RISK MANAGEMENT POLICY

(Internal Procedures and Conduct)

Introduction:

In order to improve the risk management at the members- brokers level, it is advisable to have "Risk Management Policy" which will safeguard the financial interest of the broker member. Collecting margin from the client is the way to mitigate risk of loss on account of non-receipt of dues from clients.

Margins are important element of Risk Management system. The same shall be well documented and be made accessible to the clients and the Stock Exchanges. However, the quantum of these margins and the form and mode of collection are left to the discretion of the members.

The margin shall be in the form of Cash or Approved Securities (valued after prescribed haircut).

Securities that are approved by the Exchange towards additional capital / base minimum capital / margin, etc. would be treated as approved securities for maintenance of up-fronts margins / deposits from the clients.

The margin so collected shall be kept separately in the designated client's bank account and may be utilized for making payment to the Exchange for margin and settlement obligation with the written consent of the client.

When client gives or deposits securities to the broker as a margin, it is to mitigate the risk of settlement default by the clients and is in the form of collateral which can be utilised by broker only in the event of default by the client.

The beneficial ownership of securities therefore continue to be with the clients and the broker only hold a lien thereon and in case the client were to default on his commitments, then only can the broker after giving a notice of demand / sale of 2-3 days or any no of days as decided by the management to utilize the securities to cover the dues.

Purpose of Risk Management Policy:

The basic motive of Risk Management Policy is to minimize the losses / prevent the occurrence of loss due to the "Credit Risk" to which company is exposed to while dealing with the clients on day to day operations. The Company is committed in adopting appropriate mechanisms.

PCS COMMODITIES PVT LTD . (herein after referred to as "the Company") hereby notifies that this Risk Management Policy is to be followed by all directors, officers & designated employees.

Part A

Definitions:

'Risk Management' is the identification, management, measurement and oversight of various business risks and is part of a firm's internal control structure. These risks typically arise in such areas as proprietary trading, credit, liquidity and new products. The elements of a comprehensive risk management system are highly dependent on the nature of the broker-dealer's business and its structure. Due references can be made to factors such as senior management's involvement and oversight of the process, the internal audit function and other elements of an internal control system.

'Company' means **PCS COMMODITIES PVT LTD .**

'Compliance Officer' means the person appointed under Regulation 18A of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992;

'Director' means a member of the Board of Directors of the Company.

"Securities" includes:

1. shares, scrips, bonds, debentures, debenture stock or other marketable securities of a like nature,
2. such other instruments as may declared to be such by the Compliance Officer from time to time;

Base Capital shall consist of Actual Margin received from the client, Ledger Balance lying in Client Ledger Account (credit) and other related balances of clients (if any).

- Exposure will be given as per the span Margin .

Part B

Due Diligence of prospective clients

- Due Diligence of prospective client shall be carried out before registering him/her/it as a Client in terms of their Financial Background, Investment Experience, Income Range/Level, Net worth of corporate, etc
- Supporting documents provided by prospective client should be verified with originals. Also, PAN card details should be cross verified with Income Tax site.
- Account for prospective client who has ever been convicted of offence involving moral turpitude or any criminal offence or has any criminal background should not be opened.
- The prospective client should be either introduced by someone like, director / Designated employee of trading member, sub-broker, etc. or interview should be carried out of prospective client by the designated employee of the company.
- All the documents, information required by FMC / Exchanges should be obtained and maintained.

Categorization of clients:

Client shall be divided into following categories after considering the factors like Income Range, Investment Experience, Trading Preferences, etc.:

I) Retail Clients

Presently retail clientele is only through reliable references hence exposure will be decided by the management / compliance officer / authorize person of Commodity Desk at the time of placing order if trade value exceeds 100 lacs.

II) Group Companies/ Firm / Family Clients

As there is no risk of default, there will not be any limitation on exposure limit for Group Company / Family clients of Shri. P C Shrimal (Chairman PCS COMMODITIES PVT LTD .)

Additional Capital / Margin:

- Additional Capital / Margin shall includes the following:
    - Actual Margin Received from the client ,Normal Ledger Balance of the client (MCX,NCDEX)

- Collaterals received from the client (after deducting appropriate hair cut based on VAR Margin Rate or any other rate decided by the management from time to time)
- Additional Capital shall be calculated on End-Of-Day (EOD) basis.

