



**JKB Financial Services Limited**  
(wholly owned subsidiary of J&K Bank)

# **RISK MANAGEMENT POLICY**

## **OF**

### **JKB FINANCIAL SERVICES LTD.**

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## 1. INTRODUCTION

The aim is to highlight the various risks that are prevalent while dealing in securities trading and the approach that needs to be adopted and followed to safeguard the interests of the general clientele of JKB Financial Services Limited (JKBFSL) and also its own interests. Due to the dynamically changing regulatory environment of securities market in India, there is also a need to remain updated with the current market regulations and keep the policy aligned with the latest regulatory guidelines.

JKBFSL shall make available on its website a comprehensive statement of market risks for the customers for their general understanding as traders and investors.

Besides, this Policy document defines relevant procedures and governance mechanism to be followed by JKBFSL in the identification, evaluation, measurement, monitoring, and reporting of all the major risks associated with the activities undertaken by the organization and as mandated by the organizational objectives.

The main sections covered in this policy are:

1. Client Risks
2. Product Types
3. Types of Margins
4. Limits
5. Margin Pledge System
6. Pay-in & Pay-out of Funds & Securities
7. Debit Policy
8. Internet Based Trading Policy
9. Client Communications
10. Business Continuity Plan (BCP)

## 2. CLIENT RISKS

There are various types of risk which the investor needs to be aware of while investing in stock market. These risk are:

### 2.1 **BASIC RISKS**

JKBFSL shall make customers aware of the essential Risks related to dealing in equities cash and equity derivative segments. Through this policy document, JKBFSL shall make clients understand the various risks and define important policies that the customers need to understand and be clear about while dealing to minimize the risk of loss.

Against this backdrop, JKBFSL has framed policies and information based on different products, which have varying degree of risk involved. The securities market is generally not an appropriate avenue for someone of limited resources/limited investment and/or trading experience and low risk tolerance. In considering whether to trade or authorize someone to trade for you, a person (customer) should be aware of or must be acquainted with the following basic risks:-

### 2.1.1 RISK OF MARKET INSTABILITY

There are chances of unanticipated volatility for which a client must be mentally ready, some clients open the accounts and do not know the extent of risks, and due to being less experienced, or not exposed to such risks before the clients could suffer very heavy losses. New Clients should be consultative in their approach initially and should trade only after reading all the relevant documents like Risk Disclosure Document, Do's & Dont's, Guidance Notes, etc. which are provided to the client at the time of account opening and are available on the website of the Company at <https://jkbfsi.com/downloads/Policies>

### 2.2.2 RISKS OF LOWER LIQUIDITY

Liquidity risk depicts the risks associated with trades where selling of certain securities might be challenging, accruing to low demand for the same, as the successful conversion of stock into money depends on various parameters such as book value of a company, bid-ask spreads for shares in the market, etc. Such reduced demand can arise due to multiple reasons, such as –

- Highly volatile stocks readily susceptible to price fluctuations.
- Ongoing domestic economic crisis/recession.
- A discredited reputation of a company due to certain events.
- The overall global economic scenario.

We have market commentary section on our website. Clients can refer to the latest updates regarding market development from that section to remain abreast with such developments.

## 2.2 GRADED SURVEILLANCE RISKS

Securities and Exchange Board of India (SEBI) and Exchanges (NSE & BSE) in order to enhance market integrity and safeguard the interest of investors have introduced various enhanced pre-emptive surveillance measures such as the reduction in price band, periodic call auction, and transfer of securities to Trade for Trade segment from time to time. These are called Graded Surveillance Measures (GSM).

The main objective of these measures is to;

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

### 2.2.1 SHORTLISTING

Securities will be shortlisted for GSM based on the pre-defined objective criteria. The list will be periodically reviewed & published by the exchanges in a coordinated manner. Identification/review of securities for graded surveillance measures will be carried out every quarter.

### 2.2.2 WHAT IS GSM?

GSM Stands for “Graded Surveillance Measure” and is a preemptive surveillance measure to safeguard investor interest against a potential volatility surge.

In addition to existing Surveillance action being imposed from time to time, it may be noted that these securities will be monitored for the price movement and based on the pre-determined objective criteria defined by exchange will also attract additional graded surveillance measures in the form of ASM “Additional Surveillance Measures”. There are two sections of Additional margins:-

### 2.2.3 ASM-LT “LONG TERM ADDITIONAL SURVEILLANCE MEASURES

ASM-LT are time looped surveilled securities & will be able to exit from surveillance framework completing 60 calendar days subject to stage-wise exit based on the weekly review.

### 2.2.4 ASM-ST “SHORT TERM ADDITIONAL SURVEILLANCE MEASURES

ASM-ST is time looped surveilled & securities will be retained in each stage as applicable for a minimum period of 5/15 trading days and will be eligible for review from 6th/16th trading day onwards.

For any scrip, under aforesaid surveillance, 100% of the traded value will get blocked as margins i.e. no intraday leverage is given and buying will only be against the cash availability subject to RMS approval.

### 2.2.5 STAGE II GSM SECURITY AND ABOVE

The Buyer will be liable to pay the additional deposit “ASD” for securities shortlisted under stages II and above under GSM. ASD will be debited on a “T” basis from the client account for the capital market segment. It will be paid in the form of cash only. ASD will not be refunded or adjusted even if securities purchased are sold off at the later stage within a quarter and also will not be considered for giving any further exposure. ASD will be over and above the existing margin or deposits levied by the exchange.

