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) and Bombay Stock Exchange Ltd on CM and F&O Segments. 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.