NIRMAL BANG SECURITIES PVT LTD

Risk Management System

Risk Management Policy :-

1. Every Relationship Manager ,Dealer and Branch Manager should follow the prudent Risk Management policy devised by the HO for enrolling and activating the client and monitoring the trade done by him in Cash,F&O and Currency and Commodity segment. Risk management policy should be well documented and be made accessible to the clients whenever the same is demanded by the later.

2. The Dealer/Relationship Manager/Branch Manager should carry out due diligence and risk profiling based on KYC procedures specified in KYC policy and Risk Management policy of the company.

Types of Risk and Margins in both Cash & Derivatives segments (Including Currency Derivatives Segment) and Commodity Segment (MCX, NCDEX and ICEX):

3. Risk is generally used synonymously with the probability of known loss. Risk can be categorized into the following three types:

    - Low Risk
    - Technical Risk
    - High Risk

4. To cover the above different types of risk ,various types of margins are required to be collected from the clients to allow to trade and also to minimize the risk arising to member when there is sudden down fall in the stock market.

5. Margin is a minimum amount of funds and /or securities that must be held by a client in a trading account in order to allow trading in both Cash and Derivatives markets and Commodity market also.

6. Certain types of margins are required to be collected from the clients on upfront basis and others as per his trading practice and requirement of the Exchange.

7. Types of margins with their terminology in both cash and derivatives markets including currency derivatives segment and Commodity Segment are given as under :

i. Cash /Capital Markets:

- VAR Margin
- ELM Margin
- M2M Margin
- Additional Margin

ii. Derivatives Market (F&O segment):

- Initial Margin (Total of SPAN margin requirement +Buy Premium+Assignment Margin (i.e in the money margin)
- Exposure Margin
- Premium Margin
- MTM

III. Currency Derivatives Market:

- Initial Margin
- Exposure Margin
- Premium Margin
- MTM

IV. **Commodity Market (MCX,NCDEX,ICEX):**

- Initial Margin
- Exposure Margin
- Additional Margin
- Additional Cash Margin
- Tender Margin /Delivery Margin

8. Understanding of Limits :

In the following manners limit shall be assigned in cash market segment, derivatives segment and Commodity segment. Limits shall be reset on daily basis by generating a file from the back office system at HO.

- **Cash Segment :**

  a) In cash market, VAR based trading pattern/system shall be applicable for all the clients.

  b) Trading limit shall be provided to the client in cash segment based on free stock after haircut and clear credit balance available in their ledger accounts.

  c) Additional Limit provided to clients on case to case basis.

- **Derivatives Segment :**

  a) Client shall be allowed trading in derivatives segment based on upfront availability of margin collected by the member from client.

  b) Exposure on client stock shall be allowed after providing scrip wise VAR haircuts as prescribed by exchange.

  c) Additional Limit provided to clients on case to case basis.

- **Commodity Segment (MCX,NCDEX,ICEX) :**

  a) Client shall be allowed trading in derivatives segment based on upfront availability of margin collected by the member from client.

  b) Exposure on client stock shall be allowed after providing scrip wise VAR haircuts as prescribed by exchange.

  c) Additional Limit provided to clients on case to case basis.

9. Generally Client should be restricted to trade in penny stock. However, if the clients are allowed to trade in penny stock like in T,TS and Z group,100 % margin shall be charged or recovered from the client as per discretion of RMS team and ensure that these stocks are not counted for giving exposure to the client.

   Further, the management shall have the ultimate authority and can restrict the client for doing trade in particular securities including penny stocks.

10. Ensure that scrip which is banned, illiquid or T,TS &Z category for collaterals does not form part for calculating collateral margin. Management shall have the ultimate authority and can restrict client for doing trade in any particular securities/stocks including illiquid scrips or above mentioned categories.

- **Calculation Mechanism of Margin:**

  - Actual Margin received from the client (as appears in Client's ledger separately)
  - (+) Logical balance of Cash ,FNO,Currency and Commodity segment ledger balance of the client(NSE,BSE,NSECD,BSECD,NSEFO,BSEFO and MCX,NCDEX,ICEX) (I.E of T+2 for Cash and T+1 day (FNO,CURRENCY and COMMODITY as on EOD)

- (+) Value of shares after considering applicable hair cut in the withheld account on logical quantity balance
- (+) Value of shares after in the Beneficiary /Collateral account with Power of Attorney after considering applicable hair cut as prescribed by exchange
- (+) Cash collateral and Shares Collaterals (after applicable hair cut) received from the client in F&O and Commodity segment
- (-) all Un-cleared Cheques
- (-) 120 % of short sales

11. Ensure that there is regular monitoring of clients accounts who has been given collateral in the form of single stock.