- Normal COMMODITY Segment Ledger Balance means T-1 day Ledger balance on EOD basis. Example: For calculating Exposure for Tuesday, Closing Balance of Monday shall be taken.
- Posting of Bill for the trade shall be done on T+1 day basis. Example: Bill for Trade done on Monday should be posted on Tuesday.

Note: while calculating ledger balance net balance should be considered. Example: Client is having Credit balance in MCX segment Rs. 1,00,000/- & Debit balance of Rs. 60,000/- in NCDEX segment, then for additional margin purpose only Rs. 40,000/- should be considered.

Collaterals:

- Margin can be accepted in the form of Collaterals i.e. approved securities, Bank Fixed Deposit, Bank Guarantees, etc.
- Collaterals for the purpose of margin are securities specifically given by the client for the purpose of Margin.
- Collaterals should be valued at Market Rate i.e. closing price of T-1 day. However, management reserves the right to value the securities on CMP in exceptional cases.
- The haircut for each scrip shall be applied on the basis of VAR Margin Rate declared by the exchange from time to time or 25% of the value which ever is higher.
- **Example**:

Scrip – Wipro Ltd.	10000 Shares
Closing Market Rate on T-1 day	Rs. 515/-
Total Value of Shares	Rs. 51,50,000/-
Haircut – VAR Margin Rate 7.50% or **min (25%) whichever is higher.**	Rs. 12,87,500/-
Collaterals (after Hair cut)	Rs. 38,62,500/-

Funds Received for Margin:

- In case of Funds Received for the purpose of Margin, amount received shall be considered as Base Capital/ Margin received from the client, provided Cheque or Demand Draft received from the client is deposited into designated Client Bank Account.
- Additional Capital / Margin shall be considered for Funds received for Margin irrespective of clearance of those cheque or demand draft.
- In case funds received during the trading time, manual intervention shall be made for changing Base Capital / Margins in system.

Monitoring & Reviewing of Limits

- Exposure limit will be monitored by authorize person of COMMODITY Back office.
- Exposure limits needs to be reviewed at least once in a month or other shorter period.
- Exposure limits may be freezed in case of doubtful accounts where amount receivable from the clients is due for more than 30 days and there are no movements in the account.
- Granting further exposure not allowed to the clients when debit balances arise out of client's failure to pay the required amount also such debit balance has not continued beyond the fifth trading day, as reckoned from the date of pay-in. This is effective from August 01, 2017.

Reporting Requirements

- Exception transactions done with or without the approval of authorized person also shall be reported to Compliance Officer on daily basis.

- Follow the practice of reporting all pay in defaults to the top management & decide whether to deal with the said clients in future & also appraise the category of client.

Allocation of Notional Limits based on categorisation of clients: (other than Group Company / Family clients.)

1. Span Margin software specifies commodity-wise margin requirement (Commodities).

2. Before taking position in Futures (buy & sell) & option (sell) refer to that span margin requirement & inform client to deposit said amount in the client bank account.

   Example. Mr. A wants to buy 1 (one) lot of gold at MCX(1kg gold) price Say Rs. 16000/- PER 10 GMS & Initial margin requirement is 6%.Thus initial margin requirement comes to Rs.96,000. Thus exposure can be given to Mr. A, whose limit is of Rs. 100,000.

3. Said margin requirement can be adjusted against margin given by client if any.
4. Margin can be accepted in the form of cash and/or fixed deposits and /or bank guarantee and /or approved securities.
5. Ensure that MTOM profit/loss has been paid or received on daily basis.
6. Initial margin amount changes on daily basis & therefore collect the difference from client on daily basis or whenever require.
7. In case of non-receipt of Initial Margin/ short receipt of Initial Margin or non-receipt of MTOM loss, square off the position after consulting Managing Director / Compliance officer / Authorised person & recover the dues from client.
8. Follow the practice of reporting all pay in defaults to the Managing Director / Compliance officer & decide whether to deal with the said clients in future & also appraise the category of client.

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