

RISK MANAGEMENT POLICY – CASH, F&O AND CD SEGMENT

VERSION 2.0

Date of Implementation: 01.10.2019

I Preamble:

The existing Risk Management Policy for Cash, F&O and CD Segment was revised on 12.09.2016 and implemented from the said date with the following objectives.

1. Existing RMS Policy is at variance with current market practices and is considered to be inadequate to enable us to compete with the competition.
2. Existing RMS Policy is customized and several customized policies are implemented for different clients with different nuances. This affects collection process and client services along with inability of RMS team to cope up with challenge in times of extreme volatility. Adhoc limit setting are incapable of being monitored effectively exposing us to risk in times of high volatility.

SEBI has during last three years prescribed several new requirements relating to upload to the exchanges data of client assets held by stock broker on weekly basis, client funds and securities balances on monthly basis, data of client wise holding of securities in stock brokers margin account/collateral account/beneficiary account/settlement account on daily basis to be uploaded once in a week. These requirements have been duly incorporated in our processes.

SEBI has issued a circular no. **CIR/HO/MIRSD/DOP/CIR/P/2019/75 Dated 20.06.2019** with subject “ **Handling of Clients Securities by Trading Members / Clearing Members**”. The said circular has resulted into paradigm shift in the way stock brokers are required to handle clients securities.

II Approach:

The RMS policy dated 12.09.2016 was prepared with the following approach.

- (a) Adoption of concept of treating client’s securities balances in his demat account as collateral.
- (b) Provision of intra-day leverage to client based on eligible collateral.
- (c) Allowing clients to keep debit balance in cash segment ledger account up to T+5 days with applicable delay payment charges subject to the valuation of stock purchased along with collateral meeting the risk management criteria.

- (d) Mandatory squaring off by system for intra-day limit on the basis of timing and MTM loss.
- (e) System of making margin calls where the ledger debit balance exceeds predefined risk criteria based on valuation of collateral.
- (f) Mandatory requirement of response from Branch Managers/ Relationship Managers/Sub Brokers in respect of margin call within prescribed time.
- (g) Authority to RMS team to square off such positions covered by margin call for which either response is not received in prescribed time or response received is not considered adequate to safeguard organization interest.

In view of SEBI circular Dated 20.06.2019, the broad parameters of the policy needs to have following requirements incorporated .

- (i) The securities bought by the client and to the extent remaining unpaid for needs to be transferred to a new account opened in the name of the company having tagging as "Clients' Unpaid Securities Accounts" (CUSA) in depository system. This account is having settlement pocket concepts akin to what the pool account has. The securities bought in a particular settlement, to the extent not paid for by the client, has to be transferred to the CUSA account in the same settlement pocket in which it is received from clearing corporation.
- (ii) The company is required to either transfer the securities to the client account within five working days from the date of settlement or to sell the securities in the market in the account of the client on whose account the same were purchased. The company has to define its policy as to when it will transfer clients securities held in CUSA account to respective client's Demat account and when it will liquidate the same to the credit of respective client account. In case of liquidation, in what order and which securities will be picked up for liquidation.
- (iii) The securities received from clients towards margin shall have to be received in company's own Demat account tagged as "Client Collateral Accounts".
- (iv) There should be no receipt of clients securities in client beneficiary account maintained by the company.

III Broad Parameters for Limit Setting:

(A) Limit Setting

- 1 Client's limits will be set for Cash Segment, F&O Segment and CD Segment based on a single "Collateral Value" at the beginning of the day.
- 2 This will allow client to use his collateral across any segment in any combination the client may like.
- 3 No client shall be allowed further exposure in case of debit balance in client ledger account for five settlement days until the same is cleared.

(B) Collateral Value

The collateral value will be computed as $A+B+C-D$ where

"A" is total balance of client ledger account in all securities market segment viz. NSE Cash, BSE Cash, NSE F&O, NSE CD, BSE F&O and BSE CD etc. If there is a debit balance the value will be negative.