12 .The company shall decide the component of cash and non-cash collaterals from time to time either in general or for any particular client as the case may be. In any case, cash component should not be less than 30 %.

13 .Only client stocks appearing on the approved list of NSE,BSE & MCX ,NCDEX(after removing the illiquid scrips as appearing on NSE,BSE and MCX,NCDEX(Illiquid list) shall be considered for margin purposes.However,the Risk Head can decide any specific inclusion or exclusion from the collaterals based on exceptional circumstances by giving prior approval in writing.

14 .For valuation of collaterals, the market rate shall be considered as closing price of T-1 day. Haircut shall be VAR rate and subject to minimum of 20% or at percentage which may be decided from time to time. It can be applied based on categorization of scrips in few categories.

15 .Ensure that the collaterals received are from the client’s designated DP account and not from third party.

* **<u>Placing of Order:</u>**

16 .Branch Manager/RMs/Dealers should ensure that orders are placed through CTCL/BOLT/NEAT Terminals with in the exposure limits applicable to clients as decided by the RMS Team and the HO.

* **<u>Mechanism of Fund Collection-EQUITY:</u>**

17 .In case of cash market for trading in equity segment ensure that 35 % coverage is maintained all the time by the client and such calculation is done on daily basis by the RMS team and should be informed to the client accordingly.

18 .If the client is having debit balance in cash segment with 35% coverage, such debit balance needs to be cleared by the client within 7 days.

19 .If the clients are having debit balance in cash segment for than 4 days with less than 20 % coverage, then shortage amount or 4 days debit balance amount whichever is less shall be raised /liquidated by the RMS team to the extent of 35%.

* **<u>Mechanism of Fund Collection in Derivatives and Commodity segment:</u>**

20 .In case of derivatives segment, one time exposure is allowed and initial margin is mandatory to trade in Derivatives and Commodity segment.

21 .In Derivatives and Commodity segment position shall not be allowed to carry forward in Short margin.

22 .All illiquid contracts are block for trading in Derivatives and Commodity segment (Refer separate policy for identifying illiquid contract in Derivatives and Commodity segment)

23 .Un-cleared cheque will not be considered as Margin, Branch Manager shall consider Additional Margin for Funds received for Margin only on Clearance of the cheque.

24 .Branch Manager/Relationship Manager to collect MTM margin immediately on T day in case the margin has fall below the required level as per the policy decided by HO, in other case on next day (i.e. T+1 day).

- **Giving Exposure to the client:**

25 .In setting exposure limits to the client ,the factors shall be considered like client's risk profile, risk appetite,loss bearing capacity ,payment history, market volatility, risk management policy of the company and such other factors or conditions which the company may consider relevant for the purpose from time to time.

- **Enhancing/Adjusting the Exposure or available Margin for Clients during the day:**

26 .During the trading hours ,exposure or available margin can be enhanced /adjusted for clients based on the following :

- On receipt pf funds through RTGS/NEFT/Transfer Cheques/Bank Recco Cheques (with prior approval)
- On withdrawal of funds (with prior approval of RMS Team)
- On receipt of collateral in client's beneficiary /collateral demat account.

27 .On withdrawal of collateral from client's beneficiary/collateral demat account (with prior approval of RMS Team)

28 .Exposure may be adjusted on receipt of news from market (market wise, client wide or security wide, if any), general volatility in the market .etc.

29 .In case of funds received through RTGS ,funds should have been received and the necessary entries in the software are passed.

30 .In case of receipts of collateral, provide details of collateral transferred in client's beneficiary collateral demat account from the concerned client.

31 .The exposure shall be enhanced only after adjusting the shortfall, if any from the additional margin received during the day.

- **The margin shortfall in F&O ,Currency and Commodity segment:**

32 .Positions of the client may be closed out to the extent of margin shortfall on the T+1 basis /Real time monitoring basis.

33 .If there is a Mark to Mark loss NBSPL has rights to square off the positions as per RMS policy

34 .While computing margin shortfall, value of unapproved securities shall not be considered.

35 .While selling the securities/ closing the client positions, NBSPL may not take into consideration Cheques showing unclear although deposited by the client with NBSPL until clear proceeds of such instruments are received by NBSPL in its bank account. For this purposes Demand Draft / Pay order will not be taken into consideration.

36 .NBSPL shall have the right to sell clients securities in case of Ageing of debit and margin shortfall in the client account.

- **Conditions under which a client may not be allowed to take further position or NBSPL may close the existing position of a client**

A. All markets:

37 .Client is not having adequate margins as per conditions in Risk Management policy.

B. Capital markets:

38 .The client has not been able to meet his pay-in obligations in cash by the schedule date of pay-in irrespective of the value of collaterals available with NBSPL.

39 .Clear proceeds of the cheque deposited by the client to meet the pay-in obligations have not yet been received by NBSPL.

