# Risk Management Policy

A Risk Management System is an integral part of an efficient risk system. The Company has an Integrated Risk Management Policy that provides an integrated framework for managing risks within the Company.

Trading in stock market is always subject to market risks which cannot be predicted. Different kind of market risks are communicated to client at the time of account opening with us as risk disclosure document. We seek to minimize the risk of loss through this risk management policy which is an essential feature of our operations.

It is important to note that our Risk Management Policy is not an insurance against losses but these are measures and precautions that are adopted by us to minimize the risk.

The model of RMS consists of Branches and Authorized Person. All the staff of branches, including Branch manager, RM, dealer and also covering all those who are directly, indirectly dealing with client needs to understand and follow the policy in order to ensure hassle free market/trading operations.

**Risk Management Operations:-**

We have a client level risk management system wherein the margins/collaterals of all the clients are uploaded to the front office software of the Company. The clients are allotted exposure based on the margin/collaterals available with us.

VaR / Initial margin is collected upfront from all the clients. Margins are collected either by cheques and other banking instruments through mapped bank accounts of the client/TM, by securities and other eligible instruments prescribed by SEBI/Exchange. The collaterals given by the clients towards margin are accepted only after haircut called “VaR” which is never less than that fixed by the Exchange. An extra VaR is generally applied for haircut on collaterals to give extra cushion against volatility and exposure is allowed accordingly. VaR is calculated taking into consideration many factors such impact cost, VaR by Exchange(s), Market Capitalization, turnover etc.

The clients are allowed to execute transactions and the VaR / Initial margin is blocked based on the exposure availed by the client. In the Capital Market segment the clients are required to pay the balance amount within the stipulated time and regular follow-ups are ensured for recovery of debit balances.

Based on above following are primarily functions of Risk management department includes:

- To check capital adequacy for exposure and requirements of the clients.
- Monitoring of clients order, patterns of trade, order rejection, increasing of exposure/limit.
- Monitoring MTM profits/loss incurred out of trades.
- Benchmarking Margin Vs Exposure of client.
- Decision taking with regards to squaring off positions on account of MTM loss or margin shortfalls or any other reasons that may come across.

**Client Margin Deposit Calculation for F&O/CDS:**

An upfront margin is required from client to trade in F&O/CDS segment

All margin deposit of a client will be valued on T-1 day for T Day (Example. Trading Day (T Day): Tuesday 03rd March 2022: All margin deposit will be valued according Date 02rd Mar 2022 i.e. (T-1 Day)

**Note:**

1) T-1 margin does not include trading date FNO/CDS MTM and credit posting which will actually be treated as accrued for T Day reporting.

2) Option sold premium will not be considered for limit purpose for Future although same can be considered for buying premium option of the same value.

3) Any MTM (either booked or notional) shall not be considered for limit purpose till settlement of the same.

**<u>Trading Limit Guidelines/Collateral Margin:</u>**

Total Deposit = Ledger Balance+ Pledged Stock Value after Haircut + Fund Transfer (Same day, if any)

