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COMMODITIES RISK POLICY

STANDARD OPERATING PROCEDURE FOR

RISK DEPARTMENT

1. Process

1.1 Normal activation process of client code

- On allotment of client code and after approval from the exchanges, RMS receives mail from KYC department, indicating the client code, name and segment, type of client (Online or Offline).
- Client code is created in NEST Master by uploading file as per the specified format.
- Client code is then mapped in the respective ctcl / dealer ids.
- Prior approval from Vertex compliance is required for mapping the same client in more than one location.
- Limits and general preferences for trading are cross checked.
- Confirmation sent to KYC dept.

1.2 Reactivation of client code process.

- Only suspended codes can be reactivated. (All the codes get suspended if there is no trading takes place for 6 months).
- On receipt of a reactivation form from the branch BO checks necessary fields and sends a mail to RMS for reactivation along with the details of CTCL, indicating the client code and segment
- Manual Reactivation done in NEST
- Password is sent to the client's email id (online clients)
- Confirmation is sent to BO for all the reactivations

1.3 Creation /Suspension of CTCL dealer id.

- Request from branches given to the Back office along with Branch name, Name of the person in whose name CTCL-id will be allotted, Branch address, Pin code and contact number. Approval by Regional commodity Head is required.

- If all the mandatory details are found appropriate, Back office uploads the information in the exchange.
- Exchange gives confirmation after 24 hours.
- After receiving confirmation from the exchange, Back office sends a mail to the RMS department for creation of CTCL Id.
- RMS department creates and inform the back office with the password.
- Same process is followed for suspension of CTCL ids.

1.4 Limit to the new client

- One time limit is provided to all new clients against cheque for a maximum value of Rs.2,00,000, subject to various levels of approval.
- Branches must send client's cheque details to RMS under copy to regional manager and accounts through the official e-mail ids.
- Margin multiple of 1 time only is given.
- For cheques above Rs.50,000, branches much send the scanned copy of the cheque and deposit slip to fund department along with a cc to RMS to get the credit.

1.5 Limit on Cheque in Transit

- Client bank details are mapped in the back office software.
- All clients must issue cheques from the bank details updated with VCFL.
- After depositing cheque in the bank, branch must send the cheque details through official e-mail ids in pay-in format only.
- Ledger credit and Exposure for the new client codes will be given only on receipt of funds in VCFL bank accounts.
- From subsequent fund pay-in, ledger credit will be updated on cheque receipt basis up to upper limit of Rs.50,000.
- Cheques amounting from Rs.50,000 till Rs.200,000 will be considered for ledger updation only on approval of head of commodities. In case approval is not received the same will be subject to updation in client ledger only on receipt of credit in VCFL bank account.
- Any other funds pay-in amounting more than Rs.2,00,000 will be considered for ledger updation only on approval of ED or MD. In case approval is not received the same will be subject to updation in client ledger only on receipt of credit in VCFL bank account.
- Scanned copy of cheque and deposit slip above Rs.50,000 must be mailed to funds department with a cc to RMS to get credit.

- Branch can send maximum of two cheque for a single client on any particular day
- RMS department will increase the exposure based on the cheque value which is mentioned in the mail.
- To mitigate the risk
  - Cheque entry will be reversed from ledger credit of the client if the amount is not received in 4 working days.
  - Reminder mail for non receipt of fund credit in VCFL bank account will be sent on 3rd working day.
  - If the cheques are reversed 3 times, the client will be 'flagged' as risky and will be categorized as "unreliable branch/client".
  - If the cheque is bounced/stop payment, the client will be 'flagged' as risky and will be categorized as "unreliable branch/client".
  - If any client is categorized in "unreliable branch/client" then such client gets credit/exposure only on realization of funds in future.
  - No additional exposure will be given to such clients.
  - The client may be shifted to regular list, if 3 continuous cheques are realized subsequently and recommended by the business head.

1.6 Limit Enhancement Process.

Limit request is basically made either for Buy or Sell. On the basis of the holdings, available Ledger Balance of clients, trading activity from that account can be suspended by the system. To resume the trading activity from these accounts a separate request has to be put by respective RM's

- Client will get benefit of exposure only if it is in credit.
- Branches can update the times of exposure by sending a mail to RMS dept in beginning of the day itself.
- If client is in obligation, they can get the exposure benefit for intraday only after the obligation is cleared either by depositing cheque or reducing the excess margin.

- All Agri Market intraday must be squared off before 4.45 pm.
- Metals intraday must be squared up before 11.15 pm.
- For availing additional exposures after 11 am Branches can Call RMS department directly to get the intraday limits.
- Ledger credit balance with less than Rs.10,000/- : no intraday limit
- Ledger credit balance between Rs.10,000/- and Rs.20,000/- : intraday limit in terms of margin up to 2 times may be provided
- Ledger credit balance with balance of above Rs.20,000/-: intraday limit in terms of margin up to 3 times may be provided
- Spread limits are managed by the software
- All exceptions must be approved by Manager – RMS, who in turn shall obtain the necessary approvals from their reporting officers.

