

Risk Management System (RMS):

Capital Adequacy and Margin Release:

Maintenance of the Capital adequacy of the member with the exchanges is very essential for trading in the equities and derivatives segment. Capital is maintained with the exchange in the form of Bank guarantees, Cash, Securities and Fixed deposit in consonance with the norm prescribed by the Exchange from time to time.

Process:

- On a daily basis, the transaction files received from the Exchanges (BSE & NSE) are uploaded on the Back Office software registering the transactions to respective Client codes.
- On the basis of above, the Contract Notes and Bills are generated and sent to the respective clients.
- During the day cheques received from /online funds transferred by the clients for their pay-in/margin obligations in the Upstreaming Client Bank account and cheques issued to the clients from Down streaming Client Bank accounts for pay-out demanded are accounted in the accounting system. Cheques received from the clients are checked with the existing bank details provided by the clients as a part of account opening or any modifications done thereafter. These cheques received from any other bank not updated in the software are rejected and marked under suspense code as receipts from third party. These third-party credits are kept under suspense till the time client provides modification form with supporting for compliance checks. Payouts to Clients are issued through online fund transfers only from Down streaming Client Bank accounts. Only in case of rejection in online transfers, cheques are issued to clients. The cheques issued to the clients are always crossed and marked as 'Account Payee'.
- Back Office processes the reports giving details of balances in the client's account, which are used for coordinating with clients for debit recovery. All cheques received from the clients are deposited in Brokers Upstreaming Client Bank account and details of the cheques like cheque No., bank name, branch and amount are updated in our software.
- Further, Client wise debit-credit summary is generated considering short sale of stocks, if any. The same is uploaded in our RMS System enabling the clients to trade within their available limits.
- In house Reports are also generated giving details of clients who have not paid their obligations and the outstanding amount in order to liquidate their positions to the extent of debit balances in their accounts. If the client is having debit balance, he will be allowed to trade only with the prior approval of the director.

- **Margin System:** In Cash segment, the company has categorized scrips into 4 categories for upfront margin requirement. All scrips under 'Trade to Trade' need 100% upfront margin. The other scrips are categorized in A, B, C and D categories with margin rate of 25%, 33.33%, 50% and 100%, respectively. Margin requirement rate is reset every week on the basis of VAR Margin rate provided by the Exchange. In extreme volatile market conditions, margin is scaled up internally by some adhoc percentage as approved by the Director.
- **Margin system in derivative segment:** Upfront margin required is worked out as per SPAN Risk parameter file and scaled up by exposure margin as per the discretion of the director.
- For all clients square up is done once in a week as per the discretion of the director and on the basis of the credential of the client. Square up is done to the extent of debit balance in the respective clients' accounts.

Role of RMS dept.

For the better survival of organization as well as clients, RMS dept. plays important roles and provides co-operation for better Risk Management and Surveillance so as to provide maximum transparency while dealing with the client.

In brief The Risk Manager has to perform following functions:

1. Identify Risk
2. Analyzing Risk
3. Verify the Limit Setting and Exposure Limit
4. Monitoring Member Wise Margin Limit
5. Generating Alert on reaching 75% of Margin Limit and escalating the same to RMS Head / Director
6. Co-ordinate with back office / accounts dept for Collection/Recovery.

Base considered for giving limits:

Combined Clear Ledger Balance as on T date.

(+) Cheque received from client on T date and accounted in ledger on T date.

(+) Value of shares pledged in CUSPA account after appropriate haircut (i.e. VAR rate but subject to Minimum of 20%) to the extent of debit balances in client ledger arising out of buying obligation of said shares

(+) Value of shares sold and provided in pool account towards margin obligation of such sell trade only.

(+) Early pay-in Credit available for shares sold and successfully processed under early pay-in to Clearing Corporation to the extent of 100% on T Date itself.

(+) Value of collateral pledged to TM CMPA Demat Account under pledge re-pledge system after the appropriate haircut i.e. VAR rate of T-1 EOD and T-1 Close rate.

Exposure Norms for Intraday Trading: From 1 time to 5 times of Base.

Exposure Norms for Delivery: 1 time the base limit

Blocking of Client Account: If payment outstanding for more than T + 3 working days, client is stopped from further buying on T + 4 working day and onwards. If short sale is done, client will not be able to square up open position since Client is blocked from buying.

If shares are sold off by Client on T + 4 working days in the above case, no further buying will be permitted by RMS.

Sale of shares: If payment remains outstanding for more than 5 working days (excluding holidays), shares are sold off on the T + 5 working day by RMS. No prior intimation will be given for sale of shares by RMS Team including intimation through telephone or mails. On the day when RMS has to sell the shares as per this norm, the Authorised Person or the client will not sell the shares. Any loss leading out of auction of shares due to sale of shares by RMS and at the same time by Client or Authorised Person shall be at the cost and consequences of the Client / Network Partner as the case may be.

In FNO segment, Margin is required on upfront basis. Client is allowed to take positions on fulfilling the upfront margin requirement. In FNO segment, only Initial & ELM Margins are required on upfront basis. Further, we may demand any additional margin considering market conditions, client's risk profile etc.

In the FNO Segment, sq up of open positions and invoking of pledge collaterals from CMPA account for sale in case of shortfall is done on T + 2 basis.

Which shares are sold: The unpaid shares pledged to CUSPA.

What is not permitted / not given by RMS:

1. Sale and Purchase of Z Group Shares
2. Sale and purchase of Illiquid scrips (list given by SEBI)
3. Intraday Limits / Delivery Limits / adhoc Limits on Shares lying in DP + BTST for Clients not holding Demat account with KBSIL and without Auto Payin mandate for KBSIL Demat Accounts. Limits are only given on Ledger balances in such cases.
4. If shares are sold by RMS on more than 3 occasions for the same client, the Client will not enjoy the benefit of exposure on Stocks. Limits will be restricted to Ledger balance as the case may be.

KBS India Limited