ABANS GROUP OF COMPANIES

Risk Management & Surveillance Policy

(Revised Edition: Aug’2019)

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Objective

To pre- define limits for each terminal and monitor the same on a continuous basis.

Background

Trading Terminals are allotted to Members by exchanges. These terminals enable members to place, modify and execute orders on behalf of clients. There may be instances where due to punching error unusual orders may be placed at high prices which might lead to execution of unrealistic orders or orders being executed at unrealistic prices. In cases where the order/price of such orders is high, it might lead to huge losses to broker. In order to avoid such a situation it is imperative that certain limits are prescribed for each terminal allotted to member broker and monitored on a continuous basis.

1. Pre-trade Controls

The following limits shall be defined for each terminal:

a) Quantity Limit for each order
b) Value Limit for each order
c) User value limit for each user ID
d) Branch value limit for each Branch ID
e) Spread Order Quantity and Value Limit (Derivatives & Currency Derivatives segment)

Setting up client's Exposure limits:

Our policy ensures that a Minimum pre-trade risk controls for all categories of orders placed on Stocks, Exchange Traded Funds (ETFs), Index Futures, Stock futures and Currency Derivatives shall be as follows:

Quantity / Value Limit per order:

(a) **No order with value exceeding Rs.10 crores per order will be allowed for execution in the Exchanges**

(b) In addition, appropriate checks for value and / or quantity are implemented based on the respective risk profile of our clients.

<u>Algorithmic orders and trades</u>

The minimum order-level risk controls shall include the following:

(a) Price check - The price quoted by the order shall not violate the price bands defined by the various Exchanges for the security.

(b) Quantity Limit check - The quantity quoted in the order shall not violate the maximum permissible quantity per order as defined by the various Exchange for the security.

<u>(c) Orders per second limit for algorithmic trading</u>

- **The numbers of orders per second from a particular CTCL ID/ATS User-ID will not exceed hundred orders per second**.

<u>(d) Orders generated using algos, shall satisfy the following minimum levels of risk controls -</u>

- Price check – Algo orders shall not be released in breach of the price bands defined by the various Exchanges for the security.
- Quantity check – Algo orders shall not be released in breach of the quantity limit as defined by the various Exchanges for the security.
- Order Value check - Algo orders shall not be released in breach of the 'value per order' as defined by the various stock Exchanges.
- Cumulative Open Order Value check – **There will be an individual client level cumulative open order value check of Rs.100 crores for the domestic Exchanges** (Cumulative Open Order Value for a client is the total value of its unexecuted orders released from the stock broker system.)
- Automated Execution check – An algo shall account for all executed, unexecuted and unconfirmed orders, placed by it before releasing further order(s).

Further, the algo system shall have pre-defined parameters for an automatic stoppage in the event of algo execution leading to a loop or a runaway situation.

In the interest of orderly trading and market integrity, we will put in place a system to identify dysfunctional algos (i.e. algos leading to loop or runaway situation) and take suitable measures, including advising such clients to shut down such algos and remove any outstanding orders in the system that have emanated from such dysfunctional algos.

2. Limit Setting & Exposures

Purchase Limit: Abans Group of Companies ("Abans") may provide an exposure limit for intraday which would be a multiple (varying between one to ten times) and delivery based purchases by a client based on the clear ledger balance in the account of the client plus value of paid up collaterals computed after appropriate haircut with due assurance by the client to settle the debit within the stipulated time frame i.e. T+2 days. The value of the "multiple" and the "haircut" shall be decided by Abans based on Market Volatility and quality of collaterals.

Sell Limit: Abans may provide a sell limit to the client equivalent to the extent of securities held by the client in his POA enabled Demat account plus the collateral held by Abans on behalf of the client in its Beneficiary and Margin Pool account after making appropriate adjustments for the unsettled delivery positions of the client.

Exposure for Derivatives (Indices, Stocks, Currency and Commodities): Abans may provide exposure for Derivatives Segment based on availability of **initial margin (SPAN + Exposure) on an upfront basis, extreme loss margin and any calendar spread margin** in the form of cash and approved securities (with appropriate hair cut).

