



RISK MANAGEMENT

**BMA CAPITAL MANAGEMENT LIMITED**  
PROCEDURAL MANUAL

July 2018 | Private & Confidential



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## 1. SCOPE AND OWNERSHIP

### Scope

The Procedural Manual of Risk Management Department is intended for use principally by the staff of Risk Management Department and also to be used by all other Departments as a reference. It is based on the systems and procedures presently in operation with primary objectives as follows:

- The basic purpose of the Risk Management Department is to assess ,measure and mitigate the risk in connection to the investments and customers.
- Serve as a tool to comply with the statutory requirements and implement the various management policies.
- Provide guidelines to the staff to carry out the work according to the prescribed policies and procedures.
- Facilitate training to new inductees.
- Serve as a reference document and allows for easy updating on a regular basis.
- Any updates to this manual will be duly approved by the same authority as the final approving authority of the manual itself.
- Serve as a tool for trouble shooting.

### Ownership

The ownership of the Procedural Manual of Risk Management Department lies with the HOD. Updating or changes (if any) to this manual will be made by the HOD after the approval of the changes by the Board of Directors in accordance with the procedures set out below.

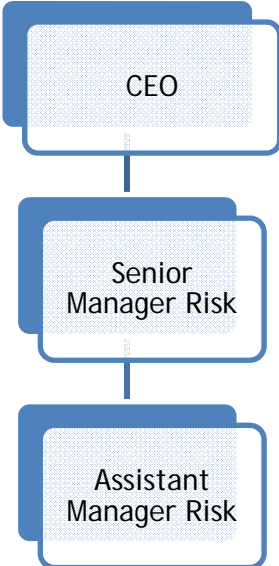
The policies that the Company follows are set out in a Policies Manual. Each policy adopted by the Company has been assigned a Department for ownership. Compliance Department will keep track of changes in laws affecting this manual. Whenever any change in law occurs, the Compliance Department will propose the change in consultation with Internal Audit and the Head of Department to the Board of Directors for approval. All the changes will be incorporated by the HOD of the IT Department in the manual after approval by the Board. Date of change will be noted on the cover sheet of the manual to keep track of the latest version of the manual in effect.

The manual will also be reviewed every 3 years by the HOD of the Risk Management Department, Compliance Department and Internal Audit jointly. Any changes proposed will be made in the manual following the procedure stated in the paragraph above.

2. FINANCIAL AUTHORITY MATRIX

Transactions relating to the Department will be approved in accordance with the Delegation of Authority set out in the Policies Manual.

3. FUNCTIONAL ORGANOGRAM



#### 4. RECORD RETENTION

Risk Management Department retains the data in soft form for about ten years.

#### 5. DAY START PROCESS

Every morning, Risk Management Department refreshes the system designed by generating empty reports to check whether the system generates fresh reports without any error. This process is carried out to clear technical errors before the system generates the actual report.

#### 6. RISK ASSESSMENT AND MONITORING CUSTOMERS

##### 6.1. Account Opening

Account Opening Department sends account opening forms to the Risk Management Department. Senior Manager Risk Management Department checks and ensures that the forms are complete, Know Your Customer (KYC) portion has properly been filled, signed and contains all the required documents such as copies of NIC.

Special attention is given to the signatures by the client on "Annexure A" of the account opening form disclosing the risk involved to the investment.

If the account opening form is in order the form is signed by the Risk Management Department and returned to the Account Opening Department

##### 6.2. Retail Customers

Where trades have been executed directly through KATS after obtaining approvals as set out in the Equity Trading manual for retail customers such trades will appear as debit balances on the daily Debit Report referred to in paragraph 6.7.1 of this manual. The RM Department will review such balances on the Debit Report to ensure that the balances are within the custody value after applying haircuts as calculated by the Eclips system for the customer such balances will be followed up by the RM Department to ensure these are settled on T+2 basis where the balance is not settled on T+2 basis, a notice will be issued by the RM Department to the customer for settlement of the amount within three days of the notice the relevant trader will also be informed by the RM Department for recovery of the balance. If the balance is not settled within three days of the notice, the RM Department will instruct the trader to square up the position. Any loss as a result of squaring up will be recovered from the customer by sale of his shares in custody to the extent of the loss.

Equity Trading Department informs the RM Department of day trades undertaken during the day. Day trades are required to be closed before the market closes for the day. In the case of day trades which have not been closed by the trader on the closure of the market, the RM department will square up such positions on the following day when the market opens.

In case of NDM trades of Individual customers, trader takes approval from the Risk Management Department for such transactions and in case the Risk Management Department does not approve the transaction approval from HOD is then to be taken by the trader through an email or on recorded telephone line for execution of the trade.

