

The following document describes the risk management policy followed by RKS. Please read it carefully as it pertains to your trading activity. The policy is applicable to all the segments of RKS Securities & RKS Commodities.

Definitions

1. RMS (Risk Management System) - This helps RKS manage the risk of the company and client from the volatility of the market.
2. Cash - This is the clear balance available in the customer's ledger account in our books.
3. Margin - The underlying stake provided by the customer in the form of cash, FDR and / or stock to mitigate market (price) or settlement (auction) risk.
4. Exposure - The aggregate of the customer's obligations arising out of buy and sell trades awaiting settlement in the cash segment and profit/ loss amounts that are yet to be settled on the closed positions including future and options.
5. Exposure multiplier - The number of times that exposure is allowed on the underlying margin on the cash segment would have to be made either on the availability of cash margin or on the availability of the stocks (which are to be sold) in our margin account, by executing a transfer before any order is initiated.
6. Stock qualifying for margin in cash segment transactions - Securities in the approved list of Stock Exchange as per SEBI guidelines and RKS.
7. Total Deposit - The overall client deposit available with us in the form of cash only.

Nature of Customers' Transactions

1. Setting up exposure limits

a) Cash Segment

We provide an exposure limit to a client which would be a multiple of the clear ledger balance in the account of the client. The value of the "multiple" will be decided by the company based on market conditions.

Clients can place orders in two products:

- MIS/CO/BO (Margin Intraday / Bracket Order / Cover Order)
- CNC (Cash and carry)

If a client wishes to use margin, he/she can place orders with the MIS/CO/BO product code. Once the trade has been filled, only a portion of the full applicable margin will be blocked as per margin requirements for the stock. RKS will square off all open positions under the MIS/CO/BO code anytime during the last 30 minutes of normal market closure timing.

If a client wishes to hold a stock overnight or doesn't want RKS to square off, he/she can place orders using the CNC product code. The full amount of margin is applicable at the time of order and RKS won't square the position off.

b) Derivatives Segment (Equity, Currency and Commodities)

Exposure limits for each client is based on the amount of margin money deposited by each client, as per Exchange regulations. Upfront margin is collected by the client.

Clients can place orders in two products in the F&O segment:

- MIS/CO/BO (Margin Intraday / Bracket Order / Cover Order)
- NRML (Normal)

If a client wishes to use margin, he/she can place orders with the MIS/CO/BO product code. Under MIS/CO/BO, the client will be required to pay margin as required by RKS. In futures both buying and selling would be allowed whereas in options only short selling will be allowed in MIS/CO/BO product code on futures. Once the trade has been filled, only a portion of the full applicable margin will be blocked as per margin requirements for the stock till the position is held. RKS will square off all open positions under the MIS/CO/BO code anytime during the last 30 minutes of normal market closure timing.

If a client wishes to hold his F&O positions futures products overnight he/she needs to place the order under the NRML product code. This will require 100% of the applicable span and exposure margin. In case of Options buying only NRML product code will be allowed and orders placed in MIS/CO/BO will be reflected since they are blocked.

For buying options, the full premium margin amount is required. For selling options, the applicable span and exposure margin is required as per the relevant product code.

2. Policy for penny stocks

Stocks which appear in the list of illiquid securities issued by the Exchanges every Quarter are considered penny stocks. These stocks are generally considered to be highly speculative and high risk because of their lack of liquidity, large bid-ask spreads, small capitalization and limited following and disclosure. Depending on the market condition and RMS policy of the company, RKS reserves the right to refuse to allow trading and/or provide limits on penny stocks.

3. Delivery Trades

The net purchase or sale of scrip in a client account that is settled by way of a delivery on T+2 (or as per settlement schedule). Delivery in respect of sale transactions in the cash segment must be settled by the client by tendering securities in Demat form before the pay-in deadline. By not doing so, the client faces the risk of entering in auction.

4. Sell against buying stocks

Clients are cautioned to wait until stocks they have purchased have been delivered before selling them. In case he buys a stock and sells it a day later, the two transactions won't net each other out since delivery occurs after T+2 days. The second transaction would be considered a short pay-out of security and RKS will not be responsible for any short pay-outs.

