

**Risk Management Policy and policy on limit setting for clients [Broking Business]**

**Preface:**

KB Capital Markets (P) Ltd (KBCMPL) is registered with and regulated by the Securities and Exchange Board of India (SEBI) as a Stock Broker, Depository Participant [NSDL] and Portfolio Manager. As a stock broker, KBCMPL is a trading and clearing member in Cash Segment and trading member in Futures & Options & Currency Derivative segments of National Stock Exchange of India Limited (NSE) and is regulated by the stock exchange through their respective bye-laws, rules and regulations.

**Manner of usage:**

This document shall be used as guidelines and reference by the key personnel in charge of the activities namely client identification and introduction, surveillance, record keeping and the personnel in charge of executing and authorizing the day to day transactions. The Compliance Officer (CO) shall make this document accessible to the clients, stock exchange and to all such existing as well as new key Personnel from time to time and explain the contents and their responsibilities in this regard.

**Risk Management Policy:**

Risk is an event which can prevent, hinder or fail to or otherwise obstruct the enterprise in achieving its objective. Risk can cause financial disadvantage, it can result in damage, loss of value, and/or loss of an opportunity to enhance the activities. It is the probability of occurrence of an event and the financial impact of such occurrence to an enterprise. Some of the factors determining risk are nature of the business activity, trading turnover, manner of making payments, manner of transfer of securities, etc.

In the course of conducting its broking business, KBCMPL is exposed to variety of risks including market, credit, liquidity, operational and other risk that are material and require comprehensive controls and ongoing oversight.

The risk management framework of KBCMPL for its Equities broking business is based upon the different client categories i.e., Institutional and Non-Institutional clients, PMS and non PMS clients, applicable settlement mechanism and SEBI/Stock Exchange regulations.

KBCMPL shall identify Clients of Special Category as per the definition and guidance provided in SEBI's PMLA Master Circular dated 31<sup>st</sup> December 2010 (inter alia Clause No. 5.4).

KBCMPL shall categorize clients in following three categories, based on the risk associated with clients:

- (i) High Risk Associated Client,
- (ii) Medium Risk Associated Client,
- (iii) Low Risk Associated Client, and

Set out below are the principles of our risk management framework:

**Cash Segment:**

In the case of Institutional clients, all transactions executed on the stock exchange have to be settled by their custodian through the clearing corporation of the exchange. In such cases, the funds / securities obligation is with the custodian. In case of conversion of institutional trades to DVP, the trades are settled with the custodian. Institutional businesses i.e., transactions done by all institutional investors shall be exempt from margin payments.

In the case of PMS Clients, KBCMPL has a robust mechanism for ensuring availability of funds and securities towards settlement of transactions. Funds of the PMS clients are held in a designated bank account of KBCMPL (opened in the capacity of Portfolio Manager) and Securities of the clients are held in the client's demat account held with the Depository Division of KBCMPL and operated through Power of Attorney given to the Portfolio Manager. No margin in the form of cash or securities is maintained for such clients.

In case of non Institutional and non PMS Clients KBCMPL uses its discretion to collect margins in the form of Cash or Exchange approved securities with appropriate haircut.

**Derivatives Segment [F&O and Currency]:**

As per SEBI and Exchange rules and regulations, margins are collected upfront from the clients. Clients can maintain margins in the form of cash, fixed deposits and Exchange approved securities. Appropriate haircuts are applied to the securities accepted as collateral. MTM, premium and assignment amount is collected in the form of cash.

Margins are collected in form of cash and exchange approved securities for trades done by clients. The securities considered for margin are pledged by the client in favour of KBCMPL's margin Demat account and cannot be sold by the client till they are released by KBCMPL.

KBCMPL has the absolute discretion to change the above based on review of the risk management framework and/or any changes in the regulatory framework/settlement mechanism, etc.

**Policy on Limit Setting for Clients:**

While setting up the exposure limits for and on behalf of the clients, KBCMPL broadly takes into consideration the regulatory requirement, client profile, internal risk management policy, market conditions, etc. Considering the said parameters, the exposure limit for a client would be set up as follows:

- The exposure limits will be depending upon the category of the scrip in which the Client will transact and will be as decided by KBCMPL from time to time and may vary from client to client.
- On a case-to-case basis KBCMPL, at its discretion, may allow exposure limits to the client.
- In case of cash segment, KBCMPL may at its discretion allow clean exposure limit up to certain amount to the client without insisting for any credit balance and /or margin. The quantum of clean exposure limit shall be decided by KBCMPL. On a case-to-case basis KBCMPL may, at its discretion, give higher clean exposure limits to certain set of the clients. KBCMPL reserves the right to withdraw clean

exposure limit granted to the client at any point of time at its discretion. The client cannot raise any concern/ dispute for the same.

- Available margin for the purpose of granting exposure is calculated as a sum of free credit balance of the client in KBCMPL's books, margin in the form of funds, securities, bank fixed deposit, bank guarantees, etc. of the client available with KBCMPL.
- The choice of the securities to be considered as margin shall be determined by KBCMPL at its discretion from time to time and the client shall abide by the same.
- While granting the exposure limit, margin in the form of securities will be valued as per the latest available closing price on NSE or BSE after applying appropriate haircut as may be decided by KBCMPL at its discretion.
- KBCMPL may from time to time depending on market conditions, profile and history of the client, type and nature of scrip, etc., at its discretion change the rate of haircut applicable on the securities given as margin, multiplier for granting exposure in Cash/F&O segments and take such steps as KBCMPL may deem appropriate.
- The Client will have to abide by the exposure limit set by KBCMPL.