##### 6.3. Institutional Investors and High Net Worth Individuals

Presently there are no limits or margins required for trades executed by the above. In such cases the custody of the shares if the trade is not settled by the customer on settlement date, the custody of the shares will be kept by BMA and the shares will not be transferred to the customer the trader will also be informed for recovery of the amount.

#### 6.4. Margin Facility for MF Transactions

Margin financing is extended in respect of securities traded in PSX only through the platform provided by Exchange. However, margin facility is not provided to the employees of BMA and online clients.

Margin Financing is only provided on securities approved by NCCPL. A list of such eligible securities together with a list of securities acceptable as approved collateral along with their haircuts is provided by the NCCPL portal. BMA can sometimes further restrict the list of PSX approved securities for margin financing for its own internal purposes. Such list of securities approved for margin financing internally is approved by the CEO as explained in paragraph 6.4.2 of this manual. In case margin finance is requested by a customer in respect of an eligible security which is not also on the internally approved list with Risk Management, the trader seeks verbal approval of the relevant Desk head in the Equity Trading Department for financing of the purchase on MF basis in accordance with the BMA's policy as set out in paragraph 6.4.2 of this manual. In such cases the approval if given is then emailed to or the Risk Management Department informed through a call on the recorded line of the approval given.

Currently, markup on margin financing cannot exceed the rate prescribed by NCCPL, however a rate lower than the prescribed markup rate is usually charged by BMA in order to avoid violation of the NCCPL prescribed rate.

Where a MF facility is requested by the customer the account opening form is accompanied with a MF facility agreement filled by the customer. This document if approved serves as an agreement between the Company and the customer regarding margin financing. Risk Management Department reviews the agreement and ensures that the agreement has been signed properly by both the parties. MF is not provided out of customer funds. The company's own pool of funds is used to finance MF transaction.

Margin Finance facility is allowed to customers up to an aggregate amount of Rs 25 million per customer subject to 25% margin deposited by the customer of which 5% must be in cash and the balance 20% can be in the form of securities after applying the relevant haircut applicable to the security. Where aggregate facility requested by the customer exceeds Rs 25 million, but is less than Rs 50 million the request will be forwarded to a Credit Committee comprising CFO, HOD Equity Trade Department and HOD Equity Settlement for approval. In rare cases where the request exceeds Rs 50 million the approval will be given by the CEO in addition to the Credit Committee. In all cases a margin of 25% of aggregate value of trade or VAR estimates of such trade whichever is higher is to be maintained. Furthermore, no margin facility will be allowed to customers exceeding the limit per script as may be prescribed from time to time.

MF on eligible securities cannot exceed 5% of free float. The NCCPL system automatically compares the quantity placed for MF financing with the free float available and where the order exceeds 5% of the free float, the order is rejected by the system.

Where a request for extension in margin finance is made by a customer to Risk Management Department, the initial agreement signed for margin facility continues to serve as the principal



agreement. However, the approval for the extension is given to the customer for the extension in the agreement through a recorded telephone line by Risk Management Department.

#### 6.4.1. Margin Financing Transaction Approval

Where a customer wishes to purchase shares by using the MF facility, trader feeds the buying order on KATS as per instructions of the customer if the security is on the internally approved list of securities eligible for margin financing or where the security is not on the list but eligible, approval of the financing has been taken by the trader from the relevant desk head as explained in paragraph 6.4 of this manual. After the closure of stock market, traders forward details of the customers requesting margin financing to Risk Management, for the assessment of the amount available in the customer's account to meet the margin requirements for the MF transaction.

If the customer has sufficient funds or securities in his account to meet the margin requirements, Risk Management Department forwards the order to the Equity Settlement Department for further execution in the form of initiation and affirmation of the transaction by uploading the details on the NCCPL portal. If Risk Management Department rejects the order on the grounds that the funds available are insufficient to meet the margin requirements, the order is returned to the trader in Equity Trading Department the following day, where the transaction is squared-up with any gain/loss credited/debited to customers account. Where RM considers that no further trades should be undertaken a notice is emailed to the Equity Trading Department to block UIN number of the concerned customer.

Where a security is given as collateral to finance the margin, the security given as collateral cannot be the same as the security being financed through MF.NCCPL portal has a list of securities acceptable as approved collateral, together with the corresponding haircuts against each security. This list is updated automatically by NCCPL.

