

Confidential

Risk Management Policy  
&  
Internal Controls

**TRANSGLOBAL SECURITIES LIMITED**

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## **Preamble**

Our Company believes that there should be a constant balance between risk and returns. Our policies and actions are guided giving due weightage to risk factor. In our industry major part of revenue is eroded due to bad debts resulting through client defaults. We have identified issues crucial to our business and have tried to address the risk arising from such entities and situations. Risk arising from client default, Business Associates, employee turnover and operational risk is discussed here. Back up for technology risk is also covered here.

## **Selection of Client**

We mainly acquire retail clients from 2 different channels comprising direct clients serviced from our office and through business associates (sub broker/remesier).

Internet client: We have facility to allow clients to trade through BSE's Webx Portal. The clients who are interested in carrying out internet trading are permitted only after signing all the relevant papers as stipulated. We set trading limits in advance for all such clients depending on his risk bearing capacity of the client or deposit with us.

Direct clients: We do not have a marketing setup for acquiring clients to be serviced from our office. Clients serviced are those who have been acquired through relationships and referrals from known sources or existing clients.

Through BA: Our large number of clients is sourced through BA. We appoint a BA and enter into a service level agreement with them defining respective role and responsibilities. The main responsibility of the BA is to introduce clients in our books and service clients as per his need.

Our other stated policy on client selection is to acquire clients whose basic belief is investing and less of speculation. We ensure through various measures including risk management measures that we are able to attract more of delivery base client rather than speculative based. This policy is explained to the sub-brokers/remesier.

The BA are requested to generate a prospective list of clients based on financial and social standing of a person. We insist that before we introduce the client to our company they complete documentation like KYC, Client Broker Agreement etc. and register the details into the UCC module of BSE.

## **Sub broker Selection**

We collect information about the background, financial status, local standing about the lead who agree to become our sub broker. We also collect information on availability of adequate infrastructure.

All documents are collected, scrutinized and if in order sent to exchange for further processing. We also enter into a business agreement with the sub broker detailing the roles and responsibilities of both parties along with commercials.

In the meantime the sub broker along with his key staff member is invited to our Mumbai office to undergo 3 day intensive training on our value system and methodology of working.

We go through the websites of SEBI and Reserve Bank of India in order to check whether there is any penal action against the sub-broker. Our staff also enquires about the integrity and social standing of the person. Adequacy of infrastructure is checked.

### **Receiving, validating & entering the orders.**

Most of our traders and investors carrying out full time investment activities are invited to our front office. They give orders themselves to our dealers who enter the order into the BOLT system in the respective client codes. Clients codes are generated by back office on completion of registration process. For validating client codes online communication channel is established between front office and back office.

We also receive orders from our clients through telephone and fax. These orders are executed into the BOLT system only after ascertaining the identity of caller and validating client codes as explained above.

Our BA collects orders from their clients and give instructions to our dealers to execute them and sometimes they themselves execute if present in our front office.

At end of the day all the trades are processed and contracts /bills are generated showing executed trades, market rate, net rate, brokerage and other statutory/non-statutory levies. The contracts/bills are delivered to clients within stipulated time.

### **Policy for dealing with wrong trades**

Wrong trade necessitate client code changes. These client code changes are done during post closing session. Some time if the changes are not carried out in the post closing session for any reason then they are done after trading hours by a request to the back office. The client code changes in relation to sub-broker clients are done at the request of the sub-broker. In case of direct clients and trades done from the back office the client code changes are authorized by the head at the dealing desks.

## **Client Default Risk**

In line with our thought process we decided on a policy of monitoring risk at client level. The clients are acquired directly by us or through sub brokers/Remesiers. Few years back this industry had the system of billing the sub broker and not the ultimate client. Due to this the risk on account of each client cannot be measured. At the time of sub broker default the main member was faced with litigations. This system also encouraged misuse by sub broker as credit of one client was adjusted against default of other client. To overcome this we introduced the concept of registering clients directly in our books through Sub-brokers/Remesiers and started motivating our sub brokers to adopt this system. Though we faced some resistance in the beginning but after realizing the plus point of this system our existing sub brokers started converting to this system. In due course SEBI realized the benefit of this system and made it compulsory in the whole industry.

We have designed our software in such a way that client level risk monitoring is feasible. In fact we are one of the very few in the industry who has individual client level risk management. The underlying principle behind this policy is to ensure client with good credentials backed with security are encouraged. Good clients are not put to hardship due to defaulted clients.

To identify the potential of the client we have our own internal mechanism by which clients can be categories into 2 category namely No risk Category & Risk Category. We use different parameter to carry out this exercise. These parameters include financial background of clients, references and past dealings.

The limits are set based on money credit and valuations of their stock available in their depository account with us. The exposure differs for every client and is set based on their individual grading. To safeguard our interest against limit extended against stock valuation we have a limited power of attorney in our favour for delivering shares from their depository account against their sales to exchanges.

Our business associate is responsible for bad debts arising on account of clients introduced by them.

In case of client selling shares the same are accepted only from his designated account. If the client wants to deliver from account other than his designated account then he has to submit proof of ownership of the other account. No third party shares are accepted. Likewise shares are released only to designated account. The shares are released through process of Auto Payout i.e. shares are directly credited to the client's designated account by passing our Pool Account. We are adopting this process for our clients in " No Risk Category". For Clients in Category " Risk " the shares are released after verifying the client has clear credit or nil balance in his ledger account. In case of debit balance the system ensures the shares are withheld to the extent of debit subject to not releasing partial settlement.

In case of fund payout it is done in the name of the client only and no third party cheques are issued. This is to safeguard from misuse by any individual. This also takes care of the benefit of limited POA and is not misused by the associate.

