

# LSC SECURITIES LIMITED

## RISK MANAGEMENT POLICY

(Reviewed by the Board of Directors in its meeting held on 23.10.2024)

Sr. No.	INDEX Abbreviations	Sr. No.	INDEX Abbreviations
1	LB- Ledger balance	12	NFDC- Non funded category clients
2	ALB- Adjusted ledger balance	13	RAA- Running account
3	GHV- Gross holding value	14	NRAA- No running account
4	AGHV- Adjusted gross holding value	15	MTF- Margin trading funded
5	AHV- Adjusted holding value	16	VAR- Value at risk
6	ZHV- Zero holding value	17	MTM- Mark to market
7	THV- Total holding value	18	DPC- Delay payment charges
8	GHVC- Gross holding value cover	19	GSM- Graded surveillance measure
9	AGHVC- Adjusted gross holding value cover	20	ASM- Additional surveillance measure
10	AHVC- Adjusted holding value	21	ASD- Additional surveillance deposit
11	SPAN- Standard portfolio analysis of risk		

### 1. INTRODUCTION

Investment in securities is susceptible to market risks which cannot be predicted. The Account Opening Document contains an explanation of different types of risks our Customers are likely to face in the market. While the risk of loss is inherent in the market, we as your Broker seek to minimize the risk of loss through a dynamic risk management policy which is an essential feature of our operations. As our customer, it is important for you to be aware of our Risk Management Policy and how the Policy would operate to regulate your transactions. It is also important that the Risk Management Policy is not an insurance against losses; these are measures and precautions that are adopted to contain risks to the minimum. The Policy is subject to change according to our risk perceptions of the market and SEBI/Exchange regulations for the time being in force.

### 2. CONCEPTS IN RISK MANAGEMENT

- a. Ledger Balance (LB) is derived by totalling the values of debit entries and the value of credit entries. If the total value of debit entries is higher as compared to the total value of credit entries, then the difference is said to be the debit balance of the ledger, and vice versa.
- b. Adjusted Ledger Balance (ALB) is the balance that is derived after making some deductions in the Ledger Balance.
- c. Gross Holding Value (GHV) is the total value of all stocks which are classified as category A, B, C, D, E.
- d. Adjusted Holding Value (AHV) is the total value of all stocks after applying haircut percentage for category A or B or C or D or E stocks for those clients who have provided power of attorney/DDPI and the shares which are in pledge in favour the Company.
- e. Zero Holding Value (ZHV) is the total value of Z category stocks. This is the value of all shares held by the client for which 100% hair cut is given.



f. Total Holding Value (THV) is the total value of all stocks.

g. Standard Portfolio Analysis of Risk (SPAN) is the system for the purpose of margining system for derivative segment used by exchange.

### **3. CLIENTS NEED TO COMPLY WITH THE FOLLOWING REQUIREMENTS:**

Clients having debit balance can settle their pending dues on or before 4<sup>th</sup> day till 3 p.m. after settlement posting, either by way of pay-in or selling the holdings. In case of failure to do so we will sell the position to the extent of debit balance of clients.

### **4. MTF (Margin Trading Funded)**

The Company does not provide MTF facility.

### **5. Execution of Orders**

The manner of execution of order is given below:

**5.1. Method of Placing Orders** – The Client can place the orders either online or can connect with Authorised Person of the Company for the assistance of placing the order.

**5.2. Method of communication for confirmation of orders/trades** – The order and trade confirmations are given to the clients via SMS, E-mail Communication and Contract Notes.

**5.3. Margin Requirement**- The Company takes clear margin on upfront basis.

**5.4. Margin Call** – The RMS or Margin Section monitors margin requirements and MTM losses on daily basis. Any shortfall in the margin is communicated to the clients at end of the day. In case of volatility margin call is given on real time basis.

Positions may be liquidated when (whichever is earlier)

- a) Margin shortfall is not being met
- b) Margin Shortage on live basis due to Hedge break / MTM Loss
- c) Expiry position square off due to One leg got expired
- d) On T5 days Ageing Debit for non-funded debit

**5.5. Process of liquidation of collateral/security/position**- In case the client fails to provide required margin, the Company may reduce client's position to the extent of margin shortfall.

