RISK MANAGEMENT MANUAL

JUST TRADE SECURITIES LIMITED

<u>Risk Management Cell – Just Trade Securities Limited</u>

Introduction

The management of Just Trade Securities Limited ("JTSL") commits to put in place a Risk Management system to recognize, assess and mitigate the risks that the organization may get exposed to.

The objective of the Risk management function is to ensure that all risks, which threaten the business, are recognized, controlled and reduced to an acceptable level and all applicable regulatory requirements of the various regulatory authorities are complied with. Accordingly the manual shall be updated or modified with time.

JTSL has a risk management setup which is regionally operational and controlled but centrally administered by the HO.

RISK DEPARTMENT

The Risk Department shall be responsible for controlling risk and ensuring that proper mechanism/system is in place to check/monitor Clients/Branches/sub broker's turnover and gross exposure positions. He shall monitor and optimize the Capital adequacy with Exchanges for ensuring smooth flow of operations. No Operation activities shall be undertaken by the Risk Department and the Risk department shall focus solely on controlling risks activities.

Operation & Settlement

The activities related to settlement of funds & securities are performed by the Back-Office software namely LidhaDidha (LD), provided & maintained by M/s Apex Softcell Pvt. Ltd. Mumbai which at present, is considered as one of the best software available in this industry.

All back office related activities like client registration, account opening, settlement of funds & securities including maintenance of financial ledger of the client, issuance of contract notes etc. are taken care by the BOS. The branches have also been given access of BOS to view the required details of all their clients.

All the required reports/ information are generated by the BOS and made available to concerned persons. Further the clients & branches of the JT can also have access to their BOS related information through the website of JT by using the user id & password given to them for this purpose.

Need for Risk Management

Risk is an integral part of any business & it need not necessarily lead to an adverse result. In stock market, not only shares and securities are traded; in the process, RISK and RETURN are also traded; and, there is a trade-off between the risk and the return.

Risk taking is essential to an active stock market and legitimate risk taking should not be unnecessarily or unduly avoided, therefore, a good stock broking outfit necessarily requires a robust & efficient risk management system as an integral part of its effective business model with an objective to meet the competition & the expectation of its clients, yet it should be able to control the business risks effectively including statutory & regulatory compliances. Considering these objectives in mind JT has framed its risk management policy which is reviewed & revised from time to time & is reproduced as under -

Risk Management System-Process

a. Identification of area of risk;
b. Analysis of factors/reasons causing risk;
c. Planning for control of risks associated with the business;
d. Strategic decision making for risk management tools and its implementation;
e. Measuring results;
f. Continuous Improvement.

Exchange Margins

For Capital Market Segment, the quantum of margin, the form and mode of collections are left to the discretion of the members in case of capital market segment, subject to the collection of minimum margin i.e Peak margin or any other margin as prescribed by the SEBI / Exchange from time to time. It has been advised that one should have a prudent system of risk management to protect themselves from client default.

Presently following margins are charged to the trading members by the exchanges in the capital market segment: -

a. Daily Applicable Margins / Peak Margin
b. Value at Risk
c. Extreme Loss Margin
d. Mark-to- Market Margin
e. Additional / Adhoc Margins*

*Pursuant to the Surveillance measures implemented by SEBI and Exchanges, Trading Members who have a substantial trading activity in the stocks wherein unsolicited SMS(s) have been found to be circulated and have resulted in an increased trading activity in them, will be levied with an additional surveillance margin of 25% over & above the margins mentioned above.

Note that SEBI/Exchanges/Clearing Corporations have the right to impose any other additional / adhoc margins over & above the margins mentioned above depending upon the situation and circumstances as may be warranted.

For Derivatives Segment, every trading member is under obligation to collect Peak / Upfront margins (as prescribed by the SEBI/Exchanges from time to time) before allowing the client to trade.

The following margins are being charged by Exchanges in derivative segment on upfront basis except the settlement obligations in the form of day end MTM losses -

a. Peak / Initial Margin
b. Premium Margin
c. Assignment Margin
d. MTM
e. Special Margins

Exemptions from Margins

Transactions done by all Institutional investors shall be exempted from margin payments For this purpose Institutional Investor would mean: -

1. Foreign Institutional Investor registered with SEBI.
2. Mutual Funds registered with SEBI.
3. Public Financial Institutions as defined in the section 4A of Companies Act 1956.
4. Banks, i.e a banking company as defined in section 5 (1) (c) of banking Regulation Act 1949
5. Insurance Company registered with IRDA.

Where Early pay in is made the outstanding position to the extent of early pay in shall not be considered for margin purposes.

Margining System

JTSL has adopted exposure-based risk management / margining system in capital market where in the exposure / trading is allowed to the client up to 2 Times of his available capital with JTSL, which effectively works out 50% of margin requirement irrespective of the fact that in which scrip/contract the client takes position. Further such validation is being done at order entry level that means if the exposure taken by the client results into the margin requirement more than his available capital with JTSL the order shall be rejected by the system & will not get through.

In Derivatives Segment, exposure is allowed up to 1 time of cash margin.

Risk containment measures also include capital adequacy requirement, monitoring of client's performance and track record, margin maintenance requirements, online monitoring of client positions and restriction in cases of margins limits are breached etc.

As a matter of policy trading is allowed to the clients only after receipt of adequate deposit/capital/assets/margins from the client.

