EQUIRUS SECURITIES PRIVATE LIMITED
RISK MANAGEMENT & INTERNAL CONTROL POLICY

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1. ***Risk Management***

Overview

A sound risk management system is integral to an efficient clearing and settlement system. Risk Management for both Equity and Derivatives (F&O) segment generally involves granting of exposure, collection of upfront margins from clients and finally ensuring that clients pay their dues either in funds or securities in time.
Considering the nature of broking business the company into where the price of security may fluctuate due to market volatility or underlying security company specific factors or due to various external factors/ adverse movements, the value of security available may fluctuate impacting the margin coverage for the client. Hence, to safeguard and protect the interest of the Company from the possible risk of default of a client, the Risk Management team will be responsible to monitor and mitigate the risk. The Head Operation / Risk will –

- Ensuring proper management of Admin Terminals for smooth trading
- Making margin calls to clients and ensuring the timely collection of margins
- Liquidating the securities to recover the dues in case client fails to pay the margins in time
- Revision of approved securities, from time to time

2. ***Margins***

As a prudent system of risk management, exchanges have advised brokers to collect margin from their clients to protect themselves from client default. Margins are likely to be an important element of such a system. The clients are required to pay the margins on upfront basis in the form and manner as specified by the Head Operation / Risk from time to time.

Margin (Cash):

- Margin is accepted in the form of cash or collateral
- Client ledger credit balances is considered as margin
- Collateral lying in Beneficiary, Pool, Collateral & ESPL DP account is considered as margin

Margin (F&O):

a) Initial Margin

The Initial Margin requirement is based on worst-case loss of portfolio (evaluated under 16 different scenario of changes in the value of stock prices) to cover 99% VaR over two day horizon. The initial margin requirement is netted at client level and on gross basis at the member level. Clients are required to pay initial margin on upfront basis to member. Client need to pay the minimum margin as levied by the Exchanges.

b) Calendar Spread

NSE gives benefit of margin for calendar spread position. A calendar spread is treated as naked positions till the near month contract expires. Once the near month position is expired then margin as applicable on individual leg would be applicable.

c) Mark-to-market Margin

Mark-to-market margin would be payable by the client on T+1 day.

d) Exposure Margin / Second line of defense / Capital Adequacy:

The exposure margins for options and futures contracts on index are as follows:

For Index options and Index futures contracts:
3% of the notional value of a futures contract. In case of options it is charged only on short positions and is 3% of the notional value of open positions.

For option contracts and Futures Contract on individual Securities:
The higher of 5% or 1.5 standard deviation of the notional value of gross open position in futures on individual securities and gross short open positions in options on individual securities in a particular underlying. The standard deviation of daily logarithmic returns of prices in the underlying stock in the cash market in the last six months is computed on a rolling and monthly basis at the end of each month.

Clients will not be given the benefit of available balances in group accounts since the Exchange doesn’t permit the adjustment between the Family / Group members.

3. *Exposure Setting*

Exposure is based on the Client margins available with ESPL.

	Exposure based on Client Margin	MTM Limit	Remarks
Standard Exposure	For Retail Clients - 4 times (BOD) or 50 Lakhs whichever is higher, For Institutional Clients – Unlimited and will be taken care as per Approval Matrix given in 8	50%	Client shall pay the settlement dues in time.
Adhoc Exposure	Exception will be approved on a case to case basis by Designated Directors/Operations Manager as per Approval Matrix given in 8	50%	

Additional Exposure to be provided to the clients will be completely at the discretion of the Designated Directors/Operations Managers.

Following are some of the parameters to be considered while requesting for additional exposure to the clients.

- Ledger balance of the client – there should not be debit balance beyond T+2 day and/or the debit should have atleast 15% margin cover
- Value and quality of client collateral lying in Beneficiary/Pool account or DP account – the client should hold saleable shares having liquidity and it should not be T2T or Z category shares
- Past track record of the client in making payment – there should be timely collection of money towards last three buy transactions
- Commitment to make payment – expected date of cheque collection to be taken from the client. The cheque should not be deposited later than T+2 day
- Cheque bouncing history – there should not be more than two instance of cheque bouncing in last thirty days

During the day client exposure could be restored/enhanced in below mentioned circumstances:

- Receipt of cheque towards overdue debit beyond four days in client account
- Liquidation of positions over and above overdue debits

In the circumstances mentioned below, Designated Director/ Operations Manager would not enhance the buy exposure.