ASD collected will be retained for 1 month and will be released accordingly for NSE and is to be retained till the review of the graded surveillance stages i.e. Quarterly review for BSE.

### 2.2.6 SURVEILLANCE ACTION GUIDELINES BY EXCHANGES: NSE SURVEILLANCE

There are four stages of surveillance actions as shown in the table below:

Stage	Surveillance Actions
I	Applicable margin rate will be 100% and the price band of 5% or lower as applicable.

II	Trade for Trade with price band of 5% or lower as applicable and Additional Surveillance Deposit (ASD) of 50% of trade value to be deposited by the Buyers.
III	Trade for Trade with price band of 5% or lower as applicable and Trading permitted once a week (Every Monday / 1st trading day of the week) and ASD (100% of trade value) to be deposited by the Buyers.
IV	Trade for Trade with price band of 5% or lower as applicable and Trading permitted once a week (Every Monday / 1st trading day of the week) and ASD (100% of trade value) to be deposited by the Buyers with no upward movement.

STAGE V & STAGE VI scrip will be in Trade suspension mode.

#### 2.2.7 BSE SURVEILLANCE

There are six stages of surveillance actions as shown in the table below:

Stage	Surveillance Actions
I	Transfer to trade for trade with a price band of 5% or lower as applicable
II	Trade for trade with a price band of 5% or lower as applicable and Additional Surveillance Deposit (ASD) of 100% of trade value to be collected from Buyer
III	Trading permitted once a week trading and ASD 100% of trade value to be deposited by the buyers (Every Monday)
IV	Trading permitted once a week trading with ASD 200% of trade value to be deposited by the buyers (Every Monday)
V	Trading permitted once a month trading with ASD 200% of trade value to be deposited by the buyers (First Monday of the month)
VI	Trading permitted once a month with no upward movement in the price of the security with ASD 200% of trade value to be deposited by the buyers (First Monday of the month)

To mitigate the surveillance risks defined above JKBFSL shall track the list of such securities on daily basis and maintain restrictions as per the compliance requirements for such scrips by constant surveillance at its end. Customers generally would not be able to freely do intraday trading in such securities. Also, the higher levels of GSM and ASM are blocked by RMS and allowed to trade only after meeting the required criteria. For such orders, clients would be required to call the customer support.

### 2.3 RISKS OF WIDER SPREADS IN LESS LIQUID STOCKS

Market orders placed in the short time gaps for buy and sell of a particular share may not be executed within the similar or closer rates due to wider gaps or spread as happens in less liquid

shares. Clients should try to place Limit orders to avoid losses caused by market orders in such cases.

## **2.4 RISK OF FALLING INTO RISK REDUCTION MODE (RRM)**

Clients need to know the fact that there is a risk that exchanges may restrict JKBFSL from fresh order placement and cancel pending orders in certain cases mostly when broker margins are breached with the exchange or due to any other reasons. JKBFSL in such cases may be put on a risk reduction mode from the exchange side due to such reasons. In the risk reduction mode, a client shall not be able to place fresh exposure orders. But squaring-off of existing positions will be allowed. Existing pending orders may get cancelled and fresh day validity orders may get converted into IOC orders.

However, JKBFSL has put in place a surveillance mechanism of real-time margin tracking where a terminal is kept open only to maintain a constant vigil on our margins with exchanges and all efforts shall be made to avoid the situation of RRM.

## **2.5 RISKS OF BTST (BUY TODAY SELL TOMORROW)**

There is an inherent risk that stocks bought today could not be delivered by the clearing corporations on T+1 day as per the settlement cycle defined by them and selling the same as a BTST could account for delivery risk and auctions at much higher rates. It is hence advised to sell the stocks only after they are delivered into demat accounts.

Although JKBFSL does not advise aforesaid BTST trading, yet in case of any exception JKBFSL will not be liable or responsible for any negative outcome and will not bear any losses against its aforesaid inherent associated risk of auction.

Since the inception of New margin pledge and cash margin reporting system by SEBI and exchanges, there have been significant developments in BTST products as described below:

BTST is restricted in the normal CNC segment, only clients with upfront margins can sell T1 Holdings in CNC product.

In the MTF product, where the client buys the scrips only by paying minimum margins initially, it does not remain feasible to allow BTST in such cases and by default, the BTST remains blocked in the MTF segment. It means MTF T1 holdings cannot be sold by the clients except without approaching customer service and adding prior sufficient margins additionally to do the same on T1 day.

## **2.6 RISK OF RUMORS**

Rumours like orally transmitted information or SMS or newspaper or website published info that may be wrong or speculated can cause loss if a person decides to act on such rumours.

JKBFSL tries to maintain a vigil on such stocks when they are listed on exchange websites and tries to block as much as possible the lists provided in these cases.



However, clients need to be more vigilant at their end as the ultimate risk falls on clients when they trade in stocks based on uninvited news or unsolicited SMS messages.

## **2.7 RISK OF NEWS**

The risk of news impacting the price of a stock is very high in stock markets and clients need to make themselves ready for shocking fluctuations caused by news in the stocks of different industries and trade with caution in this regard. It happens that due to certain news stocks may fluctuate invariably and may experience deep downward movements without any underlying internal financial issues in actuality. Hence investors may need to exert calm under such conditions failing which they may suffer heavier losses. This is because such changes are dramatic and mostly reversible in case of good quality stocks.

