

ASE CAPITAL MARKET LTD.-

Risk management policy for trading operations

(ref: BM dated 22.12.2009)

ASE Capital Markets Ltd. (ACML) is a subsidiary stock broking company of Ahmedabad Stock Exchange Limited. (ASEL). It was formed to provide trading platform to members of ASE as per SEBI guidelines.

ACML is currently offering trading on BSE cash, NSE cash and NSE FO and proposes to offer trading in Currency Derivatives segment.

ACML is offering sub-brokership to / appoint authorized persons, only members of ASE and deals directly with clients through its SEBI registered sub brokers and Exchange approved authorized persons only.

The following Risk Management Policy is approved by the Board of Directors of ACML in their meeting held on 22.12.2009 and is applicable to all constituents who deal with ACML, in order to minimize the risks and maximize the compliance level.

- As per SEBI requirements, Trading Member should have prudent Risk Management Policy in place. It should be well documented and made available to the clients
- For cash segment, member would have discretion of how they should collect upfront margins from clients but for F & O including currency derivatives segment members have to collect initial margin upfront from the clients.
- ACML sub-brokers/authorized persons would require paying margin at par as collected by Exchanges..
- ACML would allow sub-brokers/authorized persons and clients introduced by them to trade/settle in Dematerialized form only and in the form of currency as per norms of RBI/SEBI/Exchanges.
- ACML is using ODIN and NOW front office software for Trade/RMS for both ACML as well as their sub-brokers/authorized persons.
- ACML would give margin limits at sub-broker Level for NSE Cash & BSE Cash however, for NSE-FO including currency derivatives at Branch level as well as Client Level. Further sub-brokers/authorized persons can also give client level margin limit through their MINI-Admin facility provided by ACML.
- All margin limits updations would be system based and process driven. Any changes made by the ACML during market hours in NSE NOW/ODIN ADMIN shall be properly authorized and audit trail of such changes should be maintained.
- To minimize the loss on account of the system failure, ACML as per SEBI circular ref. No SMD/SED/RCG/270/96 dated January 19th, 1996, shall ensure that it is properly insured to cover losses on account of trading as well as back office losses and the minimum sum insured would be as per the NSE / BSE criteria.

Norms for ACML BSE Cash segment

- 1) Sub-broker deposit towards margins
 - Minimum 1 lac in cash
 - Out of total collateral , minimum 25% should be in cash (including minimum deposit of 1 lac)
- 2) BSE collects VAR margin, Extreme Loss Margin on real time basis, the same would be collected from sub brokers' deposit on real time basis.
- 3) BSE collects Mark to Market loss and special margin if any at the end of the day. The same would be collected from deposit of sub-broker on T day in calculation of T+(T-1).

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- 4) After pay-in is over, BSE releases margins of ACML of T-2 and the same would be released to the Sub brokers.
- 5) For early pay-in of securities, exemption of Margin would be as per BSE norms.
- 6) Total value of shortages of securities would be debited to the sub-brokers designated account before release of fund pay-out of the settlement.
- 7) Trading quantity restrictions for settlement, at sub-broker level(total of all clients of any sub-broker) would be
 - Group A – No limits
 - Group B- No limits
 - Group S 50000
 - Group T and TS 50000
 - Group Z-only sale in demat form and no purchases upto 15000 shares or Rs 1 lac amount which ever reach first.
- 8) In case of early pay-in of funds by the sub-broker/client for the security purchase, margin(VAR,ELM,MtoM) requirement would be exempted for such security.

Norms for ACML NSE Cash segment

- 1) sub-broker deposit towards margins
 - Minimum 1 lac in NSE cash and if sub-broker have Rs. 1 lac deposit in BSE then Rs. 25000/- would be the minimum base capital is required for NSE cash.
 - Out of total collateral , minimum 25% should be in cash (including minimum deposit of 1 lac)
- 2) NSE collects VAR margin, Extreme Loss Margin on real time basis, the same would be collected from sub brokers' deposit on real time basis.
- 3) NSE collects Mark to Market loss and special margin if any at the end of the day. The same would be collected from deposit of sub-broker on T day in calculation of T+(T-1).
- 4) After pay-in is over, NSE releases margins of ACML of T-2 and the same would be released to the Sub brokers.
- 5) For early pay-in of securities, exemption of Margin would be as per NSE norms.
- 6) For early pay-in of fund in NSE, NSE exempt margin, this would be made available to sub-broker/clients. This facility at present is only available at NSE
- 7) Total value of shortages of securities would be debited to the sub-brokers designated account before release of fund pay-out of the settlement.
- 8) Trading quantity restrictions for settlement, at sub-broker level(total of all clients of any sub-broker) would be
 - i. Group EQ – No limits
 - ii. Group BE- 50000

Norms for NSE Future and Options segment

- 1) Authorized Person's deposit towards margins
 - Interest free minimum 1 lac in cash to be maintained on continuous basis.
 - Eligible securities in form of collateral would be accepted from client after considering Hair Cut as per NSE rules. Valuation of collateral would be done on daily basis to arrive margin deposit of authorized person for the same purpose ACML have custodian account with the exchange approved custodian (HDFC Bank Ltd).
 - Every client should maintain 25% cash component of total collateral.

