

# **RISK MANAGEMENT POLICY**



## **MUTHOOT SECURITIES LTD.**

### Document Information

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## RISK MANAGEMENT SYSTEM - MUTHOOT SECURITIES LTD

The Business model for MSTL consists of MSTL owned Branches and Authorized Persons. The clients are linked or mapped to these Branches or Authorized Person Offices, herein after called as Branches, and are engaged in trading from these branches. Apart from the trades executed from Branches, there are certain clients who are indulged in trading using the internet trading platform of MSTL. Controlling and monitoring of these trades are done from Surveillance dept.

Major Functions of RMS:

- Allocating exposure to the clients' trading account and enabling the clients' to do trades.
- Monitoring of orders & trades by clients. Checking of order rejections and increasing exposure, if required.
- 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.
- Decision taking with regard to squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may come across.

In short, the Risk management in relation to all the trading activities for Clients is handled by Surveillance Dept.

### HIERARCHY

In MSTL, Surveillance department employs executives, Senior executives and Assistant Manager who reports to Manager-Surveillance. Manager Surveillance is reporting to Chief Financial Officer. Decisions relating to routine activities are made by Manager-Surveillance. Activities which contain high risk and complications are to be put forward to the notice of Chief Financial Officer and proper guidance should be taken before executing any action on such activities.

Branches across the country are sub divided and allotted to these executives and senior executives and all the queries related to the trading activities and exposure requests from Branches are handled by these executives.

Muthoot Securities Limited classifies clients into High Risk Profile, Medium Risk Profile and Low Risk Profile. Such classification is done based on a personal relationship maintained with clients and respective Branch in Charges. Apart from this, all the clients are evaluated based on the initial margin and subsequent margins paid by them. The trading patterns of clients are also taken into consideration for classification of risk profile.

## **TRADING**

MSTL is a registered stock broker of The National Stock Exchange of India Ltd. (NSE) & BSE Limited. All these exchanges following online trading system and 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 Derivatives). MSTL is using ODIN software (by 63 moons technologies limited.) for trading in Capital Market and Derivatives segment.

Every exchange fix a minimum initial deposit to be maintained by every trading members as initial margin (Base Minimum Capital) and trading members, at their discretion, can have more deposits (Additional Base Capital) to be used as Margin for the purpose of enabling the trading activities..

The Exchange provides user id for Exchange Trading terminals and MSTL in turn activated CTCL login facility and provided ODIN terminal to the branches across the country. Exposures on the CTCL terminal are set by MSTL surveillance Department and are done for each and every client based on the margin available with them. Trading is done from branches and the orders are placed by MSTL's relationship managers.

Orders can be placed in any of the following product typed

1. MARGIN (Intraday) – For intraday trading-All positions held under this product type is subjected to intraday square off.
2. Delivery - For delivery carryforward trades where the margins will be available based on combined ledger balance (all segments) and valuation of margin pledge shares AHC.
3. CNC– Cash & Carry- For delivery carryforward trades where the margins will be available based only on combined ledger balance



## **FIT & PROPER REQUIREMENT FOR DEALING IN LISTED EXCHANGES / DEPOSITORIES**

Measures are taken to ensure that no person shall, directly or indirectly, acquire or hold equity shares of a recognized stock exchange or recognized Clearing Corporation unless he is a fit and proper person.

## **EXPOSURE RULES**

Each and every client registered with MSTL needs to provide initial deposit by way of cheque/fund transfer. On clearance of the cheque/fund transfer the client will be able to put buy or sell orders through MSTL's trading platform.

The term 'Exposure' means the extent to which the client's initial deposit/ can be utilized for trading activities. In simple terms, if a client having Rs.100 as initial deposit, the client is allowed to trade for Rs.500; his exposure for trading is FIVE times of the initial deposit. The multiplier in the said example is FIVE times.

## **MSTL EXPOSURE POLICY**

Each and every client registered with Muthoot Securities Ltd (MSTL) needs to provide initial deposit by way of cheque / fund transfer, on clearance of which the client will be able to put buy or sell orders through MSTL's trading platform. For an investor, MSTL is providing a 1 time exposure for taking delivery positions in Capital Market considering his/her available margin. Available Margin will be set on the basis of combined ledger balance (all segments) and valuation of margin pledge shares AHC. Additional buying limits (up to 3 times) will be provided on requests from branches, considering the balance , funds for which has to be brought in on the same day or latest by T+1 day. A day trader is provided with 4-5 times exposure for indulging in day trading activities. This may vary from time to time in accordance with the market conditions. In Futures & options segment, we follow the exchange stipulated fixed initial margins and exposure margin with an additional/adhoc margin of 5% (to cater the daily mtm).It is compulsory to keep 100% total margin upfront, either in the form of clear fund balance or as collateral securities for carry forwarding the positions. Shares in DP account will not be considered as collaterals for the purpose of trading in Equity and derivative segment.



