

Risk Management Policy

1. Objective:

To establish clear operating procedures and parameters for managing risk in securities broking business.

2. Risk Management Process Flow

Risk Management function is a centralized operation based out of Gurgaon office. It is the sole responsibility of the RMS team to measure and manage the risk. Branch and sales personnel do not have access to risk management function.

The RMS Process flow comprises following important stages –

2.1 End of Day Processes: The end of day processes of Transaction processing system at Dhani Stocks Limited (Formerly Indiabulls Securities Limited & Indiabulls Commodities Limited) central processing center at Gurugram.

- The EOD process updates the positions of clients using the trade and position files received from the exchanges.
- Funds received from clients are updated based on actual entry in back office systems.
- Updation of stock margins is carried out using direct interface with the back office system.
- Mark to Market of all Stock and Derivative positions is carried out and SPAN based margins are applied to derivatives positions based on the latest risk parameters and exchange prescribed margins.
- Margin available and requirement is generated for each client.
- Margin reports are generated and sent to all relevant personnel within the organization for their information and further action.

2.2 Gathering of Margin enhancement details:

Details of all cheques and payment instructions are updated in the Dhani Stocks Limited Web-enabled back office for tracking by RMS team. RMS process considers only clear credit and securities on actual receipt.

Scanned copies of the payment instructions are also uploaded into the web based back office system for verification at HO prior to applying the same to client account. Further details like the bank account that these have been deposited into are also simultaneously recorded to enable clear tracking

2.3 Square off generation:

- The square off generation process recomputes margins and positions and generate the square off calls after incorporating the margin enhancement information.
- RMS team square off
- the positions that need to be squared off

2.4 Intraday RMS Processes:

- The Intraday RMS processes and tools marks to market all stock and derivatives positions at predefined intervals.
- Intraday Transaction information for both segments is replicated in real time in the RMS DB.
- Real time price feeds are received from the exchange and logged into the RMS DB.
- Positions updated with Intraday Transactions and are marked to market to regenerate margin calls.
- The proprietary Rules and Alerts engine in the transaction platform generates price alerts to bring major stock price movements to the attention of risk personnel for further action.

3. Requirement of Margin:

At the time of any order entry checks are performed to ensure margin sufficiency. The key points of the Risk Management Logic are as follows –

- A client provides margin to Dhani Stocks Limited (Formerly Indiabulls Securities Limited & Indiabulls Commodities Limited) in the form of either cash (ledger credit) or stocks and is valued after appropriate haircut.
- For every fresh position that the client wishes to take, the client has to have sufficient margin available in his account. The margin requirement for any trade depends upon the scrip being bought and the product it is being bought in.
- Delivery Transaction – Client can purchase fresh stocks based on the available margin. The daily margin percentage is defined based on VaR margin, Exposure margin and the market volatility.
- Intraday – A client can purchase or sell stocks intraday by providing either cash or stock margin. The daily margin percentage is defined based on VaR margin, Exposure margin and the market volatility. Client needs to close his open position within the day before a specified time (normally at least 30 minutes prior to closing time). In case the client is not able to complete the same, these positions are squared off by the Risk Team.
- RMS to ensure that exposure to any single client at any point of time shall not exceed 10% of the Dhani Stocks Limited maximum allowable exposure.
- Sale proceeds for sales done during the day can be utilized by the client to make fresh purchases on the same day.
- Intraday profit or loss incurred during the day is also accounted for by the system for the purpose of margin availability calculations.
- Margin is required for all purchase positions. In case of sale of securities currently not submitted by client as margin to Dhani Stocks Limited will attract margin at the rate of 133% of sale value.
- Securities identified as Z category attract 100% margin for equity trades. Additionally while calculating the margin %, the value of any Category Z stocks in a client's portfolio is taken as zero.

Margin Trading

A client availing margin financing needs to furnish initial margin as per SEBI guidelines in the form of cash, cash equivalent or Group 1 Shares and remaining amount is financed by Dhani Stocks Limited. It is to be ensured that the exposure towards stock purchased under margin trading facility and the collateral kept in the form of stock are well diversified. Dhani Stocks Limited may liquidate the securities if client fails to meet the margin call made by it.

Futures & Options (F&O) segment:

In F&O, the margin requirement is as per the margin requirements prescribed by the Exchange.

The margin requirement imposed by the Exchange is subject to change as may be decided by Exchange from time to time. Client is required to maintain minimum margin to the extent of MG13 report. Further based on the assessment of market volatility, Member reserves the right to levy additional margin which is over and above the exchange defined margins. Further member uses his discretion in selection of Category A stock from the exchange defined approved securities based on but not limited to parameters such as volatility, liquidity, impact cost, market capitalization, etc.

Constituent in Default

If client fails to make payment in respect of any one or more securities purchased by him before the pay-in date, then client's position, to the extent of debit lying in account is squared off by T+7 day.

Important Restrictions

- No unlimited access granted on any Client ID, Dealer ID and Branch ID
- Single Order Value and Single Order Quantity is capped
- Monitoring of transactions in Illiquid Stocks/Illiquid Options/T2T Category
- Increased surveillance and monitoring of large concentrated trading. We have advised all dealers/ relationship managers to take strict note of this. Also, we issue cease and desist notices to the clients who indulge in unfair trade practices. If client found indulge in such practices, his account can be closed with immediate effect.