#### 6.4.2. Margin Finance Eligible Securities List

NCCPL has specified a list of eligible securities for margin financing as explained in the paragraph above, together with the list of securities acceptable as collateral to meet margin requirements. BMA sometimes further restricts the list of NCCPL approved securities for margin financing for its own internal purposes. Such list is prepared by Risk Management Department along with their haircuts after taking into account the following matters:

- Value at risk (VAR)
- Haircuts
- Average Volume

This list is then forwarded through e mail to CEO for approval. A copy of the approved list is then sent to Equity Trading Department.

MF financing is sometimes requested by customers in respect of securities which are eligible for MF financing but are not on the internally approved list. Where a customer requests for MF financing in such cases, the trader seeks approval of the relevant desk head for financing the purchase on MF basis. In such cases it is BMA's policy to finance the purchase on MF basis if;

- The customer is known to the desk head and has had a reasonably reliable past track record with the BMA.
- Minimum volume of trade is not less than 50 thousand shares if stock price is below Rs. 100 per share.

- Minimum value of trade is not less than Rs. 2.5million shares if stock price is above Rs.100 per share.
- Maximum value of stock or the aggregate value of the MF transaction of such customers is not more than Rs. 25million.

#### 6.4.3. MF and MT Release Transaction Approval

MF transactions are settled on or before the contract maturity date which is usually 60 days after the initiation of the contract. Where the customer requires settlement of the contract without sale of the security, the customer informs the trader or RM Department for release of the custody of the security. On receipts of the request the RM checks the account balance to ensure that there is no outstanding debit balance in the customer account. If there is no outstanding debit balance in the account, the RM forwards the approval for release of the custody of the security to Equity Settlement Department through email or a recorded call. The Equity Settlement Department then changes the status of the security from blocked to available in the CDC system through the NCCPL portal. In the case of MT transaction RM submits daily an MT Release Report to Equity Trading Department which sets out the details of the securities to be released in respect of customers.

#### 6.5. Mark to Market Gains or Losses on MFS

At the close of each day RM Department updates the back connect system for the market prices prevailing at the close of the day in respect of eligible securities. The system then updates the balances of the securities outstanding on the customer accounts for the changes in the market prices of such securities and calculates the gains or losses arising from the revaluation of the securities on mark to market basis. Mark-to-market losses are the losses which arise due to decline in market price and mark-to-market profit arises due to the increase in market price of the Share.

All mark-to-market gains/losses are settled on the following basis:

- Gains arising on revaluation are settled in the manner described in the Equity Settlement Department manual
- Losses arising on revaluation are debited in the individual customer account and are to be settled immediately by the customer if sufficient balance is not available in his account.
- Where the market price of the MF transaction value declines to 30% of the value, mark to market loss is collected only in cash.

#### 6.6. Margin Call

Daily the RM Department reviews the Client Debit Reports and Risk Reports as explained in section 6.7.1, and 6.7.3 of this manual for debit balances outstanding on customer account and short fall in margins for each customer .If a customer's margin has declined below the required threshold (*Refer 6.7*) because of mark to market losses, Risk Management Department informs the concerned trader to intimate the customer through a recorded telephone line or in writing or through e-mail to post additional margin within one business day. If additional margin is not deposited by the customer within one business day of such intimation the customer is again reminded of the position and cautioned that if the margin drops to 10% of the cash and custody value of the securities in hand, the securities held or the open positions outstanding on customer account will be sold by the squaring up process to settle the transaction.

Under the regulations BMA is required to give notice to customers for recovery of any charges or losses through sale of securities in his book account. In the account opening form customers have been informed that such charges will be recovered from them and this is considered as notice to the customers for the recovery of such losses or charges.

## **6.7. Reporting**

### **6.7.1. Debit Report-All**

This is a system generated report, which is processed by Risk Management Department on a daily basis. The report sets out for each customer on the report date the balance outstanding on his account, the custody market value of the securities held by him, the difference between balance outstanding and the custody value of the securities, age in days for which the balance has been outstanding the group to which the customer belongs e.g. DVP, Non DVP, branch and trader details.

The report is forwarded to CFO, CEO, Chairman, Director Operations and traders of the Company through e-mail.

As soon as the report is sent to the traders, responsibility lies upon them to collect payments and clear the debit balances of their respective clients on timely basis.

### **6.7.2. Debit Report-Dealer Wise**

Debit report dealer wise is a system generated report which is processed by Risk Management Department on a daily basis. The report sets out for each dealer on the report date the balance outstanding on the account of his customers, the custody market value of the securities held by the customer, the difference between balance outstanding and the custody value of the securities, age in days for which the balance has been outstanding the group to which the customer belongs e.g. DVP, Non DVP and branch details.

The report is forwarded to CFO, CEO, Chairman, Director Operations and traders of the Company through e-mail.

