

14. RISK MANAGEMENT POLICY

TSL firmly believes that risk management is a core function of the organization considering the sector in which the organization operates.

The risk management policy has been designed considering nature of business, size of operations, business module, factor effecting securities industry and global best practices.

THE FUNDAMENTAL TO RISK MANAGEMENT POLICY

The core policy of our company is not to keep any open position, not to stand in losses i.e. cut the loss position immediately, never average in losses, not to take view on scripts or market, always move with the market trend, maintain strict discipline and follow principles of jobbing to the core.

IDENTIFYING RISK

Effective risk management is to identify the ways in which our activity and outside factors can affect our risk profile.

We have identified four major area affecting our risk profile

Liquidity risk – Means the risk to our ability to meet commitments in a timely and cost-effective manner while maintaining assets. Liquidity risk can arise when the quantum of liquidity obtained from either the assets or the liability side of balance sheet is less than anticipated or liquidity needs are greater than anticipated.

Credit risk – Means the risk that a counter party fails to perform its financial obligation – for example, the risk of default by clients.

Market risk – Means the potential for losses arising from changes in the value of an asset, due to fluctuations in currency exchange rates, shares prices, fluctuations in the interest rates, transaction charges, Govt. levies etc.

Operational risk – Means the risk of loss resulting from deficient or failed internal processes, system or people – for example, compliance-related or reputation risks, functioning error, unit violation etc.

These risk are inter-related and can have a serious impact upon an intermediary's liquidity risk profile.

MEASUREMENT OF RISK

It is a continuous process and have technique appropriate to the nature, scale and complexity of our activities.

MONITORING RISK

We have well-managed systems for monitoring risks to which our operations are exposed.

An effective management information system enables us to asses and review, on a continuous basis, the effectiveness of its strategy, as well as to monitor compliance with our policies, procedures and limits through the provision of risk report to management. We have reporting lines and responsibilities that are clearly laid down and adhered to by staff.

CONTROLLING RISK

An effective framework for managing risk includes a system of internal control that is appropriate in terms of the scale, complexity nature of business. We have well-defined roles and reporting lines, including appropriate segregation of functions, with the senior executives as key elements in the control process. The principles of segregation of responsibilities and the independence of the compliance function are basics of the system. Our risk management includes regular compliance reviews regular independent audits. An effective way of controlling liquidity risk is limit setting. We set targets and limits on absolute and relative amounts of exposures.

RISK MANAGEMENT TECHNIQUES

We have risk management techniques on credit risk, market risk, and liquidity risk as follows:

Credit risk

The techniques include:

We maintain an effective system to evaluate client and counter party creditworthiness, and to set appropriate limits for all client and jobbers.

- The technique includes the client's & jobber's performance evaluation.
- Past track records
- The client's capital base; and
- Any known events which may have an adverse impact on the client's financial status or jobber's performance.

The risk management staffs closely monitor the exposure in relation to clients, jobbers and arbitragers.

Market risk

Protect ourselves against the adverse impact of market risk by:

Placing restrictions on the instruments which may be traded by our staff and establishing control procedures to check compliance with the restrictions

Placing trading and position limits for proprietary trading and not to have any open positions and establishing risk management measures to check effect of adverse market conditions such as value at risk methodology for market risk in general, sensitivity checks for specific market risk factors, and stress testing by calculating the effect of abnormal shifts in the market, such as the possible effect of a 30% drop in index.

Liquidity risk

The technique includes:

Use the factors affecting liquidity at the time and overall broad liquidity measures.

Management sets and enforces position limits for particular products, clients, arbitragers.

Monitoring margining calls of exchange exposure level, pay in obligations etc.

Operational risk

This is the risk of loss as a result of errors, omissions, inefficiencies and negligence in operation or in compliance with laws and regulations, excluding the other risks already covered.

Operational risk is managed by

- Segregation of duties
- The keeping of secure, reliable, proper and up-to-date records
- The analysis of the records to highlight adverse patterns and trends, and detection of the errors, omissions etc., mentioned above
- The employment of skilled and experienced staff
- Installing an effective business continuity and disaster recovery plan which can cope with breakdowns and interruption, and testing the installed procedures and
- Having adequate insurance cover for fidelity etc.

Management regularly reviews operations to ensure that the risk of losses resulting from fraud, errors and other operational matters are properly managed. An effective business continuity plan appropriate to the size of the activities is implemented to ensure that we are protected from the risk of interruption to its business continuity. We have insurance cover for different types of exposures.

CONCLUSION

The risk management policy of company is designed to protect company and its business profile from challenges of volatility in financial market and global events. The policy ensures steady growth of business and earn risk free profit.