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**PROCEDURES - RISK MANAGEMENT DEPARTMENT**

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## **Chapter 1**

### **1.1 Purpose**

To minimize the exposure of the company to various forms of risks pertaining to its core activity of Equity Sales and trading, both existing and potential, including operational, credit, liquidity and market risks, while not compromising the strategic profit objectives of the company.

To enhance the functioning of the Risk Management Department (RMD) as a proactive, rather than a reactive support function.

To guide the RMD personnel in their daily activities toward achievement of the company's risk-related objectives primarily focused on Equity Sales and trading.

### **1.2 Scope**

The scope of these procedures covers the activity of Equity Brokerage carried out by the company.

### **1.3 Procedures**

These Standard Operating Procedures include the activities that are supposed to be undertaken by the Risk Management Department and cover the following main functions:

- Exposure Monitoring & Trading Margin of client
- Receivables' Monitoring and Recovery
- Approval of Payment Request
- Approval of Withdrawal of Securities
- Exception Reporting
- Controls

The scope of these procedures covers both Off-line and On-line Equity Trading and Investment Accounts.

## Chapter 2

### TYPES OF RISK

#### 2.1 Credit Risk

The risk that client with debit balance in his/her account will fail to pay his/her debt in full on time; the possibility of promised cash flows not being paid in full.

#### 2.2 Operational Risk

The risk that client will take more exposure than allowed to him/her against the margin deposited in the account.

#### 2.3 Liquidity Risk

The risk that the company, at any given time, will not have enough cash on hand to meet its obligations.

#### 2.4 Market Risk

The risk that the value of the company's investments will decrease during a period of time due to movement in market forces, economic changes, or other events that impact large portions of the market.

## Chapter 3

### EXPOSURE MONITORING & TRADING MARGIN

#### 3.1 Trading Margin

All clients are allowed to take a trading exposure on the available Equity balance at a preset margin percentage (which is currently fixed at 33% for clientele - which means that a client can trade upto 3 times of the available equity balance standing in his/her account). Margin is provided to any client in order to take the advantage of his/her custody and positive Credit cash position and leverage his account against them, for making large transactions with the objective of making profit.

**Trading Exposure** is defined as the sum of all open positions taken by any client in leverage markets valued at the closing rate of each trade date.

**Equity** is defined as the sum of Net Cash and Custody Reduced value.

**Net Cash** is calculated to be the balance cash left in client's cash book after adjusting unbilled trades and mark to market profit and loss calculated on all open trades (leverage products)

**Custody Reduced Value - CRV** include total value of securities accepted for margin held by any client in his custody account based on the closing rate of the relevant trading day, reduced by a preset haircut percentage.

#### 3.2 Offline Clients

All offline clients are marked as margin applicable by default, i.e. all clients who wish to trade in leverage products by utilizing the margin available in their accounts, can take position equivalent to a multiple of 3 times of their equity.

One of the primary objective (as also defined above) of the RMD is to monitor the trading margin of all offline clients on a daily basis. There is a feature in back office system to generate a Risk Report Summary of all clients on the basis of trading conducted by them in any given day. This report is required to be generated after all information technology process of the trading day (i.e. merging, one way etc.) is concluded.

This report shall be used by the RMD for making preliminary examination of the overall margin position of the client base. This report shall be utilized to monitor all those account holders whose trading margins fall below 33%.

The margin percentage of each client is monitored daily through the above report at the end of every day which shows the current margin position of each client.

There shall be no further buying allowed in accounts whose margin percentage falls below 33% minimum maintenance level. It shall be the responsibility of the RMD to identify all such clients in whose account fresh positions are taken despite margin standing below 33%.

A Risk Report shall e-mailed to each relevant dealer and cc'd to his or her relevant branch manager/head for taking appropriate action for regaining the margin back to maintenance level.

The report shall mark all those traders in whose clients further buying positions are taken – despite their account being falling below the maintenance margin percentage. In cases where there is an instance where further buying is done and the amount of total open position in any single client account exceeds Rs. 1 million, the same should also be reported to the CEO for information.

The RMD shall also ensure that the dealer has duly communicated this onward to his relevant client and have made the initial margin call in this regard.

