

ARCH FINANCE LIMITED

(Risk Policy for Online/Offline Trading Platform)

Success of Equity/Share Broking Business

The Equity/Share Broking is very sensitive and high profile business. Now a days share broking business requires Quality Man-power, highly decorated/stylish office, strong infrastructure and highly professional marketing team. This business is very sensitive since it involves public money and hence quality man-power with strong infrastructure is required. Mainly in broking business we have witnessed the same old fashioned type organization. It lacks good man-power and infrastructure and hence the growth is stagnant. But, if an organization wants to grow bigger then it has to bear the pain of hiring quality man-power, focus on Information Technology, which is the back-bone of the business and very strong marketing, back-office and Risk Management Team. If an organization pumps in money to improve its IT, Infrastructure and Man-power, it will certainly grow much better and earn much better revenue than what it is earning now.

Broking company must focus on few factors which are essential for running the business and day to day operation, which are: -

1. Good IT team and latest use of technology.
2. Very strong and powerful Risk Management System & Team.
3. Very Dynamic and professional Marketing Team.
4. Dynamic and professional Management.
5. Decentralizations of Authority and fixation of accountability and responsibility on the respective team leader.
6. Quality Research Team.
7. Lest interference by the Management/Board in day to day operation.
8. Strong MIS Reporting on daily basis.
9. Proper training and fixation of natural/realistic targets by the Board/Management.
10. Team work and proper policy implementation.
11. Consensus building among team before implementing any Policy/decision.
12. Proper and timely open meeting/interaction of team members with management and review of task and policy (ies).
13. Excellent work culture and work ethics.

An organization cannot grow unless it has all the above mentioned factors and moreover, for growing bigger and better it always requires Strong RMS, IT and Marketing Team.

That's why we are presenting our Risk Policy:-

ARCH FINANCE LIMITED

1. DEFINITIONS

- 1.1. **Finance:** The clear balance available in the customer's ledger account in our books. For the purpose, it is not enough to have received a cheque or intimation of an online credit to our Bank account. The amount should not only be reflected in our Bank account, but we should be able to connect this credit to the specific customer.
- 1.2. **Margin:** The underlying stake provided by the customer in the form of Fund and/or stock to mitigate market (price) or settlement (auction) risk
- 1.3. **Exposure:** The aggregate of the customer's
 - 1.3.1. Obligations arising out of buy + sell trades awaiting settlement in the cash segment and
 - 1.3.2. The span + exposure + mark-to-market margins underlying the customer's open positions in the F&O segment and profit/ loss amounts that are yet to be settled on the closed positions.
- 1.4. **Exposure multiple:** The number of times that exposure is allowed on the underlying margin
- 1.5. **POA accounts:** Demat accounts with us where the customers have also executed a Power of Attorney (POA) in our favour to facilitate shifting of securities to our Pool, Margin or Collateral accounts.
- 1.6. **Non-POA accounts:** Demat accounts opened with us without any Power of Attorney (POA) in our favour. Such accounts would suffer from the following disabilities:
 - 1.6.1. Non-POA accounts would not qualify as margin for exposure against stocks.
 - 1.6.2. Therefore, sales on the cash segment would have to be made either on the availability of cash margin or on the availability of the stocks (which are to be sold) in our pool account, by executing a transfer before the sale order is initiated.
- 1.7. **Stock Qualifying for Margin in CASH SEGMENT Transactions:**
 - 1.7.1. Securities in the approved list of NSE as per SEBI guidelines.
 - 1.7.2. Other than "A" category stocks can be considered as a margin on a case to case approval basis (approval to be granted by Operation Head) provided they meet the following criteria:
 - 1.7.2.1. They are traded under the "EQ" segment of NSE or/and "B" group of BSE and basket of 3-4 scrip client should be provided.
 - 1.7.2.2. Such scrip's will attract a minimum hair cut of 40%
 - 1.7.2.3. Maximum value of margin (after hair cut) that can be considered against such scrips for a single client will be Rs 5 Lac other limits will be provided by MD's approval.

ARCH FINANCE LIMITED

1.7.2.4. If scrip does not meet any one or more of the above criteria a specific approval of the MD will be required. Operation Head to put up such proposals to MD for approval. Telephonic approvals must have a follow up confirmatory mail from the Operation head to the RMS (Risk Management System).

1.7.3. These securities should be available in the customer's POA Demat accounts

1.7.4. If the customer holds a Non-POA Demat account, specific instructions on Depository Instruction Slip (DIS) would need to be obtained to transfer eligible stocks from his Demat account to our Margin account for availing exposure and such DIS should be provide before placing the order.