Clients can put their trades online and the risk management feature will in normal circumstances will function on the following parameters:

- All Intra-day Orders are MIS orders and will be squared off during the same trading day at 3 :15 PM.
- Cash N Carry (CNC) method is used for delivery position.
- Normal margin (NRML) used for delivery order. In the derivatives trade, the margins applicable would be the total margin i.e. SPAN + Exposure. Up to 4 Times exposure will be given in Margin Product (Intraday CM Segment) .The exposure of 0.99% will be given for delivery.

1. **Online products**

JTSL has a fully automated internet-based trading platform wherein the risk management function is fully automated & controlled by the system on real time basis.

Therein Trading is allowed based on upfront margining concept (both in Capital Market & Derivative segments) where margining validation happens at order level & no manual intervention is required for risk management.

2. **Off-line Products**

As a matter of policy for offline products, JTSL follows exposure-based margining system, where in the trading / exposure is allowed to the client by comparing his exposure & resultant margins required with his total assets/deposits/margin available with JTSL. This validation is being done at order entry level that means if the exposure taken by the client results into margin requirement in excess of his available capital with JTSL the order shall be rejected by the system & will not get through.

Risk containment measures also include capital adequacy requirement, monitoring of client performance and track record, margin maintenance requirements, limits based on margin, online monitoring of client positions and restriction in cases of margins are breached etc.

As a matter of policy trading is allowed to the clients only after receipt of adequate capital/assets/margins from the client.

Mode of receipt & payment of margins

The clients may deposit the required margins/capital/asset for taking exposure in the form of Cheque, DDs, POs, Bank Transfer, Bank Guarantee, FDR & JTSL approved securities etc., the financial ledger balance of the client is also considered for this purpose as deposit. The value of securities for this purpose is calculated with its last closing price, which is further discounted with applicable haircuts in order to arrive at the net value of these securities & the value thus arrived at is considered for the purpose of margining.

Details of all cheques and payment instructions are updated in the back office for tracking by RMS team. RMS process considers only clear credit and securities on actual receipt.

Please note that no third-party payments are allowed.

Trading Platform of JTSL

The responsibility of updating & maintaining the trading platform on a day to day basis is entrusted on the Risk Management Team.

The margin available with every client for trading is arrived at by taking into consideration the total assets with JTSL which is netted against the financial ledger balance of the client & is reflected in the daily margin report. The valuation of non-cash assets available with the client is arrived at by applying the applicable haircut (VaR) which is prescribed by the NSE and 10% more on it.

Further JTSL has to ensure that all the other required activities for ensuring the correctness of margin, position, client code, scrip master, scrip in ban period, adequate capital with exchanges etc. are carried out before the start of the next trading session.

Other Surveillance Measures and Compliances

Capital Adequacy with Exchanges

Capital adequacy shall be monitored on a hourly basis during trading hours (T day) and capital adequacy requirements for the next day (T+1 day) shall be maintained on a timely manner after keeping a cushion for 20% increase in trade volumes.

Limit setting for Branches

1. Limits shall be monitored on a daily basis with Branch head.
2. Intra-day branch limits need to be changed after approval of the RMC.
3. Limits set vis-à-vis utilized must be monitored and documented on a weekly/daily basis.

Clearance:
Position of the clients with High M2M% will be Squared-off depending on Market risks.

Restriction/Blocking of certain series of securities:

The Series which do not belong to the retail clients are blocked on Surveillance server for retail clients.

1. BE (Trade to Trade Category)
2. Illiquid scrip (as per list given by exchange and internally decided by the risk management team)
3. The limit of the NRI and FII would be blocked for trading in any specific securities as notified by the exchange though it's circular on the subject. These clients are not allowed to trade, as per the RBI directives, in any specified scrip. The limit of these clients would be blocked in the NSE CASH and BSE CASH segments.
4. JTSL restricts/bans dealing in stocks wherein unsolicited SMS(s) have been found to be circulated and have resulted in an increased trading activity in them.

Important Restrictions

- No unlimited access granted on any Client ID, Dealer ID and Branch ID
- Single Order Value and Single Order Quantity is capped
- Monitoring of transactions in Illiquid Stocks/Illiquid Options/T2T Category
- Increased surveillance and monitoring of large concentrated trading.We have advised all dealers/ relationship managers to take strict note of this. Also, we issue cease and desist notices to the clients who indulge in unfair trade practices. If client found indulge in such practices, his account can be closed with immediate effect.

Password Policy

At the time of account opening, all the clients are allocated a unique client code and the same is intimated to them via email with specific instructions. The password gets stored in the application database in encrypted form so that even the administrators of the system cannot view it. Nobody has the access rights to change the password except based on client's request to regenerate the same.

When the client logs in for the first time, he is forced to change the password.

Updation of Financial Status of Clients

Client is required to get updated his financial details (with documentary evidence) on annual basis. The indicative list of such documents is available in NSE circular number NSE/INSP/2010/91 dated February 03, 2010.

Reporting

Strong and speedy flow of information is the backbone of the Risk Management System. The Risk Management system provides thorough & instant information to the sales team so that they have full access to their clients' margin status on request

Note: In addition to above the clients are requested to refer to the terms conditions of executed agreements, risk disclosure documents along with the policies and procedures and such other conditions / authorizations signed by the client during opening of account and later.