Risk Management and Surveillance

Policy & Procedures

Introduction

The primary purpose of this policy is to address credit risk; however, during the process of credit risk monitoring and surveillance, we also come across and mitigate reputational, liquidity and other operational risks. These are typical to the broking industry and are being managed by Risk department across the industry.

Purpose & Scope

These Risk Policies embody the core principles for identifying, measuring, approving, and managing credit risk in the organization. These policies are established by the Risk Department and are designed to meet the organizational requirements as they exist today to provide flexibility for the future. They represent the minimum standards in the organization and are not a substitute for experience and good judgment.

Interpretation

These policies must be implemented conservatively, in accordance with their purpose and spirit. In the event a clarification or interpretation is required, consultation must first be sought from Risk department. Such consultations are an important source of feedback on issues and aspects of these policies that may need adjustment to meet the needs of a changing business environment while maintaining a balance between risk-taking and flexibility.

Functionality

Investment in securities is susceptible to market risks which cannot be predicted. The Account Opening Document contains an explanation of different types of risks our customers are likely to face in the market. While the risk of loss is inherent in the market, we as a stockbroker seek to minimize the risk of loss through a dynamic risk management policy which is an essential feature of our operations. It is important for any stakeholder to be aware of our Risk Management Policy and how the Policy would operate to regulate transactions. It is also important that the Risk Management Policy is not an insurance against losses; these are measures and precautions that are adopted to contain risks to the minimum. The Policy is subject to change according to our risk perceptions of the market and SEBI/Exchange regulations for the time being in force.

Functions:

- To check capital adequacy for exposure and requirements of the client
- To Monitor of Clients Order, Patterns of Trade, Order rejections, Exposures
- To Monitor MTM profit/loss incurred out of trades
- Benchmark Margin v/s Exposure of client
- Decide on squaring off positions in case of Mark To Market Losses Margin shortfalls

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Normal activation process of client code

- Upon completion of KYC process, Unique Client Code (UCC) will be allotted and which further will be sent for approval to the exchanges. Post approval from the respective exchanges, the UCC which is generated will get mapped on the Branch/AP/CMT trading terminal.

Limit Setting Policy

1. At BOD combined margin limit set is 1 time by considering Equity and Derivatives Ledger Balance + Provisional Ledger Balance + Cash/FDR/BG Collateral Deposit + Re-pledged Stock Valuation after applying appropriate haircut of minimum 25% or VaR whichever is higher available in the client account.

2. During the day, any funds transfer received through the trading portal/NEFT/RTGS/NACH will get update on the trading terminal post completion of allocation to CC.

3. During the day on sale of DP holding stocks, the margin of 100% of sale value will be given to client post completion of Early Payin of sold stock & Allocation to CC.

4. During the day if client does any approved stocks Margin Pledge, then limit will be given on such stocks post doing Repledge at the exchange & after applying appropriate haircut.

5. During the day in Options, carry forward options Credit for Sale (CFS) is available only for carry-forward option long position, the benefit of Options CFS is not allowed in any other product or segment.

6. Proceeds from the booked profits for the day will not be allowed for taking fresh positions.

Disclaimer: The broker holds the rights for any changes to the limit setting criteria & changes can be applied with immediate effect without giving any prior intimation. Such decisions are final and not subject to challenge.

Setting up Terminal/ Branch Level limits on CTCL Base.

Trading Terminals are allotted to Members by the exchanges. These terminals enable members to place, modify and execute orders on behalf of clients. We ensure monitoring mechanism for client's debits / obligations and appropriate collection procedures.

The following limits shall be defined for each terminal:

- Quantity Limit for each order
- Value Limit for each order
- User value limit for each user ID
- User quantity limit for each user ID & Branch value limit for each Branch ID
- Spread Order Quantity and Value Limit (Derivatives segment)

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Checks in place

- Limits shall be monitored on daily basis, taking following criteria's: Turnover, Exposure, past trends, Location, Deposit/Collateral.

Single order Quantity restriction at client level

- The maximum single order quantity limit in the cash market is restricted based on the various price ranges with a maximum single order value of Rs. 5 Crore. This limit is subject to change at any time without prior notice.