- Exposure utilized for intra-day trading
- Insufficient margin against the existing debit balance
- Irregularities in making payment or squaring off the positions without collection
- Multiple instances of cheque bouncing during last thirty days
- Withdrawal of Adhoc limits facility as a organization policy due to
    - Extremely volatile market conditions
    - Increase in receivables and exchange margin requirement

FNO Segment

During the day, margin will be enhanced in case of circumstances mentioned below:

- Transfer of collateral from Beneficiary/Pool account and ESPL DP account.
- Cheque receipt
- Stock sold in Cash segment where shares are lying in Beneficiary/Pool account and DP account

Exposure Norms:

Cash Segment

Trading limit would be allowed based on margin given by the clients. Multipliers mentioned above would be used for setting the trading limits.

Value of unsettled buy positions would be ascertained at previous day's closing price and the same would be considered after 10% haircut for the purpose of setting exposure for the next trading day.

The allowable exposure for the day will be calculated after considering previous day's positions.

Clients would be restricted from taking fresh buy positions in the below mentioned cases:

- Overdue receivable – The clients will not be allowed to take fresh buy positions in case there is overdue receivable of more than four days. In such cases, the clients would be allowed to sell the shares in order to reduce the overdue amount.
- Margin erosion – Client level margin will be maintained at minimum 15%. Fresh buy limit will be blocked in case margin is less than 15%.
- Cheque bouncing – In case of cheque bouncing the buy limit of the client will be blocked.
- Non-receipt of funds on the scheduled pay-in day – In case of non-receipt of funds on T+1 day where adhoc limit is utilized on T day, buy limit will be blocked.
- Trading losses – In case of clients having deficit more than Rs. 50000/- the client will be restricted from taking fresh positions.
- FNO Segment
- In case if debit balance in client account is more than 20% of net collateral value, the client will not be able to take fresh positions

4. *Restrictions in Dealing in Securities*

As a broker ESPL has a responsibility of doing due diligence while placing orders on behalf of clients in order to avoid market abuse. As a prudent measure; certain restrictions have been imposed on dealing in Z category stocks, T2T stock and illiquid stocks.

Restrictions in dealing in Z Category scrips:

Clients are not allowed to take buy positions in Z category scrips. However, selling can be done through after approval from Compliance and Risk. While placing orders in these scrips it is ensured that ESPL contribution in the scrip would not exceed 40% of the exchange volume.

Restrictions in dealing in 'Trade To Trade' Segment:

Exchanges identifies the scrips having abnormal variation in rate and volume and in order to control the same the scrips are transferred to 'Trade To Trade' segment for monitoring purpose. VaR margin at 100% is charged by the exchanges and settlement is done on a gross basis and the facility of netting of buy and sell transactions in such scrips is not available.

- Buying and selling in Trade to Trade (T2T) segment will be permitted through trading terminals.

- Buying will be allowed to the extent of credit available in client account or collection of cheque for the entire amount by end of the day.

- Selling will be allowed to the extent of availability of shares in Beneficiary/Pool, DP and Collateral account.

- In case of non availability of shares with ESPL, selling will be allowed on the basis confirmation regarding receipt of shares for pay-in on trade day.

- Client level quantity exposure will be restricted upto 10% of previous five days moving average volume OR value wise restriction of Rs. 25 Lakhs whichever is less will be implemented. House level restriction for single scrip will be restricted to 40% of previous five days moving average volume.

- Designated Director/Operations Manager will have the right to restrict any client from trading in T2T segment in case of suspected concentrated transaction.

Restrictions in dealing in Illiquid Scrips:

SEBI has advised the Exchanges to identify and publish a list of illiquid securities based on criteria jointly agreed between NSE/BSE on a monthly basis. The trading members are advised to exercise additional due diligence while dealing in these securities. The list of illiquid scrips is made available by the exchanges on monthly basis.

In order to exercise due-diligence while dealing in such scrips, we need to ensure that:
- 100% Margin is available at client level in the form of cash or collateral
- Restrictions in taking positions at client level and scrip level to avoid scrip concentration/abnormality in dealing in illiquid scrips

In below mentioned circumstances, the clients would be allowed to buy/sell the shares.

Buy Trades:
Buying at client level would be allowed maximum to the extent of 50% of the exchange traded quantity at the time of placing order. Depending upon the exchange volume during the day, order for additional quantity would be placed. Buying to the extent of value of securities after adjusting debit balance, if any, would be allowed in value terms.

Sale Trades:

Clients would be allowed to sell the shares based on the confirmation received from business team that they have verified that the shares are available in client's depository account.
Selling at client level would be allowed maximum to the extent of 50% of the exchange traded quantity at the time of placing order. Depending upon the exchange volume during the day, order for additional quantity would be placed.

Exception Handling:

Any exception would be handled on case-to-case basis depending upon relationship with the client, liquidity of the scrip, etc. Exceptions would be done on the basis of recommendation by or approval of Designated Director/Operations Manager.

