

ANNEXURE 4

RMS & Internal Control Policy

Introduction:

Risk Management is an internal part of any organization. We need to deal with various kind of risk like credit Risk, Market Risk, default Risk, liquidity Risk and other risk.

In Securities Market, customers have to be alerted with respect to their obligations, open positions, market conditions, Margin requirements, regulatory requirements and steps are initiated by the brokers in case of changing market situations.

With a view to enhance customer knowledge and safeguarding investor interests, JKSPIL have devised a comprehensive Risk Management & Surveillance (RMS) Policy to make sure that customers are aware of criteria based on which JKSPIL monitors risk and initiates actions to safeguard the interest.

RISK MANAGEMENT SYSTEM:

The Business model for Stock Broker consists of Stock Broker owned Branches and Business Associate Offices (Authorized Persons). The clients are linked or mapped to these branches or AP. Apart from the trades executed from Branches/ AP, there are certain clients who trade using the internet trading platform of Stock Broker. Controlling and monitoring of these trades are done from RMS/ surveillance dept.

Major Functions of RMS:

1. Allocating exposure to the clients' trading account and enabling the clients' to do trades.
2. Monitoring of orders & trades by clients. Checking of order rejections and increasing exposure, if required.
3. 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.
4. Decision making with respect to squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may arise.

Major parameters of RMS Policy are mentioned below:

Panic markets:

Panic markets are those days where:

- 1) Where base index (Sensex / Nifty) makes movement of 3% on either side.
- 2) Where base index (Sensex / Nifty) makes cumulative movement of 5% on either side.
- 3) Where markets are specifically declared as Panic Market by RMS Dept. of JKSPIL.

Such panic market will be declared as a normal when market starts making a movement of less than 2% on two consecutive days, or as declared by RMS Dept. of JKSPIL.

Stable Market:

Stable markets are those where markets do not fall in definition of Panic Markets.

For the purpose of Managing risk, maintaining healthy volumes and growing together, this system is intelligently designed to facilitate better business environment in various market conditions. To understand the system better, please study the terminology as used during practice.



TRADING:

Stock Broker is registered member of stock Exchanges which are having a settlement system of T+1 in Capital Market segment and Daily mark to market settlement & Final settlement in Futures & Options segment (including Currency and Commodity Derivatives). Stock Broker is using various front end execution systems like NEAT, CTCL, ODIN, and NOW _____ etc for trading in Capital Market and Derivatives segment.

Exposures on such NEAT/CTCL/ODIN etc (Trading Terminals) are set by Stock Broker's RMS department and are done for each and every client based on the margin available with them.

Margin:

Ledger (Across Exchanges) + (Collateral) – Shortages

(Note: - approved Stock is considered after deducting Haircut specified by exchange or as decided by JKRMS)

Ledger, stock and Shortages:

Ledger is the net balance after TODAY trading at the day end./ account balance available for the client in his ledger account.

Stock includes all the approved stock bought till ledger day reduced by all the stocks sold till ledger day and any stock not received from exchange due to payout short.

Securities kept in CUSPA account cannot be considered for adjusting debit balance in all Exchange.

The term 'Exposure' means the extent to which the client's deposit can be utilized for trading activities.

Limit Setting at Beginning of Day:

Each and every client registered with Stock Broker needs to provide initial deposit by way of cheque or securities. On clearance of the cheque/securities in the account of the client, he/she will be able to put buy or sell orders through Stock Broker's trading platform.

There will be a hierarchy base limit set where a combined limit will be set for all segments. The total of the gross combined limit will be as per exposure taken in different segments.

This may vary from time to time in accordance with the market conditions and client to client.

In Futures & options segment, where exchanges have stipulated fixed initial margins and exposure margin and such other applicable margins from time to time, it is compulsory to keep 100% margin either in the form of clear fund balance or as collateral securities. In Cash segment, where exchange require upfront margin + additional margin. Upfront margin require either in the form to clear fund balance or as collateral securities and additional margin the client can pay margin in T+1 day. The client shall be obliged to pay higher margins as and when demanded by the Stock Broker.



Exposure Allowed:

Stable market:

Cash		Equity Derivatives	Currency Derivatives	Commodity Derivatives
Auto Square off Opted	Non-auto square off Client	Future/ Option	Future/ Option	Future
Limit will be as per VAR + ELM		1 time	1 time	1 time

Allowable positions at End of Day:

1) Stable Market:

Cash Segment: Allowable position at the end of the day in Cash Segment will be as per VAR where all stocks are eligible.