<table>
<tr><th>Particular</th><th>Cash</th><th colspan="2">FO</th><th colspan="2">CD</th><th colspan="2">Commodities</th></tr>
<tr><td rowspan="3">Intraday Exposure</td><td rowspan="3">As per VAR</td><td>Future</td><td>Option</td><td>Future</td><td>Option</td><td>Future</td><td>Option</td></tr>
<tr><td rowspan="2">1 X Future</td><td rowspan="2">1 X (Premium)</td><td rowspan="2">1 X Margin</td><td rowspan="2">1 X (Premium)</td><td>MCX : 1 X NCDEX : 1 X</td><td rowspan="2">1 X (Premium)</td></tr>
<tr><td>NSE/BSE Commodity : 1 X</td></tr>
<tr><td rowspan="2">Delivery Limit / Carried Forward</td><td rowspan="2">1 X of Limit Set</td><td colspan="2">1 X of Limit Set</td><td colspan="2">1 X of Limit Set</td><td colspan="2">1 X of Limit Set</td></tr>
<tr><td colspan="6">It is compulsory to keep 100% margin as per the exchange norms.</td></tr>
<tr><td>Limit Setting</td><td colspan="7">Limit is set on Equity + Currency +Commodity on combined basis</td></tr>
<tr><td>Criteria for Position Square off</td><td colspan="7"><u>Intraday Sq – off</u><br>Cash & FO :- 3.20 pm, NSECD :- 4.50 pm, MCX :- 4.45 and 11.15 or 11.45 PM<br>*The positions taken for intra-day should be cleared within the time frame as mentioned above. TM is not responsible for any open position that remains uncovered due to any technical failure after 3.10 p.m.<br>➢ <u>MTM Sq- off:</u><br>a) First Call = 70%, b) Second call = 80%, c) Final call/Square off=90%<br>Note: Once the MTM loss of the intra-day positions reach 80% of the margin available, the positions should be cleared from the branch concerned, failing which the positions taken for the intra-day will be cleared off from RMS & Surveillance dept., therein after only ATOM, or Fund Transfer is allowed to increase the exposure or limit.</td></tr>
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- In case client MTM loss reaches to 60-70% at the end of the day, client will have to reduce the position up to the level of 50% or need to enhance the limit by additional margin.
- **Client should further note that in the case of extreme volatility or with low liquidity contracts, the square off (MTM loss ) may be above 100% of the available capital for which Client is solely responsible and liable to clear any debit occurs due to position square off.**
- **<u>5 Days Sq-off</u>**
  - Securities that have not been paid for in full by the clients (unpaid securities), shall be transferred to "Client unpaid securities account".
  - It is imperative for clients to clear the total debit balance arising from such purchases within 5 days from the Trade day (T+5).
  - Payments must be cleared via fund transfer (NEFT/RTGS/IMPS) or cheque such that clear funds are received by SEBPL on the 5th day from the Trade day.
  - On 6th day cheque commitment request will not be considered & stock will be sold by RMS Dept.
  - Alternatively, clients may sell stocks held by them within 5 days from the Trade day before 09:30 AM.
  - SEBPL shall square off the "Client Unpaid Securities Account" position on 6th Trading Day (T+2+4) upon non-fulfilment of the funds obligation or stock valuation falls below 20% of the total ledger debit.
  - Sequence or Priority of selling
    a. CUSA Holding
    b. Collateral Pledged (Share Invoke format)
    c. T1 (transit Stock) if both the above is not able to fulfil the debit requirements
  - SEBPL will not be responsible for any loss incurred due to such transactions. .

**Policy for process of liquating the client securities, in case of multiple securities in CUSPA**

In case there are multiple securities in the "CUSPA", First in First Out (FIFO) logic will be followed. However, in case, the stock basis FIFO logic could not be sold due to less liquidity or due to security in lower circuit or any other reason, then SEBPL may sell any other security to clear the outstanding debits.

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| **Cheque Bounce or Reversed Cheque** | First time instance – the position will be liquidated up to the shortfall amount and no further position will be granted.<br>Second to Fourth instance – Trading will be allowed based on clear balance<br>5 & more – Trading account will be closed and freeze and subsequent reporting will be done to appropriate authority or FIU |
| **Exposure/Limit on Unclear** | Limits shall not be provided for clients on cheque under clearing in the following conditions:<br>Branch has given the cheque details but the cheque is actually not presented to the bank.<br>Cheque entered in id but it's not collected. |
| **Cheque** | ➢ No limit is allowed against out-station cheque<br>➢ Every new client the exposure limits for transaction shall be given after the clearance of margin cheque.<br>➢ No special approvals are accepted/ entertained for those clients who are in cheque bounce history and with negative ledger.<br>➢ Limit against cheque may be provided in the same day in case if the cheque is deposited in the same bank (Where issuing bank and the bank in which cheque is deposited is same).<br>➢ In case of other cheques it is given after it gets cleared and Accounts Department gives that confirmation to RMS Department. |
| **Securities in Ban Period in F&O segment** | A security enters the ban period when the open interest in its F&O contracts exceeds a certain threshold, often 95% of the Market-Wide Position Limit (MWPL).<br>➢ Intraday position or Initiating new positions are restricted on Ban scrip in F&O.<br>➢ Trade in the derivative contracts shall be only to decrease the positions through offsetting positions or square off.<br>➢ Trading in commodity contracts will be banned a day prior to the delivery intention period.<br>➢ Commodity declared BAN by the exchange, no further exposure permitted.<br>➢ Physical delivery of commodities is not allowed. Physical delivery of derivative contracts is squared off before expiry, if adequate balance in not available.<br>➢ In compliance of rules laid down by Exchange for Securities in Ban Period in F&O segment, if a client creates position in securities which are in ban period, penalty will be levied for the same. The list of securities in ban period is updated on NSE website on daily basis. |