## **2.8 RISK OF DELAY IN ORDER PUNCHING FROM DEALER'S DESK**

There is always a risk of delay in order punching for offline clients especially when volatility is at extreme peaks or if the staff presence is less due to unavoidable circumstances.

However, as a customer-centric company, JKBFSL is taking extra efforts to ensure the client is facilitated to the best extent possible.

## **2.9 RISKS OF MARGIN SHORTAGE PENALTIES**

Since the inception of new regulations from 15<sup>th</sup> September, 2020 like the margin pledge system and cash margin reporting system, SEBI has mandated brokers to charge penalties to the clients in the cash segment as well in addition to the FO segment where this was being done from several years. If the clients do not maintain sufficient upfront margins and do not add timely MTM losses, they could be subjected to penalties at the rate of 1% for shortage amount which could go as high as 5% if such shortages continue.

For the cash segment, RMS ensures that upfront margin ("VAR Margin + Extreme Loss Margin") or any other mandatory margins are collected in advance from the clients. Also, MTM losses + Additional Margin + Delivery margins, etc. are collected from clients as soon as margin calls are made to prevent penalties.

For selling holdings owned by clients, no upfront margins are required at JKBFSL as we do early pay-in of the securities on the same day securities are sold by clients. All such orders where early pay-in is made to exchanges are exempted by exchanges from reporting for margin requirements.

For F&O segment, margins are collected as per the stipulated requirement of the exchange i.e. SPAN Margin + Exposure Margin + Additional Delivery Margin & any additional Adhoc margins in case of market turmoil can be collected by RMS at its discretion. SPAN and Exposure is to be mandatorily collected upfront in advance to create a future position and underwriting an option contract.

JKBFSL discharges its regulatory obligation to report any margin shortages in Cash and FO segments within a given time frame by the exchange as stipulated by SEBI/NSCCL. Based on available funds and pledged collateral value, margin reporting of the clients is done to exchanges

and if the client is short of any minimum stipulated margins due to any reasons shortfall penalties imposed by exchanges for such positions are recovered from such clients. However any upfront margin penalty is not recovered from the clients.

For same-day margin requirements, effective ledger balances will be considered and calculation will be done on netting off balances across both segments i.e. CM and F&O. Also all segments, pledged stock with the previous day's valuation will be considered. Post valuation/calculation of the aforesaid, NSE FO will be given first preference and the remaining balance will be considered for reporting of cash segment. For the sold Demat securities that are given as early Pay-in to the exchanges, the value after a haircut (VAR/ELM of such securities) is also available for reporting purposes.

For intra-day positions that are not squared off due to whatsoever reasons, the exchange would levy penalties if the margins are not sufficiently supplied against the outstanding positions. Such penalties will be passed on to the clients.

All other terms and conditions including the levying of penalty for any margin shortfall will remain as is and in line with regulatory requirements.

#### **2.10 RISKS RELATED TO OPTION SELLERS**

There are risks of limited profit and unlimited loss in case a call option or a put option is shorted by a retail client. It is advisable to trade with stop losses in such cases.

#### **2.11 PHYSICAL DELIVERY SETTLEMENT RISK:**

This can happen in rare cases where a party will trade a physically deliverable future or option at the last moment of trading hours on the expiry day and result in the delivery of the shares on T+1 days. Such risks need to be taken care of by clients by knowledge of trading in derivatives.

#### **2.12 BAN PERIOD SCRIPS**

Regulatory conditions under which a client may not be allowed to take further position or RMS may close the existing position of the client. In case of any alert concerning open interest where a scrip/derivative contract has reached the prescribed exchange threshold like Market Wide Position Limit (MWPL) crosses 90% no fresh position will be allowed till MWPL comes down to 80%. RMS monitors any such security. Dealers across the branches must also be watchful enough to inform clients in this regard. In F&O such scripts will be marked as "SCRIPS IN BAN PERIOD" and blocked on the trading system on daily basis. Only Rollover will be allowed and the client must approach their respective centres to place an offload/carryover request. JKBFSL may withhold the payout of the client and suspend a trading account due to any internal surveillance (if the client indulges in manipulative and suspicious trade practice), regulatory orders (Debarring orders), etc.

If under any circumstances a client places an order in the scrip that is in the BAN period or increases the exposure in it, the client will be liable to pay any penalties arising out of such breaches to the exchange and the same will be deducted from the client ledgers.

### 2.13 RISK OF FAILURE IN EXECUTING ORDERS

In absence of upfront sufficient cash and non-cash collaterals, there are possibilities that client orders may get rejected on account of lack of maintenance of peak margin requirements by the exchange.

### 2.14 RISK OF TECHNICAL GLITCHES

Our Technology systems are dependent on so many external factors like connectivity, infrastructure which can go down and impact order execution/modifications. JKBFSL shall not be responsible for any loss to the clients due to technical glitches in the system.

## 3. PRODUCT TYPES

JKBFSL offers various products in various segments and assets classes. It offers intraday trading (MIS) in all exchanges, normal delivery (CNC) trading, Future & Option (NRML) in NSE FO segment & Margin trading facility (MTF) in NSE.

### 3.1 MIS PRODUCT (MARGIN INTRADAY SQUARE-OFF)

All NSE and BSE scrips in EQ segment except those falling under exchange surveillance will be available for trading in MIS or Intraday. We provide the intraday leverage in a range of scrips numbering up to 1100. We offer a maximum intraday leverage of up to 10 times. Our list of stocks qualifying MIS with the margin required is updated regularly on the our website.

