

RMS Policy and Procedure

CGS-CIMB Securities (India) Private Limited

Document Version Control and Change Management

Version	Version Prepared by	Approval date	Review Date
Version 1	RMS Head -Vishal Trehan	61 st Board Meeting dated 11.03.2020	
Version 1.1	RMS Head -Vishal Trehan	66 th Board Meeting dated 26.03.2021	
Version 1.2	RMS Head -Vishal Trehan	69 th Board Meeting dated 04.02.2022	

INDEX

1. *Introduction*
 - 1.1. Objectives
 - 1.2. Background
 - 1.3. Scope
 - 1.4. Limitations
 - 1.5. Modifications

2. *Policy and Process*
 - 2.1. Normal activation process of client code
 - 2.2. Reactivation of client code process
 - 2.3. Creation/Suspension of Dealer ID
 - 2.4. Limits to new clients
 - 2.5. Limits on cheque in transit
 - 2.6. Limit Calculation
 - 2.7. Intraday Scrip restrictions
 - 2.8. Delivery Scrip restrictions
 - 2.9. Illiquid, T Group and Penny stock restrictions
 - 2.10. Trading in illiquid FAO contracts.
 - 2.11. Limit enhancement process.
 - 2.12. Cheque Bounce/Reversal actions.
 - 2.13. Margin call CASH
 - 2.14. Margin call FAO
 - 2.15. Debits above 5 days (Trading days)
 - 2.16. MTM Loss Monitoring
 - 2.17. MTM and Auto square off
 - 2.18. Client Wise/Member Wise limits and its Impact.
 - 2.19. Mapping Request/Trade Modification request.
 - 2.20. Action during Connectivity Failure.
 - 2.21. Quantity and Order Value Limits.
 - 2.22. Peak Margin.

3. *Exceptions in Trading*

1. Introduction

This document details the guidelines and procedures to be followed by the RMS department for managing the risky client's portfolio.

1.1 Objectives

1. To monitor member-wise and client-wise position limits as set by the Exchanges/ SEBI.
2. To manage risk of the client & company by monitoring mark-to-market loss of the clients.
3. To monitor total funds available with exchanges and ensure uninterrupted trading facility.
4. Provide exposures to the clients based on the request of branch/ region considering margin availability and business needs.
5. Margin call and Obligation shortfall management.
6. To assist in faster turnaround time thereby higher customer satisfaction and higher revenues.

1.2 Background

For the broking business, the Risk management is the key to success. A good Risk Management Policy not only helps the broking company in achieving minimal bad debts, but also helps the business partners. It also restrains the clients from taking undue risk. However, while framing a risk policy it has to be kept in mind that it does not become a constraint in the working of the business.

1.3 Scope of Document

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

1.4 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 Capital Market Segment of the Organization.

1.5 Modification of the document

Any deviation, modification to this document will require the same to be duly checked and authorized by INDIA CEO and Board.

2. Policy and Process

2.1 Normal activation process of client code

1. On allotment of client code and after approval from the exchanges, RMS receives mail from OPS department, indicating the client code, name and segment, type of client --- Institutional/ Non – Institutional (Online/ Offline).
2. Client code is created in Front office master by uploading file as per the specified format.
3. Client code is then mapped in the respective CTCL / dealer ids as per details shared by OPS department.
4. **Prior approval from compliance is required for mapping the same client in more than one location.**
5. Limits and general preferences for trading are cross checked.
6. Confirmation sent to KYC department who in turn will inform respective Branch
7. COO India review based on Client—Relationship Manager --- CTCL ID --- Segments --- Limits as provided are correctly mapped and duly signed by Operations and RMS team

2.2 Reactivation of client code process.

1. Only suspended codes can be reactivated. (**All the codes get suspended if there is no trading takes place for 12 months or as per compliance policy**).
2. On receipt of a reactivation form with necessary documents from the client / branch on behalf of the Client, Back Office verifies and sends a mail to RMS for reactivation along with the details of CTCL to be mapped to, indicating the client code and segment – Post approval from **COO India**.
3. Manual reactivation is done in Front office.
4. Confirmation is sent to BO and respective Branch/ Business vertical for all the reactivations

2.3 Creation /Suspension of CTCL dealer id.

1. Request from branches given to the Coordination department along with Branch name, Name of the person in whose name CTCL-id will be allotted, Branch address, Pin code and contact number. Approval by Regional/Branch Head is required.
2. If all the mandatory details are found appropriate, Coordination team sends a mail to the RMS department for creation of CTCL Id, RMS uploads the information in the exchange.
3. Exchange gives confirmation after 24 hours.
4. After receiving confirmation from the exchange, RMS department creates and inform the Coordination team with the password.
5. Same process is followed for suspension of CTCL ids even in case of employees leaving the Organization.

