

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.

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 which means

(+) Credit balance in client ledger

(-) debit balance in client (family) ledgers should be first set off

(+) Value of margin deposits in client account

(+) margin amount if debited in client ledger

(+) Funds received from client or settlement payout of Exchange only after ensuring that the same is received from/belongs to respective client

(+) cheque received from client for clearing/collection and entry is made in respective client ledger account till margin date

(-) cheque is returned unpaid

(+) Excess balance/Value of securities in CM segment (other than government securities and any other form which are not acceptable in the F&O segment) of the Exchange

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

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.