MIS positions need to be liquidated before 3.14 PM. Auto squaring is initiated by RMS at 3.15 PM and takes from 30 seconds to 5 minutes to complete depending upon the number of trades in the system for all intraday positions. Depending upon the extremity in market conditions RMS may change the timings of MIS auto-squaring at its own discretion. For Intraday traders JKBFSL provides an intraday square-off product in the trading system for getting exposure which allows a client exposure based on Exchange determined VAR and ELM based haircut of securities that clients want to trade-in. MIS Product allows exposure from 2-12 times depending upon the percentage of haircut, e.g., security XYZ trading at INR 100 has the haircut of 50% and margin available with the client is INR 10000, client can transact twice the amount of margin in this case. The exposure limit for XYZ will accordingly be INR 20000 on that basis. Similarly, for security with 20% haircut, exposure is provided 5 times more than available margin etc. As per SEBI Peak margin rules in Cash Segment a flat margin of 20% is charged for all cash market transactions so the maximum leverage in MIS will be restricted to 5 times.

### 3.2 CNC (CASH AND CARRY): DELIVERY PRODUCT

For Investors or clients who like to buy shares for longer periods, JKBFSL provides CNC (Cash and Carry) products in the cash market under which exposure is allowed only up to the extent of margin available i.e. 100% margin is applied.

Considering new peak allocation rules the CNC sell credit is restricted to 0%. This means that in the case of CNC selling no extra margin will be provided for the sell value for the T day. However

full value will be provided as margin on T+1 day provided the EPI of shares is done by EOD on T day itself.

### 3.3 NRML (NORMAL) PRODUCT:

For the Derivative market (Futures and Options segment) exposure is only provided up to the extent of available margins in all cases and trades are placed using NRML product in this segment. NRML product must hence be used for all Future and Options Buy and Sell orders.

### 3.4 MARGIN TRADING FUNDING (MTF) PRODUCT

Under this product JKBFSL allows a client to buy securities in the delivery segment based on the margin where a client can normally buy 2 to 3 times more stock than otherwise possible in normal CNC product. Here the client can take benefit of leverage to earn 2 to 3 times more from a positive movement of his position.

Margin trading is a facility for investors to trade in securities with borrowed funds provided by the broker or other financier. If for example, an investor is allowed to buy securities with 30% margin, it means that the investor needs to pay only 30% of the price of the securities purchased. The balance 70 % will be financed by the broker in the form of a loan. The 30% margin needs to be maintained at all times. If the market falls, then the broker will need to call for additional funds from the trader. This process is called a 'margin call'. If the investor does not pay the margin call, then the broker will sell off some investments of the investor at a certain point of the breach in margin say when 70% of the total capital is lost as MTM.

The broker can provide the margin funds through their resources or borrowing from banks or NBFCs regulated by RBI. Borrowing from any other sources is not permitted.

### MARGIN REQUIREMENT IN MTF PRODUCT

To avail margin trading facility, the initial margin required will be as under;

Category of Stock Applicable margin

1. Group I stocks available for trading in the F & O Segment: VaR + 3 times of applicable ELM or Applicable margin whichever is higher
2. Group I stocks other than F&O stocks: VaR + 5 times of applicable ELM or Applicable margin whichever is higher

Group, I shares are defined as per SEBI/Exchange norms. For the aforesaid purpose, the applicable VaR and ELM will be as in the cash segment for a particular stock. The initial margin payable by the client to the JKBFSL will be in the form of

- a. Cash
- b. Cash equivalent or Group I equity shares (in the pledged form), with an appropriate haircut.

### COMPLIANCE FOR JKBFSL (MTF):

Following conditions need to be in place:

The stocks deposited as collateral with the JKBFSL for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded stocks) will be identified separately and no intermingling is permitted by SEBI for computing funding amount;

Funded stocks will be marked to market daily;

In case of an increase in the value of Collaterals, JKBFSL may have the option of granting further exposure to their clients subject to applicable haircuts;

However, no such exposure will be permitted on the increased value of funded stocks.

#### **MARGIN CALLS (MTF):**

JKBFSL needs to make margin calls when the margins required to maintain the positions start falling. This will further account for actions like squaring off of the position (funded stock) as well as collateral as the case may be.

#### **MARGIN MAINTENANCE (MTF):**

JKBFSL is at its discretion to ask for higher margins than those specified by exchanges in the form of additional haircuts.

#### **LIQUIDATION OF SECURITIES BY THE JKBFSL IN CASE OF DEFAULT BY THE CLIENT (MTF)**

JKBFSL will list out situations/conditions in which the securities may be liquidated and such situations/conditions will be included in the **"Rights and Obligations Document"**. JKBFSL will liquidate the securities if the client fails to meet the margin call to comply with the conditions as mentioned in the circulars of exchange or specified in the "Rights and Obligations Document" specified by the exchange.

### **4. TYPES OF MARGINS**

#### **4.1 VAR MARGIN**

As mandated by SEBI, the Value at Risk (VaR) margining system, which is internationally accepted as the best margining system, applies to the outstanding positions of the members in all Securities.