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| **Illiquid stocks/ Agro Products** | ➢ Exposure: only 1 time exposure may be given on illiquid stock or Z or BE group<br>➢ In equity segment newly listed shares usually do not have any DPR and hence, the chances for rate fluctuations are more. So the dealing in newly listed share may be restricted to the available credit balance after considering the M2M levels. |
| **Penalty** | ➢ Any delay payment (after T+1) may attract a penalty against delay payment charges (DPC) @18% interest p.a.<br>➢ Any penalty by the exchange on transaction will be levied to the respective client<br>➢ In case of Bounce cheque a penalty of Rs.120/- may be debited to the account.<br>➢ In case of F&O/commodity Margin shortfall, actual penalty will be charged as per exchange. |
| **Penalty for short/non-collection of margin** | **Short collection for each client** — **Penalty**<br>a. (< Rs 1 lakh) And (< 10% of applicable margin) — 0.5%<br>b. (=> Rs 1 lakh) Or (= >10% of applicable margin) — 1.0%<br>Note:-In cases where there is short/non-collection of margins for more than 3 consecutive days or for more than 5 days in a month, a penalty of 5% of the shortfall amount shall be levied. GST@18% shall be applicable on penalty amount. |
| **Clarification regarding margin collection by clients** | ➢ Free balance available on current day (T day) with client in different segments (Cash/FO/CD) across exchanges may be considered for margin collection<br>➢ Collateral from clients in the form of securities, shall be accept only by way of margin pledge in Client Securities Margin Pledge Account.<br>➢ Liquid securities, in dematerialized form, actively traded on the Exchanges, which are specifically not declared as illiquid securities by any Exchanges, can be considered while reporting margins to the Exchange<br>➢ Shares in Pool Account & Collateral Account may be considered for intra-day exposure in derivative segment subject to a haircut of VAR margin. Exposure for C/F will be subject to availability of clear fund balance & collateral holding only.<br>➢ Limit against premium credit for sell of option contract:<br>* Allow to take position in Option Contract Buy/Sell on same day.<br>* Disallow to take position in Future & Option contract sell on same day.<br>* Allow to take intraday or Delivery position for EQUITY scrips on very same day. |

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| | ➢ MTM profit cannot be considered for taking fresh position in FNO segment.<br>➢ Provisional Margin shortfall penalty & late payment fees will be blocked from clear balance when payout.<br>➢ Securities received in pay out and available in CUSA account (reduced by the appropriate haircut subject to minimum 20%) after adjusting any debit balances in client ledger shall be considered for collection and reporting of margin.<br>➢ Ceques dishonored or not cleared up to T+5 working days should not be reported as margin / margin on consolidated crystallized obligation/ MTM collected. |
| **Prohibition of manipulative, fraudulent and unfair trade practices** | ➢ In case a client, dealer, or BM is found to be involved in manipulative, fraudulent unethical and unfair trade practices, strict action will be taken against them. Following are few examples of activities which are prohibited.<br>• Synchronized trading<br>• Client Exchange Volume<br>• Off Market Transfer to Multiple clients and from multiple to single account<br>• Client Script Concentration<br>• Illiquid stock trading<br>• Client Purchase/Sale to Income<br>• Profit loss transfer<br>• Guaranteed returns or promise undue advantages<br>• Planting false or misleading news, spreading rumor with the objective of enhancing brokerage or commission. |
| **Quarterly/ Monthly Settlement** | • Accounts needs to be settled once every quarter / month as per preference selected by him at the time of Account Opening.<br>• In case client is trading in F&O or in Currency segment he has to maintain the margin up to 225%.<br>• All excess collaterals / Credit Balance in client's ledger will be released upon settlement. Quarterly settlement will be done across all Exchanges and segments. |
| **Delivery Margin requirement for Long/Buy option positions** | ➢ It is mandatory to maintain the margin in the expiry week for In the money long/buy options otherwise shortfall penalty will be levied. |

