Policy On Risk Management System Adopted by Ontrust

Introduction:

The stock broking industry is associated with two types of risk, viz internal risk and external risk which includes very high risk in terms of volatility of stock prices, daily collection of payments from clients etc.

To manage the risk in the security Market for the better survival of clients as well as company, we present our RMS Policy which also plays important roles for better and effective Compliance and Comprehensive Management of risk and effective branding of the company in the Market.

Classification of Risk:

We hereby classify the risk as under:

Credit Risk : Credit risk, also called default risk, is the risk associated with a person going into default (not making payments as promised).

Market Risk : The possibility that the value of financial markets rise or fall.

Business Risk : The risk that a company will not have adequate cash flow to meet its operating expenses it would be susceptible to business risk or changes in the overall economic climate.

Compliance Risk :Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards.

Systematic Risk :Systematic Risk is the risk of collapse of an entire financial system or entire market, as opposed to risk associated with any one individual entity, group or component of a system.

In view of above risk, the company has following risk management system policy:

Client Registration:

a) Before registering an entity as client, following measures are taken to identify the client:

b) Clients should properly fill & sign KRAs' KYC Registration Form and Ontrust - Client Registration Kit before execution of trade;

c) Both KYC Forms is thoroughly checked under the light of rules and regulations laid down by SEBI/ Exchanges and other relevant authorities.

d) All the applicable documents which are marked as mandatory in the Form shall be checked and verified with the original. Only self attested / certified photocopy of documents is accepted.

d) Client KRA form and required certified photocopy of documents are sent to respective KRA, as and when applicable.

e) Any document apart from the clause d above are kept along with the Ontrust - Client Registration Form.

f) The company officials take necessary steps to ensure identity of the client does not match with any person having known criminal background or is not banned in any other manner, as guided by SEBI/RBI/ Exchanges and other appropriate authority.

g) Client introduction is done by employees, directors, existing clients or authorized person & proper in person verification is carried out by company officials.

h) Failure by prospective client to provide satisfactory evidence of identity is disqualified for opening the account.

i) In cases of doubts regarding the veracity or the adequacy of previously obtained client identification data, additional documents are obtained from the clients.

j) The KYC Form is reviewed from time to time and additional documents are obtained from the clients.

Client Categories:

In view of the Client categories, financial strength, nature / source of income, place of registration etc. the Client will be broadly divided into three categories:

Categories	*Clients included*
High Risk	*a) NRI Clients* *b) Special Categories defined under AML Act.*
Medium Risk	*a) Employees* *b) Retail*
Low Risk	*a) In House Clients* *b) HNI Clients* *c) Institutional Clients*

The minimum criteria for becoming an HNI Client is that, they should have a minimum margin amount of rupees Five Lacs in cash or cash equivalents.

Collateral, Exposure and Margin:

Exposure to a client is given on the basis of collaterals and current running account balances maintained with the Company or at the discretion of the Management.

The following collateral only will be currently accepted:

a) Cash,

b) Approved Shares with respective haircuts as defined by the exchange,

c) Fixed Deposit,

d) Bank Guarantee,

e) Mutual Fund as defined by the exchange.

The Company does not collect any upfront margin from the clients of Capital Market Segment. However, the clients who have given running account undertaking, the exposure for those clients is allowed as per above schedule.

In F&O Segment, the company strictly follows the margin norms as prescribed by the Exchange. An amount over and above the initial margin on the basis of SPAN Margin is collected upfront from the clients and is cross checked with the margin requirement report of the Exchange.

MTM Margins:

The MTM margins would be collected in Cash and Non Cash form and their ratio would be at least 50:50. The MTM margins would be collected on T+1 day basis from the clients. All Clients should deposit the mark to market margins by close of banking hours i.e. 2:30 p m next day.

In event of MTM of client is crossing Rs.50,000/-, in such cases, additional margins are called for from the clients or clients are advised to reduce the exposure. Exposure to a client is given on the basis of collaterals and current running account balances maintained with the Company or at the discretion of the Management.

Margin Shortfall & Square off or Blocking of Trade:

- Any shortfall in client account after MTM margin will result in blocking of respective client account. Shortfall is defined as excess of MTM loss and initial margin plus gross exposure margin over the ledger balance.
- Margin Shortfall - MIS report with number of days of shortfall will be sent every day to the concerned people.

Any shortfall in the initial margins and MTM margins would lead to alerts to client for bringing in fresh margins. The following methodology will be adopted for square off:

Every margin or obligation shortfall will be informed to the customer for payment. If the shortfall crosses 75% of the Margin or the client fails to pay their net obligation within T + 4 days then the Risk Management In-charge may at its discretion square off trade without further intimation.

Collection and delivery of Securities to the clients:

- Collection of deliveries of securities from clients shall normally be called from the clients on T+1 basis.
- In case of delivery pay-in obligations of large quantity/ value and/ or illiquid scrip shall be called for prior to the execution of sell order or as early as possible after the execution of sell order and shall be tendered to the clearing house under early pay-in mechanism.
- Securities pay-in 'Overdue Obligation' statement shall be generated one day as well as one hour prior to the pay-in schedule and a reminder shall be given to the respective clients.
- Deliveries of securities to the clients shall be affected within 24 hours from the pay-out and as far as possible the deliveries shall be given to the clients directly from Pool Account through upload of pay-out break-up files.
- In case of the clients who have given written authorization for retention of securities towards margin and/or future pay-in obligations, the pay-out securities of such clients shall be moved and retained in the client margin account designated.

Due diligences for Z categories or Trade-to-Trade or Illiquid Securities:

The Company will take necessary steps to conduct due diligences for Z categories, Trade-to-Trade scrip's and illiquid securities (list provided by Exchange). We have systems by which purchase and sell of Trade to trade securities should result in delivery. We do not allow buying more than 50000 shares or Rs. 500000/- (Rupees Five Lacs) value of the shares in Z Categories scrip's or illiquid scrip's. If any client is willing to trade beyond the specified limit, then the dealer has to take requisite permission and the same is allowed on specific instructions from Director(s) only.

Systemic Management:

The Company ensures to provide uninterrupted trading to the client though in case of any technical fault.

Company uses two type of trading terminals

- NEAT Trading terminal
- NOW (CTCL) trading terminals.

To keep transparent dealing mechanism for the trades done by the clients are confirmed through voice recoding lines in addition to sending Contract Notes and Quarterly Ledger confirmation.

Role of Risk Manager (Compliance Officer):

For the better survival of organization as well as clients, the Risk Manager plays important roles and provides co- operation for better Risk Management and Surveillance so as to provide maximum transparency while dealing with the client.

In brief The Risk Manager has to perform following functions:

a) Identify Risk

b) Analyzing Risk

c) Verify the Limit Setting and Exposure Limit

d) Monitoring Member Wise Margin Limit

e) Generating Alert on reaching 75% of Margin Limit

f) Ordinate with other Department for Collection/Recovery

Conclusion:

The above RMS Policy is designed for better function which intelligently helps to take decision based on various logics and parameters whether the company is exposed to Risk or not.

(This Policy is adopted from 01.03.2011 and subject to change time to time as per change in Management decision or rules & regulations)

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