

RISK MANAGEMENT POLICY

MCX COMMODITY



Muthoot Securities

MUTHOOT SECURITIES LTD.

Document Information

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Muthoot Securities Ltd.

Risk Management Policy – Commodity Segment

1. Objective and Scope

This Risk Management Policy (“Policy”) establishes the framework and operational procedures adopted by Muthoot Securities Ltd. (MSTL) to monitor, control, and mitigate risks arising from trading activities in the Commodity Derivatives Segment. The Policy applies to all clients, authorized persons, employees, and associated dealing offices of MSTL involved in commodity market trading through recognized exchanges such as the Multi Commodity Exchange of India Ltd. (MCX).

The Policy has been formulated in accordance with applicable SEBI regulations, Exchange circulars, and internal risk control mechanisms to ensure prudent exposure management, margin discipline, and financial stability.

2. Exposure and Margin Policy

2.1 Margin Requirement

- Clients are required to maintain 100% of the total margin upfront in the form of:
Clear fund balance, and/or
Approved collateral securities (post applicable haircut).
- The total margin includes all components prescribed by the Exchange such as:
SPAN Margin, Exposure Margin, and Extreme Loss Margin (ELM).
- An additional ad-hoc margin of 5% shall be levied to cover daily Mark-to-Market (MTM) volatility.
- Leverage or additional exposure beyond collected margins shall not be permitted under any circumstances.

2.2 Cash and Non-Cash Margin Composition

- A minimum of 50% of the total margin must be maintained in the form of cash or cash equivalents.
- The remaining 50% may comprise approved non-cash collaterals after applicable haircuts.
- Any shortfall in the cash component will attract interest at market-aligned rates, computed daily on the deficit amount until rectified.

2.3 Exposure Calculation

- Exposure limits in the MCX Segment will be determined based on:
Client ledger credit balance, and
Valuation of pledged collateral securities after applicable haircut.

- MSTL may revise exposure limits intraday in response to market volatility, regulatory changes, or system alerts.

3. Short Selling and Options Writing

- Short Selling:
Strict margin requirements (as per exchange guidelines) must be met upfront. Short positions will be permitted only if sufficient margins are available.
- Options Writing:
Since writing options involves unlimited risk, clients must maintain higher upfront margins as specified by the exchange.
No exposure benefit or leverage shall be provided for naked option writing positions.

4. Risk-Based Monitoring Framework

4.1 Real-Time Surveillance

- The RMS Team shall continuously monitor all commodity positions on a real-time basis.
- Alerts will be generated automatically if margin utilization crosses prescribed thresholds.

4.2 Margin Call Triggers

- Margin shortfall < 30% of total margin → Immediate margin call will be issued.
- If margin is not replenished within the stipulated time, positions shall be squared off at MSTL's discretion without prior consent.

4.3 Position Square-Off Criteria

The RMS Team reserves the right to initiate forced square-off in the following circumstances:

1. MTM Loss exceeds 75% of the available cash margin.
2. Non-payment or delay in margin replenishment.
3. Outstanding dues or debit balance in client ledger.
4. Suspicious or non-genuine transactions under PMLA guidelines.
5. Exchange or SEBI directive mandating position closure.

All square-offs executed by the RMS team will be binding on clients, and resulting losses or charges shall be borne by the concerned client.

5. Tender Period and Physical Delivery Handling

- MSTL does not permit physical delivery of commodities.
- All open futures positions must be mandatorily squared off one day prior to the start of the Tender Period.

- All option contracts under physical delivery will be blocked for fresh trades on expiry day.
- Fresh trades are strictly prohibited during Tender/Delivery Period.
- RMS reserves the right to close or restrict positions nearing the tender period to mitigate delivery risk.

6. Intraday Products (BO/CO Orders)

- Bracket Orders (BO) and Cover Orders (CO) are permitted only for intraday trading.
- All open positions in these products shall be auto squared-off 15 minutes before market close.
- MSTL reserves the right to modify square-off timing based on exchange notifications or market conditions.

7. Options Expiry and Devolvement Rules

- On options contract expiry, all In-The-Money (ITM) options shall devolve into futures contracts.
- To manage devolvement risk, the exchange blocks margins as follows:
 - T-2 Day: 25% of futures margin
 - T-1 Day: 50% of futures margin
 - Expiry Day: 100% of futures margin
- Clients must maintain sufficient margins; failure to do so may result in square-off by MSTL without notice.
- Strategy or hedge benefits shall not be available on expiry day of the respective contract.

8. Client Intimation and Margin Call Communication

- On a best-effort basis, clients shall be informed of margin shortfalls or risk square-offs via:
 - Email, SMS, or Phone call to the registered contact details.
- Notifications will include details of margin deficiency and required corrective actions.
- Margin call records, contract notes, and trade confirmations shall be sent as per SEBI and Exchange disclosure requirements.

9. Client Code Modification and Error Handling

- Client code modifications are permitted only for genuine errors and strictly as per exchange norms and timelines.
- Each request must be submitted to the Surveillance Department in the prescribed format, including:
 - Trade number, order number, client code, and justification.
- The Surveillance Team shall evaluate each case and seek approval from the Compliance Officer and Chief Financial Officer.
- Physical contract notes shall be dispatched to clients involved in modified trades.

Permissible Modifications:

1. Typographical/punching errors where both codes are similar and non-repetitive.
2. Modifications between family accounts (spouse, dependent parents/children, HUF).
3. Institutional trades wrongly entered into broker error accounts.

Repeated or pattern-based client code modifications will be viewed as non-genuine and subject to disciplinary action.

10. Compliance, Review, and Amendments

- This Policy shall be reviewed periodically or upon regulatory amendments by SEBI/MCX.
- MSTL’s Risk Management Committee reserves the right to modify parameters or introduce new controls in response to market volatility or risk assessment findings.
- Any deviations from this Policy must receive prior written approval from the Chief Financial Officer and Chief Compliance Officer.

11. Disclaimer

All trading activities in the Commodity Segment are subject to Exchange Regulations, SEBI Guidelines, and MSTL’s internal policies.

Muthoot Securities Ltd. shall not be liable for any losses arising from market fluctuations, forced square-offs, margin shortfalls, or regulatory actions taken in accordance with this Policy.

12. Review and Revision of Policy

A review of AML guide lines, policies and practices will be conducted on an annual basis and the review report is placed before the Board of Directors.

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