To bring control on risk related to trading in illiquid securities in Futures and Options segment we have decided on the following parameters:

PARAMETER	MODE
Scrip which has open interest and also volume on previous day	OPEN
All scrips where F&O trades are allowed	OPEN

Scrip (only future) which has open interest but no volume on previous day	OPEN
Scrip (other than future) which has open interest but has no volume on Previous Day	Square off mode
Scrip which has no open interest but has a volume on previous day	Square off mode
Scrip does not have open interest and also no volume on previous day	Square off mode
Far month Future stock and Option Contract i.e. 3rd month onwards	Square off mode

Client-wise differential Limits: Abans shall have the prerogative to allow differential purchase limits and sell limits varying from client to client, depending upon credit worthiness, integrity and past conduct of each client.

Based on the above rationales for Limit setting & Exposure in the various segments BASE CAPITAL is computed as follows;

Base Capital constitutes of Margin Ledger +/- Party Ledger + Collateral Stocks (Stocks given to Abans as Margin) + Debit Stock (Stock withheld by Abans against ledger debits) + Outstanding Stocks (Stocks yet to be received from the Exchanges in the Cash Market segment) – Shortages (Stock sold but not delivered to the broker for pay in within T+2 days)

3. Monitoring of Risk & Debits

We regularly monitor the following categories of debits as mentioned below;

- **Margin Shortages in the Derivatives Segment – Monitoring on a real time basis**
- **Ageing Debits of clients – Monitoring on a T+3 basis**

Conditions under which a client may not be allowed to take further position or the broker may close the

existing position of a client:

a. **All Markets:** Where client is not having adequate margins as per conditions defined in Risk Management policy under Point 3.
b. **Capital Market:**
   i. Where the client has not able to meet his pay -in obligation in cash by the schedule date of pay-in irrespective of the value of collaterals available with Abans
   ii. Clear proceeds of the cheque deposited by the client to meet the pay -in obligations have not yet been received by Abans.
   iii. Client is trading in "illiquid" script and volumes in his account exceed internal cut off limit fixed by Abans.
   iv. Abans exposure at "house level" in a specific scrip /contract exceeds the internal limits fixed by Abans.
c. **Derivatives Segment (Indices, Stocks, Currency and Commodities):**
   i. Where the client has not met Market to Market loss in cash
   ii. Where the "open" positions in a contract exceed or are close to market wide cut -off limits.
   iii. Where the client's position is close to client-wise permissible "open" positions
d. **Intra-Day:**
   Clients will not be able to place intra-day orders after a cut-off time fixed by Abans (Presently 15 minutes prior to close of market)
   Event Based: Where based on happening of an event, Abans has the risk perception that further trading in the securities/ contracts may not be interest of its clients and/or the market.

4. Liquidation & Square off of Clients Positions

The right to sell clients' securities or close clients' positions, without giving notice to the client, on account of non-payment of client's dues (This shall be limited to the extent of settlement/margin obligation)

Abans shall have right to sell client's securities, both unpaid securities as well as collaterals deposited towards margins, or close out client's open positions, without giving notice to the client where there is a delay/failure of the client to meet the pay -in obligations and / or there is a failure of the client to bring additional margins to cover the increase in risk in the dynamic market conditions.

a. **Unpaid Securities in Capital Market:**

a. It is the client's obligation to clear his obligations on T+2 days (T indicates Trading day). The client shall timely provide funds/securities to Abans for the purchase/sale of securities for meeting his obligations to the Exchange. In case of the client falling short on providing fund/securities, Abans has the right to close the positions/ sell the clients securities with or without giving prior notice to client to the extent of the ledger debit and/or to the extent of margin obligation. Abans has the right to liquidate the securities bought or collaterals given or any other securities given by the client in any other form for clearing of the clients obligation.
b. RMS selling in the clients account will be done on T+5 days (T indicates Trading day) for the ledger debit on due basis. For example, if the position has been taken on Monday then the funds payment is due on Wednesday (T+2 day). Shares so bought on Monday will be withheld by Abans till the debit is cleared. If the funds are not received by Friday, shares will be sold on the following Monday.
c. In case the valuation of the stock held in the debit client account falls below 20% of the total ledger debit, the square off can be done even before the T+5 days.
d. Abans may follow the LIFO method for liquidation of securities but it may not bind on it to follow this method in all cases.