As soon as the report is sent to the traders, responsibility lies upon them to collect payments and clear the debit balances of their respective clients on timely basis.

### **6.7.3. Debit Report-Age Sorted**

Debit report age sorted is a system generated report which is processed by Risk Management Department on a daily basis. The report sorts in descending order of the number of days for which balances on customer accounts have been outstanding, the custody market value of the securities held, the difference between balance outstanding and the custody value of the securities, the group to which the customer belongs e.g. DVP, Non DVP and branch and trader details.

The report is forwarded to CFO, CEO, Chairman, Director Operations and traders of the Company through e-mail.

As soon as the report is sent to the traders, responsibility lies upon them to collect payments and clear the debit balances of their respective clients on timely basis.

### **6.7.4. Risk Management Report.**

This is a system generated report which is processed by Risk Management Department on a daily basis. The report summaries by dealer and within dealer by customer the following:

The report is forwarded to CFO, CEO, Chairman, Director Operations and traders of the Company through e-mail.

The report comprises following parts:

**6.7.4.1. Net Liquidity:**

This is the sum of the Portfolio Cash Balance and Custody Reduced Value of the securities held by the customer in custody account.

**6.7.4.2. Free Margin:**

This is the difference between the margin required and the net liquidity or in other words the sum of the net liquidity and the free margin is the margin required.

**6.7.4.3. Total Open Position:**

This is the sum of the outstanding open contracts in the MFS,MTS and Futures Market.

**6.7.4.4. Margin %**

This is the percentage of the net liquidity divided by the open position.

**6.7.4.5. Total Portfolio:**

This is the market value of the customer's portfolio of security in custody and the portfolio cash balance.

**6.7.4.6. Working Capital:**

This is the same as net liquidity.

**6.7.4.7. Portfolio Cash Balance**

This is the sum of the balance outstanding in the customer account adjusted for the mark to market losses, mark to market profits and FPR.

**6.7.4.8. Cash Margin Call:**

This is the difference between the net liquidity and the margin required.

**6.7.4.9. Custody Market Value:**

This is the market value of the customer's portfolio of security in custody.

**6.7.4.10. Custody Reduced Value:**

The custody reduced value is the market value of the securities as reduced by a haircut applied which varies according to the type of the security held. There are four categories for application of haircuts to the securities namely A, B,C and D.

#### 6.7.5. Risk Management Report-Critical

This report is generated daily by the Risk Management Department and lists details of customers whose margin percentage has dropped below the required thresholds.

The report is forwarded to CFO, CEO, Chairman, Director Operations and traders of the Company through e-mail.

#### 6.7.6. Risk Report(Leveraged Product Position)

Risk Report is a system generated report which sets out the exposure outstanding against the trades undertaken in Margin Trading System (MTS), Margin Financing System (MFS), Futures Market and net custody position for each customer. A 25% margin is required to be kept for trades under MFS of which 5% must be in cash and balance 20% in cash or security, a 15% margin for trades in the MT system whole of which should be in cash. 25% margin of which 12.5% must be in cash but limited to a maximum of four times the sum of the cash balance and the residual value of the securities in custody after applying haircuts to the market value of such securities. At the end of each day the system updates the outstanding exposure and the net custody position of the customer on a mark to market basis to arrive at the closing value of the customer's aggregate portfolio. Based on these values the system calculates the margin required on the outstanding exposure under the MFS and MTS markets and the margin available by taking into account the customer's cash balance in hand, unrealized mark to market profit and the custody value of the net custody position of the securities in hand. Where the margins available fall short of the required margins, these are highlighted in the report for follow-up by the RM Department in the manner described in the Section 6.6 of this manual.

#### 6.7.7. MFS & MTS Position Report (Leveraged Position Report)

MFS (Margin Financing System) and MTS (Margin Trading System) Position Report is a report daily generated from the system which compares the percentage of aggregate trades in both value and volume with the aggregate trade by PSX in the leveraged market and also lists script wise the trades undertaken in margin trade and margin finance.

BMA's limit for margin finance is fixed by the CEO in consultation with CFO and Head of Equity Settlement. The CEO informs the RM Department of the limit fixed which then becomes the limit for the house. This limit is then fed into the NCCPL system. Based on the limit fixed, exposure margin required by the NCCPL for such limit are deposited with NCCPL. The system monitors the trades in MF financing in aggregate and by script against these limits. When the aggregate value of the margin financed trades is about to reach the maximum authorized limit, the system prompts both the Finance and Equity Settlement Departments of the status. In such cases further trades in margin finance will only be allowed by the system if additional margins are deposited with NCCPL. When the aggregate value per script is about to reach 5% of its free float, NCCPL system also does not authorize affirmation of contract and generates an error window declining the affirmation. In such cases the contract will need to be cancelled.

