K.M.Jain Stock Brokers Pvt Ltd
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Policies reviewed on: 31.07.2023
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Policies approved on: 31.07.2023

POLICIES AND PROCEDURES FOR CLIENT DEALINGS – ALL EXCHANGES - MANDATORY
(as required by SEBI circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009
For guidelines reference # NSE Circular Ref. No: 39/2020 - E/CMTR/44481 Date : May 27, 2020

RMS- Risk Management Policy

Risk management is the process by which risks are identified, evaluated, controlled and prioritized. At RBG we ensure the financial integrity of trades put through on the Exchanges Platform by adopting a comprehensive, unbiased and professional approach to Risk Management. RBG does not have in its team, any person who has any vested interest in commodity trading. The Value at risk (VAR) based margining and limits on position levels are transparent and applied uniformly across market participant. Trading & exposure limits are generally based on the quantum of funds of the client maintained as margin.

Major Functions & objectives of RMS

- Allocating funds to the clients' trading account and enabling the clients' to do trades.
- Monitoring of orders & trades by clients. Checking order rejections and increasing exposure, if required.
- Monitoring the MTM profit/loss incurred out of trades, comparing the Actual Margin requirements of clients and the Total Margin available for clients on a one to one basis and initiating remedial actions, if required.
- Decision taking with regard to squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may come across.

Broadly our risk management policy would cover the following perceived risks to our organization:

1. **Business risks**
   - From clients
   - Due to errors and omissions while trading
   - Technical risks
2. **Non-compliance risks**
   - SEBI/Exchanges compliance
   - PMLA compliance
3. **Unforeseen risks:**
   - due to natural calamity
   - due to manmade disasters including terror attacks

Handling of Business risks

The following process will be followed for overall business risk management:

- Identifying risk profile of clients- KYC document should be referred to check risk category of the client.

- Deciding how much credit should be given to each client- As per the risk category assigned to each client, limits will be set for each client. For cash segment, low and medium risk clients are permitted to buy not more than one lac worth of deliverable securities up-front. Full cheque payment would be expected after bill processing for the day. For, high net worth clients, exposure can be given on case to case basis , but settlement of account would be encouraged once bills are posted as we do not indulge in financing of any sort.
- For F&O trading strict rules as per SEBI/Exchange guidelines would be followed.
- In case of default by clients, then we would first resort to liquidation of collateral held by us on behalf of client, but only to the extent of debit lying in the ledger account. If the collateral or upfront margin falls short of debit balances lying in the account, then the client will be sent notice by email and/or registered post. If the client fails to fulfil his obligations, then we would follow legal process of recovery through exchange arbitration process and further through suit filing in the court of law.
- For errors & omission while trading- Any error by head office dealers would be borne by head office, but the branch office errors would be borne by respective branch office or the concerned sub-broker or Remisier or authorized person. If the error is due to a mistake of client, then the client will have to bear the loss.
- The broker would ensure alternate means of connectivity, in case the existing system fails to work. But in case of technical glitches due to Exchange's software/working/electric mal functioning, then the client will be responsible for non-execution of his trades.
- **EXPOSURE / LIMIT SETTING:** Daily limits will be set and updated in trading terminals on the basis of available balance / collateral.
- **ONLINE PAYMENT:** We shall give credit to client accounts only when the amount gets credited in the bank. Losses due to delay in receipt of amount will be the sole responsibility of the client, and we shall be in no way held responsible for the same.
- **PAY-IN & PAYOUT OF FUNDS & SECURITIES -** All pay-in pay-out system will be followed as per the new system as per SEBI circular No. SEBI/HO/MIRSD-PoD-I/P/CIR/2023/84 anad the subsequent FAQ explanations/notices issued thereafter.

Handling of Noncompliance risks

- We would ensure that all the necessary policies are formulated and all SEBI & exchange compliances are adhered to avoid any penalty.
- In case of any misuse of system by any client/sub-broker/authorized person/branch, then the penalty pertaining to it would be assigned to that respective client.
- Client would be assigned penalties and would be solely responsible for issues of non-compliance pertaining to his KYC document, trading essentials, margin obligations, pay-in pay-out obligations or inadvertent errors like trading in banned/T to T scrips.

Handling of Unforeseen risks

- Unforeseen risks due to natural calamity exist in all types of environment and the client should be ready to bear the risk arising out of it.

