

# **GATEWAY FINANCIAL SERVICES LIITED**

**31, Shakespeare Sarani, Room No 209-210, Jasmine Tower, Kolkata 700 017**

## **RISK MANAGEMENT SYSTEM : SURVEILLANCE POLICY**

The Business model for **GFSL** (Gateway Financial Services. Ltd.) consists both **GFSL** owned Branches and Business Associate Offices (Sub-Brokers & Authorized Persons). The clients are linked or mapped to these branches or Associate Offices, herein alter called as Branches. and are engaged in trading from these branches. Apart from the traces executed from Branches, there are certain clients who are indulged in trading using the internet trading platform of **GFSL** Controlling and monitoring of these trades are done from surveillance dept.

### ***Major Functions of RMS :***

- Allocating exposure to the clients' trading account and enabling the clients' to do trades.
- Monitoring of orders & trades by clients. Checking of order rejections and increasing exposure, if required.
- Monitoring the MTM profit/loss incurred out of trades, comparing the Actual Margin requirements of clients and the Total Margin available for clients on a one to one basis and initiating remedial actions, if required,
- Decision taking with regard to squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may come across.

In short, the Risk management in relation to all the trading activities for Clients is handled by Surveillance Dept.

### ***HIERARCHY:***

In GFSL Surveillance department employees two executives, who are reporting to Manager Surveillance, Manager Surveillance is reporting to Head of Operations. Decisions relating to routine activities are made by Manager Surveillance. Activities which contain high risk and complications are to be put forward to the notice of Head of Operations and proper guidance should be taken before executing any action on such activities.

Branches across the country are sub divided and allotted to these executives and all the queries related to the trading activities and exposure requests from Branches are handled by these executives.

GFSL Stock Broking Pvt. Ltd. classifies clients into High Risk Profile. Medium Risk Profile and Low Risk Profile. Such classification is done based on a personal relationship maintained with clients and respective Branch in Charges. Apart from this, all the clients are evaluated based on the initial margin and subsequent margins paid by them. The trading patterns of clients are also taken into consideration for classification of risk profile.

# **GATEWAY FINANCIAL SERVICES LIITED**

**31, Shakespeare Sarani, Room No 209-210, Jasmine Tower, Kolkata 700 017**

## ***TRADING :***

GFSL is a registered stock broker of The National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange (BSE). All these exchanges following online trading system and having a settlement system of T+2 to Capital Market segment and Daily mark to market settlement & Final Settlement in Futures & Options segment (including Currency Derivatives). GFSL is using NOW software (by Dotex International Ltd.), ODIN & NEAT for trading in Capital Market. Derivatives segment and Currency Derivatives Segment of NSE the software are widely accepted amongst the industry as whole and are used by several other broking companies across the country.

Every exchange fix a minimum initial deposit to be maintained by every trading members as initial margin (Base Minimum Capital) and trading members, at their discretion. can have more deposits (Additional Base Capital) to be used as Margin for the purpose of enabling the trading activities. The exposure levels set by these exchanges are on a member level and not on client level.

The Exchange provides user id for Exchange Trading terminals and GFSL in turn activated CTCL login facility. Exposures on the CTCL terminal are set by GFSL surveillance Dept and are done for each and every client based on the margin available with them.

## ***EXPOSURE RULES:***

Each and every client registered with GFSL needs to provide initial deposit by way of cheque, On clearance of the cheque the client will be able to put buy or sell orders through GFSL's trading platform. The term 'Exposure' means the extent to which the client's initial deposit can be utilized for trading activities. In simple terms, if a client having Rs.100/- .deposit is allowed to trade for Rs.500/- his exposure for trading is FIVE times of the initial deposit. The multiplier in the said example is FIVE times. Clients having POA with us are also given exposure as per their DP holdings after haircut in Capital Market.