Copy of the report is also forwarded to the, Chairman, CEO, CFO, Head of Equity Settlement and traders through e-mail. However, the position report and MF details are sent to the Accounting and Finance Department as well, in order to submit the details to NCCPL on monthly basis.

Monthly a consolidated report is sent to CFO for filling with NCCPL.

#### 6.7.8. MF Outstanding Days Reports

All MF transactions must be released within 60 days of the transaction. Markup on the amount financed is accumulated in the NCCPL system and accounted for in BMA's books at the time of the release of the position. In case the contract release exceeds 60 days approval of RM is required. An MF Outstanding Days Report is daily generated by Risk Management Department which sets out the number of days for which the contract has been outstanding. The report is reviewed by RM Manager to ensure that all contracts exceeding 60 days have been approved by him and traders are informed through recorded line of all balances which exceed 50 days and are about to expire.

Furthermore, the system also generates a popup warning in respect of contracts exceeding 50 days.

#### 6.7.9. Cash Withdrawal Report

In case the customer wishes to withdraw funds from his account, the customer is required to send an email or letter to the Customer Service Department, which is then forwarded to Senior Manager Risk Management Department for processing for withdrawal of funds. Customers can also use the withdrawal option for funds available in the trading software which directly generates a request on the Company's portal.

Senior Manager Risk Department reviews the customer's account for outstanding orders/pending settlements in the ready and future markets as well as the total cash balance available and generates a report specifying the details.

The request is then approved and forwarded to the Equity Settlement Department for further processing.

In case the request is declined the Customer Service Department is advised through email who then informs the customer on a recorded telephone line.

#### 6.7.10. Short Sell Report

Short sell report is a system generated report, which sets out all short sell transactions if any made during the day. The report is daily generated at 3:00 pm by Senior Manager Risk Management Department and emailed also to the Equity Settlement Department.

Short sell transaction means the sale of securities for which no corresponding shares are held in the account of the customer. Short sells are only allowed in the future market. In any other case short sells are not permissible.

The report is reviewed by the RM Department and all short sell investigated from the trader or customer. If the customer has executed the short sale in the ready market through KATS but

the custody of the stock is maintained in another brokerage house , the customer will be immediately instructed to transfer the share to BMA account for settlement on T+2 basis.

If the customer does not have the custody of the security in the ready market, the security will be purchased by the NCCPL on behalf of BMA to settle the transaction. Any profit/loss arising through squaring up process is charged to the customer account. In the case of such blank sell transaction a notice is subsequently received by CEO who forwards the notice to the Compliance Department for response. If a penalty is levied by the PSX on blank sell to customer account is debited for that amount.

In the case of futures market if the customer does not have securities to settle the contract the shortfall is treated as blank sale and the contract is settled by NCCPL through squaring up process. Any profit or loss and penalty in such cases imposed by PSX is charged to the customer account.

#### **6.7.11. Custody Transfer Request**

Where customer wishes to transfer share from BMA to another brokerage house, or CDC Investor Account a request is raised by the customer on the BMA's Portal or through e-mail to the Customer Services Department. A request can also be made through a pre-defined format in hard form the request received is then forwarded to the RM Department.

On receipt of the request, Risk Management Department evaluates the request for transfer of the custody of security. By reference to the customer account and checks for the following matters:

- That no debit balance exists in the customer's account. If there is a debit balance sufficient securities will be held after the transfer requested to meet that obligation of the customer.
- That sufficient securities after the transfer requested will be held as margin against outstanding margin finance or future contract if any,
- That sufficient securities will exist after the transfer to meet any CGT liability which may have arisen on past sale transaction.
- That the shares for which transfer has been requested are not suspended shares.

If sufficient funds in the form of the cash or securities will be available in the customer account to meet the above liabilities, the RM Department approves the transfer and advises the Customer Services Department through email to make the transfer.

Where sufficient fund are not available RM does not approve the request for transfer of securities.

The request after approval is entered into the excel sheet maintained by RM Department which lists all transfer out of share of the day. The list is printed daily and forwarded to CS Department for further processing of transfer of the custody of the share.

#### **6.7.12. Suspicious Transaction Report(STR)**

RM Department has a responsibility to be vigilant throughout the course of carrying out their duties, and to report any activity they may observe or become aware of, that in their judgment

they deem to be potentially suspicious or inconsistent with their general knowledge of expected account activity or company's business.

What is suspicious transaction and the process for reporting such transactions is set out in section 15.2 of the manual for Customer Services Department and should be referred to for such transactions.

