Introduction

A Risk Management System is integral to an efficient Risk system. Munoth Financial Services Limited (MFSL) has put in place a comprehensive risk management system, which is constantly upgraded as per the Exchange, SEBI & PMLA norm and as per Market Movement. MFSL intends to make clients aware of the inherent Risks involved in dealing in Equities and other instruments. Through this Risk document, the approach has been to further simplify the understanding of various Risks involved in Equity Dealings and the important Policies formulated which the client need to understand and be clear about while dealing to minimize the risk of loss. In view of the above, MFSL has implemented the following system of risk management.

Risk Management of Clients

MFSL prior to establishing a relationship with a client should assess the risks of doing business with that client and regularly monitor these risks throughout the term of the relationship with the client. In general, MFSL's consideration should focus on the following areas:

(a) the nature of the client (e.g., institutional or retail) and its corresponding level of experience in securities markets,
(b) the creditworthiness of the client,
(c) the authority (including apparent authority) of the client to conduct its proposed trading activities, including the client's legal authority and the capacity of the individuals responsible for the trading.
(d) Review of client's financial condition, and related decisions with respect to clients is conducted periodically.
(e) Client margin requirements and, where appropriate, position limits are established at levels that are adequate, in the judgment of MFSL, to protect MFSL against reasonably foreseeable risks arising from the client's trading activities.
(f) Client's significant market exposures are reviewed on a daily basis and, where necessary MFSL calls for additional collateral, modify margin requirements or position limits, or reduce the size of existing positions or take other appropriate actions.

INTERNAL CONTROLS:

MFSL should establish policies and procedure to promptly collect the client margin and the procedures include segregation or other separation of client stock from proprietary stock and maintenance of records identifying customer stock.

MFSL should conduct regularly internal reviews of their client and proprietary accounts, including record-keeping and other account maintenance matters, to monitor MFSL compliance with applicable laws and regulations. Such reviews should be conducted by personnel who are Internal Auditors.

Adequate separations should be imposed between

(a) back office personnel responsible for trade reconciliation, margin, position limits, preparation and maintenance of books and records and other similar matters as well as compliance personnel, risk management personnel , and

(b) personnel responsible for customer relationships or proprietary trading. The authority of appropriate personnel in these areas is clearly established.

RISKS INVOVLED IN TRADING ON THE STOCK EXCHANGE

1. Liquidity Risk (Risk of Lower Liquidity) : Liquidity refers to the ability of market participants to buy and/or sell securities / derivatives contracts expeditiously at a competitive price and with minimal price difference. Generally, it is assumed that more the numbers of orders available in a market, greater is the liquidity. Liquidity is important because with greater liquidity, it is easier for Clients to buy and/or sell securities / derivatives contracts swiftly and with minimal price difference, and as a result, Clients are more likely to pay or receive a competitive price for securities / derivatives contracts purchased or sold. There may be a risk of lower liquidity in some securities / derivatives contracts as compared to active securities / derivatives contracts. As a result, order may only be partially executed, or may be executed with relatively greater price difference or may not be executed at all. Buying or selling securities / derivatives contracts as part of a day trading strategy may also result into losses, because in such a situation, securities / derivatives contracts may have to be sold / purchased at low / high prices, compared to the expected price levels, so as not to have any open position or obligation to deliver or receive a security / derivatives contract.

2. System Risk High volume trading will frequently occur at the market opening and before market close. Such high volumes may also occur at any point in the day. These may cause delays in order execution or confirmation.

2.1 During periods of volatility, on account of market participants continuously modifying their order quantity or prices or placing fresh orders, there may be delays in order execution and its confirmations.
2.2 Under certain market conditions, it may be difficult or impossible to liquidate a position in the market at a reasonable price or at all, when there are no outstanding orders either on the buy side or the sell side, or if trading is halted in a security / derivatives contract due to any action on account of unusual trading activity or security / derivatives contract hitting circuit filters or for any other reason.

3. Risk of Higher Volatility Volatility refers to the dynamic changes in price that a security/derivatives contract undergoes when trading activity continues on the Stock Exchanges. Generally, higher the volatility of a security/derivatives contract, greater is its price swings. There may be normally greater volatility in thinly traded securities / derivatives contracts than in active securities /derivatives contracts. As a result of volatility, order may only be partially executed or not executed at all, or the price at which your order got executed may be substantially different from the last traded price or change substantially thereafter, resulting in notional or real losses.

4. Risk of Wider Spreads Spread refers to the difference in best buy price and best sell price. It represents the differential between the price of buying a security / derivatives contract and immediately selling it or vice versa. Lower liquidity and higher volatility may result in wider than normal spreads for less liquid or illiquid securities / derivatives contracts. This in turn will hamper better price formation.

5. Risk-reducing orders The placing of orders (e.g., "stop loss" orders, or "limit" orders) which are intended to limit losses to certain amounts may not be effective many a time because rapid movement in market conditions may make it impossible to execute such orders.

