CFS Financial Services Pvt. Ltd.

RISK MANAGEMENT SYSTEM

BACKGROUND

CFS Financial Services Private Limited, a Trading Member of National Stock Exchange of India Ltd (NSE),Bombay Stock Exchange Ltd on CM and F&O Segments and Depository NSDL. As per the requirements of Exchanges and SEBI, the company has designed a risk management policy for extending trading facilities to its clients and in the respective segments of the exchanges.

DIFFERENTIATION IN RISK MANAGEMENT SYSTEM IN CASH MARKET

CFS differentiates in risk management in the two structures viz own branches and registered sub – brokers.

CFS differentiates clients on the basis of **nature of transactions they undertake and duration of their dealings with CFS..**

We categorize our clients, according to **nature of transactions undertaken.** We classify them into three categories:

A Category: HNI clients and those doing delivery based transactions. If a client has been associated with us for more than 5 years and his complete transaction history during the tough periods of market falls or volatile period in terms of his behavior in trading, maturity to understand the market or the greed and fear factor does not show too much rise or fall with the market, we accord the client the highest category.

B Category: Average financial profile customers and those doing delivery and intra day jobbing. If a client has been associated with us for 2 to 5 years and has been consistent in discharge of his obligations, we classify him in this category.

C Category: Low financial profile, Exclusively doing intra day jobbing and clients doing large F&O transactions. New clients with less than 1 year of trading with the company remain in this category till revised upwards.

CFS also differentiates clients **according to their Depository Beneficiary Accounts**. It is seen **whether the client has a beneficiary account with CFS as depository participant or with an outside Depository participant**. It is also seen whether the beneficiary account is maintained according to manual instruction system or the more efficient speed-e system of execution whereby instructions can be executed on the same day the transaction is done.

MARGIN SYSTEM FOLLOWED FOR SUB-BROKERS AND FRANCHISEES

The following assumptions are made:

1. The Sub-broker and franchisee is of sound financial health. Initially a security deposit is taken from the sub-broker as his work commences. The deposit made by the sub-broker remains the backbone of his business. The deposit may be in cash or in marketable liquid securities.
2. The sub-broker has greater knowledge of his client since he deals with them directly and understands their risk taking capacity.
3. The sub-broker takes responsibility of collections and gives instructions how much securities/margins to hold on to for each individual client.
4. The overall margin whether initial, gross or mark to market is overviewed for the entire business of the sub-broker.
5. The percentage of delayed collections and write-offs, if any, compared to the overall business. The delay or condoning of margin should not be at the cost of risk to any other client.

MARGIN SYSTEM

1. **GROSS EXPOSURE/TURNOVER EXPOSURE/ MTM LIMITS**: The sub-broker is given overall limits to trade according to the overall deposit available. The limits are decided according to our rating of the sub-broker. The company decides the limits and the sub-broker has no discretion in the setting up of these limits.

2. **CLIENTWISE EXPOSURE/TURNOVER/ MTM LIMITS**: These limits are set according to A,B or C categorization of the client according to the various criterion for categorization stated above. The sub- broker is consulted while fixing these initially and adjusted according to the requests of the sub-broker, however, according to the overall discretion of the risk manager. The utilization of these limits is monitored online during the trading. The limits are varied according to the volatility or risk in the market from time to time. The limits on any trading day are adjusted for any over due payments from the client.

3. **SQUARING OFF FOR MARGIN SHORTAGE**: If, considering the previous margins, of unsettled trades and the margins on current trades the individual client position is excessive or short on margins, the risk manager advises the sub-broker concerned to square off the day's or even previous day's trades to correct the margin position of the client.

MARGIN SYSTEM FOLLOWED BY THE HEAD OFFICE & BRANCHES:

The following assumptions are made:

1. The Branch manager has greater knowledge of his client since he deals with them directly and understands their risk taking capacity.
2. The Branch manager has full knowledge of the nature of transactions undertaken, whether DP account is with CFS or outside, instructions are available manually or through speed –e.
3. The Branch manager in consultation with the risk manager decides the trading limits. Any exceptional limits are granted subject to approval from Senior management.
4. The overall margin whether initial, gross or mark to market is overviewed for the entire business of the Branch as the demographics of the Branch decide the broad manner in which majority of the customers trade.

MARGIN SYSTEM

1. **GROSS EXPOSURE/TURNOVER EXPOSURE/ MTM LIMITS**: The limits of the Branch are decided according to our rating of the Branch. The company decides the limits and the Branch has no discretion in the setting up of these limits.

2. **CLIENTWISE EXPOSURE/TURNOVER/ MTM LIMITS**: These limits are set according to A,B or C categorization of the client according to the various criterion for categorization stated above. The Branch is consulted while fixing these initially and adjusted according to the requests of the Branch manager, however, according to the overall discretion of the risk manager. The utilisation of these limits is monitored online during the trading. The limits are varied according to the volatility or risk in the market from time to time. The limits on any trading day are adjusted for any over due payments from the client.