## **7. RISK ASSESSMENT AND MONITORING EMPLOYEES**

### **7.1. Account Opening**

Account Opening Department forwards the employee account opening forms to the Risk Management Department where the senior Manager Risk Management Department checks the forms to ensure these have been properly filled, signed and supported by required documents. The forms after reviewed if complete are signed by the RM Department and returned to the Account Opening Department for further processing.

### **7.2. Surveillance**

Senior Manager Risk Management Department monitors the overall activities of Equity Trade employees within the premises through the CCTV Cameras installed throughout BMA. Risk Management Department strictly monitors the use of mobile phones during the working hours. All traders, head of sales & KATS operators are required to deposit their cell phones at the start of each day at reception. Staff members from the other departments are also not allowed to take mobile calls in the trading hall.

Any violation is reported through email to the Chairman and CEO by RM Department.

### **7.3. Hearing of recorded calls**

If in case a disputes between traders and clients, Risk Management Department resolves the disputes by listening to the telephonic conversation between them recorded VRM system. Such recording are retained for 6 months.

### **7.4. Reporting**

#### **7.4.1. Employee Debit Report**

This is a system generated report, prepared by RM Department and lists the amounts receivable from employees in respect of which trades undertaken by them. The purpose of the report is to enable Department to follow-up the timely settlement of outstanding balances by employees.

Copies of the reports are also emailed to CFO, CEO, Chairman and Head of Equity Settlement for information.



#### 7.4.2. Employee Trading Report

Policies Regarding Employee trading are set out in the policies manual of the company .No Employee is allowed under the policy to trade through another brokerage house. Employees are responsible to disclose trading of shares by his spouse and dependent children and remain to be compliant with the policies of BMA. Trades take place through UIN numbers, BMA's employees are not allowed to trade in leveraged products. Each employee has a UIN number through which control is exercised to prevent employees from undertaking trades through another brokerage house.

An Employee Trading Report is generated daily by Risk Management Department to monitor any breaches by employees of company policy.

Copies of the report are also emailed to the Chairman, CEO, CFO and Head of Equity Settlement.

### 8. OTHER REPORTS

#### 8.1. Market Share Report

Market Share Report is a system generated report summarizing the percentage of the company's share of the volume and value of trade in each market compared to the aggregate value of trades in each market on PSX. The summary is supported by detailed reports listing Security-wise, UIN-wise and Market-wise exposure by trader. Copies of the report are also emailed to the Chairman, CEO, CFO and Director Operations for information.

#### 8.2. Insider Dealing

No Broker shall directly or indirectly deal in any listed security or cause any other person to deal in securities of such company if he has information which:

- a. Is not generally available, and
- b. Would, if it were so available, be likely to materially affect the price of those securities.

Broker, Agent or an Associated Person to keep accounts. Every broker shall maintain separate books of accounts for:

- a. Money received from or on account of and money paid to or on account of each of his clients; and
- b. The money received and the money paid on a Broker, Agent or an Associated Person's own account.

### 9. PROPRIETARY TRADING

#### 9.1. Investment Advisory Committee

Investments on proprietary account are made on the recommendations of an Investment Advisory Committee. The Committee comprises CEO, CFO and Head of Equity Settlement with CEO as its Chairman.

Investments are made on the basis of an Investment Policy approved by the Board and set out in the Policies Manual.

Decisions are communicated through email by the Chairman of the Committee to RM Department for investment on proprietary account. A copy of the email is also forwarded to the CFO and Head of Equity Settlement. Senior Manager Risk is the designated system operator having a dedicated terminal to execute trades for the Company on proprietary account.

On receipt of the email, RM enters the details of the trades in KATS for the quantity and price at which the trade is to be executed.

If the trade remains unexecuted the transaction is rescinded and the CFO is accordingly informed by the RM Department. Once the trade has been executed, RM Department confirms the trade by replying to the email received.

#### 9.2. No Aggregation of Orders

Regulation require that a Broker does not aggregate an order for a customer with orders for other customers, or with own account orders. As each customer trade is executed with its unique UIN including trades in Proprietary account, this feature of the KATS system prevent the aggregation of the order.

#### 9.3. Conflict of Interest and Disclosure by BMA

Regulations require that a broker is to disclose to his customers the placement of an order in a particular security, while accepting such order his intention to carry out a proprietary trade in the same security on a particular day. As trades on proprietary and customer account are executed through such terminal to shows that no conflict of interest arise as traders and RM Department are unaware of the trades executed by the each party on trading day. Trades executed by the traders and the RM Department are identified by the system on the basis of the Unique ID of the Trader and the RM Department.