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| **PEAK Margin** | ➢ SEBI has changed the norms of Intraday margins with effect from 1st December 2020. It has introduced the concept of peak margin reporting in which stockbrokers will not only calculate margin based on the End-Of-The-Day position but the intraday peak position. This aims to curb the excessive leverage for intraday and derivatives positions.<br><br>➢ Under peak margin reporting, the Clearing Corporation shall send minimum of 4 snapshots of client-wise margin requirements to know the intraday margin requirement per client. The snapshots would be randomly taken in pre-defined time windows.<br><br>➢ At the end of the day, Exchange will consider the maximum margin across that 4 snapshots / Margin files for any client which will be considered as Peak Margin.<br><br>➢ SEBPL has to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:<br><br>a) EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.<br>AND<br>b) Peak margin obligation of the client/TM/Custodial Participant, across the snapshots, shall be compared with respective client/TM/Custodial Participant peak margin available with the TM/CM during the day.<br><br>➢ • Higher the shortfall in collection of the margin obligations at (a) and (b) above, shall be considered for levying of penalty as per the extant framework.<br><br>➢ In the Cash market, the peak margin will be applicable till T+1 day the pay-in for the delivery positions |
| **Margin Reporting** | ➢ For same day margin requirements, clear ledger balance as on date will be considered.<br>➢ Across all segments, shares in Margin pledge with previous day‟s valuation, after SEBPL prescribed haircut, will be considered.<br>➢ All other terms & conditions including levying of margin shortfall penalty will remain as is and in line with regulatory requirements. |
| **Physical settlement of derivatives contract** | ➢ As mandated by SEBI, stocks which do not meet the Enhanced Eligibility criteria shall move from cash to physical settlement. Kindly refer the circular as communicated by NSE, where physical settlement has been introduced for July 2018 expiry and onwards in all FNO scrips.<br>➢ With introduction of physical settlement, all the open positions (Futures & in the Money Options) of near month will be settled through actual pay-in or pay-out of shares if positions are left open. Kindly refer Circular issued by SEBI and Exchanges from time to time. Annexure-1. |

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| **Online Trading Guidelines** | ➢ All clients who have opted for Internet based trading (Online Trading) accounts will be given a user ID and password. Such clients will execute trade through his Online Trading system only.<br>➢ TM is not responsible if the password is shared / disclosed to another person by client himself. Such clients have responsibility to execute trade and square off the position through provided Online Trading system within prescribed time frame and TM will not interfere in between trades as executed by client.<br>➢ In the special case, client may request TM to square off the same. In absence of such request or otherwise, TM may square off the position as and when required. |
| **Temporarily suspending or closing a client's account at the client's request** | ➢ On the request of the client in writing, the client account can be suspended temporarily and same can be activated on the written request of the client only. During the period client account is suspended, the market transaction in the client account will be prohibited. However client shares/ledger balance settlement can take place. On the request of the client in writing, the client account can be closed provided the client account is settled. If the client wants to reopen the account in the case client has to again complete the KYC requirement |
| **Voluntary freezing of Online access to client trading account:** | ➢ A client can voluntarily freeze online access to their trading account in line with SEBI Circular no. SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated As per the SEBI circular SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024 on "Ease of Doing Investments by Investors - Facility of voluntary freezing/ blocking of Trading Accounts by Clients", the clients are required to be provided with a facility to voluntary freeze/ block the online access of their trading account on account of suspicious activities. The subsequent Exchanges circulars detailed the operational modalities and also informed the Brokers to prepare a Policy which shall be the part of the Risk Management Policy. In accordance with the same, SEBPL has prepared a policy on "Facility of voluntary freezing / blocking of Trading Accounts. |
| **Risk Disclosure Guidelines** | ➢ Clients must aware about the "Risk Disclosure Documents" as prescribed by SEBI/exchange. In the light of the various risk involved, as mentioned in the "Risk Disclosure Documents", client should undertake transactions only if they understand the nature of the relationship into which executing trading.<br>➢ TM is not liable or held responsible for such Risk. The clients shall be solely responsible for the consequences and no contract can be rescinded on that account. |
| **General** | ➢ No family adjustment of ledger or Cheque is allowed<br>➢ Third party Cheques or collateral securities are not accepted<br>➢ Positions taken as intraday can be converted to Delivery Product (MIS to NRML) subject to the availability of credit balance or on confirmation of Fund transfer. |

