Abans Group of Companies

Risk Management Policy

(Revised Edition: Aug’2021)

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Objective

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

Background

Risk Management is an integral part of any organization. An organization in stock broking services needs to manage risks like Credit Risk, Market Risk, Default Risk, and Liquidity Risk. In the Securities Market, clients have to be alerted with respect to their obligations, open positions, market conditions, margin requirements, regulatory requirements, and steps are initiated by the brokers in case of changing market conditions. 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 segments)

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, we will be using the following clients' exposure limit formula as a standard procedure compliant with market regulators.

Clients' available margin constitutes of the following=
Customers' Ledger Account Balance
(+) Add Open Payout Securities value (Securities yet to be received from Exchange)

(+) Add Margin Pledged Securities Value
(+) Add CUSA Securities Value (Client Unpaid Securities Account - CUSA)
(-) Less Unclear value of cheques
(-) Less Open Payin Securities Value (Securities yet to pay into the exchange)
(-) Less Previous day's MTM profit in Cash Segments
(Here, Securities Values will be considered after deducting appropriate hair cut of Exchanges or as set by **Abans**)

Trading Limits will be allowed on the basis of available margin as specified by exchange for all segments at combined level i.e. Equity + Equity Derivatives + Currency Derivatives + Commodity Derivatives + SLBM (Securities Lending and Borrowing Mechanism). Margin will be collected as per the requirement of the Exchanges. i.e. Total Margin comprises of VaR Margin (Value at Risk) + Extreme Loss Margin (ELM) + SPAN (initial) Margin + Additional Margin + Tender Period / Delivery Margin + Special Margin (if any made applicable by the Exchanges from time to time). **Abans** at its sole discretion may collect additional margins on the basis of risk perception or any other factor considered relevant.

As per exchange guidelines, only approved lists of securities for margin will be accepted as the net value of securities after applying the prescribed haircut. The haircut will be considered based on exchange haircut or **Abans** defined haircut (20%), whichever is higher. **Abans** at its sole discretion may revise the percentage of haircut as deemed fit from time to time.

Algorithmic orders and trades:

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.

(c) Orders per second limit for algorithmic trading
- The numbers of orders per second from a particular CTCL ID/ATS User-ID will not exceed hundred orders per second.

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

Scrip wise Exposure Limits:

Cash Segment:
To keep in mind the surveillance measures and also to stop unusual activities in illiquid stocks, scrip wise limits will be set on the basis of the following parameters at the **Abans** level:

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 (only future) which has open interest but no volume on previous day	Square-off Mode
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

- The scrip on which unsolicited news circulations are taking place (SMS Scripts) may be banned for transactions.

F & O Segment:
Far month future, stock, and options contracts, i.e. Third-month contracts onwards

are not allowed for derivative trades. For selling In-the-money (ITM) options, the available exposure limit will be 100% of its intrinsic value.

Collection of Margin in Equity and all Derivatives Segments from clients:
As per SEBI directives, the collection of upfront VaR and ELM margins from clients is required mandatorily for the cash segment also. The clients must ensure that the VaR margins and ELMs are paid in advance of trades failing which the exposure may not be approved or assigned.

As per revised framework of upfront collection of margin, members are also required to ensure peak margins in addition to the above mentioned margin requirements. Peak margin is the maximum of clients' intraday upfront margin requirements across various snapshots provided by exchanges.

Clients, at any point of time, are required to maintain adequate margins as prescribed by the exchanges. In case of short collection or non-collection of margins, the client will be levied the following penalty:

'a' (Short-collection/non-collection of margins perclient per segment per day)	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 continue 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.

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.

3. Handling of Client's Securities

Customers **having no outstanding debit** ledger balance/margin obligations / other dues, on the payout date, **Abans** may transfer the securities purchased by its customers to their Demat account irrespective of whether POA is there or not.

Customers **having outstanding debit** ledger balance/margin obligations / other dues, **Abans** as per SEBI directives vide CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated 20th June 2019 shall transfer the securities in the CUSA (Client unpaid securities account).

If any client fails to fulfill the required funds' obligation and/or Margin Obligations / other dues, the securities may be liquidated on or before T+2+5 days (T indicates Trading day) as per regulation.

4. Right to sell clients' securities or close clients' positions on account of non-payment of dues

1) It is the clients' obligation to settle the dues on T+2 days (T indicates Trading day). In case the client falls short of providing clear funds on or before 3rd trading day of pay-in/pay-out day or due date in case for derivatives segments, **Abans** has the right to sell the clients securities and the right to close the open positions of the clients in derivatives segments to the extent of shortfall amount and/or settlement dues and other dues.