### **6. SCRIP CATEGORIZATION**

For the purpose of risk management we categorize scrips listed on NSE and BSE into six different categories. i.e. A, B, C, D, E & Z on the basis of their fundamentals, volatility, liquidity, trading pattern and overall concentration with individual clients along with the below mentioned parameters:

(i) Scrip should be in exchange approved Securities which is acceptable as margin

(ii) Approved Securities should have been traded at least 99% of the days for the previous six months.



(iii) Other parameters:

- (a) Market capitalization
- (b) 3 months daily average trade volume
- (c) VAR Margin

(iv) In case of scrip are not in exchange approved securities for margin purpose than margin section should approve the categorization only on considering Company's Management and performance.

(v) Trade to Trade and illiquid scrip are classified as Z category

### **6.1. SCRIP CATEGORY REVIEW**

The margin section reviews scrip categorization on monthly/quarterly basis or as and when there is a requirement for the review. The margin section reviews scrips based on exchange approved list, liquidity, market capitalization, VAR & etc. After review, risk team does changes in the category of the scrip. Stocks can be down grade from the respective category in case of high volatility, adverse news, high promoter pledge stocks etc.

Haircut will be charged as follow while giving the collateral benefit to the clients:

- 1) VAR+ELM+Adhoc are used for applying the haircut on E, A, B, C and D category of scrips defined by the Company.
- 2) For MT stock, the haircut will be charged as per margins defined by exchanges i.e. VAR+5 times of ELM and for scrips which belong to FNO haircut will be charged VAR + 3 times of ELM.
- 3) For Z category stocks, haircut will be 100%.
- 4) For Mutual funds, haircut will be charged 10% as default.

### **6.2. Penny / illiquid category scrip Trading**

In order to monitor the trading activity of the clients, trades in Penny, illiquid category stock and any other stock which seems suspicious are allowed to sell only. The margin section reviews the list on quarterly basis and takes necessary action based on periodic circular given by the exchanges for addition of the stocks in Z group.

### **7. AGEING DEBIT**

T+5 (T being Trading Day) square off is initiated for all clients who have purchased Non-Approved Stocks. All stocks which are categorized as E, A, B, C & D are approved stocks. All other stocks are categorized as Non-Approved stocks. Any debit balance arising because of purchase in Non-Approved stocks will be square off on 5<sup>th</sup> working day from the date of purchase. Clients who have not opted MTF facility for them square off is initiated on T+5 days who have purchased APPROVED and NON-APPROVED stocks. Square off happens only on weekdays and working Days.

The square off will be done only up to the debit balance.



## **8. MARGIN & POSITION MONITORING WITH EXCHANGE**

The margin section monitors real time margin & position limits with exchange. In case of any shortfall in margins, the client is asked to provide the short margin amount. The margin section also monitors cash & non cash margin component kept with exchanges. The margin section also checks if any client's security lying in the pool account can be transferred to exchange as a collateral security within the scrip level norms specified by exchanges.

## **9. INTEREST ON DELAYED PAYMENT CHARGES (DPC)**

The Company charge DPC to client on debit balance in trading account as per rules and regulations framed by the Board of Directors in this regard from time to time.

## **10. DEALING IN RESTRICTED SCRIPS (Client Level investment)**

GSM, Unsolicited SMS – Scrips belongs to GSM, Unsolicited SMS are blocked for trading.

### **10.1. GSM**

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, have introduced Graded Surveillance Measures (GSM) wherein certain identified securities shall be subjected to enhanced monitoring and surveillance actions. GSM framework is applicable to stock exchanges where the shortlisted companies are traded. In other words, it will be imposed in a coordinated manner across the stock exchanges. The list of such securities identified under GSM and with their respective stages of GSM shall be published on time to time on BSE / NSE website.

The main objective of these measures is to:

1. Alert and advice investors to be extra cautious while dealing in these securities
2. Advice market participants to carry out necessary due diligence while dealing in these securities.