"B" is 75% value of all eligible securities as per Annexure A held by client either in his demat account and/or F&O collateral account and/or CUSA account after haircut as per rates prescribed by exchanges.

"C" is 75% of the value of eligible securities purchased by the client on T-1 day and T -2 day, pay out of which is yet to take place.

"D" is 75% of the value of eligible securities sold by the client on T-1 day or T-2 day which are not delivered to Exchange in pay-in or early pay-in.

(C) Trading Limits for Intra-day Trading and Delivery based/Carry Forward Trading

Serial No.	Segment	Intra-day limit granted as multiple of collateral value	Delivery or Carry Forward allowed as multiple of collateral value
(a)	Cash	Open Position allowed up to 10 times	Open Position allowed up to 3 times
(b)	F&O -Index Futures and Stock Futures	Margin utilization allowed up to 3 times	Margin utilization allowed up to 1 time.
(c)	F&O - Sale of Index Options &	Margin utilization allowed up to 3 times	Margin utilization allowed up to 1 time.

	Stock Options		
(d)	F&O – Index Options & Stock Options Buy	Margin utilization allowed up to 1 time	Margin utilization allowed up to 1 time
(e)	CD - Futures	Margin utilization allowed up to 5 times	Margin utilization allowed up to 1 time.
(f)	CD– Sale of Options	Margin utilization allowed up to 5 times	Margin utilization allowed up to 1 time.
(g)	CD –Options Buy	Margin utilization allowed up to 3 time	Margin utilization allowed up to 1 time

Operating Rules

Sr. No.	Segment	Intra-day trades	Delivery or Carry Forward trades
(a)	Cash – Order placement mode	“Intra-day” Order	“Delivery Order”
(b)	F&O and CD Segment - Order placement mode	“Intra-day” Order	“Margin Order”
(c)	MTM loss based squaring Off – Cash Segment	Upon MTM loss hitting 80% of Collateral Value by system automatically.	Upon MTM loss hitting 80% of collateral value Carried Forward Open Positions will not be under auto square-off and will have to be manually squared off by client or RMS
(d)	MTM loss based squaring Off – F&O and CD segments (Futures & Options both)	Upon MTM loss hitting 80% of Collateral Value by system automatically.	Upon MTM loss hitting 80% of collateral value Carried Forward Open Positions will also be auto squared off.
(e)	Time based auto squaring off –Cash, F&O and CD segments	15 minutes before market closing time	Will not be squared off and allowed to be carried forward
(f)	Cash Segment -Switching over of positions from Intra-day to	(a) For switching over from Intra-day to delivery mode: Allowed subject to required	(b) Client can have the order flag changed from “delivery” to “intra-day” for trades executed today at least before 20

	Delivery and vice-a versa	replenishment of collateral value client changing flag from "intra-day" to "delivery" before time based squaring off	minutes of market close (c) For shares bought on previous days, client will have to sell the shares placing order with "delivery" flag and buying the same under "intra-day" flag at least 20 minutes prior to market closing time
(g)	F&O Segment and CD Segment (both for futures and options) - Switching over of positions from Intra-day to carry forward and vice-a versa	Open carried forward positions from previous day can be converted to intra-day position during the day.	Conversion of intra-day position into carry forward position allowed subject to availability of sufficient collateral.

IV Monitoring of overnight open positions and rules for squaring off :

The RMS Team will, at the end of trading session, prepare a Risk Report which will track value of the collateral and compare it with the debit balances in all segments ledger and margin utilization of the client.

Under the following circumstances, a margin call will be generated and will be communicated to the client by SMS, to the Branch Manager and Relationship Manager or the Sub Broker by email.