A. Market Order :- A Market order will be executed promptly, subject to availability of orders on opposite side, without regard to price and that, while the customer may receive a prompt execution of a "market" order, the execution may be at available prices of outstanding orders, which satisfy the order quantity, on price time priority. It may be understood that these prices may be significantly different from the last traded price or the best price in that security / derivatives contract.

B. Limit Order: - A "limit" order will be executed only at the "limit" price specified for the order or a better price. However, while the customer receives price protection, there is a possibility that the order may not be executed at all. C. Stop Loss Order: - A stop loss order is generally placed "away" from the current price of a stock / derivatives contract, and such order gets activated if and when the security / derivatives contract reaches, or trades through, the stop price. Sell stop orders are entered ordinarily below the current price, and buy stop orders are entered ordinarily above the current price. When the security / derivatives contract reaches the pre -determined price, or trades through such price, the stop loss order converts to a market/limit order and is executed at the limit or better. There is no assurance therefore that the limit order will be executable since a security / derivatives contract might penetrate the pre-determined price, in which case, the risk of such order not getting executed arises, just as with a regular limit order.

6. Risk of News Announcements News announcements that may impact the price of stock / derivatives contract may occur during trading, and when combined with lower liquidity and higher volatility, may suddenly cause an unexpected positive or negative movement in the price of the security / contract.

7. Risk of Rumours Rumors about companies / currencies at times float in the market through word of mouth, newspapers, websites or news agencies, etc. The Clients should be wary of and should desist from acting on rumors.

8. System/Network Congestion Trading on exchanges is in electronic mode, based on satellite/leased line based communications, combination of technologies and computer systems to place and route orders. Thus, there exists a possibility of communication failure or system problems or slow or delayed response from system or trading halt, or any such other problem/glitch whereby not being able to establish access to the trading system/network, which may be beyond control and may result in delay in processing or not processing buy or sell orders either in part or in full. You are cautioned to note that although these problems may be temporary in nature, but when you have outstanding open positions or unexecuted orders, these represent a risk because of your obligations to settle all executed transactions.

Margin policy followed :

Securities for imposition of margins:

The securities from the clients should be taken for the imposition of margins and the clients are given exposure based on the stocks given as margin.

Holding of Securities received towards margins

a) Securities received in the MFSL margin account and held as on the applicable margin date should be considered towards margin requirement.
b) Securities in the pool account of the trading member received as early pay in towards an obligation to deliver shares in the Capital Market Segment should not be considered towards margin requirement in other segments.
c) Any securities either received directly from respective clients depository account or received from settlement pay out of the Exchange should be considered only after ensuring that the same is received from / belongs to the respective client.

Cash Margins:

MFSL should collect an upfront margin of Rs.5,000 to Rs.10,000/- at the time of opening of an account.

The clients should be categorized in two following groups:

1) The clients who are associated with the Company for a very long period and who has good track record of payment should be given more leverage in terms of exposure.

2) Other clients: The other clients who are new to the Company should be given five times exposure of the amount available as margin or in the running account of the client.

For the above clients, even the security which are given by them should be used to set exposure limits.

Free Funds in the account of respective client should only be considered towards funds

Margin Calculation

Margin is calculated as below at Beginning of the Day (BOD) as below:

Margin = Combined ledger balances as on T date (NSE – CM, FNO, CD & BSE Cash) - Value of unclear cheques posted into client ledger - Derivative margins on outstanding positions as per exchange + DP Stock Valuation (applicable to POA clients only) + Client Collateral Stock Valuation + Collateral valuation of unsettled securities obligations (against delivery purchases) - 120% Gross Value of Securities sold pending to be received (Sold from Non POA DP or outside DP, delivery credit of such shares pending)

Note • Non POA clients will not be allowed limits against stocks lying in their MFSL DP account or against stocks sold from their DP account until the pay-in of such shares are effected to the exchange • Margins on Overnight derivatives positions are not debited to the client ledger. Therefore, net BOD trading limits available will be deposit /margin amount available less the FO margin blocked on open positions. • All Stocks are valued as per MFSL approved list and haircuts. Risk Management Guide 9 Exposure limits during the day is calculated as below: Exposure limit at BOD - fresh buying + carry forward positions reduced (Cash or FO) + booked profit - booked loss - unrealized loss Note: Unrealized profits will not be

considered for trading limits. Basis for Limits ⎫ Exposure Limits are made available based on collateral. The limit is a multiple of collateral value and is typically different for margin and delivery positions ⎫ Exposure limits are also determined by risk of the exposure proposed to be taken, i.e., the securities bought / sold (This is governed by securities classification) ⎫ Client securities lying in client's MFSL DP beneficiary a/c or client Collateral a/c or Collateral account (as the case may be) can be sold directly selecting the Delivery option. Limits will automatically be enhanced against delivery stocks sold ⎫ For short deliveries (including securities sold from outside DP not transferred into MFSL), an amount equal to 20% shall be deducted from margin available in addition to blockage of credit for sale ⎫ Notwithstanding anything that is specified elsewhere in the document, all exposure limits shall be withdrawn / reduced to zero in case of any debits are outstanding to be received beyond T7 business days. Such clients shall be on square off mode on BOD basis beyond 7 business days. Further, on days of events and where in the opinion of MFSL there could be higher volatility than normal expected in such circumstances MFSL reserves the right to withdraw all leverage at it sole discretion without assigning any reason thereof.

