

RISK MANAGEMENT SYSTEM (RMS) POLICY

**JKB FINANCIAL SERVICES LIMITED
(JKBFSL)**

Version 2.0

Year 2016
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INTRODUCTION

A Risk Management System is integral to an efficient Risk system. We have put in place a comprehensive risk management system, which is constantly upgraded as per the Exchange, SEBI & PMLA norm and also as per Market Movement. The Model of RMS in JKBFSL consists of JKBFSL Owned Centres. All the staff, including Dealers & Centre Heads needs to understand and follow the policy as it is the integral part of company.

RMS FUNCTION

RMS functions include:-

- To check capital adequacy for exposure and requirements of the client
- Monitoring of Clients Order, Patterns of Trade, Order rejections, increasing of Exposure/limits.
- Monitoring MTM profit/loss incurred out of trades.
- Benchmarking Margin v/s Exposure of client
- Decision taking with regard to squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may come across Risk management in relation to all the trading activities for Clients is handled by RMS & Surveillance Department

COMPUTATION OF LIMITS

S. No	Particulars	Total Available Margin
1.	Net Credit Balance in Running Ac	100%
2.	Margin deposit (Funds Pay in) on T day	100%
3.	Collateral Holdings(Valuation based on exchange determined VAR based haircut) includes POA and Bene Holdings	100%

CASH

The collection of the pay in, margin is done at HO level. Only the payments received from client's designated bank account shall be accepted in the form of account payee cheque / RTGS / NEFT / online Pay-in against client's margin / settlement obligation and no cash deposits shall be accepted against securities transactions. All the payments received from the clients shall be entered in the back office system only after verification of bank particulars available with us. Any payment received other than from client's designated bank account shall be treated as Third Party transfer and shall be credited to suspense account only. Such payment shall not be considered against any for margin / settlement obligation and client shall be asked to take such payment back after providing necessary supporting documents.

COLLATERAL

Holdings are considered for limits as follows:

1. The securities received form client's designated demat account,

2. Securities lying in client's designated POA account with the company and securities purchased through the company and lying in its Pool / Beneficiary account shall be considered towards margin / settlement obligation of the client.
3. Any securities received from non-designated demat account shall be credited to suspense account and no credit shall be given against margin obligation of the client.

TRADING LIMITS

1. Exposure Limit
2. Turnover Limit
3. Max Order Value Limit
4. Max Order Size Limit

Exposure means the extent to which a client can be allowed to trade depending on his available margins.

- JKBFSL may need to vary or reduce the limits or impose new limits urgently on the basis of risk perception and other factors considered relevant including but not limited to restrictions on limits on account of exchange/SEBI directions/limits (such as broker level/market level limits in security specific/ volume specific exposures etc.)
- JKBFSL may be unable to inform the client of such variation, reduction or imposition in advance. JKBFSL shall not be responsible for consequences of such variation, reduction or imposition or the client's inability to route any order through JKBFSL on account of any such variation, reduction or imposition of limits. Such exposure limits may be set up to a predetermined number of times of the Margin (the "Multiple") and the quantum of the Multiple shall be decided at sole option or discretion of JKBFSL.
- Such multiple may be changed at the discretion of JKBFSL from client to client depending on various factors, which inter alia include factors like market conditions.
- Client shall abide by the exposure limits, if any, set by JKBFSL or by the Exchange or Clearing Corporation or SEBI from time to time. The exposure limits set by JKBFSL do not create any right in favor of the Client and are liable to be withdrawn at any time without notice and the client shall bear the loss on account of withdrawal of such limits.
- JKBFSL may at any time, at its sole discretion and without prior notice, prohibit or restrict the client's ability to place orders or trade in securities through JKBFSL, or it may subject any order placed by the client to a review before its entry into the trading systems and may refuse to execute/allow execution of orders due to various factors including but not limited to the reason of lack of margin/securities or the order being outside the limits set by JKBFSL/Exchange/SEBI and any other reasons which JKBFSL may deem appropriate in the circumstances.
- Limits/Exposure provided shall vary based on the intraday profit /loss made by the client. Exposure limits against collateral/stocks shall be given only against approved

securities as decided by the Exchanges/JKBFSL from time to time and subject to such haircut and valuations as may be decided by JKBFSL from time to time. JKBFSL from time to time may change the applicable haircut or apply a haircut higher than that specified by the Exchanges. In case of derivatives, Clients shall be allowed to trade only upto the applicable client wise position limits set by the Exchanges/Regulators from time to time.

