

Frontline Stock Brokers Private Limited

(Formerly known as Frontline Capital Services Limited)

Registered Off :M- 6 , 2nd& 3rd Floor , Greater Kailash – II , New Delhi - 110048

Corporate Office: B-22 , Sector -4 Noida - 201301

RISK MANAGEMENT AND SURVEILLANCE POLICY

A Risk Management System is integral to an efficient Risk system. We have put in place a comprehensive risk management system, which is constantly upgraded as per the Exchange, SEBI & PMLA norm and also as per Market Movement.

RMS Function includes:

1. To check capital adequacy for exposure and requirements of the client
2. Monitoring of Clients Order, Patterns of Trade, Order rejections, increasing of Exposure/limits.
3. Monitoring MTM profit/loss incurred out of trades.
4. Benchmarking Margin v/s Exposure of client
5. Decision taking with regard to squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may come across
6. Policy for DP operations

Risk management in relation to all the trading activities for Clients is handled by RMS & Surveillance Department. –

Our RMS and Surveillance Team- Mr. Atul Kumar Jain/Mr. Aditya Kumar Tiwari and Mrs. Shikha Gupta

Role of Risk Manager

For the better survival of organization as well as clients, the Risk Manager plays important roles and provides co- operation for better Risk Management and Surveillance so as to provide maximum transparency while dealing with the client.

In brief The Risk Manager has to perform following functions:

1. Identify Risk
2. Analyzing Risk
3. Verify the Limit Setting and Exposure Limit
4. Monitoring Client Wise Margin Limit
5. Co , Ordinate with other Department for Collection/Recovery

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Margin Requirement:

We hereby classify the risk as under:

1. Cash Segment

In cash segment minimum 30% Margin is required on upfront basis. Client is allowed to take positions on fulfilling the upfront margin requirement, Frontline Stock Brokers Private Limited may grant limit in cash segment on a case to case basis subject to availability of upfront margin. Also Dealer is in direct touch with the client and he is well versed with the client's Financial Position and hence Frontline Stock Brokers Private Limited may or may not rely upon the Dealer's decision on limit setting in Cash Segment.

2. Cash Segment- Illiquid/GSM Stocks

To deal with purchases of illiquid stocks, under Graded Surveillance Measure (GSM) warranting, required 100% margin or any suspicious transactions, large volume transactions which do not meet the normal day to day activity of the client.

- a) Every dealer before processing any such orders will take in writing the justifications of buying such shares from the client.
- b) Proper margins will be ensured before processing such transactions.
- c) In case of large volume transactions which do not match-up with the day to day activity of the client, extra margin should be insisted or complete payment in advance should be insisted.
- d) The methodology for ensuring above, from the client before pursuing such transactions, we should ask them to justify the reasons for buying. This could be asked verbally or in writing but we should ensure that the reply from client is in writing and the same should be properly filed in a file.

3. In F & O Segment

In F&O segment, Margin is required on upfront basis. Client is allowed to take positions on fulfilling the upfront margin requirement. In F&O segment, only Initial Margin is required on upfront basis & Mark to Market P/L on Daily basis.

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Further, Frontline Stock Brokers Private Limited may demand any additional margin considering market conditions, client, risk profile etc.

Limit setting:

Limit will be provided against available fund (Net balance in ledger) and securities (after haircut value of liquid stocks in Pool/Margin A/c and BO A/c, subject to BO Account with specific Power of Attorney (PoA)/DDPI in favour of Frontline Stock Brokers Private Ltd. (hereinafter referred to as “the Stock Broker”) as per following details:

1. **Share/Capital Market Trading:** Limit upto 3 times of available fund and approved securities for intraday trading and 5 times for delivery trading. The debit against delivery buying to be cleared within T+2 days.
2. **Futures Trading:** Initial (SPAN) & VAR Margin is required before placing the order and other margins like ELM, MTM, PEAK, Delivery & Special Margin is payable in T+1 days.
3. **Options Trading:** In case of buying a option, premium amount is required in before placing the order. In case of sale of options, margin is required as per SPAN Margin.

The Stock Broker may reduce or impose new limits urgently on the basis of the risk perception, risk profile of the client and other factors considered relevant by the stock broker including but not limited to limits on account of exchange/ SEBI directions/ limits (such as broker level/ market level limits in security specific / volume specific exposures etc.).

In case margin is kept in securities, the Stock Broker would value these securities after applying such haircut as deemed appropriate. Similarly for providing exposure to client, Stock Broker can pledge such securities in favour of Clearing Member/ Clearing Corporation.

The Stock Broker may be unable to inform the client of such variation, reduction or imposition in advance. The client agrees that the Stock Broker shall not be responsible for such variation, reduction or imposition or the client's inability to route any order through the Stock Broker's trading system on account of any such variation, reduction

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or imposition of limits. Sometimes client's sauda may go to IOC (Immediate or Cancel) instead of normal bidding if Stock Broker terminal is on square off mode.

The Stock Broker at its sole discretion can give extra exposure or intraday limit to the client, such extra exposure will automatically be squared off by trading mechanism without any further reference to the client approximately 15 minutes before the scheduled closing.