b. **The margin shortfall in Derivatives (Indices, Stocks, Currency and Commodities):**

i. RMS selling will be done on T+2 basis for the Mark to Market (MTM) debit/Margin Shortfall.
ii. If MTM reaches 80% of the deposit RMS selling can be done even before above stipulates days.
iii. In case of panic market conditions, RMS selling will be done on T+1 basis.
iv. While computing margin shortfall, value of unapproved securities shall not be considered.
v. As per the current Exchange requirements, the Member Broker is required to maintain a 50:50 ratio between the cash and non-cash collaterals margin deposited with the Exchange.
vi. Abans shall therefore has the prerogative to insist for at least 50% of margin in cash and may not consider the value of securities over and above the cash component for the purpose of calculating margins shortfall and close the Derivatives position where it finds the deviation.
vii. However, sales made in capital market segment are not considered while closing Derivatives positions on T+1 basis due to the margin shortfall.

c. **Intra-day Positions:**

Abans 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) or the MTM erosion reaching the BEP or whichever is higher.

d. **General:**

i. While selling the securities/ closing the clients positions, Abans may take into account the sales made by the client, positions closed by the client or collections received from the client till a cut-off time (presently 12.45pm).

ii. While selling the securities/ closing the clients positions, Abans may not take into consideration uncleared Cheques deposited by the client with Abans until clear proceeds of such instruments are received by Abans in its bank account.

iii. Abans shall have the right to sell client's securities or close out client's open positions but it shall not be under any obligations to undertake this exercise compulsorily. Abans shall therefore not be under any obligation to compensate/ or provide reasons of any delay or omission on its part to sell client's securities or close open positions of the client.

iv. Pursuant to SEBI circular no. CIR/DNPD/7/2011 dated August 10, 2011 and effective from 1st September, 2011, Stock Exchanges shall levy penalty specified hereunder on trading members for short-collection/non-collection of margins from clients in **Equity and Currency Derivatives segments**:

For each member:

"a"	**Per day Penalty as %age of "a"**
(< Rs 1 lakh) And (< 10% of applicable margin)	**0.5**
(= Rs 1 lakh) Or (= 10% of applicable margin)	**1.0**

- If short/non-collection of margins for a client continues for more than 3 consecutive days, then penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of shortfall.
- If short/non-collection of margins for a client takes place for more than 5 days in a month, then penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.
- Notwithstanding the above, if short collection of margin from clients is caused due to movement of 3% or more in the index (close to close value of Nifty/Sensex for all equity derivatives) and in the underlying currency pair (close

to close settlement price of currency futures, in case of all currency derivatives) on a given day, (day T), then, the penalty for short collection shall be imposed only if the shortfall continues to T+2 day.

- **With Ref: SEBI/HO/MRD/DRMNP/CIR/P/2018/75; Dated 02.05.2018;**

  - ✓ **Margin Collection Requirement**

    For the Equity Derivatives segment, the client margins which are required to be compulsorily collected and reported to the Exchange/Clearing Corporation, as the case may be, by the Clearing members / Trading members shall include initial margin, exposure margin/extreme loss margin, calendar spread margin and mark to market settlements.

  - ✓ **Margin Enforcement Requirement**

    With reference to SEBI circular CIR/DNPD/7/2011 dated August 10, 2011 captioned "Short-collection/Non-collection of client margins (Derivatives segments)", it is clarified that the 'margins', for both Equity Derivatives Segment and Currency Derivatives Segment, shall include margins as specified in Para 2 of this circular, mark to market settlements or any other margin as prescribed by the Exchange/Clearing Corporation to be collected by Clearing Members from their clients (i.e. Custodial Participants and Trading Members - for their proprietary positions) and by Trading Members from their clients.

v. The Commission vide its letter No. 6/6/2007- MKT-I dated 5th March, 2010 had prescribed a penalty on members of **National Commodity Exchanges** for non collection/ short-collection of margins from their clients.

For each member:

"a"	**Per day Penalty as %age of "a"**
(< Rs 1 lakh) And (< 10% of applicable margin)	**0.5**
(= Rs 1 lakh) Or (= 10% of applicable margin)	**1.0**

Commodities segment:

- **The ‘margins’ for this purpose shall mean mark to market margin, special / additional margin, delivery margin or any other margin as prescribed by the Exchange to be collected by member from their clients.**
- The members are required to collect upfront initial margins from their clients.
- **The members will have time till ‘T+2’ working days to collect margins (except initial margins) from their clients.**
- If short-collection/non-collection of margins of a client continue for more than three consecutive days after T+2 working days, then a penalty for 1% of the shortfall amount shall be levied for each day of continued short fall.
- In case of short-collection /non collection of initial margins, the above penalty structure would be applicable from T day.
- With respect to repeated defaulters, who default 3 times or more during a month, the penalty would be 5% of the shortfall in such instances.