Derivative Segment: Allowable position in Derivative Segment at the end of the day is 1 time of available margin. e.g. 1 lakh available Margin = 1 lakh Exchange Margin (SPAN + Exposure + Additional Margin)

Commodity Segment (MCX + NCDEX):

Allowable position in Derivative Segment at the end of the day is 1 time of available margin. e.g. 1 lakh available Margin = 1 lakh Exchange Margin (SPAN + Exposure + Additional Margin)

Script Wise Limits in Online as well as Offline:

Due to Compliance requirement to restrict unhealthy trade practices and secure the higher interest of investors, Securities and Exchange Board of India has issued such guidelines and defined such scrip as illiquid scrip where trading is to be specifically monitored. Such list of scrip time to time updated by market regulatory authorities are been published on their website Please visit www.Nseindia.com or www.Bseindia.com for further clarifications. In lieu to comply with such norms and restrict unhealthy trade practices scrip limits available on trading terminals will be:

Sr. No.	Scrip type	Across all trading terminals.	
		Buy	Sell
1	Illiquid Scrip (GSM Category)	Open	Open
2	Z,XC,XT,S,OTHER ILLIQUID Group	Open	Open
3	Physical and odd lots	Block	Block
4	Other than 5 series in BSE	Block	Block
5	Other than EQ series in NSE	Block	Block
6	F&O BAN	Block	Block
7	Un-Solicited Messages – Current Watch	Block	Block
7	Physical sett.	Open, subject to intraday, if position kept open, client will have to bear Margin + penalty if any.	



Newly listed shares, illiquid securities, Trade-to-Trade, Z group securities, Penny stocks SME Scrips, Scrips shortlisted by NSE/BSE in ASM (Additional Surveillance Measures), GSM (Graded surveillance Measures) or any other group of scrips that may be introduced by the exchange having high VaR margin and where levying of additional surveillance deposit by the exchanges on said GSM/ASM scrips, trading in these scrip are subject to the high market risks and rate fluctuations. Illiquid securities & Trade-to-Trade securities will have a daily price range and there are chances that these shares reach the upper DPR or Lower DPR during a trading day. Hence, the dealing in these securities will be subject to the permission from the RMS dept and will be subject to the available credit balance and/or sufficient margin by the client

Factors of Risk Perception having regard to

Client's Location (Registered / Correspondence/ other address), Nature of Business Activity and Trading Turnover etc.

Low Risk

- 1) Clients whom we know personally
- 2) Client Introduced by our existing clients
- 3) Retail clients (average daily turnover < Rs 10 Lakh or net settlement obligation < Rs 3 Lakh)

Medium Risk

- 1) Direct Walk In Clients registered at our Corporate office
- 2) Client Introduced by someone other than our Existing Clients
- 3) Retail clients (average daily turnover Rs.10- 25 Lakhs or net settlement obligation Rs.3 to 10

High Risk

- 1) Clients registered without reference at any place other than Corporate office
- 2) Nonresident Clients
- 3) Retail Clients (average daily turnover > Rs 25 Lakhs or net settlement obligation (Without Holding) > Rs 10 Lakhs)

Square off to be done from HO:

Stable Market:

- 1) **Aging Base Square off:** Aging base Square off will be done on T+5th Trading Day. Such aging base square off may be considered as Penalized square off and not a facility. It Includes DP Square off if stock is not available in client CUSPA account. **Such days may be reduced according to market conditions, with or without prior notice.**

CUSPA account Stock will be considered to square off - FIFO (First in First out)

DP Square off - stock will be considered Low VAR+ELM will be square -off first.

- 2) **No Margin Client Square off:** New clients and delivery base clients may purchase stock by the way of demand of limits from RMS Dept. routed through Branch Manager / Franchisee Holder. Such clients have to pay up front margin (VAR). And rest of till end of the day. In case of non receipt of margin till stock is to be squared off by RMS.

However all margin required to be paid upfront as per exchange's guideline need to be paid upfront and remaining margin is to be paid in T+1 day. In case of non receipt of margin, securities will be liquidated by RMS as per the time decided in consultation with management.



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- 3) **M2M Square off:** Over ruling all above conditions other than no margin client, during market if any client's M2M hits 60% of net margin payable, a warning call is issued from RMS Dept. and if M2M hits 80% of net margin, Square off process is initiated.

Upon the MTM loss on open position reaching 60% of the net available margin (such %age may be curtailed or enhance by JKSP in its absolute discretion depending upon the prevalent market condition and branch or client), a warning call is issued from RMS Dept. and if M2M hits 80% of net available margin, the position shall be cleared from RMS dept

Forced Major Conditions:

- 1) Due to any technical reasons aging days may be postponed. Any claims against such postponed of square off, may not be addressed.
- 2) Claims against any technical error in ageing based square off may not be considered as aging Base Square off is a penalized square off and not a product or facility.