The Stock Broker shall have right to sell client's securities, both unpaid as well as collaterals deposited towards margins, or close out client's open positions, without giving notice to the client where there is a delay/failure of the client to meet the pay-in obligations and /or there is a failure of the client to bring additional margin to cover the increase in risk in the dynamic market conditions. a.

Unpaid Securities in Capital Market:

A) In case of unpaid obligation on T+3, the Stock Broker may sell the unpaid/partially paid securities. In addition the Stock Broker may sell the collaterals deposited by the client towards margin and/or paid securities purchased by the client in earlier settlements where the sale of proceeds of unpaid securities are inadequate to cover the pay-in obligations and where the unpaid securities appear to be comparatively illiquid and cannot be sold at reasonable rates to the extent required.

B) The Margin Shortfall in F&O:

- I. Positions of the client may be closed out to the extent of margin shortfall on the T+1 basis.
- II. While computing margin shortfall, Value of unapproved securities shall not be considered.
- III. As per the current Exchange requirements, the Stock Broker is required to maintain 50:50 ratios between cash and collaterals margin deposited with the Exchange. The Stock Broker shall therefore have the prerogative to insist for at least 50% of margin in cash and may not consider the value of securities over and above the cash component for the purpose of calculating margins shortfall and close out the F&O Position wherever it finds the deviation. However, sales made in capital market segment shall not be considered while closing F&O Positions on T+1 basis due to margin shortfall.

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C) **Intra-day Positions:** The Stock Broker shall have right to close out any intra-day Positions taken by the client after a defined "Cut-off" time (Presently 15 minutes before close of market).

D) General :

- i. While selling the securities/ closing the clients positions, the Stock Broker may take into account the sales made by the client, Positions closed by the client or collections received from the client till cut-off time (Presently 02:00PM).
- ii. While selling the Securities/ Closing the clients positions, the Stock Broker may not take into consideration cheques/ Bank Drafts/ Pay orders deposited by the client with the Stock Broker until clear proceeds of such instruments are received by the Stock Broker in its bank account.
- iii. The Stock Broker shall have the right to sell client's securities or close out client's open positions but it shall not be under any obligations to undertake this exercise compulsorily. The Stock Broker shall therefore not be under any obligation to compensate/or provide reasons of any delay or omission on its part to sell client's securities or close open positions of the client.

E) Refusal of Order:

Frontline Stock Brokers Private Limited. Shall have the absolute discretion to accept, refuse or partially accept any buy or sell order for execution from a client. in respect of penny stocks, illiquid stocks, stocks having low liquidity, illiquid ,options, far month ,options, writing of ,options, stocks in S, Z and B2, T and TS category and any other contacts which as per the perception of Frontline Stock Brokers Private Limited. are extremely volatile or subject to market manipulation.

Frontline Stock Brokers Private Limited. may permit restrictive acceptance of orders in such scrips / contacts in controlled environments.

Frontline Stock Brokers Private Limited. shall not be responsible for delay in execution of such orders and consequential opportunity loss or financial loss to client.

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Frontline Stock Brokers Private Limited. may cancel orders in such scrips received from clients before execution or after partial execution without assigning.

Policy for DP operations:

1. Obligation of Client's due diligence:

The following activities will be carried out for client's due diligence.

- a. We will carry out the Due Diligence of the client's on an on-going basis.
- b. We shall ensure that key KYC parameters of the clients are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in Depository System

2. Obligation of Compliance officer and Internal Auditor/Concurrent Auditor of the Participants:

- a. The surveillance activities shall be conducted under overall supervision of our Compliance Officer.
- b. A quarterly MIS shall be put up to the Board on the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure. Also, the Board shall be apprised of any exception noticed during the disposal of alerts.
- c. Internal auditor shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in their report.
- d. Internal Auditor shall verify that the quarterly MIS is prepared and placed before the Board of the Participant.

3. Obligation of Depository Participants to generate Surveillance Alerts:

The system shall be put in place to generate the alerts on the following themes

- (a) Alert for multiple demat accounts opened with same demographic details: Alert for accounts opened with same PAN / mobile number / email id/ bank account no. / address considering the existing demat accounts held with the Participant.

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- (b) Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced.
- (c) Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc
- (d) Frequent Off-Market transfers by a client in a specified period
- (e) Off-market transfers not commensurate with the income/Networth of the client.
- (f) Pledge transactions not commensurate with the income/Networth of the client .
- (g) Off-market transfers (High Value) immediately after modification of details in demat account .
- (h) Review of reasons of off-market transfers provided by client for off-market transfers vis-à-vis profile of the client e.g. transfers with reason code Gifts with consideration, frequent transfers with reason code Gifts/Donation to unrelated parties, frequent transfers with reason code off-market sales .
- (i) Alert for newly opened accounts wherein sudden Increase in transactions activities in short span of time and suddenly holding in demat account becomes zero or account becomes dormant after some time.
- (j) Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients

We will review these alerts based on facts and verification of relevant documents including income/ net worth as provided by client

Conclusion:

The above RMS Policy is designed for better function which intelligently helps to take decision based on various logics and parameters whether the company is exposed to Risk or not. You may also find the same on our Web Portal www.fcslindia.com

For Frontline Stock Brokers Private Limited
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Director