The VaR margin is a margin intended to cover the largest loss that can be encountered on 99% of the days (99% Value at Risk). For liquid stocks, the margin covers one-day losses while for illiquid stocks, it covers three-day losses to allow the Exchange to liquidate the position over three days. This leads to a scaling factor of the square root of three for illiquid stocks. For liquid stocks, the VaR margins are based only on the volatility of the stock while for other stocks, the volatility of the market index is also used in the computation.

## 4.2 ELM (EXTREME LOSS MARGIN)

The term Extreme Loss Margin replaces the terms "exposure limits" and "second line of defense" that have been used hitherto. It covers the expected loss in situations that go beyond those envisaged in the 99% value at risk estimates used in the VaR margin.

The Extreme Loss Margin for any stock is higher of 5% and 1.5 times the standard deviation of daily logarithmic returns of the stock price in the last six months. This computation is done at the end of each month by taking the price data on a rolling basis for the past six months and the resulting value is applicable for the next month.

- The Extreme Loss Margin is collected/adjusted against the total liquid assets of the member on a real-time basis.
- The Extreme Loss Margin is collected on the gross open position of the Member. The gross open position for this purpose means the gross of all net positions across all the clients of a member including his proprietary position.
- For this purpose, there is no netting of positions across different settlements.
- The Extreme Loss Margin so collected is released along with the pay-in.

## 4.3 HAIRCUT

JKBFSL accepts collateral (i.e. shares) from the client towards the margin requirement after pledging the same by client consent as per regulatory norms. However, shares carry the risk of volatility. Hence a haircut, which is the **perceived risk** on the price of the security, is applied to the total value of the security for arriving at the perceived **risk-free** value of the collateral.

## 4.4 SPAN MARGIN

It is the minimum requisite margins blocked for futures buy/sell and option writing positions as per the exchange's mandate.

## 4.5 EXPOSURE MARGIN

It is the margin blocked over and above the SPAN to cushion for any MTM losses.

Currently, both the SPAN and Exposure margins are specified by the exchange. So at the time of initiating a futures trade, the client has to adhere to the initial margin requirement. The entire initial margin (SPAN + Exposure) is blocked by the exchange.

## 4.6 PEAK MARGIN

Peak margin is calculated on the basis of the highest margin utilized by the client during the day. The stock exchange takes four snapshots of margin utilization of client during the day and the broker has to collect the highest margin utilized from the client.

Peak margin rules were implemented in phases and the final leg came into effect from September 1, 2021 wherein stockbrokers are mandated to collect upfront margin of 20% trade value in the case of cash market stocks and an additional SPAN + Exposure for derivatives trade.

The primary objective of the regulator to introduce peak margin was to limit the extra leverage in the Cash and F&O segments and make the uniform leverages across the industry.

## 5. TRADING LIMITS

### 5.1 CASH LIMITS

It refers to the ledger balance of the client available across all the segments and exchanges adjusted for uncleared selling. However in case of cash segment where EPI is done on T day itself the value of selling will be available for limit next day. The positive ledger balance is counted trading limit & negative ledger balance is reduced from the overall trading limit of the client.

### 5.2 COLLATERAL LIMITS FROM THE PLEDGE OF SECURITIES

It refers to the value of securities pledged as per margin pledge system in favour of JKBFSL after deduction for the haircut.

Trading limits in cash and collateral for two client categories are as under:

Client Category	Forms of Margin	Criteria	Haircut	Margin Requirement	Default Turnover Limit
Individual/ Non-Individual Retail Client (Non-MTF)	Cash Ledger	Credit Balance in the ledger of the client maintained with JKBFSL (adjusted for uncleared selling)	N.A.	Delivery product(CNC): Full Margin (100%) Intraday product (MIS): Upfront (VAR + ELM) + MTM losses during the day. Future Buy & Sell and Option Sell positions (SPAN + Exposure margins) followed by delivery margins nearing expiry) Option buy: Buy Premium (upfront Full cash as premium, followed up by delivery margins nearing expiry)	100 lacs to be increased based on client requirement after recommendation of JKBFSL Branch

	Collateral	After Haircut Value of Pledged Collateral only	VaR + ELM + Adhoc margins		
Individual/ Non Individual MTF Client	Cash Ledger	Credit Balance in the ledger of the client maintained with JKBFSL (adjusted for uncleared selling)	N.A.	Delivery product(CNC): Full margin Intraday product (MIS): Upfront (VAR + ELM) + MTM losses during the day. MTF product: Var + 3 or 5 times of ELM depending upon type of security. Future Buy & Sell and Option	100 lacs to be increased based on client requirement after recommenda tion of JKBFSL Branch
	Collateral	After Haircut Value of Pledged Collateral only	VaR + ELM + Adhoc margins	Sell positions (SPAN + Exposure margins) followed by delivery margins nearing expiry) Option buy: Buy Premium (upfront Full cash as premium, followed up by delivery margins nearing expiry)	

## 6. MARGIN PLEDGE/REPLEDGE SYSTEM

In the new pledge system introduced by SEBI implemented from 1<sup>st</sup> August, 2020, for collateral usage the stocks will not be debited from the investor's demat account, instead, a pledge would be marked in favour of the JKBFSL. JKBFSL has opened a separate Demat account labelled 'TMCN – Client Securities Margin Pledge Account' for this purpose (TMCN stands for Trading Member Clearing Member). For getting exposure in MTF segment on pledge of shares, the client needs mark the pledge in separate demat account designated for accepting MTF collaterals.