3. **SQUARING OFF FOR MARGIN SHORTAGE**: If, considering the previous margins, of unsettled trades and the margins on current trades the individual client position is excessive or short on margins, the risk manager advises the Branch manager concerned to square off the day's or even previous day's trades to correct the margin position of the client.

The overall Branch margining system assumes that the Company knows its direct customers more closely, the Branch manager can give a more accurate assessment of the client's financial capability and the customer also understands the Company and decides to trade with the Company due to its more dynamic approach

Framework for Trading Members to provide the facility of voluntary freezing/ blocking the online access of the trading account to their clients on account of suspicious activities (per requirements of SEBI circular ref. SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated 12-Jan- 2024)

The framework for CFS Financial Services Pvt. Ltd. for providing the facility for voluntary freezing/blocking the online access of the trading account to their clients on account of suspicious activities as finalised by the Brokers Industry Standards Forum in consultation with the Exchanges is as follows:

1- CFS Financial is providing Internet Based Trading/Mobile Trading / other online access for trading, shall allow clients to communicate through the following modes to request for voluntary freezing/blocking the online access of trading account if any suspicious activity is observed in the trading account:-
   a) Email from registered e-mail ID
   b) Call / SMS from registered mobile number
   c) Trading Member's website

2- Dedicated Email id and Contract number for receipt of communication for voluntary freezing / blocking of the online access of the clients trading account is
   Email: BO@cfstradecity.in
   Contact no. 011-40502714, 41637972, 9818088442, 9810988901

3- CFS Financial Services Pvt. Ltd. shall take the following actions on the receipt of request through any modes of communications as provided by the CFS Financial Services Pvt. Ltd for freezing /blocking of the online access of the trading account from the client:

   a) Validate that the request is received from the client as per below point no.4 and issue the acknowledgement as well as freeze/block the online access of the client's trading account and simultaneously cancel all the pending orders of the said client. The timelines for freezing/ blocking of the online access of the client's trading account is as under:-

Scenario	**Timelines for issuing acknowledgement as well as freezing / blocking of the online access of the trading account.**
Request received during the trading hours	Within 15 minutes

and within 15 minutes before the start of trading.	
Request received after the trading hours and 15 minutes before the start of trading.	Before the start of next trading session.

Trading hours shall be as follows:
1-Capital Market Segments: 9.15 a.m. to 3.30 p.m., Equity Derivatives Segments: 9.15 a.m. to 3.30 p.m.
2- To begin with, the time limit of 15 minutes is being specified for the purpose of issuing acknowledgements as well as freezing / blocking of the online access of the trading account. This time limits shall be contracted after a review in next six months after the date of its applicability to enhance protection of investors form suspicious activities.

b. Post freezing/blocking the client's trading account, CFS Financial Services Pvt. Ltd. shall send a communication on the registered mobile and registered email Id of the client, stating that the online access to the trading account has been frozen/blocked and all the pending orders in the client's trading account, if any have been cancelled along with the process of re-enablement for getting the online access to the trading account.

c. Details of open positions (if any) should also be communicated to the client along with contract expiry information within one hour from the freezing/blocking of the trading account. This will eliminate the risk of unwanted delivery settlement. This time limit shall be contracted after a review in the next six months after the date of its applicability to enhance protection of investors from suspicious activities.

4. CFS Financial Services Pvt. Ltd. shall validate that the request for freezing/blocking of the online access of the trading account is received from the respective client only. This shall be done by the CFS Financial Services Pvt. Ltd. by:

a) Verifying whether request is received from the registered phone number/ e-mail id of the client;

b) Following any other process as may be prescribed by the Exchange(s) uniformly in consultation with SEBI, from time to time.

5. CFS Financial Services Pvt. Ltd. shall maintain the appropriate records/logs including but not limited to, request received to freeze/block the online access of trading account, confirmation given for freezing/blocking of the online access of the trading account and cancellation of pending orders, if any sent to the clients.

6. In case of failure of the CFS Financial Services Pvt. Ltd. in freezing/blocking the online access within the prescribed timelines (15 minutes in case the request is received during the trading hours and within 15 minutes before the start of trading/ Before the start of next day trading session in case the

request is received after the trading hours and 15 minutes before the start of the trading), CFS Financial Services Pvt. Ltd. shall be responsible for any trades executed from the time of receipt of such request till such time the online access is blocked/ frozen.

7. Re-enabling the client for online access of the trading account:- CFS Financial Services Pvt. Ltd. shall re-enable the online access of trading account after carrying out necessary due diligence including validating the client request and unfreezing/ unblocking the online access of the trading account.

8. It is clarified that:

a) Freezing/Blocking is only for the online access to the client's trading account, and there shall be no restrictions on the Risk Management activities of the Trading Member.

b) The request for freezing/blocking does not constitute request for making client Unique Client Code (UCC) as inactive in the Exchange records.

For CFS Financial Services Pvt Ltd

CHANDRA SHEKHAR CHAUDHRY

Digitally signed by CHANDRA SHEKHAR CHAUDHRY
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Date: 2024.07.20 14:35:25 +05'30'

C S CHAUDHRY
Director