1.7 Cheque bounce/ Reversal action

- In case of cheque bounce / reversal, RMS department squares off the positions immediately.

1.8 Margin Concept.

- Client must have sufficient margin before placing order in any contract.
- Due to excessive volatility exchanges levies special margin.
- During tender period (i.e. last 5 days before expiry of contract) delivery margin is levied on incremental basis daily.
- Margin benefit on spread position is not applicable in the last 5 days of the expiry.

1.9 Margin obligation collection

- Back office sends RMS reports to all branches before market opens.
- NEST message flash is done in periodic interval to clear the obligation to all branches.
- RMS gives the final obligation clearance call after 3 Pm daily.
- If the obligation is not cleared either by pay in or margin reduction, RMS squares off the position from Head office without further intimation to branches.
- If obligation is cleared within the day, RMS gives intraday exposure if requested by the branches.

- For intraday metal/bullions/energy positions, RMS gives intraday square up call after 11PM.

1.10 MTM monitoring.

- All the branches are expected to monitor MTM of the clients on a continuous basis and square-off the positions if MTM reaches above 80% of the ledger balance.
- RMS department also monitors the MTM of all the clients on real time basis.
- In case any client touches 80% MTM of ledger balance and branch has neither updated further payment nor squared-off the position, system will auto square-off the position.
- If the volatility in the market is high, RMS shall start squaring of the position when MTM loss crosses 60%.
- RMS gives telephonic confirmation of square-off of the positions to respective branches.
- RMS sends square off mails to the branches giving details of the price at which the position is squared off. These mails are generally sent immediately after square-off of the positions. If market is very volatile these mails are sent after closure of the market.
- Branches are advised to monitor the MTM and net position of the clients.

1.11 Last 5 days of the contract

- Close the open positions in long side for all stagger delivery contract or give delivery intention to the back office before the start of the tender period. Gold and Silver contracts are in staggered delivery contracts. Branches are requested to check circulars from commodity exchange (MCX, NCDEX etc.) websites for more details.
- Both RMS and the respective branches shall be accountable for penalities if any due to mistakes in marking delivery.
- No fresh position can be created during the tender period for seller rights and intention matching contract. If such position are created and kept open, exchange will levy penalty on such positions. This penalty will be passed on to the clients.
- All open position must be squared off before expiry except cash settled contract if there is no delivery intention.
- Margin benefit on spread position is not applicable during this period.

- Delivery margin is applicable during this period, so keep the funds ready or roll over the position.

1.12 Client wise/member wise position limit

- Exchange specifies member and client wise open positions for all commodities. Branches must ensure that no client breaches the limit
- There is penalty for any breach in open positions.
- Please refer www.Mcxindia.com or www.ncdex.com. For the details

1.13 Password reset/Mapping request/Trade modification request/GTC, GTD request.

- For password reset request client must send a mail to RMS.
- RMS department will send the password to the clients email id and a SMS will be sent to the clients cell phone
- The minimum ledger balance must be 1000/- to get NEST password.
- For Mapping- Branches must send the mapping request to RMS. Normally, Branches will face this problem when computer systems are changed.
- For Trade modification - Branches must send the request to the VPs or ED for approval marking a copy to RMS.
- The trade modification approving authority must send the approval mail to RMS .
- For Agri commodities trade modification, cut off time is till 5 pm. For metal/bullions/energy positions cutoff time is 11.30pm.
- All the trade modifications are subject to audit. For all trade modification, LBC of the clients are required. These LBCs must reach RMS department within 7 days of the transaction.
- For GTC/GTD request, send the approval mail of regional heads to RMS.
- On completion of the tasks, RMS department must reply by return mail for all of the above activities.

1.14 Action during connectivity failure.

- We will provide TWSs at RMS Mumbai and RMS Kochi and they shall ensure that the TWS is switched on every day.
- Branches can place emergency order through dealing rooms in Mumbai and Kochi.

- Alternatively they can place order through RMS TWS which is used during emergency.

2. Exchange Co-ordination

- Member wise limits
- Client wise limits
- Connectivity related issues
- Customer queries
- CTCL details upload by back office

3. Do's and Dont's

- Place orders within DPR only, else those orders will be frozen by the Exchange System; such orders will block the Margin i.e. if free ledger balance is 1,00,000 and margin applicable in such order is Rs. 5,000, free margin will be reduced by 5,000.
- Order quantity should be within the specified limit else such kind of orders also will be frozen. Impact of the frozen order will same as stated above.
- In case of any Connection lost, Rates not being updated please Contact Technology Department at Mumbai on 022-40010821 / 40010822 and at Kochi on 0484-2384848. Also inform RMS for better co-ordination.
- In case of any problem in Client Positions displayed, please contact RMS immediately.
- No fresh position should be created after raising request for Payout as this will increase our Risk.
- Any delay in fund update or any difference in the ledger value, preferably Branch can get clarified from funds department. In case, the problem is not resolved, they can approach RMS for availing limit faster.
- Mail need to be sent only after cheque / demand draft is deposited.
- Each CTCL Id should be logged into dedicated system only. In case of deviation, all the mapped client codes will get disturbed.

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