It shall be the prime responsibility of the Trader to follow up the matter with the RMD and provide an updated reply (by putting their comments on the report received from the RMD) on the total position of client's margin as at the close of each business day. For this each trader needs to immediately contact his relevant client for rebuilding his margin up to 33% within 24 hours of such request.

Following his communication with the client, Trader shall return his/her remarks on the same.

Afterwards, the RMD is responsible to monitor the margin percentage of the client and to seek feedback from the Trader as to when the client will increase his margin.

Communication between the RMD and the Trader should be done through proper e-mails and shall be recorded for future reference.

If the client fails to increase his margin deposit and it falls further, the RMD shall immediately intimate this to the Trader, who in turn issue a final margin call to the client directing him to increase his margin deposit up to 33% by either squaring the trades or increasing the equity.

If the client fails to respond or to take any action, the dealer shall square his/her position in the morning of the next working day to the extent that the margin is rebuilt to 33%. And RMD shall ensure that the action has been taken.

After squaring the dealer shall inform the RMD.

In case where there is a debit balance appearing in clients' account the dealer shall only square the position to the extent sufficient to restore the margin over 30% level. The fact that the client is standing with a debit cash book balance is covered later in this document. RMD shall ensure that the action has been taken.

### 3.3 IMTrade Online Clients

All online clients are marked as margin applicable by default, i.e. all clients who open account in IMTrade can take position equivalent to a multiple of 3 times of their equity.

The role of RMD personnel for monitoring the risk remains the same with a few adaptation changes. The Primary responsibility for monitoring and reporting risk breaches remains to be on the shoulder of the RMD, which shall in line with monitoring offline risk, shall also monitor the online risk on a daily basis. Back office system shall generate a Risk Report for all online clients. This report is required to be generated after all IT process of the trading day (i.e. merging, one way etc.) are concluded.

This report shall be used by the RMD for making preliminarily examination of the overall margin position of the online client base. This report shall be utilized to monitor all those account holders whose trading margins fall below 33%.

The margin percentage of each client is monitored daily through the above report at the end of every day which shows the updated margin position of each client.

Similar to offline model the IMTrade system by its design does not allow further buying in accounts whose margin percentage falls below 33% level. The IMTrade risk management system is equipped with a feature through which the margins of all online clients can be monitored on real time basis.

In case where client's margin position falls below 33% level RMD issues the margin call to the client by automatically generating an e-mail on the address provided in the system.

If the client fails to increase his margin deposit and it falls further, RMD shall issue another margin call and directing to increase his margin deposit up to 33% by either squaring the trades or increasing the equity. These margin calls shall also contain the notation that if the margin falls further Intermarket Securities Limited has the right to sell liquidate the open positions to restore the margin back to 33%.

The IMTrade help desk/operations shall forward the RMD the replies and responses received by all such clients to whom margin calls have been made daily.

The RMD shall be responsible to monitor the margins and verify that all margin calls have been properly dispatched.

If the client fails to respond or to take any action, the RMD shall square his/her position in the next working day to the extent that the margin is rebuilt to 33%.

Squaring of positions shall be done on the basis of the Risk Report generated daily by the RMD a day before. Each time a squaring is completed in any online client account a notice to that effect shall be sent to each client via e-mail.

In case where there is a debit balance appearing in clients' account the RMD personnel shall only square the position to the extent sufficient to restore the margin over 33% level. The fact that the client is standing with a debit cash book balance is covered later in this document.

## **Chapter 4**

### **RECEIVABLES' MONITORING AND RECOVERY**

RMD shall generate a Receivables/Debit Report daily, which shows the current receivables from clients (debit balances) and the available custody balance in each account. By forwarding this report, the RMD shall inform each Trader as to which of his/her clients have debit balances daily basis. Each Trader shall receive information regarding his clients only.

#### **4.1 Receivables against Custody Balance**

##### **Offline Clients**

If the client has custody in his account, the RMD has the authority to sell the custody in order to recover the amount owed. Management in this regard shall make recovery policy which shall strictly be followed by all dealers. In accordance with such recovery policy the RMD shall inform the Trader that the client's debit balance has crossed the tolerable limit and that the securities appearing in client's account may be sold at any time.