**10.2. Unsolicited SMS** – Scrips which fall under current watch list, historical watch list, information scrip list on NSE and BSE are blocked for trading. In case client wants to trade we need a written or email communication from exchange side.

### **10.3. ASM**

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, have been introducing various enhanced pre-emptive surveillance measures such as reduction in price band, periodic call auction and transfer of securities to Trade to Trade category from time to time.

In continuation to various surveillance measures already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with the aforesaid measures there shall be Additional Surveillance Measure (ASM) on securities with surveillance concerns viz. Price variation, Volatility etc.

In view thereof, short listing of securities for placing in ASM is based on an objective criteria covering following parameters and shall be reviewed on bimonthly basis for the applicability of ASM:



- High Low Variation
- Client Concentration
- No. of Price Band Hits
- Close to Close Price Variation
- PE Ratio
- Market Capitalization

The aforementioned criteria are dynamic in nature and subject to change from time to time.

**10.4. The surveillance actions applicable for the shortlisted securities is as under**

1. Securities shall be placed in Price Band of 5% or lower
2. Margins shall be levied at the rate of 100%
3. The shortlisted securities shall be further monitored on pre-determined objective criteria and would be moved into Trade for Trade segment once the criteria get satisfied.

**11. Risk Based Square off (Daily 9.15 a.m. onwards)**

- The margin section will initiate square off of debit balance for all customers where GHVC (Gross Holding Value Cover) is <20%.
- Gross Holding Value is the value of your Holdings excluding Z Category Stocks.

Note: In case the debit Balance is because of Margin shortage in derivative segment then square off will be initiated to the extent of margin shortage.

**11.1. Intraday Square off (Daily 3.20 pm onwards)**

All positions (Cash and derivatives) which are created in as INTRADAY product will be squared off after 3.20 pm. This includes all types of Intraday i.e. Cover Order, Bracket Order and Stop Loss Orders.

Every day at 3.19 pm system automatically stops allowing any further intraday order. Risk system first removes all pending orders and then square off all Intraday Orders.

**11.2. Any other Square Off**

The Company may initiate square off of a particular client without prior intimation due to market volatility, debarred by SEBI or as prescribed in any other rules or regulation.

**12. INTIMATION TO CLIENTS**

Intimations are sent to the APs of the respective clients at the morning prior markets hours before 9 am and at the end of the day basis post billing is done after 8 pm. Intimation to maintain adequate margin is sent to the AP of the respective client.

**13. PRODUCTS: DELIVERY/INTRADAY**

**13.1. Delivery:** Margin will be blocked as per categorization of stocks. For FNO margin will be charged span plus exposure as per exchange requirement.



(iv) The securities pledged in 'client unpaid securities pledgee account' shall either be transferred to the demat account of respective client upon fulfillment of client's funds obligation or shall be disposed of by us in the market within five trading days after the pay-out. The unpaid securities shall be sold in Unique Client Code (UCC) of client (without pre-order confirmation) to the extent of debit balance of the respective settlement.

(v) The client having debit balance in financial ledger and if clears such debit balance up to 05:30 p.m. on a day, the securities will be transferred on same day from CUSPA a/c to demat account of the respective client.

(vi) If the client clears debit balance after 05:30 p.m., the securities will be transferred on next working day from CUSPA A/c to demat account of respective client.

#### **16. Policy for Voluntary Freeze and Unfreeze of the online access of Trading Account**

a) In lines with the provisions of the SEBI Circular SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024 and Exchange Circular no. NSE/INSP/60277 dated January 16, 2024 on the subject "Ease of Doing Investments by Investors - Facility of voluntary freezing / blocking of Trading Accounts by Clients and as per NSE Circular Ref. No. 24/2024 dated April 08' 2024 on Framework for Trading Members to provide the facility of voluntary freezing / blocking the online access of the trading account to their clients, the Company has made and implemented this Policy which shall forms part of Risk Management Policy (RMS Policy) of the Company with effect from July 01, 2024.