5. Trading in newly listed shares, illiquid securities and illiquid F&O contracts

Newly listed securities, illiquid securities and Trade-to-Trade securities which have high VaR margin are subject to high market risks and rate fluctuations. Illiquid securities and Trade-to-Trade securities will have a daily price range (DPR) whereby the chances that these shares can reach the upper DPR or Lower DPR during a trading day are higher than other securities. Hence, the dealing in these securities will be subject to permission from the surveillance department and will be subject to the available credit balance.

In case of Derivative contracts which are Illiquid, dealing would be restricted and would be subjected to permission from the Risk and Surveillance department.

6. Policy for GSM Securities

In GSM securities the Company would be Blocking of the scrip under GSM from grade II - grade VI. Exchanges have provided their respective circulars have provided for guidelines on GSM securities. The client can refer to the same in case of explanation required.

Newly listed shares usually do not have a DPR and hence, the chances for rate fluctuations are higher. The dealing in newly listed shares will be restricted to the available credit balance after considering the Mark-to-Market (Mark-to-Market) levels.

Intraday Margin Exceptions

Intraday Margin may be reduced on certain days due to any of the following reasons:

- a) Exchange policy changes or regulation
- b) Government policy changes or regulation
- c) Broker policy changes
- d) Excessive or abnormal market movement / turnover / volatility

RKS V shall not be liable for any loss arise due to RMS selling on non-payment as well as loss in case where RMS Selling may not be done as mentioned above by RMS due to any reason.

RKS V reserves the right to change the above policies any time in general or in particular case within the Exchange / FMC regulations / SEBI regulations / guidelines.

Risk Management (Online Surveillance)

RKS V utilizes a margin based automated RMS. Total deposits of the clients are uploaded in the system and the client may take exposure on the basis of margin applicable for the respective security as per the VaR based margining system of the stock exchange and / or margin defined by the RMS team based on their risk perception.

The client may take the benefit of "credit for sale" i.e., benefit of share held as margin by selling the same by selecting delivery option through order entry window on the trading platform. The value of the shares sold will be added with the value of deposits. On that basis, the client may take fresh exposure.

In case the exposure taken on the basis of shares margin, the payment is required to be made before the ex-change pay in date. Otherwise it will be liable to square off after the pay in time or any time due to shortage of margin.

Derivatives Expiry

On the day of Expiry the online surveillance system will check the net total STT on In-the-Money expiring options with one's ledger and the Risk team would square off the positions during the last 30 minutes of normal trading hours in case the client is expected to go in debit arrived due to levy of STT on options exercising.

No fresh Buy positions will be allowed in the options expiring during the last 30 minutes of normal trading hours on the expiry day, clients will only be allowed to square off their existing positions.

The above system changes is for the benefit of the client and RKS V is not responsible in any case the client turns out to be in loss due to MTM or expenses like STT, turnover charges etc.

Any big value transactions are checked for whether the client is trading beyond ones' known income (i.e. in-comes declared in the client's KYC document).

Mark-to-Market Square-OFF

At any given point in time if the MTM level of the client breaches 80% of his available Cash margin, the risk team would square off the complete positions of the client with or without intimating the clients.

For **Priority Pack clients**, if the MTM level of the client breaches 70% of his available Cash margin, the risk team would square off the complete positions of the client with or without intimating the clients.

Forsake of better understanding, the square off percentage of 70% or 80% is basically the threshold base limit and it should not be construed as exact 70% or 80% for square off. The position may get squared off at exact 70% or 80% or above the base threshold limit. Due to market extreme volatility it may not be possible to monitor the square off limit from percentage (%) to percentage (%).

Ex: For priority pack client the base threshold limit is 70%. However the square off can be at exact 70% or above depending upon the volatility and information of the same could not be provided to client on real time basis. The MTM square off can be either at the upper or the lower side based on the situation or price volatility.

Also, in case the MTM square off is done, the residual fund if any will be blocked to trade till the client adds fresh funds to bring the overall MTM percentage sufficient below the threshold limit.

Further the square off will also be based on the extreme volatility in the market which may have severe impact on the client and the company. The Company may or may not inform the client on the same in case of potential fluctuation. (SEBI guideline on close out/square off)

If the client is having MTM loss of more than 40% but less than 80% of his available cash margins, the square off call will be taken by the Risk team. A prior intimation on the same may or may not be given and thus clients are requested to take care of their positions and MTM.

There may or may not be a margin calls or intimation from our RMS desk.