Shortages are short positions in cash market which are kept open for which pay — in are yet not done.

Hair Cut:

For the purpose of Haircut in any stocks we Consider Exchange VAR % or as decided by JKRMS whichever is higher.

CUSPA to Demat Stock Transfer Policy

In case of client having POA demat account with Stock Broker's DP, JKSP in his absolute discretion shall transfer the securities to such POA demat account despite nonpayment/ partial payment by client. The client has to meet up with his pay in / dues / funds obligation in prescribed time limit as per prevalent RMS policy of JKSP.

In all other cases of non payment or partial payment, securities will be kept in CUSPA. In case where Securities are transferred to CUSPA then Stock Broker shall be at liberty to sell such client's securities as per prevalent market rate of such securities from time to time to the extent of unpaid amount. However, Stock Broker upon receipt of instruction from client may also sell the securities of respective client lying in "Client Pledge Account" instead of securities lying in CUSPA and consider the said credit amount towards unpaid securities. Stock Broker shall not be held responsible if it is unable to sell the unpaid securities within 5th day from payout date due to reasons such as inactive/suspended shares/securities, lower circuit, litigations, regulatory enforcement / court directions, other trading restrictions like GSM or any other reason specified from time to time.

Stock Broker shall proceed further with disposing off securities as per Client's instructions. If no instructions, then Stock Broker may dispose-off client's securities lying in any demat account viz. CUSPA/POA/Margin Pledge Stock/ etc and resultant profit or loss on such sale transaction shall be transferred to or adjusted from respective client account. Selection of scrip and quantity from any or combination of demat account viz. CUSPA/POA/ Margin Pledge Stock etc shall be at the sole discretion of Stock Broker. Should Stock Broker opt for liquidation of client securities in case of non payment within 5 days from the pay-out date, no pre-order confirmation is required to be obtained, as this being SEBI circular mandate.

Peak Margin



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JKSPL shall have to report the margin collected from each client for EOD as well as Peak margin during the day, in the following manner:

- a) EOD margin obligation of the client shall be compared with the respective client margin available with the Member at EOD. AND
- b) Peak margin obligation (Highest) of the client, during the day, shall be compared with respective client peak margin available with the Member during the day.

Peak margin regulation will be implemented in the phased manner mentioned below:

Phase 1: 25 percent of the upfront margin to be available before the trade is being executed from December 1, 2020, to February 28, 2021.

Phase 2: 50 percent of the upfront margin to be available before the trade is being executed from March 1, 2021 to May 31, 2021.

Phase 3: 75 percent of the upfront margin to be available before the trade is being executed from June 1, 2021 to August 31, 2021.

Phase 4: 100 percent of the upfront margin to be available before the trade is being executed from September 1, 2021.

In cash market the peak margin will be applicable till T+1 for the delivery positions.

Abnormal/Non- genuine transactions

As a diligent market participant, every client is expected to exercise adequate due diligence before executing any transactions on the Exchange platform. Stock Exchanges, vide their circulars no. BSE: **20181213-31** and NSE: NSE/INVG/**39647**, both dated December 13, 2018, have advised clients to refrain from entering any abnormal/non-genuine transactions (ie. transactions made with an objective of transferring profit/loss between the concerned clients/entities or creation of artificial volume in securities/contracts etc.). Further, in case of suspicion of any abnormal trading pattern in the client account, the Exchange/JKSPL reserves the right to block an amount equivalent to the trades in those securities and the same would be released only after receipt of a rationale on the said trades from the client and subject to completion of Company's internal due diligence. Additionally, a penalty of 100% of traded value/profit made/loss incurred as a result of such trades may also be levied. Notwithstanding the same, JKSPPL may initiate appropriate disciplinary action against the client which may include termination of relation as a client.

Disclosure: In order to protect its interest, Stock Broker reserves its right to alter / amend this RMS policy or any part thereof in its absolute discretion from time to time considering its prevalent RMS policy and market conditions or as per the regulatory requirements by displaying the same on its website. Clients are being advised to refer website of Stock Broker w.r.t. prevalent RMS policy, Policies and Procedures and such other terms and conditions before entering into any transactions with Stock Broker. In case of any query or for further understanding, client may approach RMS/COMPLIANCE Department on 02692 225026/27/05

This policy is considered and approved by Board of JK Securities Private Ltd. in the meeting held on 01ST Sep -2021.

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