Other margins :

MFSL should collect margins from its respective client in any of the following forms only, after taking into account liquidity aspects.

- Funds
- Bank guarantee issued by any approved bank
- Fixed deposit receipts (FDRs) issued by any approved bank
- Liquid securities in dematerialized form, actively traded on the National Exchanges, which are specifically not declared as illiquid securities. (List of illiquid securities are declared on a regular basis by the Exchanges) with appropriate hair cut as the case may be
- Units of liquid mutual funds in dematerialized form, whose NAVs are available and which could be liquidated readily with appropriate hair cut as the case may be.
- Government securities and Treasury bills in electronic form with appropriate hair cut as the case may be.
- Any other such collaterals, as may be specified by NSCCL from time to time

POLICY ON UNPAID SECURITIES

SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 mandates that securities received for pay out if not paid fully by the clients such securities shall be transferred to `` Client unpaid securities accountCUS)`` from the pool account. The securities kept in the CUS account shall either be transferred to the Demat account of the respective client upon fulfillment of clients funds obligation or shall be disposed off in the market by MFSL within 5 days after the pay-out. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account. The FAQs issued by Exchanges however permit the Members to transfer the unpaid securities directly to Clients demat account on 5th day after the pay-out date. Provided the Member have Board approved policy for the same. Accordingly MFSL may at its discretion on case to case basis transfer the Unpaid securities to Clients Demat Account on 5th day from the pay-out day subject to the conditions as it may prescribe from time to time

Other factors :

Unencumbered funds received only from the respective clients on an upfront basis should be included. Any Debit balances in the F&O client ledger should be first set off by apportioning the free balances / value of securities and the only balance amount if any is considered towards margins collected from clients.

Any free balance of the same clients in other segments after considering the debit balances and margins (if any) applicable in the respective segments should be considered towards margins for the F&O segment.

Margins taken in the form of securities in the approved list should be valued as per the closing rate on the previous trading day with an appropriate hair-cut.

It should be ensured that the adequate margin amount from respective client is available with MFSL, on the day the relevant trades are done and the details of such margins collected on upfront basis should be reported to the clearing Corporation

The following list of collaterals that should not to be considered towards margin collection:-

1) Immovable properties
2) Securities declared as illiquid by the National Exchanges
3) Post dated cheques
4) Cheques not cleared / bounced back / returned unpaid
5) Value of BG created by the member against funds / FDR's / any other collaterals received from clients / constituents

The company should also have a system marked by real-time monitoring of client exposures by personnel. Although MFSL has a policy for automated square-offs of client exposures in case of margin shortfalls, exceptions should be made on the basis of client relationship and client's credit history.

Collection policy

Funds may be due from clients towards stock purchases, trading losses, M to M on open positions, option purchases, margins against outstanding positions, past dues, charges etc. from time to time All amounts billed against securities traded on the exchange are overdue if funds are not received in MFSL's client bank account before the settlement time / date as per the settlement calendar published by the stock exchanges. The settlement date is currently T+1 for F&O and T+2 for the cash segment Failure of clients to remit money on time as above towards exchange Funds settlement may trigger square up action as per the square off policy. All amounts billed towards charges including DP charges etc. are due when billed. All Adhoc margins charged by the exchange has to be collected from the client

Documents related to financial detail of client Client is required to get updated his financial details (with documentary evidence) on annual basis. The indicative list of such documents is available in NSE circular number NSE/INSP/2010/91 dated February 03, 2010.

Note: 1) Delayed Payment charges may be charged on the outstanding debit balances and F&O margins not collateralized by cash/stock collaterals on a periodic basis in case monies/stock are not received before settlement date / margin billing date as per the settlement calendar published by the exchange

2) Funds and securities payouts are processed by the operations team after the billing is done for T day. Any payouts during the day shall be subject to approval (To check availability of free funds / securities for payout and make necessary adjustments)

3) The baseline approved list shall be reviewed at least once a month with adhoc additions and deletions from time to time

4) Exposure Limits shall not be provided against DP stocks for clients who have availed online transfer facility through CDSL or who have not provided the Power of Attorney to the broker

5) All penalties charged by the exchange owing to margin shortfalls shall be billed to the client along with charges/taxes as maybe levied by MFSL.

6) Business day means Trading Days.

Disclaimer; The above guidelines are to be considered as broadly indicative and subject to changes at its sole discretion without any notifications and assigning reasons in line with the changes in market environment as may be perceived by MFSL. No claims on basis of the above guidelines by any party will be entertained and MFSL is fully entitled to make variations in allowing limits towards credit and exposures and square off / liquidate the collaterals in case of any default by the parties.