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PRODUCTS IN TRADING SYSTEM

- MIS (margin Intraday square-off): For Intraday traders JKBFSL provides 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 2-10 times depending upon percentage of haircut,
e.g., security XYZ trading at INR 100 has haircut of 50% and margin available with 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.
MIS (Margin Intraday Square-off): Trades are only allowed upto 15 minutes prior to closure of the market and all the remaining or un-squared MIS positions are squared - off by RMS Team on or before 3.15 PM on every trading day.
- CNC (Cash and Carry): For Investors or clients who like to carry on the positions for longer periods JKBFSL provides CNC (Cash and Carry) product in cash market under which exposure is allowed only upto the extent of margin available.
- NRML (Normal): For Derivates market (Futures and Options segment) exposure is only provided upto the extent of available margins in all cases and trades are placed using NRML product in this segment.

DEBIT POLICY

CASH SEGMENT

As per T+2 settlement schedule of exchanges in Capital market, JKBFSL directs the customers to pay their debit balances on the day of purchase itself or upto T+2 days before 10.15 am. The un-cleared debits will not be allowed beyond T+2+4 days / 7 days in whatsoever circumstances. All the debits aging more than 6 days will be cleared from RMS dept. on the 7th day by squaring of open positions or by selling of Holdings or both, without any further intimation to branches. Also it is the duty of centre heads to communicate the clients regarding their debits in their respective accounts. All the requests with genuine reasons for retaining above 10 days shall be considered only after getting approval from the Head of Operations through mail.

FO SEGMENT

- Exchanges stipulates initial (span) margin and exposure margins for taking positions in future 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.
- 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 case of loss making positions, funds are required to be transferred on need to need basis.
- It will be responsibility of concerned centre to inform their respective clients to fulfil margin requirements and maintenance of MTM. In case the MTM is not provided in cash or breaches the stipulated limits, RMS dept will liquidate all positions or upto the extent of requirement of margins without any further intimation to clients.
- For Buying of Options, only premium amount is to be paid. Premium is accepted as cash only and that also is to be paid upfront or before the trade is executed.
- While JKBFSL accepts approved securities as margin, It is not beneficial owner of the securities and hence the securities are not pledged towards exchanges, hence JKBFSL has to arrange funds from third parties for payment of margin to the exchanges for positions taken by the clients. Clients must hence deposit funds as margins in order to avoid interest in F&O segment.
- All without margin debits in ledgers will be blocked to trade after T+3. 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 upto T+6, RMS Dept will square-off positions/holdings without any further intimation to clients on the next trading day. Also it is the duty of centre heads to communicate the clients regarding their debits in their respective accounts. All the requests with genuine reasons for retaining above 10 days shall be considered only after getting approval from the Head of Operations through mail.
- Fresh exposure/ unblocking be allowed only on depositing additional margin amount.

IBT POLICY

In case of difficulty finding scrip's or trading on the different platforms, like web, exe or mobile, clients can enquire about the restrictions placed or seek help with concerned Centre/JKBFSL Dealers at centres located nearby.

- The primary responsibility to monitor the risk of IBT clients lies with the branch where the client is mapped.
- However RMS team will closely monitor the risk associated with trading of such clients.

ERROR ACCOUNT MAPPING

Every request for client code modification is to be sent to RMS dept. 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 client's financial position with JKBFSL, RMS team will decide whether to accept the mapping of such trade with Error Account or not. All the cases which seem not to be genuine are put forward to the notice of Compliance Officer & Head of Operations and the processing of the client code modification request will be solely upon the decision of the Compliance Officer & Head of Operations. It will be the responsibility of concerned Centre Head to clear the debit obligations raised in the Error account.

SECURITIES IN BAN PERIOD

Nest Notifications / JKBFSL-eTrader Notifications are available in trading system to display an alert once the open interest in futures and options in a security exceeds 60% of the market wide positions limits specified for such security. When the MWPL (Market wide Position limits) for such securities crosses 90% no fresh positions shall be allowed to taken till MWPL comes down and gets lower than 80% again. Exchanges implement penalties in all such cases where positions are extended when MWPL crosses 95% for a particular security. Clients must not trade in such scrips and need to be informed in this regard. Dealers must also be watchful enough to inform clients in this regard. In FO segment such scrip's are marked as "Scrip's in Ban period" by exchanges and are blocked on trading system. In order to offload such positions client must approach their respective centres from where request for offload/carryover of such positions could be initiated.

Extreme care is taken while drafting the RMS policy. Even then, the chances for losses may arise in client's accounts due to several factors like:

- The high variation in security prices/markets
- The chances are there that once a client initiates a short position in a security and the share may get the upper DPR level and the client could not close out the short position. In such case the chances of incurring auction loss is higher and chances for incurring such instances is existing in the market.

- Similarly a client goes on a Long position in a security and the chances that the shares price reaches the lower DPR on T day and coming days are there in the market.
- In these instances, the losses are inevitable and the recovery of funds depends on the relationship of the centre and the client concerned.