Two Roads Trading Private Limited

Risk Management Policy

Introduction

Investment in securities is susceptible to market risks which cannot be predicted. While the risk of loss is inherent in the market, we as a 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.

Scrip Categorization

For the purpose of risk management, we categorize Scrips listed on NSE as "Blue Chip", "Good", "Average" or "Poor" on the basis of their fundamentals, volatility, liquidity, trading pattern and overall concentration with individual customers. These categorizations form the basis for defining hair-cut on collateral, providing exposure limits, impose trading restrictions, calculate projected risk, prioritize collection, control exchange surveillance related risk, etc.

Criteria for scrip categorization category level are given below:

Two Roads shall adopt such criteria for the classification as it may deem proper from time to time.
Scrip Category Criteria for Scrip Selection

Blue Chip

- Market capitalization and Net-worth >= Rs. 1000 Cr.
- Employee Cost and Power Cost >= Rs. 25 Cr OR Tax paid >= Rs. 25 Cr for last two years
- Scrip should be listed in FNO segment.

Good

- Market capitalization and Net-worth >= Rs. 250 Cr.
- Employee Cost and Power Cost >= Rs. 5 Cr OR Tax paid >= Rs. 5 Cr for last two years
- Scrips satisfying 'Blue Chip' criteria but not listed in FNO segment.

Average

- Market capitalization and Net-worth >= Rs. 50 Cr.
- Employee Cost and Power Cost >= Rs. 1 Cr OR Tax paid >= Rs. 1 Cr for last two years

Poor

For Two Roads Trading Private Limited
Rakesh Kumar

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- All scrip not falling in above mentioned criteria

Note: The list will be reviewed-. However, in extremely volatile market with abnormal price/volume movements, or in case of warnings by regulators/exchanges, scrips may be re-categorized without prior notice and the customers shall regularize their accounts and trades accordingly.

Dealing in Restricted Scrips

- Two Roads may, from time to time, also classify and publish on its website a list of restricted securities in which Two Roads may refuse any transactions or unilaterally reduce the open market interests of the customers.

- Two Roads also reserves the right not to allow or restrict any transactions in certain securities or segments or orders/requests which may be below/above certain value/quantity as may be decided by Two Roads from time to time. Trading in such scrips will be allowed subject to the following conditions:

- The trading turnover (buying and selling) in restricted scrips shall not exceed Rs. 1 lac on a single day.

- At any given point in time, the holding of any customer in restricted scrips shall not be more than Rs. 2 lacs.

- Purchase of restricted scrips will be allowed only against 100% ledger credits.

- Client will be allowed to trade in restricted scrip only for two days in a month (E.g. the client trades in restricted scrip 'X' on Day 1 and Day 2; he shall not be allowed to trade in the same scrip 'X' or any other restricted scrip in the same month).

- Two Roads may, however, permit sale in excess of Rs. 1 lac if the Customer has purchased the restricted scrip through Two Roads, provided that the transactions do not take place on more than 2 days in a month and that the scrips are lying in customer's own B.O a/c with Two Roads DP or in Two Roads's Beneficiary account.

- Dealing in restricted scrips shall be through centralized dealing desk at the Central Support Office - Dealing Department.

Restricted Contracts

Two Roads restricts/ blocks certain Future and Options contracts on trading platform to avoid manipulations or erroneous trading. The Parameters on which such restrictions/ blocking of contracts are done are as under:-

- Open interest Value in the contract is less than 25 Lacs. For future contract Open interest x closing price < 25 lacs, in case of option open interest quantity x (strike price + closing premium price) < 25 lacs.

Or

- In case of Option contracts, if strike price falls (+,-) 20 % of previous day closing price of that particular scrip in cash market.

Any contract, which falls into the above parameters, will not be allowed for trading on terminals. Such orders can be placed from the centralized desk after due diligence. Clients are requested to contact their respective branch/ region or CSO for orders in blocked contracts.

Further we restrict other scrips falling under categories as mentioned below:-

i) Cash N Carry Scrip: - Listed companies having expenditure more than Rs. 25 Lacs but less than Rs. 50 Lacs on account of employee cost or power cost or both are classified as "Cash & Carry Scrips" where delivery based buying (to the extent of credit balance) and delivery based selling is allowed. Trading will not be allowed beyond 10% of the average market volume of the previous month.

ii) Re-listing Scrips: The scrips are blocked / restricted for trading on the first day of relisting as risk of price discovery prevails in the market. Such scrips would be classified in above mentioned scrip category as per the criteria mentioned. If such scrips fall under the Restricted or Cash & Carry, the conditions mentioned above would be applied.

iii) Other restrictions: In case of bulk / block deal, prior approval from Risk will be required if the quantity to be traded exceed 0.5% of the issued capital. Circular or Insider trading is strictly prohibited. Action shall be initiated against any trade resulting in price rigging.