Traders shall inform and seek response from the client on the same. The Trader shall then provide feedback to RMD with his/her remarks, if any, the client is willing to take in order to clear the receivable. On the basis of this feedback, the RMD shall take an appropriate action.

In case of no response from the client, the Trader shall ascertain whether it is imperative to issue a Debit Notice or not. In cases where the Trader decides to adopt the Debit Note he should reroute the case to the RMD for further recovery. RMD shall issue Debit Notice and reminder if necessary. Selling of custody for recovery purposes shall only be done after issuing proper notices and reminders thereof. The basis of this action shall be based on the Risk Management report. After the sale, the Dealer shall inform the RMD of the same and shall inform the client. The process followed would be same for margin recovery.

#### **4.2 Receivables with-insufficient custody balance / defaults**

If proceeds from sale of custody do not fully recover the amount receivable, or if the client has no custody in his/her account, the RMD shall inform the Trader who has the sole responsibility of recovering the amount from the client. These clients should be separately marked as sensitive account holders and require a thorough follow-up by trader and RMD. The RMD shall daily seek feedback from the Trader regarding the process of recovery for these clients. Traders shall make necessary attempts to collect the dues back from the client, for which he is required to make necessary follow-up calls, visits and meetings, before opting for any secondary recourse. The management may also decide opt for secondary measures to receive these dues which may include legal action and hiring of a recovery agency. In case a legal action has to be taken against

the client, the Head of Equity Sales, RMD and the relevant Trader shall be involved in the decision.

#### **4.3 Receivables against Custody Balance**

##### **IMTrade On-Line Clients**

If the client has custody in his account, the RMD has the authority to sell the custody in order to recover the amount owed. Management in this regard shall make recovery policy which shall strictly be followed by all on-line clients. In accordance with such recovery policy the RMD shall inform the HOD IMTrade that the client's debit balance has crossed the tolerable limit and that the securities appearing in client's account may be sold at any time.

HOD IMTrade shall inform and seek response from the client on the same. The help-desk shall then provide feedback to RMD with his/her remarks as to what action, if any, the client is willing to take in order to clear the receivable. On the basis of this feedback, the RMD shall take an appropriate action.

In case of no response from the client, the HOD shall ascertain whether it is essential to issue a debit recovery notice or not. In cases where the HOD/Help-Desk decides to adopt the debit note he should reroute the case to the RMD for further recovery. RMD shall issue debit notice and reminder if necessary. Selling of custody for recovery purposes shall only be done after issuing proper notices and reminders thereof. The basis of this action shall be based on the Risk Management report. The process followed would be same for margin recovery.

#### **4.4 Receivables with-insufficient custody balance / defaults**

If proceeds from sale of custody do not fully recover the amount receivable, or if the client has no custody in his/her account, the RMD shall inform the HOD/Help-Desk who has the sole responsibility of recovering the amount from the client. These clients should be separately marked as sensitive account holders and require a thorough follow-up by RMD. The RMD shall daily seek feedback from the CSO/Help-Desk IMTrade regarding the process of recovery for these clients. HOD/Help-Desk shall make necessary attempts to collect the dues back from the client, for which he is required to make necessary follow-up calls, visits and meetings, before opting for any secondary recourse. The management may also decide opt for secondary measures to receive these dues which may taking, legal action and hiring of a recovery agency. In case a legal action has to be taken against the client, Head of IMTrade, RMD shall be involved in the decision.



## Chapter 5

### APPROVALS

#### 5.1 Off-line Payment Request

Client places the payment request with his/her trader either through a letter, e-mail, or recorded phone line. Trader forwards it to the RMD. RMD verified that the request is authentic and legitimate. The request is then forwarded to the Accounts Department which prepares the cross cheque in favour of the client and forwards it to the Operations Department, which in turn dispatches the same to the client via courier/by hand. Courier slip is retained by the Trader and filed in the Client's Master file and in case of hand delivery get the acknowledgement on payment voucher.