Monitoring & due-diligence in dealing in illiquid scrips:

Dealing in illiquid scrips would be monitored on a daily basis and in case of any abnormality in dealing; Designated Director/Operations Manager would ask the client to provide justification in writing. Designated Director/Operations Manager also reserve the right to restrict the client in dealing in certain scrips on account of surveillance reasons.

5. *Deactivation of Client Code*

Client track record will be monitored by Designated Director/Operations Manager and Compliance Officer/Compliance Manager and in case of below mentioned circumstances, the client account would be deactivated:

- Cheque bouncing due to insufficient funds on more than two occasions during the month
- More than three instances of auctions during previous two months
- Irregularities in dealing, such as, taking concentrated positions in a scrip, matched trades, etc.

Collection of uncovered overdue receivables and client communication:

In case of sticky receivables, following steps would be taken to recover the amount:

Cash and FNO Segment

- Recovery letter may be sent to the clients having outstanding for more than 15 days at the beginning of the month by Designated Director/Operations Manager.
- Legal letter may be sent by the Compliance Manager/Compliance Officer in case the client has not responded to the letters sent earlier.
- In case of cheque bouncing cases where cheque amount is more than Rs. 25,000/-, letter may sent to the clients on 7th day from the cheque bouncing date informing the client about the cheque bouncing and allowing him additional time of seven days to clear the dues. In case of non clearance of dues in the seven days time, action u/s 138 will be initiated.

6. *Client Code Modification*

During market hours, client orders are punched by the dealers in Trading Terminal by using their CTCL terminals for offline clients. In some cases, there is a possibility of punching errors as a result the order may get punched in the wrong client code and the trade may get executed. In case of execution of such trades in wrong client code, it is required to transfer the trade to the correct client code. All Client Code Modification shall be done in accordance with Error Policy on Client Code Modification Policy.

7. *Liquidation Policy*

ESPL will observe following liquidation policy for Cash Equity and F&O Segment:

Designated Director/ Operations Manger to sell for all debits greater than Rs.25000 on T+5th day :
All offline debits (covered & partially covered) greater than Rs.25000 would be blocked from trading from T+4th day onwards & Risk may liquidate position on T+5th day morning (at around 10.15 am) for all such clients having outstanding beyond 5 days.

Margin cover less than 15 % - selling prior to T+5th day :

Risk may initiate square-off of such position as it deems fit unless specific approval to hold position is received as per approval matrix.

Debit Less than Rs. 25000 :
For cases where debit is less than Rs.25000, Risk will liquidate stocks held for such dues, once in a month with prior approval of Designated Director/ Operations Manger.

F&O Margin shortfall:
For cases where span margin shortfall is more than 50% then Risk will liquidate F&O open position on T+1 day. If total margin shortfall is more than 3 days then Risk will square-up F&O open position on T+3rd day to the extent of shortfall.

F&O MTM debits :
All MTM debits (covered & partially covered) greater than Rs.50000, Risk will liquidate collateral stocks on T+5th day morning (at around 10.15 am) for all such clients to the extent of MTM debits.

Cheque Received

All debits where cheques are received and updated in backoffice up to 9 am on T+5th day (i.e. liquidation day), will not get liquidated. All cheques which are entered but note deposited prior to 3 days from liquidation day then compliance action will be initiated. All cheques entered in cash NSE and BSE segment & margin segment will only be considered. F&O cheques will be considered to the extent of surplus margin. If the cheque updated is for amount less than T+5th day debit amount then Risk would liquidate for the differential amount.

Approval Clients

Risk will not initiate liquidation on T+5th day for cases where approval is received as per approval matrix. All approvals for retention of debit need to be provided latest by T+4th day. The approval would be valid only up toT+7th day only for covered debits. In case position is not cleared by T+7th day then Risk will liquidate all such position on T+8th day.

8. ***Approval Matrix***

Cash Segment

Retail (Per Client)

Up to Rs. 0.50 Cr – Dealer
Above 0.50 Cr. but less than Rs. 2.50 Cr. – Head Dealing / Manager Operation
Above Rs. 2.50 Cr – CEO / Director

Institutional (Per Client)

Up to Rs. 2.50 Cr – Dealer
Above 2.50 Cr. but less than Rs. 10.00 Cr. – Head Dealing / Manager Operation
Above Rs. 10.00 Cr – CEO / Director

F&O Segment

Retail (Per Client)

Up to Rs. 0.50 Cr. – Dealer
Above 0.50 Cr. but less than Rs. 2.50 Cr. – Head Dealing / Manager Operation
Above Rs. 2.50 Cr. – CEO / Director

Institutional (Per Client)

Up to Rs. 2.50 Cr. – Dealer
Above 2.50 Cr. but less than Rs. 10.00 Cr. – Head Dealing / Manager Operation
Above Rs. 10.00 Cr. – CEO / Director