### 6.1 PROS AND CONS OF THE NEW PLEDGE SYSTEM

#### PROS

- No misuse of securities: Since stocks don't leave the investor's account, there's less chance of misuse of securities. Also, it wouldn't be possible to pledge one client's stocks to offer margin to a different client.
- Corporate actions: In the old collateral system, since the stocks are held in the broker's collateral account, the broker is the recipient of all cash and non-cash corporate actions like dividends, bonus, rights, etc. However in margin pledge system, all the corporate action are accrued to the client demat account.



- c. Margin pledge is allowed for all approved securities with impact cost less than 1.
- d. Facility to sell pledged stocks on same day without requesting for un-pledge.

#### CONS

- a. Margin pledge requires client level authentication for the pledge to complete successfully through an email and OTP link to clients. Though it is a secure way but most of non-techies won't be able to do so very easily.
- b. Margin pledge/un-pledge charges are levied. However at JKBFSL a nominal charge is levied for pledge only and un-pledging of shares is free of cost.
- c. Margins on T1 stocks cannot be extended as the same cannot be pledged till the time they are delivered from exchanges.

## 6.2 REPLEDGE OF SHARES TO NCL

JKBFSL repledges all shares accepted as a pledge to NSE Clearing Ltd. (NCL) except those shares where the quantity limit is breached or client-level exposure is not provided by NCL due to Associate Company e.g. J&K Bank.

JKBFSL accepts shares as collateral out of Approved Securities only (List specified by NCL). Shares that fall under the Approved category but the quantity limit is breached are still accepted as pledges. However the same is subject to the discretion of JKBFSL and JKBFSL may reject any such request from the client to provide exposure on such limit breached securities. Similarly, the shares of J&K Bank being the associate company of JKBFSL are not allowed as repledge to NCL however JKBFSL accepts J&K Bank shares as collateral for providing further exposure. The is also subject to the discretion of JKBFSL and JKBFSL may deny accepting J&K Bank as collateral for providing further exposure.

## 7. SYSTEM OF PAYIN AND PAYOUT OF FUNDS AND SECURITIES

### 7.1 FUNDS PAY-IN

Funds pay-in is the amount transferred by the client to its trading account for carrying out the buy/sell of securities. At JKBFSL, the current options of pay-in are as follows;

- Online Payment via mobile app/web/terminal through internet banking of J&K Bank.
- Offline pay-in through branches. (about five pay-in batches during a day at pre defined timelines).
- Manual pay-in by branches/payment through mpay in JKBFSL upstreaming account (limit will be updated subject to the payment conformation received on mail @ [settlement@jkbfsl.com](mailto:settlement@jkbfsl.com) or any other permitted mode and post payment verification in Bank)

## 7.2 FUNDS PAYOUT

Funds pay-out is the amount transferred to the client registered bank account consequent to the selling/squaring off the existing positions.

At JKBFSL we maintain running account of the client for funds with the consent of the client. The running account is mandatorily settled on first Friday of the month/quarter (April – June, July – September, October – December, January – March) as per the preference given by the client. In case the first Friday is holiday then on working day prior to first Friday.

The pay-out requests received through offline mode only before the cut-off time shall be processed on the same day. The payout requests received after the cut-off time shall be processed on the next working day. No payout shall be processed on off days.

The pay-out shall be calculated based on the following logic.

Clear balance in the client ledger as on the date of the request shall be available for pay-out subject to the following deductions.

- a. Margin used in F&O Segment.
- b. Buy value/MTM loss in cash segment.

The releasable amount will be credited to the client's registered bank account.

In case of quarterly settlements, the retentions will be made as per exchange regulations, however, the EOD margin for the purpose of blocking 225% shall be Var+ELM and the additional margins supplied by the exchanges.

## 7.3 SECURITIES PAY-IN

Securities pay-in refers to the delivery of shares sold by the clients. As per the settlement system in the Indian stock market, the delivery is to be provided on T+1 days however after the introduction of the flat margin requirement of 20% for the cash market, the Early Pay-in of securities is done on the day of selling itself to avoid any margin shortfall. The securities early pay-in is done on EOD on the day of selling via a block mechanism where the shares are blocked in the client demat account itself and are debited in BOD on settlement day. However in the cases where the share is repledged to Clearing Corporation (NCL) and the release window is over, in such cases, pay-in is done on BOD settlement day. In such cases since the sold shares are held in Demat as collateral, the margin requirement is fulfilled for such collateral.

## 7.4 SECURITIES PAY-OUT

The securities pay-out refers to the delivery of shares purchased by the clients. As per T+1 day settlement cycle, the delivery of shares are done on T+1 days after pay-out is received from the exchange. In case the exchange reports any pay-out as short, the same is communicated to the client/branch on T+1 day and client is accordingly restricted to put sell orders in respect of the short shares.

For selling T+1 shares (i.e. Buy Today Sell Tomorrow) we charge 20% as margin for selling as payout is yet to be confirmed by exchanges. Once payout is received at around 2 P.M we allow the client to sell without margin in case request is received for that day.

The pay-in and pay-out shortages are dealt as per the exchange rules and regulations.

## 8. DEBIT POLICY

### 8.1 CASH SEGMENT

In case of certain products like CNC and MTF, the client positions are funded to a certain extent by JKBFSL. Against such funding, interest is charged to such clients for the outstanding debits as per the rates applicable from time to time. The following important points are to be noted while dealing on credit in CNC segment.