## **COLLECTION OF MARGINS & REPORTING TO EXCHANGES**

SEBI, vide circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 and SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020, issued guidelines with regard to collection of margins from clients and reporting of short-collection / non-collection of margins by Trading Member (TM) / Clearing Member (CM).

- Upfront 20 % Margin Collection in lieu of VaR and ELM for Equity Segment trading.
- 100% Upfront margin in F&O and CDS
- Approved securities in the client's holdings can be marked as lien (pledged) and in turn the client will get buying power based on the market value after applying defined haircut. While doing so, client is also giving consent to re-pledge the same to clearing corporation for availing margin. The advantage of this system is that the shares remain in the customer's Beneficiary Account and benefit of all corporate actions will be directly credited to the customer's DP account or bank account.
- Valuation of shares in DP will not be considered.
- No upfront margin required for selling of shares from Dp, Pool
- Credit for sale enabled for Dp and Pool selling on the same day, considering the EPI, so that clients will be able to take fresh position worth 100% of the position sold

In case a Trading Member fails to collect

- requisite margin from the respective client on an upfront basis,
- margin on consolidated crystallized obligation by T+1 (in case of F&O and CD segments)
- MTM losses by T+1 (in case of cash segment)

and reports to the clearing corporation that margin obligation and MTM losses collected from client is less than the actual amount of margins required to be collected, it is termed as short reporting of margin collection and shall attract applicable penalty as mandated by clearing corporation from time to time. Hence branches must strictly ensure the compliance of SEBI guidelines.

The margin collected from the client is reported to Exchanges as per the norms and guidelines of the Exchanges/Regulators.

### PENALTY FOR SHORT MARGIN

The following penalty shall be levied in case of short reporting by trading/clearing member per instance....

<b>Short collection for each client</b>	<b>Penalty percentage</b>
(< Rs 1 lakh) And (< 10% of applicable margin)	0.50%
(≥ Rs 1 lakh) Or (≥ 10% of applicable margin)	1.00%

If short/non-collection of margins for a client continues for more than 3 consecutive days, then penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of shortfall. If short/non-collection of margins for a client takes place for more than 5 in a month, then penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.

### NOTES TO THE EXPOSURE RULES:

- In accordance to the regulatory guidelines there are various checks in place at single order quantity level, order value level and overall security quantity / value level, individually or combination thereof as may be applicable.
- **Uncleared Funds:** Every payment from clients should be in the form of cheque/fund transfer and the same will be considered for margin only after clearance of the instrument. There will not be any exposure provided to clients based on the uncleared funds.
- Outstation cheques are not entertained. All the cheques collected against trading positions should carry a valid MICR number.
- All the cheque dishonour cases are viewed seriously and debit amounts in such accounts will be cleared from surveillance dept. The normal rule for Aeging debit will not be applicable while selling the shares in cheque dishonor issues
- The options buying should be allowed only against premium margin which should be in the form of clear credit balance only.

- No fresh positions in F&O will be granted against unclear cheque.
- Options selling involve unlimited risk and thereby Exchanges specify high initial margin & exposure margin and hence will be allowed only against the exchange specified margin. Deep out of the money options and similarly options with lesser activities will be blocked from trading. The credit realizing from selling of options will not be considered as liquid credit balance and henceforth will not be considered for payout of funds.
- Trading in banned scrips are blocked from HO, however the clients can hold their existing positions. The list of securities in ban period is updated on NSE website on daily basis.
- In case of F&O segment, all far month Option contracts will be restricted from trading due to their illiquid nature, however if the client wants to trade then the limit will be set from HO after analyzing the requirements.
- Fresh positions in current month expiry contracts will not be allowed from the 4 working day prior to the expiry for stocks that are to be physically settled.
- For the Pledge request submitted on T day the collateral limit will be present from T+1 day based on the haircut applicability.
- 100% fixed margin for and against illiquid scrips.
- Scrips available for margin and delivery trading will be defined by MSTL RMS
- Illiquid scrips are defined by MSTL after considering the past volume, price, volatility and Var.
- All scrips which feature in GSM Stage 2 to GSM Stage 6 are allowed for purchase as per the ledger credit balance available. The clients can, however, be able to sell these scrips in “Delivery” mode. The client can be allowed for trading in the abovecategory scrips on specific request by adhering the compliance/marginrequirements only. The scrips won't be available for trading by default.

## **DEBIT POLICY**

Exchanges follow a settlement schedule of T+1 in Capital Market segment, daily MtoM settlement & Final Settlement in Derivatives segment. Accordingly, the exposure policy designed by MSTL directing the customers to pay the debit balance on the day of purchase itself or by T+1. No extension is possible beyond fifth trading day reckoned from date of pay-in, in whatsoever circumstances. All the aging debits will be cleared from Surveillance department without further intimation to branches. In case stock valuation falls below 20% of the total ledger debit, square off can be done even before fifth trading day reckoned from date of pay-in. Client account with MTM losses will be blocked and no further transaction will be allowed until and unless the MTMs are covered fully.