1.8. **Stock Qualifying for Margin in F&O SEGMENT transactions:**

1.8.1. Securities in the approved list of NSE as per SEBI guidelines.

1.8.2. These securities should be available in the customer's POA Demat accounts

1.8.3. If the customer holds a Non-POA Demat account, specific instructions on DIS would need to be obtained to transfer eligible stocks from his Demat account to our Margin account for availing exposure. Such instructions would be needed each time a margin request is made.

1.9. **Square-off:** The termination of client exposures on the market. Whenever the margin value falls below a certain percentage of the exposure on account of market volatility or due to MTM losses (the comfort level of the margin is the sole discretion of the Broker), the Risk department would square-off the transactions (positions) in the exposure so that the exposure is either fully terminated, or partially terminated in a manner that the margin value rises to acceptable levels. Positions can be terminated on the date of transaction itself or at any time till customer fully settles.

2. **NATURE OF CUSTOMER TRANSACTIONS**

2.1. **Intraday** - Cash segment: The amounts of purchase (or sale) in a scrip on any trading day that is reversed by the end of the day by making a contra sale (or purchase) of the exact same quantity, thereby nullifying the original position.

2.2. **Delivery trades:** The net purchase or sale of a scrip in a client account that is settled by way of a delivery .

Delivery in respect of sale transactions in the cash segment has to be settled by the client by tendering securities in Demat form before the pay-in deadline. Else the client faces the risk of auction.

A purchase transaction in the cash segment would fall into one or more of the following categories:

2.2.1. **Prompt Payment at Pay-in (PPP):** Where a client makes the full cash available in our bank account to meet his entire obligation against the purchase transaction before the pay in date.

ARCH FINANCE LIMITED

2.2.2. **Buy Today Sell Tomorrow (BTST):** A purchase order executed on the Exchange today and the (undelivered) purchased stock sold in its entirety on the next trading day. In this case the first transaction would be settled on T+2 while the sale would be settled on the third business day after the purchase transaction.

2.3. **Derivatives segment of NSE:** All clients must tender an upfront initial margin as stipulated by the RMS from time to time. It will constitute the sum of SPAN and exposure margins (MTMV) stipulated by NSE. Mark to market losses /profits are required to be settled on a T+1 basis.

3. DEFAULT EXPOSURE MULTIPLES AND THEIR MANAGEMENT

3.1. Default Exposure Multiples shall be as under:

	Non-POA accounts	POA accounts
Cash segment (Transactions in A1, A2 & B1 groups of BSE and EQ group of NSE)	x (Available margin)	x (Available margin)
Buy	4x	6x
Sell	4x	6x
Intra-day*	6x (8x on request*)	6x (10x on request*)
BTST	3x	3x

3.2. Notes:

3.2.1. *Requests for seeking 8/10 times exposure multiple can be made by any relationship manager by addressing an email from their id to Risk department and the request would be automatically acceded.

3.2.2. The 'Mark to Market' Losses to be settled or collected from F&O customers in funds only.

3.3. The client must square-up all positions that have been created on an intra-day basis before 15:00 hrs. After 15.00 hrs RMS will be squared all the intraday position by auto square off or manual basis. If the client wants to hold his intraday position he should provide scan copy of cheque before 14.00 hrs.

3.4. Requests for availing exposure against sale of a non-approved security must be made to the RMS at least 60 minutes prior to the close of market hours on any day. No exposure against such sale will be allowed in the last 40 minutes of a trading day.

ARCH FINANCE LIMITED

4. MANAGEMENT OF RISK

4.1. Futures and Options

- 4.1.1. The clients must settle the debits, if any, arising out of MTM settlements. It is advisable that clients should have banking relationship with the same bank as Member.
- 4.1.2. Square-off in respect of client will happen in case of F&O positions whenever either of the following two conditions occur:
 - 4.1.2.1. Against MTM: Such square-ups can take place any time during the trading day. When the MTM losses reach 40% of the initial margin tendered by a client, a margin call will be sent to the concerned branch for further taking up the matter with the client. RMS may square-up the position any time after the MTM losses touch 60% of the initial margin tendered by the client.
 - 4.1.2.2. Against exposure: Such square-ups will start taking place 30 minutes prior to the close of market for the trading day. Any position where the initial margin available in the client's account is less than the requirement for SPAN, i.e there is a possibility of violation being reported to the exchange, the position will be reduced to bring it within the SPAN stipulation. This is against the background that typically exposure margins are of the order of 20-30 % of the total initial margin collected by us under this policy and are therefore considered as adequate cushion against frequent square-offs on account of Initial Margin violation.
- 4.1.3. Head Operations, May from time to time, allow exceptions of various natures, on a one time or on an ongoing basis with regard to exposures in F&O segment. Such exceptions, however, may be withdrawn at a very short notice due to volatility in the market or due to increase in margins by the exchange or due to constrained availability of exposure to the company on account of market conditions or due to any other reason whatsoever. Such notice will be sent to MD and others in the hierarchy up to the level of branch managers before the exception is withdrawn. The MD may specific approval for a higher exposure.
- 4.1.4. Purchase of options will be allowed only against cash available in a client account. No purchase of option to be allowed against any unrealized cheque.