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| | ➢ AMO may be cancelled if the price entered is more than 15% away from the LTP in either direction<br>➢ AMO may be cancelled if client do not have sufficient funds<br>➢ Positions may be squared off immediately, if cheque bounces (due to any reason).<br>➢ Trading in Z group is not allowed<br>➢ No unlimited access granted to any client ID, Dealer ID and Branch ID<br>➢ Restrictions on Far-month contract (Expiry of contracts does not fall within 60 days from the trade day). |
| **Payout Request Guidelines** | ➢ Client can request for payout online or send an email to accounts@samrtequity.in. The limits may be decreased from trading accounts once account department intimate us about such payout requests.<br>➢ All requests to entertain limit or hold positions in short margin will only be allowed if client requests to cancel payout being processed after we receive a request through registered email only. |
| **Policy for Penny Stock** | ➢ Penny/ illiquid Stocks are traded at relatively low price and market capitalization. SEBPL shall have absolute discretion to accept or refuse or partially accept any buy or sell order for execution from a client in respect of penny stocks, illiquid stocks, stocks / contracts having low liquidity, illiquid "options", far month "options", writing of "options", and any other contracts which as per the perception of SEBPL are extremely volatile or subject to Market manipulation.<br>➢ SEBPL shall have the right to place such restrictions, notwithstanding the fact that the client has adequate credit balance or margin available in his account and/or the client had previously purchased or sold such securities/contracts through SEBPL itself. The client agrees that the losses, if any, on account of such refusal or due to delay caused by such limits, shall be borne exclusively by the client alone. In case of F&O segment, all the Far Month Option Contracts may not have buy and sell limit due to its illiquid nature. However, in all above cases if client still wishes to trade then the client needs to coordinate with the Registered Office and limit will be set by Registered Office after analysing the requirement.<br>➢ In addition to existing Surveillance action being imposed from time to time, it may be noted that securities which are under graded surveillance measures will attract additional surveillance measures. |

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| **Equity Settlement Obligations & Corporate actions** | Equity stocks traded in India follow a fixed & pre - calendared settlement mechanism across the year. The settlement cycle varies accordingly with the category or the stock type here, Eg : SGB (Sovereign Gold Bonds) which gets settled in T3. T+2 settlements are followed in Indian stock markets. Starting with Buying & Selling of the stock it takes 2 days for the stocks to get settle in-case of buying & cash settlement in case of selling also.<br>• However 80 % of the sale proceeds can be used for same day margining.<br>• Early pay - in is a mandate from exchange end for settlement obligations to get completed.<br>• BTST - In Buy today Sell tomorrow concept of trade you are allowed to sell your T1 holdings well before it gets settled in your demat account.<br>Note - The risk liability of BTST transaction entirely lies with client only, as stock settlement is always based on availability in exchange only.<br>• Before clients making a SHORT - SELLING in BO / CO / MIS products should ensure the availability of units in client demat account.<br>Note - Specific symbols might hit Upper freeze time to time in which selling will lead to penalty & auctioning.<br>• Corporate actions are one of the major factors that determine the health of the stock we hold. Sometime corporate actions provide the stock holder a lump sum good deal; some might also affect the share price too. Hence as a shareholder the client has the liability to keep watching out AGM's & Corporate actions. In this scenario the client will be directly intimated via mails regarding the upcoming corporate actions and important dates.<br>• Corporate actions include Split / Reverse Stock Split / Rights Issues / Dividends / Mergers & Acquisitions / Spin off / Buyback / Bonus. |
| **Surveillance** | ➢ Apart from monitoring the availability of margins and recovery of Debit balance we also identify the incidents which in our opinion, require to be scrutinized.<br>➢ We keep check on the list of securities provided by exchange as illiquid. No business center is allowed to transact in these securities. Further, we identify the securities that are having very few transactions on regular basis in the market and categorize them also as illiquid securities. The approval to execute transactions in such securities is given on a case to case basis and we charge 100% margin on these.<br>➢ At the end of the day we process the transactions through our offline surveillance system. We also examine the incidents of trades which are executed in less liquid securities to identify whether the same are used as a mechanism to execute transactions like circular trading, profit transfer incidents etc. |

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| **Additional Surveillance Measure (ASM) & Graded Surveillance Measure (GSM)** | ➢ ASM :- In continuation to various surveillance measure already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with the existing pre-emptive Surveillance measure like Graded Surveillance Measure (GSM), price band, periodic call auction and transfer of securities to Trade to Trade settlement from time to time; there shall be Additional Surveillance Measure (ASM) on securities with surveillance concerns viz. Price variation, Volatility etc.<br>➢ GSM :- In continuation to various surveillance measures already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with the aforesaid measures there shall be additional Graded Surveillance Measures on securities with price not commensurate with financial health and fundamentals like Earnings, Book value, Fixed assets, Net-worth, P/E multiple, Market Capitalisation etc. |
| **Disclaimer Note** | ➢ This document is intended for internal use only. It is designed to keep clients and front line employees informed about the company's internal policy procedures and risk management.<br>➢ If you are not the intended recipient, you are strictly prohibited from disclosing, copying, distributing, or taking any action in reliance on any information in this policy.<br>➢ Any form of transmission cannot guarantee the security or accuracy of the data, as data may be intercepted, corrupted, destroyed, arrive late or incomplete, or contain viruses. SEBPL therefore does not accept liability for any errors or omissions in the contents of this message, which arise as a result of such transmission. |