

RMS MANUAL AND POLICY

Objectives

- ✓ To set standards for all associated steps and activities
- ✓ To define a clear and simple procedure
- ✓ To ensure consistency, uniformity, zero errors and transparency
- ✓ To assist in faster turnaround time thereby higher customer satisfaction and higher revenues

Scope of Document

The scope is limited to the procedure for managing the risky client's portfolio by risk management department.

Limitations of the document

The document is intended to be used only as an aid and is made after considering the current activities of the LKP Risk Management Department.

LKP RMS Set Up

LKP RMS is divided into two set up H.O. and R.O. where in we have 400 locations

- ✓ **HEAD OFFICE** – sets macro clients limits as per margin and deposit available with us through uploading from super admins.(H.O. team consist of 5 members)
- ✓ **REGIONAL OFFICE**- which is headed by vice president of respected regions which have 70-80 branches under them where limits can be modified from mini admins as per receivable of the clients which are monitored H.O.(4 R.O. with team of 2 members)

Policies and Procedures related to Risk Management & Controls mandatory document

A) Setting up of client exposure limits:

- ✓ Client having credit from Rs 0 to Rs 5000 would get by default Limit of Rs 5000.
- ✓ Limit is set on combine basis for Cash & F&O Segment
- ✓ MTM Multiplier: 0.8 and Margin Multiplier: 1.00
- ✓ Margin – VaR System in Cash and Span & Exposure in F&O
- ✓ Quantity – 15000
- ✓ Max Value – 15 Lac
- ✓ Minimum Quantity - 2
- ✓ VaR : Value at Risk margin covers potential losses for 99% of the days
- ✓ For all new registrations, a default gross exposure will be allowed which attracts a Rs. 5000.00 exchange levied VaR margins. However the member may at its own discretion allow additional exposure as per cash margins / collaterals deposited by the clients. This system charges differential margin to different category of scrip. For all existing clients exposures allowed will be based on the credit balance in ledgers + stocks lying in beneficiary account + margins (securities and cash).

Margin Calculation:

Although VaR Margins keep on changing on a daily basis, the following table will be an indication of the exposure given to the clients (Cash Segment):

Group	Margin Required (avg)	Exposure
A	12.5%	$100 \div 12.5 = 8$ times
B	30%	$100 \div 30 = 3.33$ times
T	100%	$100 \div 100 = 1$ times
Z	100%	$100 \div 100 = 1$ times

B) BLOCKING AND SELLING POLICY (EXCHANGEWISE)

Ageing analysis for the client is done whoever is in debit for more than T+5 days. This ageing analysis is done by H.O. on daily basis and the same is sent across all the R.O. to take action on the same. The role of the R.O. Includes action to be taken for the debit clients which could be receiving of cheques or selling of their stocks who are in debits.

Buying is blocked for T+6 days Ageing Debit Exchangewise, clients are allowed to trade in other exchange where he is not having debit balance. Buying and selling is blocked on T+7 day in case the debit balance persists and stock would be sold by HO for due debit in the respective exchange.

For E.g.: Mr XYZ a client of LKP having collateral securities worth Rs.1,00,000 (One lacs) after hair cut with LKP as on 14th Feb, 2011 (Monday). So on 14th Feb, he would roughly be eligible to enjoy an exposure of Rs. 4-5 lacs (as derived by the system) in both the exchanges (BSE & NSE)

On same day (14th Feb), Mr XYZ took a position of Rs.2 lacs in NSE Cash.

In case he does not provide the money till T+6, on next Tuesday (22nd Feb, 2011), only his Buying limit will be blocked and selling limit would remain open in NSE and both buying and selling limit would remain open in BSE.

If client still doesn't sell his position in NSE or clear his dues by paying on or before 22nd Feb 2011, then on 23rd Feb 2011, both buying and selling would be blocked on NSE and stock worth upto due debit would be sold from H.O. **without any further information.**

Note: It would be the responsibility of Branch officers, Remiser and Sub Brokers to communicate to their respective clients about outstanding ageing debit for T+6 and T+7 based on report available on portal and get their feedbacks and communicate to the respective Regional RMS and HO RMS on daily basis within stipulated time.

BSE will not be blocked in this case provided Mr.XYZ is registered with LKP in BSE also, so he can utilize the unused exposure in trading with BSE. Given this scenario in case Mr.XYZ does not pay up for BSE as well, T+7 will become applicable on this position as well invariably.

While selling stocks worth Rs.2 lacs, additional value of 2% (max.) of the total debit balance would be considered. Hence, stock worth Rs.2,04,000/ would be sold. This extra value of 2% consists of interest charges from T+3 till T+7 and other statutory charges like STT, transaction charges, stamp duty, brokerage etc.

Stocks are sold by creating a floppy (bulk file) on the previous day (22nd Feb, 2011) evening, so at time of running the floppy in the next working day (23rd Feb, 2011) if the market goes up by 500 points, then the worth of stock sold may be at higher value than debit value, i.e. at time of selling the figure may go upto Rs.2,07,000. And the reverse may also happen if the market goes down by 500 points. But in case if the market goes down, then stocks may sold worth less than the floppy value say Rs. 195000, and in such cases client may face blockage in the next day in that exchange or fresh selling may happen from H.O. to recover the balance amount.

