.
- In case of trading in Derivatives segment, client is liable to pay upfront margin before creating any position in any derivatives contract. Margin percentage may differ from stock to stock depending in risk associated with the same, which depends upon liquidity and volatility, the respective stocks and general market conditions. In derivatives segment, margin computation is done by Exchange through an online position monitoring and margining system called SPAN (Standard Portfolio Analysis of Risk).
- PCS may de-register the client account based on action taken by SEBI/NSE/BSE or being part of list of debarred entities published by SEBI. PCS shall have right to close out the existing positions; sell the collaterals to recover its dues, if any, before de-registering the client or may freeze the shares of the client where it deems prudent, at time of de-registering a client.

Categorization of clients:

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

I) Retail Clients

Presently retail clientele is only through reliable references hence exposure will be decided by the Management / Authorized Employees of Equity Desk at the time of placing order if trade value exceeds 100lakhs.

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

Additional Capital / Margin:

Additional Capital / Margin shall include the following:

- Actual Margin Received from the client ,Normal Cash Segment Ledger Balance of the client (NSE CM ,BSE CM NSE F&O, NSE CURRENCY and MCX)
- Margin Limit calculation by PCS
- Margin Limit = Total ledger balance + stock as collateral after hair cut.
- 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)
- 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 in cash segment shall be done on T+2 day basis. Example: Bill for Trade done on Monday should be posted on Wednesday.

Note: while calculating ledger balance net balance should be considered. Example: Client is having Credit balance in NSE Cash segment Rs. 1,00,000/- & Debit balance of Rs. 60,000/- in BSE Cash segment & 20,000/- Debit Balance in F&O segment and debit balance of Rs.10,000 in MCX Derivative Segment then for additional margin purpose only Rs. 10,000/- should be considered.

Collaterals:

- Margin can be accepted in the form of Collaterals i.e. approved securities, Bank Fixed Deposit, Mutual fund units, Approved Commodities etc.
- Collaterals for the purpose of margin are securities specifically given by the client for the purpose of Margin.
- 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 Exchange VAR or 40% whichever is higher.

- Margin shall not be collected in some cases up to Rs 1Crore and exposure shall be given on the basis of due diligence of the client and periodical review of client database only in cash Segment.
- In case of any corporate actions for Securities like bonus/split benefit will not be given unless shares are credited to the Client's Dmat Account.
- In case Client Ledger is in Debit, Securities shall be moved to the Client Collateral Account up to 225% value of the Ledger debit.

Funds Received for Margin:

- In case of Funds Received for the purpose of Margin, amount received shall be considered as Base Capital/ Margin received from the client, provided Cheque or NEFT/RTGS 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.
- In case funds received during the trading time, manual intervention shall be made for changing Base Capital / Margins in system.

Monitoring & Reviewing of Limits:

- Exposure limit will be monitored by Authorized Employee of Equity Back office.
- Exposure limits needs to be reviewed from time to time.
- 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 receipts/payments/trades in the account.

Reporting Requirements:

- Exception transactions done with or without the approval of Authorized Employee also shall be reported to Compliance Officer on daily basis.
- Follow the practice of reporting all pay in defaults to the Senior Management and decide whether to deal with the said clients in future. Further appraise the category of the Client.

FUTURES & OPTIONS:

Allocation of Notional Limits based on Categorization of the Clients:

1. Span Margin software specifies scrip-wise margin requirement (F&O).
2. Before taking position in Futures (buy & sell) & option (sell) refer to the Total margin requirement (span+Exposure) & inform the client to deposit said amount in the designated client bank account. Further in case of buy option (put or call) premium margin needs to be paid till the premium settlement is complete.
3. Said margin requirement can be adjusted against margin given by client if any.
4. Margin can be accepted in the form of cash and/or fixed deposit/ approved securities/Approved Commodities.
5. Verify that MTM profit/loss has been paid or received on daily basis.
6. Report the Initial Margin, Exposure Margin & MTM collected to the exchange as per the format prescribed.
7. Check for any debit due to changes in margin amount or MTM on daily basis & inform the client on daily basis or whenever required.
8. Follow the practice of reporting all pay in defaults to the Management and decide whether to deal with the said clients in future & also appraise the category of client.

Review of Policy

This Policy shall be reviewed by the Board on periodical basis but not later than one year or as and when changes are required to be made either internally or due to changes in the laws or regulations of Exchange / SEBI.