4.2. Cash Segment

- 4.2.1. **Intra-Day:** These transactions are allowed at higher exposure multiples than the normal Buy/Sell transactions on the cash segment as they have to be terminated by day end. If not terminated, then transaction has to be brought within the delivery based exposure multiple by either terminating part of the transaction or through availability of higher margin 30 minutes before the close of trading day (i.e. by 3 pm, if trading hours conclude by 3.30 pm).

ARCH FINANCE LIMITED

- 4.2.2. In the cash segment, only the underlying transaction would be terminated in whole or in part (and not the stocks held as margin). In F&O, the open positions would be terminated.
- 4.2.3. All positions squared up by the RMS must be intimated to the client at the earliest but not later than the same calendar day and contract notes be dispatched as per exchange stipulations without any exception.
- 4.3. No cash is too accepted from any client under any situation for meeting a settlement obligation.

5. **EXCEPTIONS**

- 5.1. **Exposure against unrealized Cheques* (in cash segment)**: Up to Rs. 5 lac (cheque value) on the approval of Operation Head (MD may authorize for amounts higher than Rs 5 lac). While granting such approvals the competent authority shall give due consideration to following factors:

- 5.1.1. Quality of stock in which the position is proposed to be taken
- 5.1.2. The Cliental Branch should be provided Scan copy of cheque or deposit slip.
- 5.1.3. Maximum risk involved vis a vis revenue generated from the client
- 5.1.4. Track record of the client and collaterals available if any
- 5.1.5. The exposure would be allowed only on 1x basis against such unrealized cheque. Requests to originate from the email ids of the concerned authority and would need to go out to Risk department. The request has to be accompanied with a scan copy of the deposit slip and the cheque

- *Unrealized cheque means a cheque which is entered in the back office application software but remains pending in the bank reconciliation process.*

- 5.2. **Exposure against unrealized Cheques (in derivatives segment for exposure)**:

An unrealized cheque (only transfer cheques proceeds of which are realizable on the same day) for an amount up to Rs 4 lac can be considered for exposure on the approval of Operation Head provided that client already has clearly realizable resources to the tune of a similar matching amount in his F&O account with us. These resources may, however have already been used for availing an exposure in the F&O segment.

- 5.3. **Exposure against unrealized Cheques (in derivatives segment for meeting debits on account of MTM)**: Unrealized cheque (only transfer cheques proceeds of which are realized 30 minutes before the end of trading day) towards MTM losses can be considered for an amount up to 20% of the applicable initial margin. Cheques for any larger amount, for the purposes of risk, will be treated as having a value of 20% of the initial margin applicable at that time. On the

ARCH FINANCE LIMITED

approval of Operation Head such cheques can be considered and positions be put on hold by the RMS for the trading day on which the approval is granted. This implies that at any time, if the initial margin of the client gets eroded to the tune of 60% due to MTM, RMS will have unconditional right to square-up the positions and protect the interests of the organization.

- 5.4. Requests for exceptions to originate from the email ids of the concerned authority and would need to go out to Risk department.
- 5.5. Whenever any payment instrument tendered by a client gets dishonored due to insufficient funds, no exception is to be allowed to such client against unrealized cheques in future.
- 5.6. All exceptions granted by the suitable competent authorities will be subjected to a follow up review on a monthly basis so as to assess the quality of judgment exercised.

6. COMPLIANCES REGARDING ORDER PLACEMENT

- 6.1. All orders from the clients must have a trail such that it can be established that the trade took place based on an order from the client. To ensure this:
- 6.2. All orders placed by the clients on phone should be on a recorded line
- 6.3. Signed trade log confirming the orders placed by the client who visit our offices in person to place trades, must be kept at all times by the office from where the order was placed. The visit of the client should also be logged in the visitors register to be maintained by every office along with the time of visit and client's signatures.
- 6.4. Any exception to the above must meet the approval of a committee which shall be constituted for this purpose.

7. IMPORTANCE OF RISK DISCLOSURE TO CLIENTS

- 7.1. Exchanges and SEBI, require that the client member agreement and the risk disclosure document which stipulate various clauses regarding risk and market behaviors, must be read by the client and understood. It is the duty of every sales person who deals with a client to make him understand these topics for his clear understanding and also realize the full implications of dealing in the capital markets specially derivatives.

8. INTERPRETATION OF THE RISK POLICY

- 8.1. Any reference regarding interpretation of this policy will be made to the group MD who will have the final ruling on this subject.

**ARCH FINANCE LTD
81, DARYAGANJ, 1ST FLOOR
NEW DELHI-110002**