GFSL have different exposure policy for Investors and day traders. For an investor, GFSL is providing a 3 times exposure for taking delivery positions in Capital Market. For e.g.: It a client is having Rs.100000/- his account as clear funds, he is allowed to take a delivery position up to Rs.300000/-. The difference amount needs to be brought in the form of a cheque on the same day itself or latest by T+1 day.

A day trader is provided with 5 times exposure for indulging in day trading activities. This may vary from time to time in accordance with the market conditions. Once the MTM loss of the intra-day positions reach 80% of the margin available, the positions should be cleared from the branch concerned, failing which the positions taken for the intra-day will be cleared off from surveillance dept. Intra-day exposure in Capital. Market Segment can be availed based on the shares in DP & pool Account

# **GATEWAY FINANCIAL SERVICES LIITED**

**31, Shakespeare Sarani, Room No 209-210, Jasmine Tower, Kolkata 700 017**

subject to a Exchange Margin wise haircut in the valuation and with available credit balance in the NC.

# **GATEWAY FINANCIAL SERVICES LIITED**

**31, Shakespeare Sarani, Room No 209-210, Jasmine Tower, Kolkata 700 017**

The exposure set in Capital Market segment and Futures & options segment (including Currency , Derivatives) is different. In capital market the client is allowed to take the exposure on multiplier basis which can be anywhere up to 5 times of initial deposit. Whereas, in Futures & options segment, where exchanges have stipulated fixed initial margins and exposure margin, it is compulsory to keep 100% margin, either in the form of clear fund balance or as collateral securities for carry trades, however, exposure of 3 to 4 times for intra day are allowed depending on the nature and volatility of the market.

The term clear fund (Total Margin Available) means the account balance available for the client in his ledger account. Collateral shares means the share which are bought by the client in respect of which no payments are outstanding and are available in the margin account of the client. Shares in DP account & Pool Account will not be considered as collaterals for the purpose of trading in Futures & Options Segment. For availing the benefit of collateral margin, client needs to transfer the shares in his Pool A/C or DP account to margin account maintained in the name of GFSL Stock Broking Pvt. Ltd. All the shares transferred as collateral can be considered for exposure after deducting a haircut of Exchange Margin wise on the closing price of the shares.

In short, the total margin for exposure purpose is the sum total of fund balance + 80% of the value of shares available in the Margin Account. Unclear funds will not be considered for calculating the Total Margin available.

As a conclusion Clients are provided with an exposure of either 2.5 to 4 times delivery margin or 8 to 10 times intra-day margin in Capital Market segment or 3 to 4 times Futures & Options margin.

## ***Notes to the Exposure Rules :***

- **Uncleared Funds:** Every payment from clients should be in the form of cheque and the same will be considered for margin only after clearance of the instrument. There will not be any exposure provided to clients based on the uncleared funds.
- However, based on the client's previous track record and the value of collaterals available with GFSL, exposure can be provided to clients based on uncleared funds. All request for amounts less than Rs.100000/- can be approved by the Surveillance Manager after a thorough evaluation of the client's track record, previous instances of cheque dishonours from the branch and the reliability of the Branch in charge. All request exceeding Rs.100000/- will be processed only after getting approval from Head of Operations.
- Shares in Pool Account & DP Account will be considered for intra-day exposure in Capital Market segment subject to a haircut of Exchange wise. Exposure for delivery will be based only on the clear fund balance.
- All the cheques collected against trading positions should carry a valid MICR number.
- All the cheque dishonour cases are viewed seriously and debit amounts In such accounts Will be cleared from surveillance dept. The normal rule for 5 days debit will not be applicable while selling the shares in cheque dishonour issues.

# **GATEWAY FINANCIAL SERVICES LIITED**

**31, Shakespeare Sarani, Room No 209-210, Jasmine Tower, Kolkata 700 017**

## ***DEBIT Policy:***

Exchanges follow a settlement schedule of T+2 In Capital Market segment, dally MTM settlement & Final Settlement in Derivatives segment. Accordingly the exposure policy designed by GFSL directing the customers to pay the debit balance on the day of purchase itself or on next day. It is the duty of Branch in charge/Branch Manager/Relationship Manager (RM) to communicate to the client regarding the debits in their respective accounts

## ***Futures & Options Segment (Including Currency Derivatives) :***

In this segment, the exchanges stipulate that every position taken should be based on the available initial margin. Apart from the initial margin, exchanges have introduced exposure margin in order to meet the market volatility and risk associated.

