

MSE FINANCIAL SERVICES LTD.



RISK MANAGEMENT POLICY

INTRODUCTION TO RISK MANAGEMENT

Investment in securities is bound by market risks which are not predictable. In order to make aware of the clients the risks involved in trading in Stock Markets, the KYC Booklet contains a Risk Disclosure Document, as per the SEBI guidelines, which explains different types of risks the clients are likely to face in the market.

While the risk of loss of investment / money, is part of the market, we as a Broker seek to minimize the risk of loss to the client, through a robust and dynamic risk management policy which is an essential feature of our operations. Client is the nerve-centre of our operations and it is important to be aware of our Risk Management Policy and how the Policy would operate to regulate the transactions.

It is also important that the Risk Management Policy is not an insurance against losses; these are measures and precautions that are adopted to contain risks to the minimum. The Policy is subject to change according to our risk perceptions and of the market and SEBI/Exchange regulations for the time being in force.

Scripts listed on the BSE and NSE in the cash market and which are available for trading in DAILY GONG are categorized in A-B-C-D groups. Margin applicable is based on the group as under:

Group	A	B	C	D
Exposure No. of times	5	3	1	1

The list of scrips in each of the category is available with the Trading / Risk Management Department. Based on the certain parameters scrip might qualify in a particular category, but MSEFSL reserves the right to assign any or lower category based on various other parameters. The list will be reviewed at the sole discretion of MSEFSL. However, in extremely volatile market condition, or in case of any warnings by regulators/exchanges, scrips may be re-categorized without any prior notice and the clients shall regularize their accounts and do trading accordingly.

For trading on the Derivatives Segment, the applicable margin is defined as per the NSE SPAN margin file / MCX Margin file. We reserve the right to levy additional margin, depending on the market conditions and volatility in a specific scrip / contract / position / commodity.

Payments towards financial obligations in cash segment are required to be made as per the settlement schedule in terms of Rules, Bye-laws, Regulations, circulars of the Stock Exchanges as well as Risk Disclosure Document to avoid deactivation of DAILY GONG terminal. However, it is always in the interest of the client that the fund towards pay-in obligation if transferred to our account on T+1 day. Any delay in fulfillment of financial obligation shall attract levy of delayed payment charges as per policy and procedure as prevalent from time to time.

In case of F&O; the shortfall occurred in client account during the day must be paid immediately on demand or before the start of the market on the next trading day, whichever is earlier, failing which penalty for margin shortfall will be levied.

The effect of the funds transferred to MSEFSL from the client's bank account is immediate, and thereby reflects in the client's margin in Daily Gong. This enables the client to trade immediately. In case this does not happen due to any connectivity issue, the client needs to contact the AP/ branch / HO in case of exigency, immediately.

DEALING IN RESTRICTED SCRIPS (X, XT, XD, Z, BE, ETC.)

In order to exercise additional due diligence while trading in these securities :

- MSEFSL shall from time to time classify a list of securities which are restricted based on internal criteria.
- MSEFSL reserves the right to refuse execution of any transaction requests of the client on such restricted securities or to reduce the open market interests of the client in such securities/ contracts.
- MSEFSL also reserves the right not to allow any trades or transactions in respect of certain securities or segments or orders / requests which may be below / above certain value / quantity as may be decided by MSEFSL from time to time.

The following criteria's have been decided based on the Investment Limit at a client level in allowing trading in restricted scrip:

MSEFSL may allow the dealing in restricted scrip, subject to certain specified criteria as may be decided from time to time, with the intent to protect the interests of clients not to incur any undue losses, while dealing in such restricted scrips.

Other Mandatory requirements

1. The Authorised Person deposit will NOT be considered for client debits affiliated to that Authorised Person and Deposit of AP will be independent of all dues of clients, unless specifically authorized by the Management
2. Dealing in restricted scrip would be allowed to the extent of clear ledger credit balance available
3. Un - reconciled value of the instrument would NOT be considered for trading restricted scrips

ILLIQUID CONTRACTS - RESTRICTED CONTRACTS

We are restricting / blocking certain Future and options contracts on trading platform to avoid Malpractices or erroneous trading. The Parameters on which we are restricting/ blocking such Contracts will be taken by the Trading & RMS Department, in consultation with the HoD. All contracts having expiry more than 6 months will NOT be allowed for trading. Any contract which falls under the above parameters will be not allowed for trading on trading Terminals. If at all orders are to be placed, it can be

done with prior approval of the Trading & RMS Dept. Also Contracts in currency and Commodities segment, where the OI is very less, it is advised that the client do not take any position in such contracts and if any trade is done, it is at the sole risk and responsibility of the client and MSEFSL will not in any way be responsible for such trades / contracts.