Two Roads shall not be responsible for non-execution/delay in execution of orders in restricted scrips and contracts and consequential opportunity loss or financial loss to the customer. Two Roads shall have the discretion to place such restrictions, notwithstanding the fact that customer has adequate credit balance or margin available in his account and/or the customer had previously purchased or sold such securities / contracts through Two Roads itself. Two Roads shall have the right to revise the list of such securities / contracts on a periodic basis.

Assigning Trading Limits

Margin/Deposit based limits are assigned to the customers for trading purpose. VaR/SPAN margin specified by the exchanges is blocked at scrip level on the positions taken by the clients during the day.

i) Deposit calculation: Deposit is calculated at customer level after netting off ledger balance in all segments and Holding & Collateral lying in Two Roads. Margin is calculated as follows:

ii) Margin = Ledger Balance (Dr/Cr) + Net value after haircut of holding & collateral available with Two Roads.

iii) Valuation of holding & collateral: Holding & Collateral valuation is done on previous day's closing price. Net valuation is calculated by applying appropriate haircut based on VaR margin percentage specified by the exchanges or Two Roads prescribed rates, as the case may be.

iv) Extreme market conditions: Limits are assigned based on credit in the ledger. In such conditions, clients will be allowed to buy only to the extent of ledger credit available.

v) Single order quantity and value cap: In order to minimize loss from possible punching errors by a dealer while executing the transaction for a customer, Risk Management of Two Roads puts restriction by capping the maximum quantity and value per order and orders exceeding that maximum quantity or value cap will be rejected. Two Roads also sets terminal level limits to contain loss from erroneous trades getting executed. Two Roads shall not assume any liability in respect of orders rejected by reason of their quantity or value exceeding the cap value.

Auto square off process

Auto square off is done at two levels as mentioned below:

i) **Risk Square off**: Auto Square off process applies to all clients. Calculation is done on the basis of projected risk and square off is done up to the net debit amount.

Calculation of Projected Risk for Auto Square Off:

Projected risk = If Deposit ± Ledger + holding ± options PL – (30 % of VAR margin on cash segment holding & FO initial margin+ 50% Margins in currency segment) < 0.

Action in case of projected risk:

• Holdings and open market positions will be liquidated to the extent of debit including margin shortage.

• We reserve the right to sell holdings and close out open market positions of any client if the client has defaulted to pay margin/debits even though his/her/its account may not be in projected risk.

Sequence of Square Off

Square off is executed with a view to first clear shortage in derivative segments and then towards debit in cash segments. Thus, the hierarchy followed is:

• Derivative segments up to the margin shortage

• Sequence followed for square off in cash segment will be poor category scrips first, followed by average, good and blue chip respectively.

ii) **Debit Square Off:**

It is client's obligation to clear his/her outstanding dues by T+2 (T indicates Trading day). The client shall ensure timely provision of funds / securities to Two Roads Trading Pvt. Ltd so as to meet exchange obligations. Two Roads reserves the right to close the positions / sell securities to the extent of ledger debit and /or to the extent of margin obligations.

Selling will be done in clients account on T+7 days for the ledger debit which is more than T+6 days on ageing basis. For e.g.: All trades executed on Monday will be squared off on next Wednesday (T+7) where T indicates Trading day. In other words, if funds are not received for scrips purchased on Monday by next Tuesday i.e. T+6, Two Roads shall liquidate securities to the extent of ledger debit.

Sequence of Square Off:

Square off will be done considering scrips with oldest settlement in a sequence of poor category first, followed by Average, Good and Blue-chip respectively.

Margin collection in Derivative segments

Margins are collected upfront from all clients in leveraged segments. In case of margin shortfall due to Mark to Market, same is collected latest by T+1. Margins shall be demanded on intra-day basis during volatile market conditions and Client should be able to replenish margins on immediate basis when demanded to avoid square off. Where market conditions so warrant, Two Roads may demand payment by electronic transfer and refuse to accept payment by cheque. Nonpayment of margins shall also result in penalty as per exchange on open position towards margin shortage. In case of ledger debit, collateral stocks as provided by client shall be liquidated to the extent of ledger debit.

Intimation to clients

Regular intimations regarding debit, information about margin shortage with penalty amount (real time margin shortage), communication regarding liquidation is sent through SMS and email on the clients' registered mobile number and email address respectively.

For Two Roads Trading Private Limited
Rakesh Kumar
Authorised Signatory/Director

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Authorised Signatory/Director