

# COCHIN STOCK BROKERS LIMITED

## RISK MANAGEMENT SYSTEM (RMS) POLICY

Cochin Stock Brokers Limited is a SEBI registered Trading member and Depository participant.

Cochin Stock Brokers Limited (CSBL) maintains a well-defined and clear cut RMS policy and comprehensive Risk Management System applicable to all trading clients. The policy is structured to ensure financial prudence, compliance with regulatory requirements, and robust risk mitigation practices.

### 1. INTRODUCTION

Risk Management is a process that provides a systematic method of identifying, analyzing, supervising and reducing the risks involved with any financial assets.

#### Type of Risk associates dealing in financial instruments

**Liquidity Risk :** Liquidity means a market where large orders can be executed with minimum price difference. Liquidity Risk can be summarised in one word "Higher the liquidity lower the risk and lower the liquidity higher the risk".

**System Risk :** Trading on Exchanges relies on technology and computer systems to place and route orders. However, system issues, network delays, or trading halts may occur, which are sometimes beyond control. These issues can lead to delays or failure in processing buy or sell orders, either partially or fully.

**Market Risk:** Market risk is the day-to-day fluctuations in a stock's price. Sudden fall in prices of stocks due to fundamental or other reasons can cause loss in security values.

**Settlement Risk/Auction Risk:** Currently, the cash and derivative segments follow a T+1 settlement cycle. In the cash segment, if a client sells shares on T+1 before receiving them from the exchange, there is a risk of short delivery, which may result in an auction of the sold shares.



CSBL would like to make customers aware of the inherent Risks involved in dealing in Equities and other financial assets. In view of the above, CSBL has implemented the following system of risk management.

### 1. Total Margin Computation

The total margin available for a client to trade comprises:

1. **Clear cash balance** in credit with the client.
2. **Value of pledged approved stocks** (as per Exchange guidelines) after applying the required haircut.
3. **Unclear fund balances**, at CSBL's discretion.

The total of these elements determines the margin available for trading.

### 2. Policy on Pre-Funded Instruments

CSBL follows a strict policy regarding pre-funded instruments:

- **Non-Acceptance:** CSBL does not accept pre-funded instruments such as Demand Drafts (DDs), Bankers' Cheques, or any third-party payments for margin or settlement purposes.
- **Exceptions:** If any pre-funded instrument is received, it must be supported by documentary evidence from the issuing bank stating that it has been issued against the client's own account.
- **Fund Transfers:** Clients must ensure that payments are made only via account payee cheques or electronic fund transfers from their registered bank accounts.

### 3. Intraday Trading & Liquidation of MIS Positions

- **Intraday Positions (MIS):** All intraday (MIS) positions will be compulsorily squared off at 3:20 PM or 10 minutes before market closure, whichever is earlier, regardless of the client's available margin.
- **Responsibility:** It is the client's responsibility to either close the position before this deadline or ensure sufficient margins to avoid forced liquidation.
- **No Exceptions:** This rule applies universally across all trading segments.



including equity, derivatives, and commodities.

#### 4. Exposure Limits & Margin Requirements

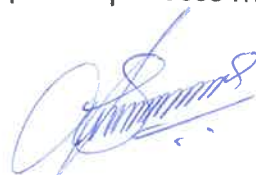
- CSBL sets client exposure limits based on the available margin and regulatory requirements.
- Clients must maintain **minimum margin requirements: VAR + ELM + Special/Additional Margin or 20% of trade value, whichever is higher.**
- **F&O Margins:** Full SPAN plus exposure margin must be maintained for derivatives trading, and any MTM loss must be replenished by T+1 day.

#### 5. Liquidation Policy

- **Client Positions:** CSBL reserves the right to liquidate client positions in cases of margin shortfall, non-payment of dues, or other financial risks.
- **Debit Ageing Policy:** Clients cannot carry forward debit balances beyond the **5th day from the settlement date.** If outstanding amounts are not cleared, CSBL will initiate liquidation of holdings to recover dues.
- **CUSPA Square off:** As per SEBI regulation all the T+1 unpaid securities are transferred to client Demat account with auto pledge creation under the reason unpaid in CUSPA (Client Unpaid Securities Pledge Account). Customer need to fund their account to fulfill obligation or sell the securities within T+6 days, else CSBL has the right to sell the unpaid securities.
- **MTM Square off:** CSBL reserves the right to square-off all intraday positions (cash as well as derivatives) and carry forward derivatives trades, where-in MTM crosses 80% and above.
- **Derivative - Physical Settlement Square off -** All Contracts in derivatives segment are physically settled. In case clients wish to take physical delivery ledger credit need to be maintained in case of Buy Position & Stock should be made available for pay-in in case of Short Position.
- **Losses & Charges:** Any losses arising from such liquidation will be entirely borne by the client.