Based on the requirements of exchanges, GFSL insists that all the clients in F &O segment should have sufficient margins (Initial + Exposure margin) for taking position in the F&O segment. The nominal hair cut as per Exchange margin is applicable for collaterals in the form of shares before taking the valuation.

The MTM loss arising in F&O positions need to be paid on the same day (T day) so that MTM settlement can be performed properly, failing which the positions will be reduced to the available margin level. No fresh positions will be granted against unclear cheque.

Clients can provide margin in the form of securities only by transferring the securities to margin account. In such cases also sufficient credit balance should be maintained in client's trading account in order to meet the daily MTM requirements. GFSL stipulates that minimum 10% of the total margin should be in the form of clear credit (Cash component should be 10%). If the cash component is not sufficient to meet the MTM, the shares given as margin will be liquidated to bring the position to required margin level on T + 1 day.

## ***Special Points relating to Options segment:***

1. The options buying should be allowed only against premium margin which should be in the form of clear credit balance only. Collaterals, in any form, will not be considered as margin for options buying.
2. Options selling Involve unlimited risk and thereby Exchanges specify high Initial margin & exposure margin and hence will be allowed only against the exchange specified margin. Deep out of the money options selling will not be entertained and similarly option s having lesser activities will not be allowed. The credit realizing from selling of options will not be considered as liquid credit balance and henceforth will not be considered for payout of funds

# **GATEWAY FINANCIAL SERVICES LIITED**

**31, Shakespeare Sarani, Room No 209-210, Jasmine Tower, Kolkata 700 017**

## **Securities under Ban Period-[Market-wide Position Limit (MWPL)]**

A facility is available on the trading system to display an alert once the open interest in the Futures and Options contract in a security exceeds 60% of the market wide position limits specified for such security. Such alerts are presently displayed at lime intervals of 10 minutes. The aggregate open interest of the security across Exchanges shall be considered for the purpose of monitoring of MWPL. If the aggregate open Interest of the security across exchanges exceeds 95% of the MWPL, no fresh positions shall be permitted for the said security from the subsequent Trading day. The normal trading in the security shall be resumed only after the aggregate open outstanding position across Exchanges comes down to 80% or below of the MWPL. Once a client is taking any further position in the security for which MWPL has crossed 95% will be penalized with the amount of penalty as fixed by the exchanges. Hence, the responsibility of informing the clients regarding the MWPL limits is primarily vested with BM/Relationship Mangers.

## **Trading in Newly Listed Shares & Illiquid Securities**

Newly listed shares, illiquid securities and Trade-to-Trade shares having high VaR margin and trading in these scripts are subject to the high market risks and rate fluctuations. Illiquid securities & Trade-to-Trade securities will have a daily price range and there are chances that these shares reach the upper DPR or Lower DPR during a trading day. Hence, the dealing in these securities will be subject to the permission from the surveillance dept and will be subject to the available credit balance only.

## **Client Code Modification**

Genuine errors in client codes occurred while punching the orders can be modified subject to the approval from exchanges. The timeline fixed by exchanges have to be met and the other guidelines also need to be followed.

Every request for client code modification is to be sent to surveillance dept in the predefined format and proper care should be taken in filling the Exchange order number, trade number and the reasons for wrong Punching. On evaluation of the trades and the clients' financial position with GFSL, surveillance team will decide whether to accept the Modification Request or not. All the cases which seem not to be genuine are put forward to the notice of Compliance Officer & Head of Operations and the processing of the client code modification request will be solely upon the decision of the Compliance Officer & Head of Operations. Physical Contract notes will be sent to such clients on the next day.