Handling of Client securities:

1. If the value of securities is fully paid by the client, then the shares will be transferred to the client's demat account on the day of pay-out.
2. Wherein the securities have not been paid in full by the client ("Unpaid Securities"), then the said securities will be transferred to "Client Unpaid Securities Account" and shall be retained upto five trading days after the pay-out. Unpaid Securities shall be transferred to the client's demat account upon fulfilment of the fund pay-in obligation.
3. Securities lying in the "Client Unpaid Securities Account" shall be disposed-off within 5 trading days from the date of pay-out, in proportion to the amount not received.
4. In case the client has not provided the POA for his/her/its demat account to ISL, then no trading limits/exposure against stocks lying the client's demat account will be provided.

The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.

4. Reporting

Strong and speedy flow of information is the backbone of the Risk Management System. The Risk Management system provides thorough & instant information to the sales team so that they have full access to their clients' margin status on request.

4.1 Margin Report

This is a daily report containing the calculations of margin requirement and sent to clients at the end of the day. Client-wise margin requirements are also communicated to respective branches for further follow-up.

To avoid square off, client may enhance his margin in the following ways:

- a) Client may enhance his fund margin by doing a Net Transfer of funds or by depositing a demand draft or a pay order to the nearest Branch.
- b) Client may do a direct server to server fund transfer in real time from his or her HDFC/ICICI/AXIS/IDBI/YES bank account through the External Payment Interface built into the trading system if he or she has an HDFC/ICICI/AXIS/IDBI/YES account. Further, company has taken third party payment gateways service (Atom) for customers and customers can also transfer funds through Net Banking. This fund transfer instantaneously updates the limits of the client in the trading as well as the risk management system.
- c) Client may deposit additional Category A shares with the company and are considered upon actual receipt.

4.2 Reports available to clients:

The Internet trading system makes available a range of reports to the client to be able to properly manage his account.

i. **Net Portfolio Report**

The Net Portfolio report gives to the client a snapshot of all stocks lying in DP

ii. **Digital Contract Notes**

Clients are shown their digitally signed contract notes on the internet trading portal.

iii. **Ledger statement**

The clients can also see their ledger statements for their accounts with ISL on the portal.

In case of online client, the Internet trading system makes available following range of additional reports to the client to be able to properly manage his account.

iv. **Margin Report**

- a. The margin report shown to the client for his account gives the details of the margin (cash or stock) available in his account and the utilization of the same towards various products as explained below.

v. **Transaction History**

- a. A client can also view his transaction history on the trading system for k last 30 day's.
- b. Similarly, reports are also made available for the derivatives segment. These reports include the complete position report of the derivatives position taken by the client at that point in time in all contracts. Margin utilization for all these positions is reported as well.

5. Square-Off of client's portfolios

System does not allow clients with margin shortfall to create any fresh positions and to avoid square off, client may enhance his margin as stated above.

Square-off process:

In case of there is shortage of margin in the client account and no fresh enhancement of margins then the portfolio/position of the client is squared-off.

The Risk Management Team receives terminal alerts from the Intraday RMS process regarding any new clients that might have come in margin call due to intraday price movements or fresh positions taken during the day.

6. Approval process for release of Securities and Funds to clients

6.1 Release of securities

Request for transfer of securities to client account are checked for adequacy of margin post-withdrawal by the risk management team. Securities are transferred only if the client has no pending obligation for the security being transferred and has sufficient margins post-withdrawal of the securities.

6.2 Release of Funds

Request for release of funds to client bank account are checked for adequacy of margin post-withdrawal by the risk management team. Funds are approved for release only if the client has sufficient margins post-withdrawal of the funds.

RMS team considers all requests (Securities and Funds) in totality for the purpose for approval.

7. Password Policy:

At the time of account opening, all the clients are allocated a unique client code and the same is intimated to them via email with specific instructions. The password of the client gets generated from the system and is printed on a discrete stationary. The usage of discrete stationary ensures that the password cannot be compromised in transit and is sent only at clients designated address.

The password gets stored in the application database in encrypted form so that even the administrators of the system cannot view it. Nobody has the access rights to change the password except based on client's request to regenerate the same.

When the client logs in for the first time, he is forced to change the password.

Following password guidelines have been implemented in the system-

- Client ID and password should not be same
- The new password should not be same as the old password
- Password must be at least 8 characters and a maximum of 12 characters
- Password should not be all alphabets or all numbers and should contain a mix of alphabets (a-z/A-Z), numbers (0-9) and at least one special character
- Password should not contain white spaces
- Password will automatically expire after 90 calendar days
- Two factor authentication

A client logging into the system is forced to change his or her password if it has expired before he or she is allowed to do any activity in the account.

8. Documents related to financial detail of client

Client is required to get updated his financial details (with documentary evidence) on annual basis. The indicative list of such documents is available in NSE circular number NSE/INSP/2010/91 dated February 03, 2010.