(A) If the client is trading only in Cash Segment

Debit balance up-to	Action by Company	What customer need to do
Less than 80% of collateral value	No action taken	No action need to take
More than 80% of collateral value but less than 85%	Further trading not allowed except squaring off of shares bought on previous days	Client should either sell shares bought on previous days or provide additional collateral by NEFT/RTGS or

		transfer of securities from Demat account with other DP such that the debit balance becomes 70% of collateral value .
More than 85% of collateral value but less than 90%	Further trading not allowed except squaring off of shares bought on previous days. Client has either to confirm Payment of shortfall before 11:00 AM otherwise RMS department will square off shares purchased earlier such that debit balance comes to 70% of collateral value .	Option-1 : to make payment of shortfall before 11:00 AM by NEFT/RTGS Option-2: square off share bought on previous days such that debit balance comes to 70% of collateral value.
More than 90% of collateral value	Further trading not allowed. Confirmation of payment of shortfall from sub-broker or branch manager required on or before 8:45 AM to RMS department. In case of non-receipt of either confirmation or payment then RMS will square off shares bought previous days after 9:15 A.M. such that debit balance comes to 70% of collateral value .	Make payment by NEFT/RTGS of amount of shortfall before 8:45 A.M. with proof of such payment to be sent to RMS department or hand over cheque to sub-broker or branch manager before 9:15 A.M.
Debit balance in ledger account for more than four consecutive settlement days	Margin call shall be made to client by Email, SMS or by Telephone Call as may be feasible calling on the client to make payment by electronic mode before 11 A.M. on the fifth settlement day, such that the credit of funds is duly realized in company's bank account. In case of	Make payment by NEFT/RTGS of amount of shortfall before 10:45 A.M. with proof of such payment to be sent to RMS department.

	<p>non compliance by the client the securities held in CUSA account for the client shall be liquidated by selecting security out of respective clients holdings in CUSA account using FIFO method to the extent of the debit balance.</p>	
--	---	--

(B) If the client is trading in Cash as well as Derivatives Segment

Debit balance including margin used up to	Action by Company	What customer need to do
100% of collateral value	Further trading not allowed except squaring off of derivative open positions and/or sale of shares bought on previous days such that debit balance including margin utilized comes to 85% of collateral value.	Either squaring off of derivative open positions and/or sale of shares bought on previous days or make additional payment such that debit balance including margin utilized comes to 85% of collateral value.
120% of collateral value	Further trading not allowed except squaring off of derivative open positions and/or sale of shares bought on previous days Client has either to confirm Payment of shortfall before 11:00 AM otherwise RMS department will square off derivative open positions and/or sale of shares bought on previous days such that debit balance comes to 100% of collateral value.	Option-1 : to make payment of shortfall before 11:00 AM by NEFT/RTGS Option-2: derivative open positions and/or sale of shares bought on previous days such that debit balance comes to 100% of collateral value.
Debit balance in ledger account for	Margin call shall be made to client by Email, SMS or	To make payment of shortfall before 11:00 AM by

more than four consecutive settlement days	by Telephone Call as may be feasible calling on the client to make payment by electronic mode before 11 A.M. on the fifth settlement day, such that the credit of funds is duly realized in company's bank account. In case of non compliance by the client the securities held in CUSA account for the client shall be liquidated by selecting security out of respective clients holdings in CUSA account using FIFO method to the extent of the debit balance.	NEFT/RTGS.
--	---	------------

V Liquidation policy

- (1) In case of liquidation of clients securities withheld in CUSA account for non payment, the liquidation shall be done to the extent of debit balance. Due to inherent volatile nature of market, such squaring up may result into liquidation of securities of a value higher than the debit balance by small margin.
- (2) The liquidation of securities shall be done by selecting securities using FIFO method, i.e. the securities received earlier shall have to be liquidated first. In case of debit balance is such that out of several securities received in the CUSA account at the same time in same settlement only is less than total value of such securities, RMS department shall choose which securities out of the total of such securities shall be liquidated to meet debit balance.
- (3) The RMS department shall have discretion to transfer securities to clients own Demat account based on following parameters.
 - A. In case the client has sold other securities held in clients own demat account with the company.
 - B. In case of debit balance less than Rs. 10,000/- where client profile and relationship with the company justifies such delivery of securities even with debit balance in ledger account.
 - C. In any other case with the approval of senior official of the company.