b) The clients of the Company may opt for the facility of voluntary freezing / blocking and Unfreezing their online access of the trading account by following the procedure mentioned in this Policy.

c) The Freezing / blocking and Unfreezing will be subject to successful verification from the Company whether such request is received from the client's registered mobile number / email id as the case may be. Further, where such request is received from other than registered mobile number / email id of the client; the requester's identity will be verified by the Company based on 2 Factor Authentication (2FA) i.e. PIN / Password and by verifying OTP sent on registered email id and mobile number of client.

d) On successful verification of freezing/blocking request received from client, the online access to trading account would be frozen within timelines so that the client would not be able to trade / access his trading account through any digital means (mobile application and website i.e. web portal) and all open un- executed orders / pending orders in the respective client's account would be cancelled by the margin section.

e) No account modifications will be allowed till the account is unfreezed as per the procedure mentioned hereunder.

f) Unfreezing / Re-enabling the client for online access of the trading account: The online access of trading account will be Re-enabled within 3 working days from the date of receipt of the request along with complete set of documents and shall be subject to necessary verification and due diligence including but not limited to validating the client's unfreezing request and after unfreezing / unblocking the online access of the trading account.

g) Clients need to note that, the 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 Company.



h) Clients need to note that, the request for freezing/ blocking does not constitute request for marking client's Unique Client Code (UCC) as inactive in the Exchange records.

i) In case the client wishes to place any order / execute any trade when the online access to the trading account is frozen, the client will have to place orders only mobile trading app or through Authorised Person post proper authentication/verification as required as per the applicable internal policy and procedures of the company.

j) Following procedure needs to be followed by client for voluntary freezing / unfreezing of online access to client's trading account

#### **Modes of Communication / placing the request for Freezing/Unfreezing**

To freeze your account, you can either send an email to our dedicated email id STOPTRADE@LSESL.COM or call at 0161-5068134. Upon receiving your request, your account will be frozen as per below scenario.

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

The representative will verify the client identification by seeking certain information to ensure the request is received from registered client only.

#### **Process of unfreezing**

You can call at 0161-5068134 to unfreeze your account. It will take up to 1 hour to process the request.

#### **Client Do's and Don'ts**

##### **Dos:**

- 1. Close Open Positions:** Ensure all open positions are closed before requesting to freeze the account.
- 2. Notify Freeze Request:** Contact customer service to freeze the account; it will be blocked within 15 minutes.
- 3. Handle Pending Orders:** Client to ensure all pending orders shall be cancelled before requesting for freezing
- 4. Position Details:** Please take care of your open positions and contract expiry.
- 5. Close Open Positions:** Call 0161-5068134 if you have open/pending positions to close or cancel respectively.

##### **Don'ts:**

- 1. Modify Profile:** Please avoid attempting to modify your profile settings during the frozen status.
- 2. Funds:** Don't add and withdraw funds during frozen status.



**16. Risk Identification:** if there is a material change in circumstances or a consequence that may occur, and whose occurrence, if it does take place, has significant harmful or negative impact on the achievement of the organization's business and goal.

**17. Risk description:** Understanding the nature and quantum of risk and its likely impact, both financial and non-financial, and plan for possible mitigation measures.

**18. Risk Estimation:** The process for estimating the cost of likely impact either by quantitative, semi quantitative or qualitative approach in terms of the probability or occurrence and the possible consequences.

**19. Risk Reporting:** The heads of the departments must report all new risks and changes to existing risks or probable risks in the respective functional areas to the Compliance officer. The Compliance officer will in turn report all material and new risks and changes to existing risks with the plan to mitigate with the time line for implementation to the Board of Directors.

**20. Risk Mitigation:** A well-defined and thorough reviewed strategic plan duly approved by the Board of Directors would then be prepared. This will be implemented in a structured way with the requisite changes in the existing system or practices within a time line to achieve the desired goal.

This risk assessment and management policy shall subject to change and modification, if needed, considering the dynamics of operations, business plans and strategy of management and in line with rules and regulations of SEBI/NSE/BSE from time to time.

