

# **RISK MANAGEMENT POLICY [RMS]**

## **Introduction:**

We present below our Risk Management Policy, which is built, with a database that learns from our experience.

Regulators are now insisting on new regimes of compliance measures to make sure that risks are recognized and something is to be done about them. Risk Management is the answer and the policy below is the key to effective compliance and comprehensive management of risks.

A number of professionals and User Groups have contributed towards the development of the practical methods for risk compliance, internal audit processes and procedures that have been built into the current policy.

This is a centrally designed and functional system for all the Franchisees and Branches which intelligently takes a decision based on various logic and parameters whether the company is exposed to Risk or not. In case it finds there is a risk it takes pre-defined actions to curtail/reduce the risk.

## **1) DEFINITIONS:**

1.1) Cash: The clear balance available in the customer's ledger account in our books

1.2) Margin: The underlying stake provided by the customer in the form of cash, FDR and/or stock to mitigate market (price) or settlement (auction) risk

1.3) Exposure : The aggregate of the customer's obligations arising out of the buy + sell trades awaiting settlement in the cash segment and profit/loss amounts that are yet to be settled on the closed positions.

1.4) Exposure multiple: The number of times that exposure is allowed on the underlying margin on the cash segment would have to be made either on the availability of cash margin or on the availability of the stocks (which are to be sold) in our margin account, by executing a transfer before any order is initiated.

1.5) Stock qualifying for margin in the cash segment transactions: Securities in the approved list of VIPL.

1.6) Total Deposit: The aggregate of client deposit available with us in the form of cash, shares (after applicable hair cut) and FDR.

## **2) NATURE OF CUSTOMER TRANSACTIONS**

2.1) Intraday – Cash Segment: The amount of purchase (or sale) in a scrip on any trading day that is reversed by the end of the day by making a contra sale (or purchase) of exactly the same quantity, thereby nullifying the original position.

2.2) Delivery Trades: The net purchase or sale of scrip in a client account that is settled by way of a delivery on T+2 (or as per settlement schedule). Delivery in respect of sale transactions in the cash segment has to be settled by the client by tendering securities in demat form before the pay-in deadline, failing which the client faces risk of auction.

2.3) Sell against Buy before delivery: A purchase order executed on the Exchange today and the (undelivered) purchased stock sold in its entirety on the next trading day. In this case the first transaction would be settled on T+2 while the sale would be settled on the third business day after the purchase transaction.

Note – VIPL is not responsible for any Short payout of security from exchange.

### 3) RISK MANAGEMENT:

3.1) Cash Segment: Normally we provide limit up to 4 times of Available Margin after Haircut if any, which may vary depending upon long term relationship with clients, payment history and volatility in market. In this system total deposit of client is uploaded in system. Now client can take exposure in any scrip(s) (excluding the scrip(s) expressively barred by VIPL).

Margin call is made to clients who take delivery positions based on above limits if Margin available with us falls below 30%, the client is asked to make payment or his trade is squared off from Head office or Branch Office after proper communication to him/her.

Example:

A client with the following position intends to trade:

Ledger Balance: Credit 50000

Margin Shares before hair cut: 100000

Margin Shares after hair cut (VAR Margin 20%): 80000

Total Deposit (50000+80000): 130000

Suppose the client wants to buy XYZ Ltd. Then He will be allowed limit of 520000 (130000\*4). In this case we should have minimum Available deposit of Rs 676000 (520000+30%)

In case of T2T or Z category stock we provide limit only on Available cash credit with us and no leverage is provided in T2T or Z category Shares.

Note: If any client trades in any particular scrip where the volume compared to exchange volume is more than 10%, then our compliance team traces that trade and examines. If the same sounds to be an unusual transaction, then the compliance will send letter to the respective client for certain queries and clarification for their satisfaction and to comply with regulators.

#### 3.1.1) Franchise / Branch – wise Margining System:

Every branch is started with some security deposit which is initially treated as margin, on the basis of which limit is provided to various clients. After the client has traded and made us the payment, the margin is created automatically and then the margining system can be utilized for providing the limit. For the franchisee clients, the risk of clients belongs primarily to the franchisee. Hence, in the worst case scenario, VIPL can withhold the Terminal Margin given by the Franchisee to recover the bad debts of the franchisee client. However, such extreme action is taken in rare cases and that too after due intimation and consent of the franchisee.

#### 3.1.2) Communication:

Though the client has to be aware about his position and Risk, the Franchisee is also responsible to communicate to the client about his shortfalls. VIPL is under no legal obligation to send any formal communication but as a customer centric company we take extra effort to ensure that the client is informed about the Risk and the actions which may follow. The communication would generally be through Telephone / Email subject to the correctness and availability of the data in the system.

#### 3.1.3) Action from HO:

In case of Offline/Online Clients action will be taken on T+5 basis for the Ledger debit irrespective of whether we are in Risk zone or not with respect to the particular client. For example, if the position has been taken on Monday then

the selling will happen on Monday, the next week. This condition would not be applicable in PANIC Market Selling. In that case we may ask Clients to square off trade even on T+1 depending upon the volatility in stock price in which client has taken leveraged position. Further, Client will be suspended from Trading by RMS on selling day and suspension would be removed after selling. The selling confirmations will be made available on compliance software. The selling will be done for Debit in his ledger which is due to us from him.

