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## KLAY SECURITIES PRIVATE LIMITED

### RISK MANAGEMENT POLICY

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## SUMMARY OF POLICY

Policy Name	Risk Management Policy
Related policies and regulations	<ol style="list-style-type: none"><li>1. Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 as amended from time to time.</li><li>2. Framework for Trading Members to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients dated 08<sup>th</sup> April 2024.</li></ol>
Issue date	October 22, 2018
Effective Date	October 22, 2018
Owner / Contact	Compliance Officer
Approver	Board of Directors
Last Review Date	11 <sup>th</sup> June 2024

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## 1. Objective

To establish clear operating procedures and parameters for managing risk in broking business.

In the course of conducting broking business, the Company is exposed to variety of risks including market, credit, liquidity, operational and other risk which require comprehensive controls and ongoing oversight.

The Company sets out below the principles of its risk management framework:

## 2. Risk management measures in cash segment

All stock broker must have systems and procedures to ensure that appropriate margin is kept by the clients. Accordingly, the following measures are taken to take care of the above concern

- a. Trading shall be allowed only against available margin in client's account.

For this purpose, margin should be actually available at the time of entering trade in the cash segment of exchange either in the form of credit balance in the trading account and / or approved securities held in Client's margin account.

However, the quantum of these margins, form and mode of collection is left to the discretion of the Company.

- b. Shares held in margin account - Those customers who have executed Power of Attorney in Company's favour, the value of shares held in their Demat Accounts shall be subjected to suitable hair-cuts and such hair-cuts shall be reviewed from time to time depending on the market conditions. In a turbulent and chaotic market condition, hair-cuts shall be appropriately raised and in stable market conditions comparatively low hair-cut percentages shall be maintained. Hair-cut for shares shall be at Value at Risk ('VaR') rate as disclosed by the Exchanges at the previous day's end.
- c. The client is allowed to do intra-day transactions within the exposure limit. The aggregate volume of such transactions shall be operationally controlled by an overall turnover limit.
- d. In cases where early pay-in of securities is made up to 3 p.m. on a day, such positions shall be exempt from margin requirement. It is to be ensured that client's ledger is settled on daily basis as per Exchanges Regulations.
- e. The Company shall have the prerogative to allow differential purchase limits and sell limits varying from client to client, depending upon credit worthiness, integrity and past conduct of each client.
- f. Wherever the client has undertaken intra-day positions, whether buy or sell, the client is required to close his open position on the trading day before a specified time (normally at least 30 minutes prior to closing time of the Market trading hours). In case of failure to close the position, the Company shall run its auto-square off module to extinguish the said positions. The auto-square off module will be run by the Company at 3.25 pm on the Trading day.

## 3. Risk management measures in derivative segment

As in the case of capital market the default risk of stock broker is essentially controlled by Exchange through upfront collection of Initial Margin and on-going collection of Mark to Market Loss (SPAN Margin).

### a. Collection of Margin:

The margin shall be collected in cash or permitted securities on the trading day itself.

#### ➤ Cash:

Initially the clients will have to deposit the initial margin by cheque.

➤ Approved Securities:

Only approved securities notified by the stock exchanges and circularized by the Company shall be accepted from the clients from their demat account with the Company and / or approved demat accounts maintained with other Depository Participants.

➤ Valuation

The valuation of approved securities shall be done on a daily basis at the latest available closing price. The valuation shall be reduced by a haircut at the rate of SPAN. Only the value net of margins shall be considered as deposit.

**b. Derivative Exposure limits**

Derivative Segment is a Margin driven segment. Margin will be collected as per the requirement of the Exchange i.e. SPAN Margin + [Exposure Margin + Additional Margin] (if any made applicable by the Exchange). Additional margin can be collected by the Company after evaluation of the market conditions.

**c. Recovery of MTM Loss**

MTM loss shall be recovered from clients on T+1 day on the basis of Margin Short Collection Report. On the client's failure to put in additional margin to make good the MTM loss, it shall be imperative that the relative F&O position is squared off before margin short collection positions are uploaded to the Exchange.

To obviate high incidence of margin shortfall, it would be prudent to limit client's future exposure strictly at par with the initial margin collected and the client's ability to meet MTM loss quickly.

**d. Squaring off F&O positions for margin shortfall:**

There shall be morning intimation from risk management system (RMS) intimating the names of the clients whose positions are to be exited. Normally a time limit up to 1.30 p.m. shall be given for this purpose so that clients can transfer surplus margin from Cash Segment to F&O Segment to augment margin or tender cheque / securities covering the shortfall amount.

If MTM reaches 80% of the deposit placed with the Company, then RMS selling shall be done on 'T+1' day or even on T basis in case of turbulent market conditions.

**4. Facility of voluntary freezing/ blocking the online access of the trading account**

1. The clients may request for voluntary freezing/ blocking the online access of their trading account if any suspicious activity is observed in their trading account. The request shall be communicated through:

- Email from the client's registered email id. Such email shall be sent to [stoptrade@klaygroup.com](mailto:stoptrade@klaygroup.com)
- SMS from the client's registered mobile number. Such SMS shall be sent on +91-7738370177.
- Tele calling on +91 22 6910 6031.

2. KSPL shall take the following actions on receipt of request through any of the above-mentioned modes of communication:

- Validate that the request is received from the client only. The mechanism of validation is mentioned herein below.

- 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 clients' 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 and within 15 mins before start of trading.	Within 15 Mins
Request received after the trading hours and 15 min before the start of trading.	Before the start of next trading session

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

3. The validation mechanism as mentioned above shall be done by:

- verifying whether request is received from the registered phone number/Email Id of the client; or where request is received from other than registered phone number/Email Id of the client, KSPL shall have a client authentication procedure (2 Factor Authentication) in place or
- Following any other process as may be prescribed by the Regulator.

4. KSPL 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.

5. In case of failure of KSPL in freezing/ blocking the online access within the prescribed timelines, KSPL shall be responsible for any trades executed from the time of receipt of such request till such time the online access is blocked / frozen.

6. Re-enabling the client for online access of the trading account: - KSPL shall re-enable the online access of trading account after carrying out necessary due diligence including validating the client's request and unfreezing / unblocking the online access of the trading account.

7. Freezing/blocking is only for the online access to the client's trading account, and there shall be no restrictions on the KSPL's Risk Management activities.

8. The request for freezing/ blocking does not constitute request for marking client Unique Client Code (UCC) as inactive in the exchange records.

## 5. Implementation of the Policy

### a. Reporting of violation of Policy

The policy shall be under the overall supervision of its Compliance Officer.

Any violation or potential violation shall be brought to the notice of Compliance Officer when it is observed.

It shall be the duty of Compliance Officer to conduct an investigation to arrive at a final decision.

In case the violation is observed against the Compliance Officer, Board of Directors shall have the onus to look into the alleged matter.

### b. Breach of Policy

Breach of this Policy may lead to a disciplinary and other actions which may result into financial penalty on the employee responsible for breach.

The ultimate decision with regard to penalty / fine will be taken by the Board of Directors in consultation with Compliance Officer.

### c. Operation and review of Policy

The primary responsibility to implement / operate the Policy shall be with the Compliance Officer.

Internal auditor of the Company shall review the policy, its implementation, effectiveness and review. Internal auditor shall record the observations with respect to the same in their report.