- In the normal CNC segment debits lasting longer than 4 days will block such clients from taking fresh exposures till the debits in client ledgers get cleared as per exchange requirements.
- Clients need to clear the debit as soon as they are created in their ledgers, failing which interest is charged as per the rates applicable from time to time.
- Clients need to clear their debits by keeping sufficient funds in their mapped bank accounts.
- In case the client wishes to purchase shares on collateral in the CNC segment, the maximum period for which such debit will be allowed will be 90 days from the date of buying however in such cases, the client remain blocked for further exposure from T+5 day. However the value of debit shall not increase value of collateral at any time during such period. In case of debit to collateral ratio is 75% or above, RMS will square off the positions by selling collateral. The collateral having best liquidity available in market will be sold first to recover debit.
- Clients wishing to avail long term funding should avail the same through MTF product where they can retain their funded positions for up to 270 days subject to maintenance of minimum margin.
- RMS selling would prioritize the securities based on the best liquidity first available either in the shape of collateral or funded stocks. Clients would only be allowed to trade further from the next day of debit clearance by RMS selling.

### 8.2 DEBIT POLICY FO SEGMENT

Exchanges stipulate initial (span) margin and exposure margins for taking positions in futures contracts and selling in case of option contracts. So, both margins are mandatory to be provided by the clients in advance or before going for the order. The following important points are to be noted while dealing in F&O segment.

- Also the loss obligations arising due to M to M (Mark to Market) in all above cases need to be provided by the end of T day or on T+1 day before 10.15 am. In the case of loss-making positions, funds are required to be transferred on the need to need basis.
- It will be the responsibility of the concerned branch to inform their respective clients to fulfill margin requirements and maintenance of MTM. In case the MTM is not provided in cash or breaches the stipulated limits, the RMS will liquidate all positions or up to the extent of the requirement of margins without any further intimation to clients.
- For buying of options, the premium amount is to be paid up front. Premium is accepted as cash only and that also is to be paid upfront before the trade is executed. For the physically deliverable options, the additional delivery margins have been mandated by exchanges which are required in the last week starting 4 days prior expiry date of such equity options.
- Clients need to deposit funds as margins to avoid interest in the F&O segment. Margin used in F&O segment shall be considered while computing interest in this segment.
- All without margin debits in ledgers will be blocked to trade after T+2. And only selling of holdings/squaring of positions will be allowed. In all such cases, if no funds are transferred or no selling of stocks is done up to T+5, RMS may square-off positions/holdings without any further intimation to clients on the next trading day.
- Also, Branch heads must communicate with the clients regarding their debits in their respective accounts.
- Fresh exposure/ unblocking would occur the next day only in all cases once ageing debits are cleared by cash margin deposit or by selling where early pay-in is done.

### 8.3 OVERALL MONITORING PROCESS OF DEBITS

The In-Charge Risk will monitor the positions/debits of the client vis-a-vis the client margin available with JKBFSL and report to the higher authorities in case of breach of margin/default. Following process/reports are to be generated daily to monitor the risk associated with the trades.

#### 8.3.1 CARRY FORWARD DEBIT

Daily Begin of day, the ageing report will be generated. This report will contain details of the amount recoverable from the client (debit of the client) with the total valuation of shares available with the client. While calculating the total value of shares available with the client, shares purchased by the client will also be considered since the shares will be under the control of JKBFSL and released only if the debit is cleared by the client. JKBFSL reserves the right to sell these shares in case of default by the client.

The available margin of the client will be monitored every morning and separate alerts will be sent to the branches, where the available margin falls below 125% of total debit. The position of these clients will be monitored closely and shares will be sold (to the extent of debit) if the client fails to clear the debit.

### 8.3.2 INTRADAY POSITIONS/F&O POSITIONS

Mark to market loss on the intraday/f&o positions will be monitored by the RMS and positions will be squared off where mark to market loss for the client exceeds 70% of client margin.

### 8.3.3 MTF FUNDED POSITIONS

Mark to market loss on the MTF positions will be monitored by the RMS and positions will be squared off where mark to market loss for the client exceeds 75% of client margin.

## 8A PHYSICAL SETTLEMENT ON ALL STOCK DERIVATIVES

In a Stock F&O contract, when there is an open position that has not been squared off by its expiry date, physical settlement takes place. This implies they have to physically give/take delivery of Stocks to settle the open transactions instead of settling them with cash.

### **Examples of physical settlement:**

#### **Future:**

Long positions of 1 lot of ABC Ltd., 250 quantity at Rs. 2000 i.e. Rs. 5 lakh contract value F&O = 20% charges i.e. Rs. 1,00,000. This means, you are required to give Rs. 1 lakh, but if you decide to physically settle then you need to have a complete contract value of Rs. 5 lakhs.

Short positions of 1 lot ABC Ltd. 250 quantity at Rs. 2000 i.e. Rs. 5 lakh contract value F&O = 20% charges i.e. Rs. 1,00,000. This means, you are required to give Rs. 1 lakh, but if you decide to physically settle then you need to have the holdings of 250 quantity of ABC Ltd. and Rs. 1 lakh margin money till the expiry date.

#### **Option**

Long - 1 lot of ABC Ltd., 250 quantity for the strike price of Rs. 2000 Call (CE) Options.

If the underlying price of ABC Ltd. is greater than the strike price of Rs. 2000, then the contract is said to be ITM (In-The-Money). If you wish to go for physical settlement, you need to maintain a free ledger balance of Rs 5 Lakh in your account, else physical settlement would not be done.