At time of selling stocks, below method is followed:

1. Stock from Beneficiary Account
 - a. First stock bought within T+7 period would be sold first by **FIFO** (First In First Out) method i.e. stocks bought **first** will be sold out first &
 - b. If still due debit is not cleared, than stock holding older than T+7 would be sold by LIFO (Last In First Out) method, i.e. stocks bought **Last** will be sold out first.
2. Stock from Margin Account (If sufficient stocks are not found in Beneficiary A/c)
3. Stock from POA Account (If sufficient stocks are not found in Beneficiary A/c & Margin A/c)

Note: At time of selling stocks from POA A/c **first stocks with minimum Scrip value bases on debit in respective exchange is considered.**

For e.g. If the client has debit of Rs 2000 and two stocks Reliance 100 Qty @ Rs 1500 and CALS Refinery 5000 Qty @ Rs 0.80 , then CALS will be sold first, since price is lowest among the two and if the client has debit in both the exchanges i.e. CALS in BSE and RIL in NSE, then to reduce the debit we have to sell both the stocks proportionately from both the exchanges.

T+7 will not be exercised on those clients where the total ledger debit balance is below Rs.1000/- per exchange. i.e. in case the client is registered in BSE and NSE both his exchange wise ledger should have debit balance of more than Rs.1000 for T+7 to be exercised.

C) Restrictions or Regulations on Dealings of clients:

Below mention restrictions and due diligence are followed for the clients, from time to time, on the volume of business which the client shall be allowed to transact

- ✓ Volatility in the market
- ✓ In view of impending price sensitive announcements
- ✓ Any restrictions in relation to volume of trading / outstanding business or margins stipulated by exchanges
- ✓ Political instability in the country
- ✓ Presence of any other price sensitive factors
- ✓ Failure by the client to maintain the applicable collaterals / margins
- ✓ Delays by the client in meeting its obligations / dues relating to the business / dealings done by the client under this agreement
- ✓ Observing /discovery any abnormal behavior / action / deed /trading pattern of the client's dealing with the member for e.g. cheque bouncing, non fulfillment of sale obligation, any regulatory action taken by any of the regulators.
- ✓ In scrips which are relisted and where the circuit filters are not applicable on the day of relisting.
- ✓ One share orders will be not allowed except for high value scrip's as decided by Risk Department or Exchange or Regulators after considering the client's history and trading pattern.

*****RMS dept. reserves the right to include and apply any other area along with above mentioned pointers as deem fit by the department**

D) Refusal of orders for penny stocks

Trading in penny stocks / T2T / Z category scrip's will be strictly regulated and almost zero limits will be allowed. Trades will have to be executed from RO or HO. However if observed that client is indulged in trading in only penny stocks or any insider trading activity, the account maybe suspended. Further also client's traded volumes vis-à-vis market volumes will be considered and 10-15 % of market volumes will be allowed, subject to due diligence of the RMS and Compliance department. Further limits will be also allowed subject to the history of the client, trading pattern, intention of doing the trades.

Although, the term "Penny Stock" has not been defined by BSE / NSE or any other stock exchange or by SEBI, a "Penny Stock" generally refers to a stock which has following characteristics:

1. Has small market capitalization;
2. Trades at a price less than its face value;
3. Has unsound fundamentals;
4. Is illiquid

(A list of illiquid securities is jointly released by NSE and BSE from time to time.)

LKP Securities Ltd recognizes that it is the client's privilege to choose shares in which he / she would like to trade. However, LKP Securities Ltd likes to pay special attention to dealing in "Penny Stocks". To this end:

1. LKP Securities Ltd may refuse to execute any client's orders in "Penny Stocks" without assigning any reason for the same.
2. Any large order for purchase or sale of a "Penny Stock" should be referred to Head - Dealing before such orders can be put in the market for execution.
3. Clients must ensure that trading in "Penny Stock" does not result in creation of artificial volume or false or misleading appearance of trading. Further, clients should ensure that trading in "Penny Stock" does not operate as a device to inflate or depress or cause fluctuations in the price of such stock.
4. Clients are expected not to place orders in "Penny Stocks" at prices which are substantially different from the prevailing market prices. Any such order is liable to be rejected at the sole discretion of LKP Securities Ltd.
5. In case of sale of "Penny Stocks", clients should ensure the delivery of shares to LKP Securities Ltd before the pay-in date.

LIMIT SETTING ON ONLINE MODE

Exposure limit for each client is determined by the Risk Management Department based on client's net worth information, client's financial capacity, prevailing market conditions and margin deposited by client in the form of funds / securities with LKP Securities Ltd .These limits may be set exchange-wise, segment-wise, and Scrip-wise.

- The limits are determined by Risk Management Department based on the above criteria and the payment history of the client in consultation with Sales / Sales traders.
- LKP Securities Ltd retains the discretion to set and modify, from time to time, any client's exposure limit decided as above
- Whenever any client has taken or wants to take exposure in any security, LKP Securities Ltd may call for appropriate margins in the form of early pay-in of shares or funds before or after execution of trades in the Cash segment. In case of any margin shortfall, the clients will be told to reduce the position immediately or they will be requested to deposit extra margin to meet the shortfall. Otherwise, LKP Securities Ltd may refuse to trade on behalf of such client at its own discretion.

The same policy is followed for selling and limits setting as offline. But for online clients we an auto square is done upto at 3:15 P.M.

- ✓ Keep sufficient credit in ledger or keep the proper share margin
- ✓ Orders placed in margin will square at 3:20 P.M. and the client will not be able to place any fresh orders after 3:15 P.M. in margin and all pending orders will get cancelled.
- ✓ Orders to be placed two ways only, second order can be square off or stop loss, if you want to square up you have to remove stop loss order and then do the square up.

Miscellaneous:

- ✓ Z group trades done from H.O.
- ✓ Re-listed scripts will be blocked from H.O.
- ✓ Same for volume less scrips.
- ✓ Trades are not allowed in scrip Lkp Finance & Shree Rama multi

BSE/NSE logged off:

- ✓ Contact HO for any square up trades which will be done from bolt / neat
- ✓ Messages constantly flashed on terminals of trading calls / connectivity / general information etc.