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- 2) Initial Margin collection shall be at client level.
- 3) Clients can deposit equity shares as collateral in ACML security margin account maintained with custodian. The same would be considered after proper hair cut and would be valued on daily basis. Clients should maintain 25% cash component in Initial margin given by them
- 4) Mark to market bill would be debited next day as this is settled by NSE on T+1 Basis and release of mark to market credit as per the client request.
- 5) ACML would charge Total of SPAN Margin to be collected on real time basis as per NSE and exposure margin will be collected at the end of the day.
- 6) Limits would be allocated at client level only, which would be set by the authorized persons.
- 7) No further exposure shall be allowed in case the MTOM loss of the client reaches to 70% of the total collateral and only the square-off trades would be allowed.

PROPOSED Norms for Currency Derivatives segment (incl. Int. rate futures)

- 1) Authorized Person's deposit towards margins
 - Interest free minimum 1 lac in cash to be maintained on continuous basis.
 - Eligible securities in form of collateral would be accepted from client after considering Hair Cut as per Exchange rules. Valuation of collateral would be done on daily basis to arrive margin deposit of authorized person for the same purpose ACML have custodian account with the exchange approved custodian (HDFC Bank Ltd).
 - Every client should maintain 25% cash component of total collateral.
- 2) Initial Margin collection shall be at client level.
- 3) Clients can deposit approved securities as collateral in ACML security margin account maintained with custodian. The same would be consider after proper hair cut and would be valued on daily basis. Clients should maintain 25% cash component in Initial margin given by them
- 4) Mark to market bill would be debited next day as this is settled by the Exchange on T+1 Basis and release of mark to market credit as per the client request.
- 5) ACML would charge Total of SPAN Margin that would be collected on real time basis as per NSE and exposure margin will be collected at the end of the day.
- 6) Limits would be allocated at client level only, which would be set by the authorized persons.
- 7) No further exposure shall be allowed in case the MTOM loss of the client reaches to 70% of the total collateral and only the square-off trades would be allowed.

RMS related Compliance to SEBI and exchanges

Client Margin Reporting

ACML shall report by uploading files to Exchange extranet server, on a daily basis, details in respect of the margin amount due and collected from the constituents trading through it, with respect to the trades executed/ open positions of the constituents.

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Debarred Entities

SEBI is passing various orders through which SEBI debars certain entities from dealing in securities for the period as stipulated in respective orders.

ACML will inform its sub brokers and their clients to adhere to SEBI directives/orders through its daily bulletin and exercise caution before dealing with such debarred entities and the concerned debarred entities shall be refrained from dealing in the market as per SEBI orders.

Debarred entities would not be allowed to open or operate their demat and trading accounts.

ACML shall keep data base of such PAN Nos. of the debarred entities in its back office systems. Sub-broker would be advised to check this database before entering any new client details.

Anti Money laundering policy under the Prevention of Money Laundering Act 2002

ACML, its business partners and clients shall comply with applicable provisions under the Prevention of Money Laundering Act 2002 and the Anti Money Laundering policy framed and amended from to time, by ACML shall be applicable to all its business partners and clients. There should be coordinated efforts to completely eliminate any possible money laundering and terrorism funding activities.

Business Rules

Besides above, ACML shall prepare detailed rules for each segment of its stock broking operations which would be applicable and made available to all concerned to smoothen its trading activities and minimize the operational risks.

NOTE:

- This Risk Management System Document shall be made available to all concerned i.e. sub brokers, authorized persons and clients of the company, employees, BSE, NSE, SEBI etc. and is subject to amendments either by way of addition, modification or deletion of all or any of the aforesaid clauses, as per the instruction of Regulating authorities and management of the company.
- The above stipulations in ACML RMS policy are not exhaustive and wherever relevant, the RMS norms stipulated by the Exchanges / SEBI/ RBI / Govt. / Depositories and ACML Business rules shall be applicable to the relevant segments.
- Whenever new segments/products are introduced, ACML shall stipulate the applicable RMS policy and business rules.

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