Categorisation of the securities under GSM / ASM and relevant surveillance actions

In addition to existing Surveillance action being imposed from time to time, it may be noted that these securities shall be monitored for the price movement and based on the pre-determined objective criteria shall attract additional graded surveillance measures. All of the scrips under GSM / ASM would be under **Restricted scrip Category**

ASSIGNING TRADING LIMITS TO CLIENTS

Clients will be assigned with Margin / Deposit based limits for trading purpose. VaR/SPAN margin specified by the exchanges is blocked at scrip level on the positions taken by the clients during the day.

Deposit calculation: Deposit is calculated at customer level after netting off ledger balance in all segments and Holding & Collateral lying with MSEFSL and pledged with Clearing Corporation and the Margin is calculated as under:

Margin = Ledger Balance (Dr/Cr) + Net value after haircut of holding & collateral available with MSEFSL and deposited with Clearing Corporation

Valuation of holding & collateral: Holding & Collateral valuation is done on previous day's closing price. Net valuation is calculated by applying appropriate haircut based on VaR margin percentage specified by the exchanges and MSEFSL specified haircut, both taken into consideration together.

Volatile market situation : In such circumstances the limits are given based on credit in the ledger. MSEFSL may impose additional conditions in such circumstances viz., clients will be allowed to ONLY buy to the extent of clear ledger credit available and also sell only the scrips available in the designated demat account.

Single order quantity and value cap: With a view to minimize loss from possible punching errors by a dealer while executing the transaction for a client, Risk Management Dept. of MSEFSL puts restriction by capping the maximum quantity and value per order and orders exceeding that maximum quantity or value cap will be rejected. MSEFSL also sets terminal level limits to contain loss from erroneous trades getting executed. MSEFSL shall not assume any liability in respect of orders rejected by reason of their quantity or value exceeding the cap value.

MSEFSL also puts limit on Branch / AP / Dealer terminal, turnover limit, single order quantity and value limit. Such limit if it is to be modified, the respective Branch / AP / Dealer need to approach the RMS Dept. of MSEFSL at H.O.

Right to sell client position without notice on account of non-payment of dues:

The client is required to pay adequate margin pay-in obligations in full and that it shall be the client's responsibility to ascertain in advance the margin / pay-in obligations requirement for his / her order / trades / deals and to ensure that the required margin / pay-in obligations is made available to MSEFSL in such form and such manner as may be required by MSEFSL from time to time.

If the client's order is executed despite a shortfall in the available margin, the client shall, whether or not MSEFSL intimates such shortfall to the client, make up for the shortfall *suo-motu* immediately. The client shall be responsible for all orders (including any orders that may be executed without the required margin in the clients account) and/or any claim/ loss/damage arising out of the non-availability/ shortage of margin / pay-in obligations required by MSEFSL and/or by Exchange.

The client shall fulfill all its obligations / liabilities / dues to MSEFSL, failing which MSEFSL has the right not the obligation to square up all or any outstanding position and / or take offsetting positions and / or sell the margin / securities available with MSEFSL without giving any notice to the client. MSEFSL may also square up all or any outstanding position and / or sell the securities/collateral available with MSEFSL on or after T+6 day, as a part of risk management at any time without giving any notice to the client.

In case of purchase on behalf of client, the MSEFSL may close out its transactions by selling securities, in case the Client fails to make full payment to MSEFSL for the same before the time intimated by MSEFSL. In case of sale on behalf of client, the MSEFSL may close out its transaction by purchasing the securities. The client shall be liable for any losses, costs and be entitled to any surplus, which may result from the above.

Ageing Debit Square off (T+ 7)

It is the responsibility of client to pay his outstanding dues by T+2 day. The client shall ensure timely provision of funds / securities to MSEFSL in order to meet exchange obligations. MSEFSL reserves the right to close the positions / sell securities to the extent of ledger debit and / or to the extent of margin obligations.

Selling will be done in clients account on T+7 days for the ledger debit which is more than T+6 days on ageing basis.

Sequence of Square Off:

Square off will be done considering scrips with latest settlement in a sequence of blue chip category first, followed by Good, Average and Poor scrips respectively.