#### 6. Client Code Modification Policy

- **Genuine Errors:** Only genuine punching errors in client codes during order entry are allowed for modification.
- **Restricted Access:** Client code modifications can only be executed from the **Head Office admin terminals** by authorized personnel.
- **Approval & Documentation:** A proper approval process must be followed,



with documented evidence for every modification. Frequent client code modifications will be flagged for review.

- **Regulatory Compliance:** As per extant Regulations, penalties are applicable on client code modifications.
- **Error Account Management:** Client code modifications involving error accounts must be completed within **three working days**. Failure to do so may result in penalties as outlined in the exchange guidelines.
- **Penalty Structure:** Any modification from a non-institutional client code to another non-institutional or institutional category will attract penalties ranging from **1% to 2% of trade value**, as per exchange norms.

## 7. Treatment of Inactive Clients

- **Definition:** A trading account will be considered inactive if none of the following activities have been carried out in the last **24 months**:
  - Trading or participation in OFS/buy-back/Open Offer across any exchange segment.
  - Applying/subscribing for IPOs (where the IPO bid is successful and not cancelled), SGBs, or Mutual Funds (lump sum investment or SIP payments) through the stock exchange.
  - Modification/updation of email ID, mobile number, or address in KYC records, with the updated information uploaded to KRA.
- **Flagging & Reactivation:** Such accounts must be flagged as 'Inactive' in the UCC database across all exchanges.
- **Reactivation Process:** Clients must undergo an **In-Person Verification (IPV)** or **Video-IPV (VIPV)** as per SEBI's KYC norms before reactivation.
- **Due Diligence:** CSBL must verify and update client details before reactivation. If the client's KYC status is not validated, additional documentation must be collected before allowing trading activity.
- **Client Communication:** CSBL may notify clients before flagging their accounts as inactive but must not solicit trades to prevent inactivity.

## 8. Order Acceptance & Execution Policy

- Orders will be accepted only from registered clients and placed through authorized channels (online terminals, AP offices, recorded phone lines)
- Orders must be placed within assigned margin limits; third-party orders



are strictly prohibited.

- Contract notes will be issued within 24 hours after the trade.

## 9. Compliance with Exchange & SEBI Regulations

CSBL strictly adheres to SEBI and Exchange guidelines, including policies on:

- **Inactive Accounts:** Client accounts inactive for 24 months will be flagged as inactive, requiring reactivation as per regulatory guidelines.
- **Internal Shortage Handling:** Any internal shortages in securities settlement will be resolved as per the prevailing market regulations, with penalties applied accordingly.
- **Monthly/Quarterly Settlement:** Funds balances will be settled as per SEBI guidelines, based on client preferences. Clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by CSBL on the first Friday/Saturday of the monthly settlement cycle, irrespective of the date when the running account was previously settled.

## 10. Outsourcing Policy

- CSBL does not engage in outsourcing any of its core functions related to trading, risk management, settlement, compliance, or surveillance.
- **Operational Control:** All critical activities are handled internally to ensure data security and regulatory compliance.
- **Monitoring:** CSBL conducts periodic internal reviews to prevent unauthorized delegation of responsibilities and ensure that all operations comply with SEBI and Exchange guidelines.

## 11. Insider Trading Policy

- **Trading Restrictions:** Employees, directors, and related parties must disclose their trading activities in securities to the Compliance Officer before execution.
- **Approval & Reporting:** Any securities transactions by insiders require prior approval and must be reported in compliance with SEBI (Prohibition of Insider Trading) Regulations.
- **Monitoring & Compliance:** Any suspicious transactions will be reported to



SEBI and regulatory authorities for further investigation.

## 12. Unauthenticated News Circulation Policy

Employees are strictly prohibited from circulating market rumors or unverified information. Any market-related news must be approved by the Compliance Officer before dissemination.

This RMS policy is subject to periodic review and updates as per regulatory and operational requirements. Clients are advised to stay updated with policy changes through official communications from CSBL.

*Disclaimer; The above guidelines are indicative and may change at CSBL's discretion without notice, based on market conditions. No claims will be entertained, and CSBL reserves the right to adjust credit limits, exposures, and liquidate collateral in case of default.*

**End of Document**