5. Surveillance Actions

a. Refusal of order for Penny stocks:

Abans shall have the absolute discretion to accept, refuse or partially accept any buy or sell order for execution from a client in respect of penny stocks, illiquid stocks, stocks having low liquidity, illiquid “options”, far month “options”, writing of “options”, stocks in S, Z and B2 category and any other contracts which as per the perception of Abans are extremely volatile or subject to Market manipulation.

Abans may permit restrictive acceptance of orders in such script/contracts in controlled environments like orders received from clients being forwarded by branches to a centralized desk at HO instead of allowing trading in such script/Contracts at branch level or through Online trading platform. Abans shall not be responsible for delay in execution of such orders and consequential opportunity loss or financial loss to the client

Abans may cancel orders in such script received from clients before execution or after partial execution without assigning any reasons thereof. Abans may take appropriate declarations from the clients before accepting such orders.

Abans shall have the prerogative to place such restrictions, notwithstanding the fact that the client has adequate credit balance or margin available in his account and/or the client had previously purchased or sold such securities / contracts through Abans itself.

b. **<u>Conditions under which a client may not be allowed to take further position or the broker may close the existing position of a client</u>**

i. **<u>All Markets:</u>**

- Where client is not having adequate margins as per conditions defined in Risk Management policy

ii. **<u>Capital Market:</u>**

- Where the client has not able to meet his pay -in obligation in cash by the schedule date of pay-in irrespective of the value of collaterals available with Abans
- Clear proceeds of the cheque deposited by the client to meet the pay -in obligations has not yet been received by Abans
- Client is trading in "illiquid" script and volumes in his account exceed internal cut off limit fixed by Abans
- Abans exposure at "house level" in a specific scrip / contract exceeds the internal limits fixed by Abans

iii. **<u>Derivatives Segment:</u>**

- Where the client has not met Market to Market loss in cash
- Where the "open" positions in a contract exceed or are close to market wide cut -off limits
- Where the client's position is close to client-wise permissible "open" positions

iv. **<u>Intra-day Trades:</u>**

- Clients will not be able to place intra-day orders after a cut-off time fixed by Abans (Presently 15 minutes prior to close of market)

v. **<u>Event Based:</u>**

- Where based on happening of an event, Abans has the risk perception that further trading in the securities/ contracts may not be interest of its clients and/or the market.

c. **PMLA Guidelines;**

All Clients will be categorized as High, Medium and Low risk customer as per their risk appetite and current profile as mentioned in the KYC. The same will be reviewed at regular intervals.

The exposures to clients may be governed by the customer profiling elucidated above as well as clients financial income made available from time to time. Further the clients need to furnish their income details on a yearly basis.

The list of documents which will be accepted as Income Proof are;

- Bank account statement for the last 6 months
- Copy of Holding statement of De-mat account
- Copy of ITR Acknowledgement
- Copy of Annual Accounts
- Copy of Form16 in case of salary income
- Salary Slip
- Net-worth Certificate

6. Review of Process and Maintenance of Records

The Risk Management team at Head Office of Abans shall be responsible for maintenance of records namely message logs or any other record as may be prescribed by the Regulators and demonstrating the adequacy of the Risk Management System to the Internal Auditors.

The process of setting of limits shall be reviewed on a quarterly basis by the Compliance Team. Based on the regular review, the Compliance Officer may also review the process on a test check basis. Based on the confirmation of the Compliance Officer the Compliance Team shall submit the details to the Exchanges on a quarterly basis covering aspects such as limits are reviewed regularly and are up to date, no terminal has been allotted unlimited limit, records of the limits are maintained on daily basis, etc.

7. Mechanism for Payin / Payout of Funds and Securities

- In the Cash segment our clients have to make payments on a T+2 basis
- In the F&O, Currency Derivatives and Commodities segment clients to have initial margin money in the account on an upfront basis before they can place any order (**Ref: 4. Liquidation & Square off of Clients Positions - General Points iv. and v**)
- The MTM collections in the derivatives segment is done on a T+1 basis
- All payout of funds and securities are done on a T+2 basis for all clients who are on a daily settlement
- All payout of funds and securities are done based on the instruction of the clients who have provided a running account authorization. All such client accounts are compulsorily settled once every quarter during the Quarterly Settlement.

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