

LKP's RMS User Manual:

1) Objective:

To have transparent, uniform, consistent, flexible and robust Risk Management System and to protect the interest of the customers, business associates (SBs) and LKP.

2) Scope:

RMS policy shall be implemented for all areas that expose the customers, business associates and the company to any kind of monetary risk.

3) Setting up of daily exposure limits:

RMS is controlled from Head Office (HO) and Regional Office (RO). Every BOD, limits are set through the centralized system at HO. Post this, branches / SBs / customers can contact our dedicated touch point at RO for any issue related to limits. We also have dedicated team at HO.

A) Process of Setting up of Customers' Exposure Limit:

Steps followed to set-up customers' exposure limits:

- Customer's "**Margin Available**" with LKP is calculated
- On the "**Margin Available**", depending on the scrip in which exposure is to be taken, "**Applicable Margin Percentage**" is applied.
- The resultant is the "**Exposure Available**" for that scrip.

Example: Say Customer A has deposited Rs. 1,00,000 with LKP (i.e. "**Margin Available**"). Scrip X is intended to be purchased, which has 20% as "**Applicable Margin Percentage**". Purchase of Rs. 5,00,000 (being $1,00,000 / 20 * 100$, i.e. "**Exposure Available**") can be done in scrip X by Customer A.

These processes are explained in detail below:

a) "**Margin Available**":

Various factors are considered for determining "**Margin Available**". Most important factors are listed below:

a)		Ledger Balance Note: <ul style="list-style-type: none"> Purchase / Sale transactions are considered upto last working day, on "T" day basis and not "T+2" day basis. All MTM are considered upto last working day. Credit / debits for realized profits / losses may be given on real-time basis (subject to earmarking in the system).
b)	Less:	F&O margin utilized
c)	Add:	Customer's stock / collateral in Beneficiary / Margin Account lying with LKP
d)	Add:	Debit Stock i.e. Stock Purchased but not yet received from Exchange. Note: Purchase value upto last working day is debited in Ledger on "T" day basis and not "T+2" day basis.

e)	Add:	POA Stock with LKP
e)	Less:	Outstanding Sales i.e. Sale Value of unsettled stock: This means stock is sold and not lying with LKP in (c) to (e) above and not yet received from customer as well. It may be lying with Non-POA Demat Account with LKP or Third Party Demat Account etc. Thus Sale Value credited on "T" day basis is reduced. Note: In case of Sale: <ul style="list-style-type: none"> • If Stock is sold from the collateral value included in (c) and (e) above, such amount shall be reduced from the value appearing in (c) and (e) post sale trade. Hence Sale Value credited in the Ledger Account on "T" day basis is allowed. • Inter-Settlement Stock (i.e. stock bought yesterday and sold today) shall not be released by Operation Dept. Thus credit for such Sale Value given in the Ledger Account on "T" day basis is allowed.
f)	Less:	Any shortages, charges etc to be levied
g)	Add / Less:	Cheques / stock received / paid by LKP

Note: All stock value shall be considered post Haircut only.

Margin Available is used to take position in both Cash and F&O Segment.

b) "Applicable Margin Percentage":

A very systematic and standardized process is defined to identify what Margin Percentage should be applied for each and every scrip. Following criteria are applied before final Applicable Margin Percentage is determined for each and every scrip:

- i) Exchange's VAR
- ii) Market Capitalization
- iii) Whether scrip is constituent of any Index
- iv) Whether scrip is in F&O or not
- v) Whether it is included in illiquid group defined by Exchanges
- vi) Fluctuation of price in last 12 months
- vii) Daily volume of the scrip in past 12 months
- viii) Scrip hitting lower or upper circuit in specified period
- ix) New listing
- x) Exception list
- xi) Various other criteria and combinations of the above

In respect of F&O, "Applicable Margin Percentage" is margin (i.e. SPAN + Exposure / Premium etc) levied by the Exchange.

c) "Exposure Available":

Position can be taken in any scrip on the basis of "Margin Available" divided by "Applicable Margin Percentage".

Thus, whenever any order is put in the system, the Margin Available is blocked on the basis of "Applicable Margin Percentage" of that scrip for which order is put.

Example for the above:

Group	Scrip	Applicable Margin Percentage	Exposure Available
A	RL	12.5%	$100 \div 12.5 = 8$ times
B	UV	30%	$100 \div 30 = 3.33$ times
T	BB	100%	$100 \div 100 = 1$ times
Z	ST	100%	$100 \div 100 = 1$ times

Please note: In case of Panic situation, "Exposure Available" shall be reduced. Panic situation is defined as market falling by more than 3% in any given day or more than 6% over consecutive days.

B) Margin Required:

On the basis of the positions taken, every customer shall be required to maintain at all point in time, the minimum amount of margin determined as under (i.e. **Margin Required**):

Position / Exposure Taken * Applicable Margin Percentage.

Margin Required shall be maintained till the time position is settled or squared off.

C) MTM:

Every customer is required to pay MTM, preferably the same day or latest by 10 am the next day.

Please note: In case there is shortfall in Margin Required after factoring MTM, immediate topping needs to be done to avoid any sell off / liquidation / RMS selling.

D) Illiquid scrip:

Scrip falling under T Group, S, ST and Z Group are not allowed to be traded in the system. These orders can be placed through RO.

E) Restriction of Exposure:

As an additional safeguard, maximum ceiling of Exposure is also maintained per scrip, per terminal, per customer, per order or as required by the exchange.

4) Settlement of Debit of each Segment (BSE / NSE) – Compliance issue – As per the Regulation:

Any customer taking position in Cash Segment has to pay / settle before T+2 (date of settlement). For any reasons, if debit is not paid / settled within 5 days post the date of settlement (i.e. T+7), positions taken in that segment (i.e. BSE and / or NSE) are required to be squared off to clear the debit of that segment. For any reason, if debit is not paid off / settled by T+7, no further exposure is allowed. Only once debit is cleared / settled, exposure will be allowed to be taken. Please note that stock value is not allowed to be considered against such debit.

This square off on T+7 day is done by the system itself. To assist our branches / SBs, information regarding square off to be done is available on LKP's Portal on daily basis.

If cheque is deposited on or before T+7 (say, on the fag-end) but for any reason it does not reflect in the system, customers / branches / SBs are required to inform the RO about the same before the cut off time on T+7 to avoid such square off.

For square off, priority is given to selling the stock bought within the window of T+7 days (on FIFO basis). Thereafter, stocks in Margin Account are considered and post that, stock in POA Account. For POA, stock with lower price is considered on priority basis.

For the above, no square off is triggered upto a certain threshold (say Rs. 1,000 per exchange).

5) Higher leverage for intraday trades and auto Square off:

In order to allow higher leverage for intraday trades, we have made a special window in the system. Such trades may get squared off at specified cut off time (around 3.15 pm). Hence dealer / customer needs to select appropriate Order Type to get benefit of the system and also to avoid auto square off for trades intended for carry forward.

Please note:

- 1) In the case of Panic situation, the above norms would be changed without any prior intimation.
- 2) The above policy is subject to changes from time to time. Policy for the time being in force shall apply.
- 3) In case of any disagreement and / or ambiguity, Management reserves the right to make the decision, which shall be final and binding.
- 4) For any further information on Risk Management, please contact your nearest branch / SBs and RO.