2.4 Limit to the new client

1. No default limit will be given to any new client in Non- Institutional vertical and Institutional clients will be given as per Organization/Regional internal Policy or as per Regulatory directives if any

2.5 Limit on Cheque in Transit

1. Client bank details are mapped in the back office software.
2. All clients must issue cheques from the bank details updated with CGS-CIMB IN Group.
3. After depositing cheque in the bank, branch must send the cheque details through official e-mail ids in pay-in format only.
4. Ledger credit and Exposure for the new client codes will be given only on receipt of funds in our bank accounts.
5. Branch can send maximum of two cheque for a single client on any day
6. No limit will be given on uncleared instruments; it will be done on exceptional basis only when business head takes personal responsibility of instrument clearance over mail. RMS department will increase the exposure based on the cheque value only which is mentioned in the mail. Risk will be monitored on realized margins only.
7. To mitigate the risk
 - Cheque entry will be reversed from ledger credit of the client if the amount is not received in 4 working days.
 - If the cheques are reversed 2 times, the client will be 'flagged' as risky and will be categorized as "Risky branch client".
 - If any client is categorized in "unreliable branch/client" then such client gets credit/exposure only on realization of funds in future.
 - No additional exposure will be given to such clients.
 - The client may be shifted to regular list, if 2 continuous cheques are realized subsequently and recommended by the business head & post that risk responsibility is on the business head.

2.6 Limit Calculation.

For limits only approved stocks as per company policy are to be considered with different haircuts based on stock category as defined above in delivery stocks restrictions.

1. $\text{Margin Deposit} = \text{Ledger balance} + \text{approved stocks with haircut} - 150\% \text{ of Short sold stock value} - \text{margin on open position}$
2. Haircut: it is specified as per STOCK category as finalized month on month basis

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Limit will be calculated based on margin deposit available; Client will be having different limits based on his trading preference on our different products as specified in PRODUCT POLICY.

Illustration of deposit calculation:

- Approved Stock = 100000, value after haircut= 67000 (Haircut 33%)
- Ledger= -25000 (NSE+BSE+FAO)
- Short sell value= 10000 150% of short sell = 15000
- Margin on open position = 10000
- Deposit= 67000+ (-25000)-15000 - 10000= 17000, in cash Delivery limit will be 27000 (less 5%) *1 time; In FAO it will be 27000 (less 5%) Margin.

2.7 Intraday scrip Restrictions.

1. Please refer to our Stock Category Policy (Intraday)

2.8 Delivery Scrip Restrictions.

1. Please refer to our Stock Category Policy (Delivery)

2.9 Illiquid, T group & Penny stock and other than Cat1 stocks restrictions.

Illiquid, Penny, T and Z group stocks are restricted for delivery buying from branch end. If any buy order is to be placed in such stock then branch need to call RMS. RMS will place orders when there is a clear funds/balance in clients ledger a/c. There will be no restriction on selling actual stock which is lying in client's portfolio.

Additionally, Scrips which are unapproved by the Credit Committee will not be allowed for trading and will be reviewed on monthly basis.

2.10 Trading in illiquid Futures and Options Contracts

- Futures trading will not be allowed in far month (3rd month onwards) contracts.
- No fresh positions will be allowed in banned securities
- Following options contracts will be available for trading
 - Current Month Index AND / OR Stock Options:
 - 15% ITM (In the Money) both CE and PE
 - Next Month Index AND / OR Stock Options:
 - 10% ITM both CE and PE
 - FAR Month Index AND / OR Stock Options:
 - Not allowed
 - LEAPS up to 1 Year Index AND / OR Stock Options:
 - Not allowed
 - Next Month (4th month) options will be opened one week before Expiry of current month

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- For Physical Delivery in F&O Contracts, Dealers & Sales Team will be updated well on time. NO Fresh Positions shall be allowed prior 2 days of Expiry. Only Square Off Positions will be allowed. Unless approved by PCG Head with responsibility such as taking care of sufficient upfront margin, clear funds, Delivery Value, etc.
- Total Exchange margin will be collected 100% in advance and any exception will need India MD approval and will be reported to exchange on Actuals basis and any fines will be charged to client.