#### 9.4. Separate Account For Proprietary Trading

Regulations require that BMA maintains a separate account for Proprietary Trading. To comply with the requirement, BMA maintains a separate account for proprietary trading in its own name titled as proprietary trading. All transactions relating to the proprietary trading are posted in this account daily when the back connect system is updated.

### 10. MONITORING OF CAPITAL REQUIREMENTS

### **10.1. Base Minimum Capital**

Risk Management department ensures that Capital Adequacy-The net capital balance (NCB) for the purpose of NCCPL Rules is calculated in accordance with the Third Schedule of the Securities & Exchange Rules, 1971.

However, the Department also ensures that the minimum capital requirements as broker is also complied by the Company; Requirements are:

- a. Minimum net capital balance for the Company trading in MTS as Broker Clearing Member of Pakistan Stock Exchange will be Rs. 20 million.
- b. Minimum paid-up capital for the Company trading in MTS as Broker Clearing Member of Pakistan Stock Exchange will be Rs. 50 million.

## **11. OTHER PROCESSES**

### **11.1. Purchase of Fixed Assets**

Whenever fixed assets are required by Risk Management Department a Fixed Assets Requisition Form will be raised. The requisition will be approved by the HOD and forwarded to HR and Administration Department or to IT Department for further processing. Requisitions for purchase of IT related assets will be forwarded to IT Department whereas requisitions for purchase of assets other than IT will be sent to HR and Administration Department.

Invoices for purchase of fixed assets will be approved by HOD when received from suppliers, after approval these will be sent to HR and Administration or IT Department for further processing.

### **11.2. Hiring of Employees for New or Existing Job Posts**

When additional manpower resources are required, a requisition will be forwarded to the HR and Administration Department for further processing. The requisition will be approved by the HOD.

### **11.3. Application for Leave and Advances to Employees**

All applications for leave by the staff of Risk Management Department and for advances to employees of Risk Management Department will be made to the HOD. These applications after approval will be forwarded to HR and Administration Department for further processing in accordance with the company rules.

### **11.4. Approval of Expenditure**

All invoices for expenses and claims for reimbursement of expenses relating to Risk Management Department will be approved by the HOD. After approval these will be forwarded to the Finance Department for further processing and payment.

### **11.5. Preparation of Budgets**

Annually the Risk Management Department will prepare revenue, capital expenditure and manpower budgets for their Department on the prescribed forms in accordance with the

instructions issued and within the timelines provided by the Finance Department. These forms will be approved by the HOD and submitted to the Finance Department for further processing.

## 12. COMPLIANCE WITH RULES AND REGULATIONS

### 12.1. General Compliance

The Board of Directors has approved certain policies for compliance. These are set out in a Policies Manual. It is the policy of the company to be compliant at all times with the rules and regulations prescribed by various regulators. The Board considers violations of the regulatory compliance seriously as violations of some can have serious repercussions. Rules and regulations prescribed by regulators under several laws, rules and regulations requiring compliance have been documented in a Master List which is with the Compliance Department. Each such rule and regulation has been identified with a Department made responsible for complying with the regulation. The primary responsibility for complying with the regulation will be of the assigned Department.

### 12.2. Reporting of violations to Compliance Department

In case of any violations to the rules and regulations applied on Risk Management , the HOD will immediately take steps to rectify the violation and inform the Head of Compliance Department regarding the non-compliance who will then further deal with the issue.

### 12.3. Summary Table of Regulation and Rules for Compliance

Attached below is the summary of rules and regulation for which Risk Management Department is responsible for compliance. The alphabet prefix denotes the law, regulation or rule to which it relates followed by the section reference or regulation as provided therein. Each regulation has been cross referenced to a paragraph in the manual which sets out the processes to be followed by the Risk Management Department to comply with the regulation.HOD of the Department and all staff must ensure that they follow the procedures set out in this manual and cross referenced to the relevant paragraph of the manual in the table below to ensure compliance with the prescribed rules and regulations. Where the regulation has not yet been notified and is still in draft form it has been shown as being 'In Abeyance'. Once it is notified the relevant parts of the manual will be amended and updated in accordance with the procedures prescribed in Section 1 of this manual.