Where the client has not submitted the POA for his DP account or the DP account is made inactive , MSEFSL will reserve the right to square off such securities if the funds are not received within 6 days from the date of purchase.

Margin limits in Derivatives Segment (Equity Derivatives, Commodity Derivatives & Currency Derivatives)

Margin is collected upfront from all clients in Derivatives segments (Equity Derivatives, Commodity Derivatives & Currency Derivatives). Daily Mark to Market losses shall have to be paid latest by T+1 day and any shortages in respect of Margin shall be payable forthwith. In case of default to provide Mark to Market losses or Margins accordingly, MSEFSL shall be entitled to square off the open market positions without further reference or notice to the Clients.

In case of extreme market volatility, margins may be demanded on intra-day basis and Clients should be able to replenish margins on immediate basis to avoid square off. Where market conditions warrant, MSEFSL may demand payment by electronic transfer and refuse to accept payment by cheque.

Margin based limits will be given to the clients for doing trades in Derivatives Segment. Limits in Derivatives Segment will be given on the basis of free credit balance and / or collateral/ securities of the client available with MSEFSL valued after hair cut. Securities shall be valued after appropriate hair cut based on the type of scrips, nature of scrip, liquidity and volatility of scrip, etc. from time to time.

A client will be normally allowed limits till the client has free credit balance and/ or collateral/ securities valued after haircut. In case of excess limit is availed, the same will be regularized by the end of trading session / day. No excess limit may be allowed to be carried forward.

MSEFSL may from time to time depending on market conditions, profile and history of client, type and nature of scrip, etc., may at its sole discretion change the rate of haircut applicable on the securities / collaterals, number of times the limits to be given in Cash and / or Derivatives segments and take such steps as MSEFSL may deem necessary.

The trading limits for the clients may vary / reduce or impose new limits on the basis of the risk perception of the Company.

MSEFSL shall not be responsible for such variation / reduction in limits / inability to route any order through the system on account of any such variation / reduction / imposition of limits. The losses incurred if any by the clients due to the setting of limits by the Company due to risk perception, shall be borne exclusively by the client alone.

Intraday Product Policy (Timer Square-off / M-to-M square-off)

Intra-day positions would be automatically squared-off at 3.15 p.m. (for equity, equity derivatives) or such other time as may be decided by the Risk Management Desk of MSEFSL depending on the client's open position

If the client's Net loss on total open position reach 80% of his available margin limit, the open positions will be squared-off automatically to that extent. As a caution, an SMS will be sent to client, when he / she reach 60% of the available margin to avoid square-off and informing to remit additional margin through NEFT / RTGS to MSEFSL.

After square off of the open positions, if still there is a loss in the clients' accounts, the collaterals if any available in client's demat account will be liquidated to the extent of the loss, without any information to the client.

- Client cannot Carry Forward any positions in Intraday Product.
- All pending orders / unexecuted / partial orders will be cancelled as per intraday product features.
- No fresh orders will be accepted in Intraday after Time based square off.
- All positions under Intraday Product will be subject to 80% MTM Loss i.e. positions will be liquidated if loss reaches to a pre decided level of client margin loss. The OPEN positions (i.e. the carry forward overnight positions) and the intraday leverage position (across segments) will also be squared off at 80% MTM
- At MTM loss the position will be reduced on best effort basis and customer will be liable for such losses.
- Intra Day Product available for Equity / Futures / Options / Currency Futures / Commodities Futures
- Clients registered with MSEFSL and dealing in Capital Market / Derivative Market / Currency Derivatives will be allowed to trade only if they register for trading in that segment.
- Client confirms that he is aware of the Intraday Product and its features and have clearly Understood the risks associated with Intraday Trading.
- Client understands that Intraday Trading would be allowed only if the margin required under the Facility is already available in his account with MSEFSL.
- Client agrees and accepts that enlisting him/her for the Intraday Trading Facility shall not oblige him/ her to place Intraday Orders requested in any scrips even though margin required for placing a trade order under the Facility is available in the account.
- Client also understands and agree that the option to convert Intraday trade positions to carry forward positions is subject to full margin being made available upfront unless such margin is already lying to the credit of the account with MSEFSL
- Clients are aware that under the Facility, unless the positions are carried forward as stated above, all open positions shall be squared off by Risk Management Team at the prescribed cut-off time on the same day of their acquisition unless the positions are sooner squared off upon the positions incurring a loss to the extent of the prescribed maximum limit or more as may be determined from time to time.
- Client agrees and accepts that if for any reason beyond our control, like force majeure causes, disruptions in the communication network, system failure, slow or delayed response from system, trading halts, or the Exchange applying circuit filters because of which the open Intraday positions could not be squared off and are carried forward, client is expected only to Square them off on a best effort basis, as soon as may be, and any and all losses arising from such events will be to the client's account.
- Client agree and accept that he/she will not hold MSEFSL, their directors, officers or employees liable for any loss that may sustain as a consequence of availing of this facility. All terms and conditions of the agreement that are executed shall remain effective and in force in all respect until terminated in terms thereof.