Margin Square-OFF

Positions which do not have sufficient funds can be squared off any time at the discretion of our RMS desk. There may or may not be a margin calls or intimation from our RMS desk. Positions would be squared off proportionally by the risk team to bring down your margin shortfall.

Notional Debit

During the existence of intraday open positions on the T day, if such open positions could not be squared off, in such cases a notional debit at the rate of 150% calculated on the closing rate of intraday position would be debited in the client ledger. Once the auction / close out process is completed the actual bill would be reflected in the client ledger and the notional debit entry would be reversed.

MCX Tender Period Positions

At RKSV, we do not allow clients for Physical Delivery Positions. All the deliverable contracts of MCX enter "Tender Period positions" as mentioned by exchange from time to time.

Clients positions will therefore be Squared OFF one day prior to the start of the "Tender Period" of the contract. No positions will be allowed to carry over in Tender Periods.

Please note, the contracts will be blocked to fresh trade 1 day prior to Tender period start.

Commodity Options Contracts

Permitted Lot Size and the Tick size of commodity derivatives options contracts shall be as per the respective contract specification.

Exercise Style

European Style options, which can be exercised only on the day of Expiry

Exercise Mechanism

On expiry, following mechanism shall be adopted for exercise of the options contracts:

a) Option series having strike price closest to the Daily Settlement Price (DSP) of Futures shall be termed as At the Money (ATM) option series.

This ATM option series and two option series having strike prices immediately above this ATM strike and two option series having strike prices immediately below this ATM strike shall be referred as 'Close to the money' (CTM) option series.

In case the DSP is exactly midway between two strike prices, then immediate two option series having strike prices just above DSP and immediate two option series having strike prices just below DSP shall be referred as 'Close to the money' (CTM) option series.

b) All option contracts belonging to 'CTM' option series shall be exercised only on 'explicit instruction' for exercise by the long position holders of such contracts failing which they will expire worthless.

c) All In the money (ITM) option contracts, except those belonging to 'CTM' option series, shall be exercised automatically, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so.

d) All Out of the money (OTM) option contracts, except those belonging to 'CTM' option series and exercised by the long position holders, shall expire worthless.

e) All exercised contracts within an option series shall be assigned to short positions in that series on a random basis.

Settlement Method:

Daily Settlement:

The Options Premium settlement will be done on T+1 day basis.

Final Settlement:

On exercise, Options positions shall devolve into underlying Futures position as follows: -

- Long Call position shall devolve into long position in the underlying Futures contract
- Long Put position shall devolve into short position in the underlying Futures contract
- Short Call position shall devolve into short position in the underlying Futures contract
- Short Put position shall devolve into long position in the underlying Futures contract

On Expiry of options contract, all such devolved Futures positions shall be opened at the strike price of the exercised Options.

Margins

Risk management is managed with Standard Portfolio Analysis of Risk (SPAN*). The initial margin shall be imposed at the level of portfolio of individual client comprising of his positions in futures and options contracts on each commodity. Margins shall be adequate to cover 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be two days. For buyer of the option, buy premium shall be charged as margins and blocked from the collaterals. On completion of settlement, the premium blocked shall be released.

Brokerage

Maximum permissible brokerage rate is 2.50% of premium amount or Rs.250/- per lot, whichever is higher. Further, Trading Member can charge the Brokerage for Option Contracts only on the premium amount at which the Option Contract was bought or sold and not on the strike price of the Option Contract.

Mechanism for RISK policy on squaring off

The mechanism is based on assumption that the expiry date is November 28, 2017

1. Exchange sending the sensitivity report to the trading member reflecting the margin requirement from the clients; three days prior to the expiry date.
2. Member after analysing the sensitivity report, inform to the client for adding the margin before expiry minus 1 day.
3. Member won't allow any new fresh position to the client from the first date of sensitivity report; 3 days prior to expiry date.
4. Margin of all the clients would be reviewed on 1st day of the sensitivity report and thus no action.
5. All the margin shortfall requirement to be completed on or before 8 PM on 1 day prior to expiry day; i.e. if expiry is 28th November then the margin requirement to be completed by on or before 8PM on 27th November.
6. All the margin shortfall is to be cleared by the client by providing 50% of the margin on 26th November and remaining 50% on 27th November.
7. All position less of margin (i.e. position with short margin) to be squared off on the expiry day.