#### 5.2 IMTrade On-line Payment Request

Client places an online request through the system and making necessary checks. The request is received by the RMD. The RMD verifies and ensure that the payment request is legitimate. The RMD forwards the same to the Account Department. The Accounts Department, after following its necessary procedures, makes and forwards the cheque to the Operations dept.. The Operatons dept. then dispatches the cheque to the client.

In case the request is made by means other than through the system i.e. in writing through letter, the request is received by the Help-Desk who forwards it to the RMD. The RMD then apply necessary checks follows the procedures as described above.

#### 5.3 Withdrawal of Securities

Clients may request to transfer their securities from their Intermarket Securities sub-account to another participant/CDC Investor account. Online clients may place their request with the Help-Desk at IMTrade; off-line clients may contact their Trader or through email with the details of shares to be transferred.

Upon receiving these instructions, the RMD verifies that the particular shares are available for transfer, and that there is no debit balance and the client is over maintenance margin limit or pending entry in the client's account ledger and periodic report, the RMD shall also ensure that the margin percentage should also not fall below the minimum requirement of 33% due to the transfer. After ensuring that it is safe to transfer the shares out of the client's account, the RMD forwards request to the Operations department for further processing.

## Chapter 6

### EXCEPTION REPORTING

Another value added aspect of the RMD is the exception reporting angle. This particular segment of RMD covers reporting if unusual transaction both in the online and offline business segments.

#### **Offline segment:**

The RMD should make a predetermined schedule for conducting a search of transactions which are unusual in nature, volume and type. This exception reporting shall also comprise of verifying the total receipts made by any client with respect to the volume of transaction undertaken by him. Where the volume in house transactions are not supported by sufficient cash inflows the same shall be brought into notice at an appropriate management level.

Extra ordinary transaction (i.e. where total exposure in any security exceeds Rs 10million) should be used to tag the client special. There should be a list maintained of all such clients who manage a portfolio of over Rs 10 million in any security. Head of retail desk shall utilize this list for marketing, service level assessment and client analysis purposes.

Same treatment shall be followed for cases where there is an exposure of over Rs 5 million in a second and third the security (excluding blue chip stocks).

A maximum limit per client should be established - which should assign an exposure limit to each such client/. No individual or institutional client should be allowed to take its exposure over the assigned quantum. The responsibility to monitor these exposures also falls on RMD - which is required to generate Reports with the IT dept assistance to monitor the same twice a week.

#### **IMTrade Online:**

Exposure monitoring - IMTrade Head to contact up to twenty clients and assigned a maximum limit to each client and in cases where the exposure is considerable on a higher side the Manager IMTrade shall monitor such exposure on daily basis.

The option of introducing system bases client maximum exposure ceiling of upto Rs 5 million per scrip for each IMTrade client should also be explored.

Once a week the RMD shall also arrange for conducting a purpose specific test whereby the trading activity in any IMTrade accounts initiated by himself or not. In case where there is any evidence of trades being executed through distant locations or through KATS terminal or excessive dealings made through help desk shall be investigated further both at client end and at the operation end.

Cash inflow and outflow shall also be adjudged in the same lines for the offline case.

## Chapter 7

### Controls

- No trading shall be allowed in an account with a debit balance without approval from Head of sales/CEO.
- Timely reporting receivables and risk reports send to Management/CEO.
- Daily follow-up should be monitored of receivables/margins.
- Co-ordinate with IT department for updating/modifying different modules of software'
- Receivable monitoring with branches, traders and IMTrade.
- Before Risk Manager grants approvals for Request of payments/securities, shall check client's status for erroneous entry/transfer amount in other account.
- Monitor open regular, futures and leverage positions on daily basis.
- Receivables/Risk reports should be sent each trader separately on daily basis.
- Transfer of funds from one client a/c to another client a/c should be received by RMS on duly signed letter and approval will be given through proper checking as required payment request.
- Reports those accounts in which margin violation is observed to management and ask for explanation from concern dealer.
- Reason of excess sell entries should be verify with the settlement/operation department on daily basis after the completion of work by the above dept.
- All the transfer of CDC shares from one sub a/c / participant a/c should be routed through by RMD.
- Physical shares should be received on shares lodgment sheet.