Client-to-client internal shortage of securities obligation :

In case of client-to-client short (internal short) of securities in a settlement, such securities will be squared-up by MSEFSL, as per the procedure laid down by the respective Exchanges (for NSE/BSE - closing price on T+2 day + 10% or contract rate whichever is higher).

Trading in Penny Stocks:

Following types of scrips will come under Penny stock if it falls in any one category as mentioned below as part of the due diligence and risk management policy of MSEFSL.

- i) Scrip which are quoting at less than Rs. 10/- on any of the Exchanges.
- ii) Scrips appearing in the list of illiquid securities issued by the Exchanges periodically.
- iii) Securities forming part of Trade-to-Trade settlement.
- iv) Securities forming part of Z / BE group.
- v) Scrips on which Exchange VaR is more than 50%
- vi) Scrip whose average daily volume is less than 15,000 shares (collectively for all Exchanges) in last seven days.
- vii) Any Securities which in the opinion of MSEFSL is likely to be a Penny Stock.

Trading in Penny stocks may be allowed to clients at the sole discretion of MSEFSL. Also MSEFSL may restrict the quantity / amount which a client may be allowed to buy / sell the penny stock. If the client wants to purchase penny stocks then MSEFSL may insist upto 100% advance payment / sufficient clear ledger credit balance and similarly if client wishes to sell penny stock, then MSEFSL may insist that shares should be first transferred to Pool account of MSEFSL. Under no circumstances, MSEFSL shall be held responsible for non execution / delay in execution of such orders and consequential opportunity loss or financial loss to the client.

Margin Trading Facility (MTF) square off

The details of the same is clearly enlisted in the Rights and obligations document for MTF.

Applicable minimum initial margin and increased margin, if any, shall be kept supplied at all times by the clients in respect of the stocks purchased under the MTF. Client shall pay any shortage in the required margin immediately on receiving demand (margin call) and in any case not later than the trade day following the day of making the margin call (prescribed time) failing which MSEFSL shall be at liberty to liquidate the funded shares and / or collateral shares to recover the dues outstanding in the account of the Clients, without any information to the clients.

In case of extreme volatility in the market, MSEFSL may demand payment of margin forthwith and prescribed time for making margin payment shall be construed accordingly. Decision of MSEFSL in relation to market volatility shall be final and binding without MSEFSL having to provide any reason for the decision to the Client. In case there is a shortfall, margin call would be made on T day itself – In the normal market condition, it is expected that the client makes good the shortage within T +3 day failing which the position would be liquidated on T+4 day to the extent of margin shortfall.

However, during volatile market conditions and there being a situation where there is a significant movement in the market, MSEFSL reserves the right to liquidate the holdings much in advance.

Client can view details of his/her ledger, holdings, margin shortfall etc via secured login on MSEFSL's trading website / mobile app. Regular intimations regarding debit, information about shortage and communication regarding liquidation will be sent through SMS and email on the clients' registered mobile number and email address respectively.

Square off will be done on LIFO basis, last settled shares from poor to blue-chip category will be considered for square off first followed with unsettled shares from blue-chip to poor category.

For a client who has opted for MTF and trades in scrips which are un approved (not part of Group 1 securities) , the outstanding debits will have to be cleared within T + 6 days failing which the aged debit more then the 7th day would be liquidated as per the exchange norms . Sequence of this square off will be LIFO last settled shares from blue-chip to poor category

Of the above square offs, the priority of the square off would be given to projected risk. At a client level (whether a customer is activated for MTF or is an Non MTF square customer) would come under projected risk if 50% of the MSEFSL stipulated VaR margin is not maintained (as explained under Projected risk square off).

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