Price Range	Quantity Restricted
0 to 29.99	100000
30 to 99.99	75000
100 to 199.99	50000
200 to 299.99	30000
300 to above	20000

- For New listing, weekly/monthly tradable stocks – The quantities are restricted to 10000.

- For Bonds/NCD/MF etc. Quantities are restricted in the range from 15000.

Illustration: Segregation and Monitoring

Assumption: Let us assume that the client has Rs 100 cash & cash equivalent available in the account and Rs 200 worth of approved noncash securities then the limit given will be 200.

A ratio of 50:50 needs to be maintained at all times. In case of funds pay out, this ratio will be considered and only on the availability of sufficient balance, funds pay-out will be generated.

This is illustrated with the below example- Client has:

Margin obligatory in FO segment of Rs. 5 lacs Approved pledge stock worth Rs. 10 lacs, Cash available Rs. 2.50 Lacs

In such case (Cash and Pledge stock) 50: 50 ratio margin is applied and no pay-out will be issued to the client.

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Blocking Scrips for penny / illiquid stocks:

- Stocks falls which are under exchange's various surveillance measures like GSM stage 2 & above, Unsolicited SMS watch list, IBC stage 1 & above, Unsolicited Video, Social Media platform, Penny / illiquid Stocks, Stocks advised by internal financial due diligence team are blocked for trading.

- Far month options or any other contracts which as per the perception of Sushil Finance are extremely volatile or subject to Market manipulation.

- Derivatives contracts which are in the list banned securities of the exchange,
  1. No fresh position will be allowed to create.
  2. However, Rollover of Futures Positions will be allowed subject to no change in sign or Increase in the Quantity.
  3. Square off on the existing positions in the stock in Ban Period will be allowed. However, if one leg of the hedge position is squared off, it will lead to an increase in FutEq OI which results in Delta Violation.
  4. If the square-off trade results in an increase in FutEq OI during the day, then client may have to square off all the existing positions in that contract which results in Delta Violation to reduce FutEq OI.

Disclaimer: Any breach in delta-based exposure limits monitored by Clearing Corporations may attract penalties, which may be recovered from the clients.

AMO (After Market Order) timing:

Default AMO orders are accepted from 16:30 pm to 06.00 am for all the Segments. Post these timings if client wants to place an AMO order then he must select AMO from order placement window.

All eligible AMO orders in the CM/FO segments are sent to the exchange at 9.00 am and the remaining AMO orders in the CM/FO will be sent at 9.15 am when the exchange opens.

CUSPA Ageing Debits Liquidation on T+5 Day

- On T+5 day, if a client's debit remains overdue, the account will be placed in square-off mode until debit gets cleared. In accordance with the regulatory guidelines, no additional trading limits shall be assigned for debits outstanding beyond T+5 days, and the client's status will remain in square-off mode across all exchanges.

- Intimation will be sent to the client regarding the ageing debit of T+5 day.

- Clients are required to transfer funds or reduce positions on or before T+5 day to avoid liquidation.

- In the event of non-clearance of debit, the RMS will liquidate stocks lying in CUSPA to clear the ageing debit on T+5 day. If any debit persists, further liquidation will be carried out on T+6 day.

Liquidation Policy

This policy will be applicable if the client fails to pay any margin / Settlement Obligation and or other liabilities (including DP Charges/ DPC or any other charges) / default as per regulatory provisions

RMS may Square-off the position in case of: -

- Script highly volatile

- Margin /MTM Shortfall

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- Cheque bounce/reversal
- Scrip is banned / not allowed for trading / withdrawal from F&O segment / MWPL as per exchange announcement.
- Suspicious trade or transaction under PMLA Act
- Synchronized trading
- Regulatory body prohibits

MTM Loss monitoring during trading hours

1. During the day, if the client's loss triggered 80% of the total available margin & the client fails to bring in adequate margin, then all open positions may be liquidated at 80% by RMS team on a best effort basis and client will be liable for any such losses resulting due to such orders.
2. The MTM square-off may also consider brokerage and other taxes and charges which are levied. These charges may not be exact but can be levied on an ad-hoc basis so as to cover a part of the actual amounts. Actual brokerage will be charged as per agreed brokerage after billing process.