40 Client is trading "illiquid" scrips and volumes in his account exceed internal cut off limit fixed by NBSPL

C. F&O ,Currency & Commodity Segment:

41 .The client has not made payment for Market to Market loss in Ledger

Intra-day positions:

42 .NBSPL shall have right to close out any intra-day positions taken by the client after a defined 'Cut-off' time (Presently 15 minutes before close of market

43 .Client is trading "illiquid" scrips and volume in his account exceed internal cut off limit fixed by NBSPL as per RMS Illiquid policy.

- **Penalty levied to Clients for Short collection of Margin/Other Margin/MTM Margin as specified by Exchange**

44 .NBSPL will impose/collect penalties from Clients as per Exchange in Derivatives, Currency and Commodity segment.

45 .Further NBSPL reserved the right to keep client on a square off mode or can reduce position in case where client has imposed penalty by Exchange 3 times or more during a month for Short margin/MTM.

- **Further exposure not allowed as per Sebi circular:**

46 .Further exposure not allowed to client if the debit continues (T+2+5) as per Sebi circular dated 26.09.2016 in all segment.

- **Other Norms :**

47 .Risk Team generates on daily basis, debtors/client's list with secured and unsecured/uncovered amount along with the ageing list. Absolute debit balance in client account in excess of RS.5 LACS and/or in excess of 7 days shall be separately monitored by Risk Team.

48 .The following are some of the indicative actions which may be initiated by Risk Team in a Volatile Market Conditions:

- Increase the hair cut on Collaterals
- Increase the Margin rate
- Reduce Intraday exposure/Multipliers
- Disallow scrip to trade
- Liquidation of positions
- Disallow client to take exposure (based on news)
- Provide Margin calls to clients after valuing their portfolio

49 .FNO physical settled Contract may be blocked on last day at 1.00 PM to create new positions. (refer physical settled policy)

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.

- 46 Scrips(Physical Settlement)
- FAQ for Physical Settlement
- FNO ANNEXURE

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.

Crux points with respect to physical settlement are as given below.

The following positions in respect of contracts identified by Exchange shall be physically settled:

Unexpired Futures

1. Long Futures shall result into a buy (Security receivable) Positions.
2. Short Futures shall result into a Sell (Security deliverable) Positions.

In-the –Money Call Options

1. Long Call exercised shall result into a buy (security receivable) positions
2. Short Call assigned shall result into a sell (security deliverable) position

In –the –Money Put Options

1. Long Put exercised shall result into a sell (Security deliverable) positions
2. Short Put assigned shall result into a buy (Security receivable) Positions

The quantity to be delivered/ received shall be equivalent to the market lot * number of contracts which result into delivery settlement.

The delivery settlement obligation shall be computed at the following prices

Futures – Final Settlement price of the futures contract

Options – Strike Price of the respective option contract

The physical settlement shall be effected on Expiry+2 days.

Post expiry, positions which are converted to physical settlement , margins as applicable in Capital Market segment (i.e. VAR, Extreme Loss Margins, and Mark to Market margins) shall be applicable and levied as delivery margins.

For details refer NSE Circular Number dated 15/06/2018 NSCCL/CMPT/38039 and FAQ on the same is provided in detail wide circular no.NSCCL/CMPT/38332 dated 16.07.2018

Failure of the seller to deliver securities shall result in buy-in-auction for the shares by Clearing Corporation as per auction schedule declared periodically. Currently auction shall be conducted on Expiry+3 days and settled on Expiry+4 days. The auction amount shall be charged in case of short delivery of shares. Failure to procure shares in auction shall be closed out.

Please note that NIRMAL BANG RMS will square off open position in Stock Futures / Option's which has been mandated by Exchanges for physical settlement, at least 2 days before expiry day. You can choose to rollover your positions or close the same before 3 days including expiry day (Monday). E.g. July expiry contracts needs to be closed/rollover by you on or before 3 days including expiry day or else the same would be closed by NIRMAL BANG RMS any time of last 3 days expiry.

Also all open position in such contract's will be on-square off mode on last day of expiry on Thursday from 1.00 PM, Client can only square off positions after blocked the contract on ODIN.

Hence for every expiry NIRMAL BANG RMS will square off open positions in Stock Futures / Options as at least 2 days prior to expiry day (last Thursday of every expiry).

Kindly take adequate care while trading in options as in case of illiquid contract it will be difficult to square-off position which may result in physical settlement.

In case NIRMAL BANG RMS is unable to square off, then such contracts will be physically settled and client will be required to honour the securities and funds settlement obligations resulting out of such settlement.

In case of any further queries or assistance please feel free to contact to RMS Team or mail on rms@nirmalbang.com

Team RMS

Nirmal Bang Securities Private Limite