2.11 Limit Enhancement Process.

Limit request is basically made either for Buy or Sell. Based on the holdings, available Ledger Balance of clients, trading activity from that account can be suspended by the system. To resume the trading activity from these accounts a separate request must be put by respective RM's

1. Client will get benefit of exposure only if it is in credit.
 2. Branches can send their requisition of the times of exposure by sending a mail to RMS dept in beginning of the day itself. It is as per policy; Exceptional list should be sent post approval from CEO & confirmed on weekly basis.
 3. If client is in margin call, they can get the exposure benefit for intraday only after the margin call is cleared either by NEFT/RTGS/Clear Funds or reducing the position.
 4. For availing additional exposures Branches need to send mail to RMS department to get the limits for the day, post approval only, as per policy.
- Rights and Obligations of Approving Authorities

RIGHT for

DESIGNATION	MARGIN AMOUNT
CEO/MD	
PCG HEAD	25 Lacs but has to maintain overall 225%

- Rights
 1. For getting additional limits on cheque in hand. Upfront Margin is a must.
 2. For allowing Same (own) DP Stock Selling (Non POA) without sufficient margin.
 3. For holding the square off in margin shortage. Penalty will be debited to Client.
 4. For holding the square off in MTM Loss.
 5. For creating hedged or calendar spread positions only as per Exchange Norms.

➤ Obligations

1. Any loss if arose in Client's Account on limits taken on approval is the sole responsibility of the approver.
2. Approval in case of margin shortage cannot be considered for more than 1 day irrespective of the amount required.
3. No approval will be considered for allowing buying in Client's with T5 Debit.
5. Ledger credit balance with less than Rs.1,00,000/- : no extra intraday limit
6. All exceptions must be approved by Broking – RMS head along with CEO then Group RMS Head.
7. Deposit and Commission credit of the franchisee/authorized person cannot be considered for providing the exposure to their clients.

2.12 Cheque bounce/ Reversal action

1. In case of cheque bounce / reversal, RMS department squares off the positions immediately, based on the client new status post informing Branch & Client.

2.13 Margin Call CASH

1. Any client below 150% stock to cash ratio will not be given any fresh limit and such clients will be put in sell mode so that they can sell their stock and no fresh purchases will be allowed to such clients for that day.
2. Branched are advised to adhere to point no 1 .
3. All clients in margin call above 130% and below 150% should be closed at branch end before 11.00 am else RMS will initiate square off for such clients.
4. The clients who are in margin call between 130% and 150% will also be flashed on branch terminal. Branches are requested to revert within half an hour for status of such clients. If no status is received from branch end it will be assumed that no collection has been made and the position will be squared off without any further intimation. The clients who are below 130% of comfort margins will not be intimated to branch and the same will be liquidated before 10 am if there is no status provided from branch end.
5. All clients are who have received short delivery in payout from exchange and if the same has been sold which subsequently goes for auction; the same will be at client's risk. If such a client is in margin call without considering the payout short received, branch needs to collect payment immediately from client otherwise the client's other stock will be liquidated to get out of margin call.
6. Kindly don't extend credit to any client on purchase of stocks other than A category.

7. If margin call is cleared during trading hours, RMS gives intraday exposure if requested by the branches post clearing of margin call.

2.14 Margin Call FAO

1. Clients who are in margin shortfall will not be given any fresh limit. Any shortfall extending for more than 1 day has to be compulsorily closed
2. Any client who is coming in MTM loss on his clear balance, such client's positions will not be hold based on uncleared cheque or cheque in hand. We request you to kindly inform the same to your clients to avoid any inconvenience. Any exception in this regard must be approved by the appropriate authority CEO on mail
3. No client should be in Exchange Margin shortfall in FAO, if there is any client with shortfall during intraday or in C/F the same will be cleared from H.O and information will be given to branch personal.

2.15 Debit above 5 Days (Trading days)

1. No client should ever be in debit for more than 5 Trading days from Payout date. Buying limit of such client's will be blocked from 5th day from debit.
2. All clients above 5th Trading days of debit will be closed by RMS without any notice.
3. All Dealers need to update RMS by 11:00 am in case they have sold respective stocks only.
4. Clients are supposed to transfer funds or reduce their positions before 12.00pm on the day when they are in ageing for more than 5 Trading days.