Handling of Physical Delivery in Equity Derivatives

As per a SEBI mandate, physical settlement is compulsory if a trader holds a position in any of the F&O stocks contracts on an expiry date.

- All open Futures positions after close of trading on expiry day & All In-The-Money contracts which are exercised and assigned.
  Physical Delivery settlement obligation will be considered as per below Table:

Contract Types	Long	Short
Futures	Security Receivable	Security Deliverable
ITM CALL OPTION	Security Receivable	Security Deliverable
ITM PUT OPTION	Security Deliverable	Security Receivable

- The risk of an option buyer defaulting goes up significantly and hence exchanges start asking for physical delivery margins for stock options from 4 days before the expiry which keeps increasing as the contract gets closer to expiry.
- Clients will have to square off the existing positions if they do not intend to take physical delivery of the stock or RMS may square off all physical delivery positions on expiry day.
- If the client intends to take physical delivery of the stock, then client needs to intimate their AP/CRMs & it may hold if sufficient margin or stock deliverable are available.
- Fresh position on the current month contract will be restricted for trading on an expiry day of stock derivatives.
- Delivery margin on potential In The Money (ITM) long option positions shall be levied at client level and collected from clearing member in a staggered manner as under. **Delivery margin at the client level shall be computed as per the margin rate applicable in Capital Market segment (i.e. VaR + ELM margin) of the respective Script.**

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Expiry Days	Margins applicable
Expiry - 4 Day	10%
Expiry - 3 Day	25%
Expiry - 2 Day	45%
Expiry - 1 Day	70%
Expiry Day	100%

Margin on Hedge Position of the Client

As per the Circular NSE/INSP/64315 dated 1-Oct-2024, penalty levied by clearing corporations of short/non-collection of upfront margins will be passed on to client if short/non collection of upfront margin is on account of following reasons attributable to client (Implemented w.e.f. 01-Nov-2024 onwards):

i. Cheque issued by client to member is dishonoured.

ii. Increase in margins on account of change in hedge position by client/ expiry of some leg(s) of the hedge positions of the clients.

For point no (ii) above, in case client does not have sufficient reportable balance (Collateral pledge + Ledger balance) for Margin Reporting then there will be Peak/EOD Margin shortfall, the penalty on account of such short/non collection of upfront margin will be passed on to the client. Some of the potential reasons/situations resulting in a hedge break / expiry of some leg(s) of the hedge positions etc. of the clients, leading to higher margin obligations on the open position(s). Some of the possible scenarios is given as under for your reference:

- Increase in Margin due to change in client's hedge position
- Increase in margin due to close of some leg(s) of client's position
- Increase in margin due to expiry of some leg(s) of client's hedge position
- Increase in Margin due to loss of cross-margin benefits like square off by the clients etc.
- Increase in Margin due to removal of hedge benefit by the exchange on the expiry day

Intimation to clients

- Client can view details of their ledger balance, Holdings, Margin, Collateral Pledge details etc. through their internet login /Sushil Connect App available to the client.
- Regular intimations regarding debit, information about Margin Shortage with provisional Margin shortfall penalty amount.
- Daily Margin Statement (DMS) sent through email on the clients' registered email address as per the exchange prescribed format.

Limitations of the document

The document is intended to be used only as an aid and is made after considering the current activities of the Sushil Financial Services Private Limited Risk Management Department.

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Modification of the document

Any deviation or modification to this document will require the same to be duly checked and authorized by the Board. The absence of a policy statement does not, by itself, imply that an action is either permitted or forbidden nor is a policy established by precedence.

Disclaimer: This RMS policy and contents mentioned therein are strictly for internal purpose and control. Any Client or Authorized Person have no right to challenge any content of this policy and shall not claim for any loss or dispute raised by implementation of this policy. Further in case of any technical failure or system error, company fails to square off positions as per this policy than any loss arises out of the same will have to be incurred by client only and company is nowhere responsible for the same. The figures and contents mentioned in this RMS policy may change by the company from time to time as per the law time being in force and same will be communicated to concerned person. We have incorporated all the rules /regulations/circulars issued by regulators.

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