To strengthen our risk management system we would ensure the following things:

1. Strong internal controls

- Registration of clients: KYC forms should be taken from all the clients. KYC forms should carry comprehensive details of all the clients. Client consent and/or intimation as required under compliance rules should also be included in the form. It should be seen that the client adheres to all the required compliances of regulatory bodies
- Receiving, validating and entering orders of clients in the trading platform: orders are taken and executed by certified users only.
- Collection and release of payments to clients: Upfront margin is taken form all the clients and them at the end of the day margins- both Exposure and MTM is collected from clients on daily basis and reported to the exchange.
- Collection and maintenance of margins: as above
- Collection and delivery of securities to the clients: We intend to open a separate Dmat A/C for keeping securities of our clients. All securities to be pledged to the exchange would be picked up from the Dmat a/c. Clients' securities would be released only on verification of client's position as regards to their open positions.
- Monitoring of branches/sub-brokers: all the activity would be monitored from the Admin terminal and limits would be assigned to all the branches and/or sub-brokers according to margins received from them.
- Operations and compliance: the appointed compliance officer takes care of all the compliance requirements and all necessary formalities are adhered to.
- Payment of dividend: Clients bank A/C would be assigned to the Dmat a/c of clients that would be opened and all dividends received on clients securities would be credited to clients a/c on verification of their holding as on RD.
- Continuity planning/alternate plan in case of disasters: back up is taken and kept separately in other place different from the place of trading.
- On-line surveillance of trades should be done from admin terminals to detect abnormal trades and aberrations.
- Proper back up of all records should be taken and kept separately at a different place other than the back-office.

2. Educating clients for do's and don'ts

Implementation of KYC procedures requires dealers to demand certain information from the customers that may be of personal in nature or which have hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. Therefore, the front desk staff needs to handle such situations tactfully while dealing with customers and educate the customer of the objectives of the KYC program. The dealers shall also be provided specific literature/pamphlets to educate customers in this regard.

3. Encompassing new technologies

The KYC procedures shall invariably be applied to new technologies to such other product that may be introduced by the broker in future that might favor anonymity, and take measures, if needed to prevent their use in money laundering schemes.
Dealers should ensure that appropriate KYC procedures are duly applied before issuing he client code to the customers. It is also desirable that if at any point of time broker appoints/engages agents for marketing of products are also subjected to KYC measures.
While, the revised guidelines shall apply to all new customers/accounts, dealers shall apply these to the existing customers on the basis of materiality and risk. However, transactions in existing accounts shall be continuously monitored and any unusual pattern in the operation of the account should trigger a review of the Customer Due Diligence (CDD) measures. It has however to be ensured that all the existing accounts of companies, firm, trusts, charitable, religious organizations and other institutions are

subjected to minimum KYC standards which would establish the identity of the natural/legal person and those of the 'beneficial owners'.

4. Training to employees-

- Staff should be encouraged to attend seminars and lectures to strengthen their knowledge.
- Reference books, rules and bye-laws should be kept handy in case any doubts needs to be cleared.

5.Managing risk on continuous basis

The following process is being followed for risk management:

Identifying risk- generally monitored through admin terminals manually.

- Deciding how much credit should be given to each client- Limits for each client is monitored according their financial position and their risk profile as mentioned in KYC. For a branch limits are set from the admin terminal by the Head office. For a Sub-broker limit is set after considering both their existing collateral and margin handling capacity.
- Deciding the frequency of collection of margins. Especially in F&O – margins are collected upfront and on daily basis. The back office software works out the margin obligations of all clients after considering their open positions, collateral in hand and credit & debits lying in their account. For cash segment we usually tend to follow the policy of immediate cheques on debit.
- Deciding how much risk is acceptable- MTM/ Span margin is calculated as and when the need arises before the trading session ends with the help of exchange files and e-span software available.
- Controlling risk on continuous basis
- Monitoring risk taken on continuous basis- the client is accommodated if he has credits lying in other segments to ensure smooth functioning of market obligations.
- Any internal shortage is taken care of by way of policy set in our KYC document (refer Policy- pg 36). Any change in policy or rules pertaining to auction of shares may render the policy to undergo changes accordingly.

All other requirements and need are taken care of by compliance officer as and when the need arises.