Regulation Reference	Regulatory Requirement	Manual Reference
A7.2.2(b)	No house trading in security where unexecuted 'Limit' order by customer at the limit price or price better than limit price specified by customer.	9.2,9.3,9.4
A4.20.1&4.20.2	All transactions in leveraged market supported by agreement with client. All risks fully disclosed to client and written confirmation obtained	6.4
A7.2.3	No house trading where 'limit order' from customer remains unexecuted	9.3, 9.4
A7.4.1	Disclosure of conflict of interest to customer if broker intends to place order in same security as client	9.3
A7.4.2	Names of agents brokers for house trading disclosed to clients	9.1,9.4
A10.18	Unsettled Margin Trade transactions on house or client account not used for short selling	9.2
A4.21.1	All employees trade only through BMA	7.4.2

Regulation Reference	Regulatory Requirement	Manual Reference
A19.5	Margins from clients and MTM losses collected from clients	6.5
B7B.3.1	MF only in eligible securities as prescribed by NCCPL	6.4.2
B7B.3.2.1	MF transactions supported by agreement covering certain matters	6.4
B7B 3.2.2, G14( e)	MF provided only to clients	6.4
B7B 3.2.3	MF on eligible securities do not exceed 5% of free float	6.4
B7B3.4.2	Where NCCPL unable to purchase eligible securities in squaring up process and pays closed out amount Equity Settlement advises RM to initiate MF (R) transactions to the extent of undelivered eligible security against which close out amount paid	6.4.3
B7B.8	MF markup rate on margin financing does not exceed KIBOR prevailing at the close of immediately preceding working day plus 8%.	6.4
B7B.9.1	Securities acceptable with applicable haircuts as collateral against each margin finance defined by margin financier in NCSS	6.4.1
B7B.9.2	Aggregate value of financiers acceptable securities and FPR given by margin finance after settlement of MF transaction higher of 25% or VAR estimate of that particular eligible security	6.4, 6.4.2
B7B.9.4	Financier acceptable securities release request by margin finance for movement of securities from CDS house account of the margin financier to CDS account of margin finance only done after request is approved by RM.	6.4.3
B7B 9.5	Where market price of MF finance security declines to 30% of MF transaction value margin financier collects mark to market losses from margin finance only in cash.	6.5
B7B.10.2	Monthly report to NCCPL of margin financing provided to clients out of own sources submitted to NCCPL.	6.7.7
B8.1	Violations of NCCPL Rules to be referred to Compliance Department	12.2
B12.7.11	Obligation to collect margins from clients	6.6
B12.9.3	Clearing member collects margins and MTM losses from respective clients for exposures in any and all markets on their behalf as prescribed by NCCPL in the rules	6.6
C6.7.2(a)	Notice to be given to Sub account holder for recovery of any charges or losses through sale of securities in his book account.	6.6
G13(a)	Margin financier only to extend finance in respect of securities traded on stock exchange	6.4.2
G13(b)	Margin finance extended after a margin finance agreement with fiancée prescribed in Form V of Securities Rules 2015	6.4
G14(c)	Margin financing provided only through platform provided by PSX	6.4
G22(a)	Financing under margin trading provided out of Brokers own funds or from funds borrowed from financial institutions specified in (ii)(iii)(iv) of clause 16(a) of Securities Rules 2015 or from funds of corporate clients approved by Commission under an agreement in prescribed in Form VI of the Rules	6.4
G22 (c )	Margin financing provided only through platform provided by PSX	6.4
G33(2)	Credit worthiness of the client has been evaluated and credit limit assigned to each client for margin financing and margin trading	6.1, 6.4
M16(3)(d)	Procedures in place for periodically disclosing securities held by	7.4.2

Regulation Reference	Regulatory Requirement	Manual Reference
	employees and their spouses and dependent children and reporting in a timely manner of actual transactions including volume date and price	
M28(1)	Proprietary trades executed through designated terminals and designated system operators	9
M28(2)	Procedures and controls formulated for execution of proprietary trades in terms of secrecy and preventing trading ahead of customer outstanding orders. Persons authorized to operate proprietary trading account identified	9
QA1.17	Policy and programs for reporting suspicious transactions and suspicious accounts	6.5.8
QA6.4	Procedures to detect any illegal trading activities e.g. wash trades insider trading etc.	8.2
QA6.12	Roll forward of future contracts are carried accurately and margin calls, if any, are made on timely basis from customer. Proper policy of communication and settlement with the Exchange and customer should be prepared.	6.5.1,
QA12.1	Policies and procedures in accordance with the Regulations for trading by employees, accredited representatives, their spouses and dependent children. There should be controls and mechanism, including monitoring the trading activities of these persons as per clause 12.1(a) to 12.1(h).	7.4.2
QA12.3	The proprietary trades should be executed through designated terminals and by designated systems operators.	9
QA14.1	Supervision and monitoring of short selling activities to ensure its compliance with the regulations	6.7.10
QA14.2	Customer is aware of the risk involved and has the financial capacity to assume such risk	6.4