We have a clear-cut policy of not adjusting one clients debit against another except if the client belongs to one family or belongs to single Remesier. We allow offsetting interfamily debit credits by passing journal vouchers only if the instruction is received in writing. This is done to safeguard from misuse of accounts among family members and a later date dispute, which may result in liability to us.

### **Business Associate Risk:**

As regards business routed through BA, the clients accounts are maintained in our books so that it is transparent and we are aware of the client default risk. The clients are provided with a facility to view their holdings of securities in their depository account through Internet on 24X7 and their financial balance with us on live basis. This will bring to light misuse if at all, committed by BA to the client at a very early stage and remedial course can be taken.

We take upfront deposit before the relationship is started to protect against any dues arising out of client default for clients under “Risk” Category.

### **Operational risk:**

We believe in technology to such an extent that we bring innovative products and practices in the industry. The usage of technology also ensures reduction of operational risk to a large extent. We also constantly work towards automating all our process, which is manpower intensive. Due to automation the error % is reduced leading to lesser risk. By implementing automation we have achieved standardization resulting in quality improvement.

**Manpower risk:** The industry is prone to high attrition. To overcome this we believe in recruiting fresher and train them. Due to training and imbibing our value system at the initial stage of a persons career the attrition is comparatively low. We also ensure to recruit 10-15% extra staff to take care of work not affecting due to employee churning. The job profile and expectations are made clear at all levels. Second rung leaders support the head of the department and we ensure they are groomed so that replacement is not a factor. We take care to avoid over dependence on any single individual by either readjusting the portfolio and or by training the next in command

### **Business Continuity Planning :**

We give very high importance to business continuity in case of disaster as we are highly dependable on technology & infrastructure. Keeping this in mind we have designed very strict schedule and we follow them religiously.

Most of our trading terminals have UPS (Uninterrupted Power Supply) to take care of power break down. Similarly all our back office servers are connected to UPS.

We backup all our database on daily basis. We create this backup on different medium. On daily basis we create copy of database on stand by PC. On weekly basis the entire database is backed up in 2 media namely DAT drive and Portable HDD. These backups are stored either at Director's residence or in safe deposit vault.

We have also established connectivity through Lease Line for trading from our back office. In case of disaster if our front office is inaccessible the trading activity is carried out from back office. Even to safe guard failure of lease line we have stand by ISDN line to carry out trading activities.

**Supplementary RMS policy in addition to the Main policies of Transglobal Securities Pvt Ltd.**

- Limit Settings:  
**Exposure Limits**

The client agrees and confirms to abide by the exposure limits, if any, set by Transglobal Securities Pvt. Ltd., or by the Exchange or Clearing Corporation or SEBI from time to time.

The Stock Broker/ Trading Member may from time to time, at its sole discretion, impose and vary limits on the orders that the client place (including but not limited to exposure limits, turnover limits, limits as to number, value and / or kind of securities / contracts in respect of which buy or sell orders can be placed etc.) The client is aware and agree that the stock broker/ trading Member may need to vary or reduce the limits or impose new limits urgently on the basis of Member's risk perception and other factors considered relevant by Member and Stock Broker/ Trading Member may be unable to inform to the client of such variation, reduction, imposition in advance. The client agrees that the Transglobal Securities Pvt. Ltd. shall not be responsible for such variation, reduction and imposition of limits.

- Credit and Settlement

Trading and Exposure Limit if any set for the client is based on the Funds/Securities lying in the client's account from time to time. In case any position taken in F&O segment it is necessary to maintain adequate upfront initial Margin in the client account. In case of non fulfillment of margin obligations/settlement J G Global Equities Pvt. Limited may squared off whole or part of the positions at its discretion. In case of any outstanding dues arising out of square off of open positions/settlement obligation, Transglobal Securities Private Limited may initiate legal proceedings.

- Margin Requirement:

We hereby classify the risk as under:

1. **In Cash Segment**

Margin Requirement in cash segment is at the sole discretion of the Transglobal Securities Pvt. Ltd. Further, Transglobal Securities Pvt. Ltd may grant limit in cash segment on a case to case basis. Also Dealer is in direct touch with the client and he is well versed with the client's Financial Position and hence Transglobal Securities Pvt. Ltd may or may not rely upon the Dealer's decision on limit setting in Cash Segment.



2. [In F & O and CD Segment](#)

In F&O/CD segment, Margin is required on upfront basis. Client is allowed to take positions on fulfilling the upfront margin requirement. In F&O segment, only Initial Margin is required on upfront basis and in CD segment, Initial Margin and Extreme Loss Margin is required to be collected on upfront basis.

Further, Transglobal Securities Pvt. Ltd may demand any additional margin considering market conditions, client's risk profile etc.

- Refusal of Order:

Transglobal Securities Pvt. Ltd. shall have the absolute discretion to accept, refuse or partially accept any buy or sell order for execution from a client in respect of penny stocks, illiquid stocks, stocks having low liquidity, illiquid options, far month options, writing of options, stocks in S, Z and B2, T and TS category and any other contracts which as per the perception of Transglobal Securities Pvt Ltd. are extremely volatile or subject to market manipulation.

Transglobal Securities Pvt Ltd. may permit restrictive acceptance of orders in such scrips / contracts in controlled environments like orders received from clients being forwarded by branches to centralized desk at HO instead of allowing trading in such scrips / contracts at branch level or through Online trading platform. Transglobal Securities Pvt Ltd. shall not be responsible for delay in execution of such orders and consequential opportunity loss or financial loss to client.

Transglobal Securities Pvt Ltd. may cancel orders in such scrips received from clients before execution or after partial execution without assigning.