## **TRADING IN NEWLY LISTED SECURITIES, ILLIQUID SECURITIES & NCDS**

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, have been introducing various enhanced pre-emptive surveillance measures such as reduction in price band, periodic call auction and transfer of securities to Trade for Trade segment from time to time.

The main objective of these measures is to;

- Alert and advise investors to be extra cautious while dealing in these securities and
- Advise market participants to carry out necessary due diligence while dealing in these securities.

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 surveillance department and will be subject to the available credit balance only.

100% Margin will only be provided at client level for purchase of “illiquid securities” or “Penny stocks” and NCDs.. Clients are not allowed to take buy positions in Z/BZ category scrips. No buying limits will be available in these shares on the basis of pending cheque

Clients will not be able to buy stocks that are in GSM stage 2 or higher. These stocks require Additional Surveillance Deposit (ASD) of 100% of the trade value or more.

Newly listed securities can be bought only as per the ledger credit availability through CNC product type..

### **INTERNET BASED TRADING (IBT)**

MSTL provides internet based trading facility for its clients through ODIN software. There are two different versions of IBT available for trading. The primary responsibility to monitor the risk of IBT customer lies with the branch where the client is mapped. However, RMS team will closely monitor the risk associated with trading of such clients. The exposure norms are similar to the same as mentioned above

### **CLIENT CODE MODIFICATION**

Genuine errors in client codes occurred while punching the orders can be modified subject to the approval from exchanges. The timeline fixed by exchanges have to be met and the other guidelines also need to be followed. Every request for client code modification is to be sent to surveillance department in the predefined format and proper care should be taken in filling the Exchange order number, trade number and the reasons for wrong Punching. On evaluation of the trades and the clients' financial position with MSTL, surveillance team will decide whether to accept the Modification Request or not. All the cases are put forward to the notice of Compliance Officer & Chief Financial Officer and the processing of the client code modification request will be solely upon the their decision. Physical Contract notes will be sent to such clients on the next day.

The following client code modifications would be considered as genuine modifications provided there is no consistent pattern in such modifications:

- a. Where original client code/name and modified client code/name are similar to each other but such modifications are not repetitive.
- b. Where original client code and modified client code belong to a family. (Family for this purpose means spouse, dependent parents, dependent children and HUF)

However, there may also be a need to resort to client code modification in following situations:

- a. Punching error / typing error of client codes due to any genuine error or mistake in order entry, while punching the order, by any of dealer.
- b. Trade entered for wrong client due to any miscommunication from the client/ authorized representative of the client.
- c. Institutional trades modified to broker error account

### **CRITERIA FOR POSITION SQUARE OFF**

- 1) The auto square-off timings for positions taken for intra-day in various segments are noted below 3.20-3.21PM for NSE and BSE equity, 3.22 pm for F&O, 4.50 pm for CDS and 07.15pm for Cross Currency.
- 2) Aeging Debit Square Off-
  - Clients who have not opted MTF facility-All ledger debits will be square off on fifth trading day reckoned from date of pay-in.
  - Clients who have opted MTF facility- Any debit balance arising because of purchase in Non-Approved stocks will be square off on fifth trading day reckoned from date of pay-in.
- 3) Once the MTM loss of the intra-day/delivery positions reach 75% of the margin available, the positions should be cleared from the branch concerned/client, failing which the positions will be cleared off from surveillance dept.
- 4) MSTL surveillance will reduce the F&O positions if the MTM loss incurred on a day is more than 40% of the actual margin requirement. In such cases clients can opt for a fund transfer for holding his positions
- 5) Ledger Debit arising from margin/mtm in F&O
- 6) In case stock valuation falls below 20% of the total ledger debit, square off can be done even before Aeging.
- 7) The position will be liquidated up to the shortfall amount and no further position will be granted in case of chq bounce / third party chq deposit

- 8) Suspicious trade or transaction under PMLA Act
- 9) Uncleared debits which are more than the 5<sup>th</sup> trading day reckoned from date of pay-in.
- 10) DPR based Square off–Any short position taken in any of the stocks nearing its upper threshold of DPR range will be squared off to the extent of Quantity short sold.
- 11) If the client does not comply with the margin requirements in case of physical delivery in F&O

Intimation to Clients: On best effort basis, clients will be notified of their trades/Risk-square off in case of margin shortfall through E-mail and call. MSTL sends margin call and email to mail id/phone number registered with us when the margin utilisation exceeds the available balance. Mail confirmations and contract notes of the position squared off will be sent to the client accordingly.

### **COMMUNICATION WITH CLIENTS**

Client can view details of his ledger, margin, shortfall etc. through his secured login on MSTL website. The client has to be aware about his position, outstanding balance and Risk. MSTL is under no legal Obligation to send any separate communication but as a customer centric company we may take extra efforts generally to ensure that client is well informed about the Risk and the possible actions, which may follow. The communication would generally be through SMS / Email/Terminal Messages on registered contact details with MSTL.

**Muthoot Securities**