### 3.2) F & O Segment:

Margin: Derivative Segment is Margin driven segment. Margin will be collected under normal/panic conditions as per the requirement of the Exchange. i.e SPAN + Exposure Margin + Additional Margin ( if any made applicable by the Exchange )

For common limit in both Cash and Derivative segments based on actual ledger credit, cash credit will be updated for limits in derivatives also subject to the following conditions:-

- Client should have traded in derivatives segment in last one year
- Client should have given PoA
- Cash ledger amount will be credited in derivatives to the extent of PoA or cash ledger balances whichever is lower. If ledger credit is required in cash segment then request needs to be placed online.

#### 3.2.1) Combination of margins is acceptable in F&O Segment:

Typically as per exchange rules, margin can be accepted in cash and shares equally. Only liquid stocks (as acceptable to exchange in F&O Segment) are accepted. F&O Margin which will be accepted after a haircut is applicable as per Exchange.

#### 3.2.2) Communication:

Though client has to be aware about his position and Risk, franchisee is responsible to communicate to its clients, VIPL is under no obligation legally to send any formal communication but as a customer centric company we do wish to take those extra efforts generally to ensure that client is informed about the Risk and the actions, which will follow. The communication would generally be through Compliance Software, SMS/Email, subject to the correctness and availability of data in the system.

#### 3.2.3) Action from HO:

In case of Offline, action will be taken on T+2 basis for the MTM debit / Margin Shortfall. In case of Online, general client action will be taken on T+3 basis for the MTM debit / Margin Shortfall.

#### 3.2.4) Selling sequence when HO takes action:

- First the primary Position in F&O Segment will be squared off towards margin shortage. In case of MTM debit, collateral will be sold first to clear the ledger debit and then to the extent of Margin shortage, the position will be sold.
- Finally Cash Position both lying in debit stock and in DP Account with POA will be sold to clear the Debit.

Process for clients who are in Risk due to market conditions:-

- Offline: When the Mark to Market reaches 80% of the deposit action can be taken even before the above stipulated dates
- Online: When the MTM is 85% of Deposit, position will be squared off.

- Those clients will be allowed to take exposure on span margin strictly for intraday only. If on any particular day the client is unable to sq off intraday then he will be only on sq off mode on T+1 day and will not be allowed to create fresh positions on T+1 day.

### 3.2.5) F & O Market:

In case of F & O segment, all the far Month Option contracts and third Month Option Contract (Except Nifty) will not have buy and sell limit due to its illiquid nature, however in all the above cases if the client still wishes to trade then they will need to speak to the respective RM to set the limit, which can be provided on a case to case basis.

### 3.3) Other Tools Available:

Dormant account: We have a system of identifying the trading done after a long gap. For this precaution is taken and SMS is send to client that he has traded after a long gap of say X no of days.

Simply Buy and Sale: Through this we identify those clients who have traded during a particular period but have not made any cheque transaction. A proper follow up is provided through our surveillance team and due care is taken for avoidance of the same.

Third Party cheque: The bank account of each and every client is updated in our back office software and the same is also printed on the instrument when a cheque is issued so that he cannot deposit the cheque in his other account. Also when a client gives us cheque a due care is taken that he gives us cheque only from the account(s) mentioned in his KYC.

Client Trading statistics: We have a system in our back office through which we can identify whether a client is involved only on delivery or intraday or derivatives transactions.

Cheque Dishonour: We are regularly tracking the clients where cheques are being dishonored regularly. We also have a system in place wherein clients are tracking for short selling on regular basis and which subsequently leads to auction of shares.

Duplicate Demat ID: Clients with duplicate Demat id are taken care off and we have a very good system in place where the same can be avoided.

PAN missing details: No clients are allowed to trade who have not provided us PAN details.

### 3.4) Other Miscellaneous Steps:

- Apart from all the above SMS is being sent to clients regarding their trading on daily basis which includes their billing for the day and their net positions.
- Clients having Debit balance are also being sent SMS regularly, mentioning their debit balance.
- The SMS for all the cheque receipt and payments are also being sent on daily basis.
- Emails are also sent to clients on daily basis which contains their ledger and trades.
- Running Account Settlement of client balances is done on a quarterly basis.
- Clients also get concurrent SMS of the trades executed in any segment within half an hour time after the trade is executed.

#### **4.) RESOURCES DEPLOYED:**

##### **4.1) Manpower:**

RMS Department is a well-staffed team containing qualified personnel who have been well trained and groomed to deal with franchisees and clients. The number of franchisees mapped to a RM varies from 10 to 50 depending upon the experience and capability of Risk Manager.

RM is the first point of contact with respect to providing limits and squaring-off the trades. There is also a floor manager who supervises the work of all the RMs. The care of all the escalations and major decisions are taken by the Department Head of the RM team. There is also some bench strength which takes care off any absent RM.