- D. In case of NRI PIS client where the payment has not come forth from clients PIS bank due to some technical issues and such payment is expected to be received in due course.

VI Terms & Conditions

- (1) In case of overnight exposure taken by the client, the approved securities in clients demat account will be transferred to either F&O margin account or client beneficiary account as required. The charges applicable for such transfer and pledge in case of transfer to F&O collateral will be debited to client's ledger account.
- (2) Delayed payment charges @18% per annum will be charged on actual debit balance in client ledger account.
- (3) In case of client buying non-approved securities from market and carrying forward unpaid debit balance in cash segment, the value of such unapproved securities will not be considered for limit setting purpose.
- (4) Appropriation of credits received in client's ledger account having debit balance:

In case of any credit received in client ledger account having debit balance, the same shall be appropriated in the following order:

- (a) First against Settlement dues excluding brokerage and expenses. If the debit balance comprises of dues from multiple settlement days, the credit shall be applied against settlement dues applying FIFO method.
 - (b) Balance, if any, against the penalties levied by Stock Exchange on short margin collected together with GST thereon.
 - (c) Balance, if any, shall be appropriated against brokerage and expenses like GST, Stamp Duty, STT, Exchange transaction charges
 - (d) Balance, if any, shall be appropriated against late payment charges debited to the client's ledger account.
- (5) If a client has outstanding debit balance arising due to settlement obligations for continuous five working days, no further exposure shall be allowed to such client till the debit balance is settled either by selling stock, squaring off collateral securities or securities held in CUSA Account or by payment. However, outstanding dues up to Rs. 500/- shall not be considered for the applicability of the above clause.

VII General Rules for availability of securities and contracts

1.	Cash Market	All securities except those notified by BSE and NSE as “illiquid securities”, and securities in BSE XC, XD and T Group
2.	Equity Index and Stock Futures Contracts	All current month expiry contracts. Contracts expiring next month (mid-month) will be available after 15th day of the current month.
3	Currency Futures Contracts	Allowed up to 3 months expiry including current month. Contracts with expiry farther than above will be allowed on case to case basis depending on client profile and available liquidity.
4	Equity Derivatives Option Contracts	
4.a.	Indices Option Contracts	Allowed current month expiry contracts and mid-month expiry contracts with strike price within price band of +10% to -10% of ruling market price.
4.b.	Stock Option Contracts	Current month expiry contracts with strike price within price band of +10% to -10% of ruling market price. Mid-month expiry contracts available after 15 th day of current month with strike price within price band of +10% to -10% of ruling market price and subject to Open Interest and liquidity.
5.	Option contracts in USDINR	All available strike price up to 3 months including current month expiry contracts.

VII Discontinuation of Leverage policies

- (1) In times of extreme volatility or major impending event which might trigger such volatility, the management reserves right to withdraw the same. Decision of the management in this respect shall be final. The company may modify or amend any of these rules without prior notice.
- (2) The leverage allowed to clients under this policy is based on understanding that the client wants increased leverage to take benefit of market movement. The same is allowed by the management based on assumption of fair play and orderly behavior by the clients opting for such leverage. In the event management finding that any client is operating with intention to manipulate market or the trading pattern of the client is such as would expose the Company to risk, the policy may be withdrawn for selected client or may not be available to selected clients.
- (3) The concession granted to clients for keeping debit balance till forth day from the settlement date is not right of the client. The company has and shall always have paramount right to demand and get paid for securities bought by client or debit balance arising out of transactions in equity derivatives, currency derivatives and commodity derivatives on or before settlement day.

In case of such requirement not being fulfilled by the client within the time specified, the company shall have all the rights available to it under various dispensations of SEBI and exchanges including but not limited as available under rules, regulations and bye- laws of the exchanges and KYC documents.