Long - 1 lot of ABC Ltd., 250 quantity for the Strike price of Rs. 2000 Put (PE) Options.

If the underlying price of ABC Ltd. is lesser than the strike price of Rs. 2000, then the contract is said to be ITM (In-The-Money). If you wish to go for physical settlement, you need to provide the Stocks (shares) equal to the lot quantity positioned to be available in the Demat account, else physical settlement would not be done.

**Please note:**

Short ITM PE options, treatment would be similar to Long ITM CE options.

Free ledger balance equal to the contract value to be maintained.

Short ITM CE options, treatment would be similar to Long ITM PE options.

Holdings shares of lot quantity positioned to be available in Demat account.

**What is the process for Physical Settlement.**

To opt for physical settlement, you need to provide your consent first, and here are the details for the same:

To provide your consent for physical settlement of open Stock F&O contract(s) you need to contact to the respective branch where your account is mapped. Based on your consent, we will evaluate whether your position qualifies for physical settlements and if there are sufficient ledger balances/holdings (whichever applicable) is available.

**What other impact could this have on your positions?**

Your position will automatically be squared off in case:

You have not provided your consent for physical settlement

You provided your consent for physical settlement and do not have Ledger Value (equal to contract value) / holdings available for the physical settlement of your positions.

In the case of funds/holdings not being available for all the open positions, we will execute square offs for all the positions. Thus no partial funds/holdings evaluation for the expiring positions will be considered by our team.

**Delivery margins would be applicable as per Exchange norms on all the existing long ITM (In The Money) stock option positions in a staggered manner as explained below:**

10% of delivery margins computed on expiry -4 days EOD (Friday)

25% of delivery margins computed on expiry -3 days EOD (Monday)

45% of delivery margins computed on expiry -2 days EOD (Tuesday)

70% of delivery margins computed on expiry -1 day EOD (Wednesday)

To avoid margin shortages, JKBFSL would be blocking such (above-mentioned) delivery margins from the Beginning of the Day (BOD).

If the positions are not squared off for any reason (e.g.: non-liquidity), then the contract would have to be settled physically and you would be liable to pay the entire amount of the settlement.

If you have opted for physical settlement, you would be required to fulfill the entire funds (contract value) / holdings requirement by EOD one day prior to expiry. Further, all F&O Contracts of the current month expiry shall be blocked on Expiry day.

## **9. INTERNET BASED TRADING**

JKBFSL allows its clients to trade through internet viz. web trading, exe trading & mobile trading. Internet based trading is subject to the rules and regulations as defined by the exchanges from time to time.

JKBFSL provides login credential via registered email to the clients at the time of client on-boarding. The client can trade through all the online channels seamlessly without paying any extra cost.

However since the Online trading depends upon the performance of various system and software's, JKBFSL is not in any case responsible for delay/disruption in executing orders through online channels.

Further in case of difficulty in finding scrips or trading on the different platforms, like web, exe, or mobile, clients can inquire about the restrictions placed or seek help from helpdesk by writing an email to [rms@jkbfsl.com](mailto:rms@jkbfsl.com)

The primary responsibility to monitor the risk of IBT clients lies with the branch where the client is mapped. The branches will proactively make margin calls to the customer to cover the positions.

However, the RMS will closely monitor the risk associated with the trading of such clients.

## **10. CLIENT COMMUNICATION**

The soft copy of the risk management policy is placed on the website of the Company. (<https://jkbfsl.com/downloads/Policies>). All the relevant documents like Rights and Obligations Document, Risk Disclosure Document, Do's & Dont's, Guidance Notes, etc. are provided to the client at the time of account opening so that the client have a general knowledge/awareness about the risks in investing shares and other securities.

As part of communication, the following information is supplied to the clients from time to time.

- The statements of accounts of funds and securities, contract notes, daily margin statements, etc., are sent to the clients through email as per the exchange guidelines.

- The secured web login is provided to clients to view the personal financial/non financial information.
- Although, JKBFSL is under no legal obligation to send any separate communications to the clients but as a customer-centric organization, we make extra efforts generally to ensure the client is well informed about the risks and the possible outcomes, which may occur.
- Regular intimations regarding debit clearance, margin shortage on a real-time basis, and communication regarding liquidation via Square off generally through email to the client/branch.

#### **11. BUSINESS CONTINUITY PLAN (BCP)**

The following important business continuity measures are adopted for avoiding any disruption in the business continuity of JKBFSL.

<b>Sr. No.</b>	<b>Particulars</b>	<b>Measures taken</b>
1.	Parallel Risk & Settlement operations setup at Jammu and Srinagar	In order to mitigate the risks arising out of natural calamities, adverse weather conditions and other extreme situations, JKBFSL shall maintain a parallel Risk & Settlement setup up and running at Jammu and Srinagar centres to facilitate uninterrupted services to its clients.
2.	Work from home facility & equipments to the core operational teams i.e., Dealing, Risk & Settlement in case of emergency.	The employees handling critical market operations are provided with necessary equipments for facilitating work from home facility for carrying out market operations in case of emergencies.
3.	Disaster Recovery Centre (DR)	A fully functional DR centre shall be maintained which shall act as fallback/secondary site in case of any disruption at DC.

JKBFSL will prepare a separate Business Continuity Policy.

#### **12. POLICY REVIEW**

The Policy shall be subject to review on annual basis or as mandated by circumstances from time to time.

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