2.16 MTM Loss monitoring.

1. All the branches are expected to monitor *MTM loss of the clients on a continuous basis and square-off the positions if MTM loss reaches above 80% of the ledger balance.*
2. RMS department also monitors the MTM loss of all the clients on real time basis.
3. Clients who are in MTM loss of 50% and above will be intimated to branches on every 10% interval and will be closed from H.O at 80%.
4. In case any client touches 80% MTM loss of ledger balance and branch has neither updated further payment nor squared-off the position, RMS will square-off the position.
5. If the volatility in the market is high, RMS shall start squaring of the position when MTM loss crosses 75%.

6. RMS sends message confirmation of square-off of the positions to respective branches/franchisee on their Front office terminals/ email.
7. RMS sends square off mails to the branches giving details of the price at which the position is squared off. These mails are generally sent immediately after square-off of the positions. If market is very volatile these mails are sent after closure of the market.
8. Branches are advised to monitor the MTM loss, Margins and net position of the clients.

2.17 MTM and Auto square off.

1. In FAO/Cash clients are required to square up their Margin (intraday) positions before 3:15 pm and no fresh positions should be taken over and above them margins as available.
2. Any client who is coming in MTM loss on his clear balance, such client's positions will not be hold based on uncleared cheque or cheque in hand.

2.18 Client wise/member wise position limit

1. Exchange specifies member and client wise open positions limits; Branches must ensure that no client breaches the limit
2. There is penalty for any breach in open position limits.
3. Please refer www.nseindia.com or www.bseindia.com or www.sebi.gov.in for further details

2.19 Mapping request/Trade modification request.

1. For Mapping- Branches must send the mapping request to RMS. Normally, Branches will face this problem when computer systems are changed.
2. For Trade modification - Branches must send the request to COO/ Compliance for approval marking a copy to RMS. Modification will be done only after approval from Compliance/COO.
3. There is a penalty of 1% on traded value for trade modification.
4. For cash trade modification, cut off time is till 3.30pm. For FAO positions cutoff time is 3.20pm.

2.21 Quantity and Order Value Limits

CAPITAL MARKET (EQUITY) SCRIPWISE ORDER QTY & VALUE LIMITS			
BSE / NSE	APPROVED STOCKS	UNAPPROVED STOCKS	BE/T/Z/ZP/F
BUY QTY	1 lacs	50000	0
SELL QTY	1 lacs	1 lacs	50000
BUY VALUE	2 crore	50 lacs	0
SELL VALUE	1 crore	75 lacs	25 lacs
SINGLE ORDER QTY	25000	5000	5000
SINGLE ORDER VALUE	1 crore	25 lacs	10 lacs

FUTURES & OPTIONS SCRIPWISE ORDER QTY & VALUE LIMITS		
	FUTURES	OPTIONS
SINGLE ORDER QTY	250000	250000
SINGLE ORDER VALUE	2 crores	2 crores

2.22 Peak Margin

With reference to SEBI Circular ref no:- SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020, which explains the implementation of Peak Margin across all segments in 4 phases, the maximum intraday exposures are as follows

Phased adoption

The peak margin obligation of client across snapshots as given below:

Phase wise Peak Margin %	Period	CASH		F&O	
		Delivery	Intraday	Delivery	Intraday
PHASE 1 - 25%	1st Dec 2020 to 28th Feb 2021	5	20	1	4
PHASE 2 - 50%	1st Mar 2021 to 31st May 2021	5	10	1	2
PHASE 3 - 75%	1st Jun 2021 to 31st Aug 2021	5	6.66	1	1.33
PHASE 4 - 100%	01st Sep onwards	5	5	1	1

3. Exceptions in Trading

Any Exception towards trading should be approved based on the Approval Matrix specified.

- 1) Extra Limits for Intraday / Delivery other than Default settings.
- 2) Trading in Restricted Scrip's as per monthly stock category.
- 3) Large value Positions on Uncleared instruments.
- 4) Accumulation of specific Stocks.
- 5) Holding on to position on MTM Loss above 40%.
- 6) Carrying positions with Total Margin shortfall for more than 1 days.
- 7) Carrying positions with Exchange Margin Shortfall for a day
- 8) Trading in Illiquid Futures and Option Contracts.
- 9) Trading in clients account when they are in ageing debit.
- 10) Trade modification.