# **GATEWAY FINANCIAL SERVICES LIITED**

**31, Shakespeare Sarani, Room No 209-210, Jasmine Tower, Kolkata 700 017**

## **Scrip-wise Surveillance**

1. The surveillance team watches the online trades as they are executed, and extra ordinary volume in the particular scrip or client is immediately investigated by calling up the sub broker / branch and asking for details of clients and as per the details made available, the clients previous purchase or sales transactions are looked into, by viewing the ledgers.
2. We have allocated group limit for A, B1, B2, T, TS and Z group. The Surveillance Team gives limit in a very conservative manner, especially, illiquid scripts. Trading in such scripts are discouraged and allowed on a case to case basis, based on the level of confidence in the client. Any limit accretion requests are first investigated and then upon being satisfied. with the bonafide of the trade as well as the client, limits are accordingly increased.

## **Client-wise Surveillance**

1. All the clients who have traded in the scrip placed in where there is unusual volume vis-a-vis average volume are scrutinized for their other scrip dealings.
2. Looking at the general quality of scripts that they are dealing in, Surveillance Manager reports to the CEO/Director for further action on whether we want to continue to deal as a broker for that client or not.
3. Intra-day Scrip Wise Volume:-Our back office software has a .module which offline tracks the intra-day loss of all clients. The Surveillance Team prepares & scrutinizes the statement to look at any unnatural volumes happening.

## **ANNEXURE-I : Exposure Policy in Brief**

### ***Capital Market segment:***

1. Clear Funds (Total Margin Available) consists of Ledger Balance and the Value of shares in Pool Account & DP Account subject to haircut as per Exchange.
2. Uncleared funds will not be considered for calculating Total margin Available.
3. Intraday Exposure will be fixed in between 5 times of the Total Margin Available. Maximum intraday exposure will be 5 times of the Total Margin Available.
4. Delivery Exposure will be 3 nmes of the ledger balance available.
5. MTM loss beyond 80% will not be allowed.
6. Payment should be collected from clients on T day itself so that the cheques are cleared before 5th day.
7. Demand Draft is to be collected only on unavoidable circumstances as frequent payment by way of DD may come under the purview of PMLA Act and need to report to Government departments. Demand Draft, if any should be accompanied by a DD declaration in the format prescribed by the Accounts Dept and should be signed by the client and declaration should clearly narrate the reason for not providing a cheque.
8. Minimum range of debit to collateral ratio to be maintained is 3:4.

# **GATEWAY FINANCIAL SERVICES LIITED**

**31, Shakespeare Sarani, Room No 209-210, Jasmine Tower, Kolkata 700 017**

## ***Futures & Options (Including Currency derivatives) Segment:***

1. Total Margin Available consists of ledger Balance and the value of shares provided as Collaterals in Margin account subject to haircut as per Exchange.
2. Uncleared funds will not be considered for calculating Total margin Available.
3. Positions will be allowed only against Sufficient Margin.
4. All the MTM losses should be either replenished by way of cheque falling which the positions will be cleared from surveillance Dept

## **ANNEXURE-II**

### ***Notes to the Exposure Rules:***

1. Deviations from the standard policy, if any should get approval from the Head of Operations
2. Debits beyond Five days should be cleared.
3. Margin Shortage in F&O is to be cleared on the day of incurring shortage.
4. Extreme care is taken while drafting the exposure policy. Even then the chances for losses may arise in Clients' accounts due to the high variation in security prices on reaching DPR levels. The chances are there that once a client initiates a short position in a security and the share may get the upper DPR level and the client could not close out the short position. In such case the chances of incurring auction loss is higher and chances for incurring such instances is existing in the market. Similarly a client goes on a long position in a security and the chances that the shares price reaches the lower DPR on T day and coming days are there in the market. In these instances, the losses are inevitable and the recovery of. funds depends on the relationship of the branch team and the client concerned.
5. Since the nature of Market is highly unpredictable losses may arise in Client Coode and the settlement of the same losses may take a period of time.