   Abans at its sole discretion may hold the debits beyond T+2+5 days and liquidate the customer securities from CUSA, Demat Account, and/or Pledged securities on the basis of the net risk position of the client. **Abans** may liquidate the client positions in case of shortfall in margin obligation with or without giving prior notice to the client.

   Abans at its sole discretion may not liquidate the securities and/or allow exposure, where there are no dues outstanding against the settlement obligations of its clients. Such debits may arise because of charges against brokerages, value-added services, delayed payment charges, and any other charges as applicable.

   Abans may liquidate securities by prioritizing 1) FIFO (First in First Out) securities from the CUSA account. 2) For the clients where POA is given in the favour of **Abans**, low VAR (Value at Risk) and the highest value securities in the Demat account. 3) Low VAR and the highest value margin pledged securities. For more than one security having the same VAR margin, the script with the highest closing price on T-1 day may be selected first for liquidation. However, in case, the securities are not sold due to any legitimate reasons like low liquidity or lower circuit, or any other reason, then **Abans** may liquidate other securities to clear the outstanding debits. 3% additional amount of the stock or Rs. 1000 whichever is higher is marked on outstanding Debit obligations for liquidation of the securities. **Abans** reserves rights to change the formulas base on market conditions if need be and inform the client by possible mode of communication.

   Abans may not allow further exposure if client ledger debit is not cleared on or before T+2+5 days. Delayed payment post-settlement day will carry an interest charge up to 24% per annum on actual debit balance inclusive of clients' open margin obligations.

Abans may liquidate the client position in the future and option segment in case of the mark to market (MTM) loss and/or margin shortfall by liquidating collaterals as provided by the client and also recover losses from the sale of such collaterals.

Abans at its sole discretion may revise the procedure without giving any reason and inform the clients bypossible mode of communication.

2) **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.

3) **Real-time Risk-based Square off (Anytime during the Day):**

Whenever markets are volatile and price movements become very erratic because of some events which can be pertaining to a particular stock or stock market as a whole, **Abans** Risk Management systems may monitor such volatility in real time. If the losses arising out of carry forward derivatives open position, Intraday trades in Cash and Derivative segment erodes more than or equal to 85% of the Net worth of the client, then the Risk team may square off all open positions for the client(s). Open Position includes all Intraday Trades in Cash and Derivative segment and all Overnight Open Positions in the Derivatives Segment.

4) **Margin Shortage in F&O (equity derivatives + currency + commodity) and Equities Segments:**

The Margin Shortfall is intimated to the clients over call for all segments. Clients need to deposit the cheque or make an online fund transfer to **Abans** on the same day of intimation. In case the client fails to transfer the funds, as per exchange guidelines the client has to bear the penalty on the shortages from 0.5% to 5%. If required, **Abans** may liquidate positions to the extent of shortfall for clients in critical situations. In case of a shortfall due to high fluctuations in security price during the day, **Abans** may liquidate any open position to mitigate MTM loss or to ensure sufficient margin for clients. The client has to deposit cheque or transfer funds for shortfall amount, ledger debit and any other dues as per regulation to avoid position liquidation.

For reporting of the available margin of clients' to the exchanges will be prioritized as per mentioned segment; 1. Equity Derivatives, 2. Currency Derivatives, 3. Commodity Derivatives and 4. Equity.

5) **Physical Settlement in Equity Derivatives: (Current month expiry)**

Based on the criteria specified in the SEBI circular, Exchange shall identify securities which shall be settled through delivery on expiry. Exchange publishes a list through a circular from time to time. The clients whose positions are open in physical equity derivatives contracts before T-1 day of the current expiry day, intimation will be sent on/before T-1 day to square off of the position and avoid physical settlement. In case the positions are not cleared by the clients, the contract will be settled physically for long futures, and short futures, ITM options, and short options. In case of short options and short futures if clients do not have cash holding of that particular stock to the extent of short quantity then short quantity will get auctioned and client will have to bear the penalty as per exchange guidelines.

Higher Margin Requirement in case of physical equity derivative contracts before T-4 days for current expiry

Clients can trade in physical settlement option (buy) derivatives by utilizing 10%, 25%, 45%, and 70% of available margin respectively till 4 days before current month expiry and physical settlement of future or option (sell) derivatives as per exchange applicable margin. In case F&O shortfall arises due to delivery margin charge, the client has to deposit the shortfall amount on the same day of intimation else, client has to bear the shortfall penalty as per exchange guidelines. If required in critical situations, **Abans** may initiate square off from T-3 days till current month expiry day.

6) **Any Other Square Off:**
Abans may initiate square off of positions for a particular client without prior intimation due to market volatility, debarred by SEBI or any regulatory authority or as prescribed in any other rules and regulations.

7) **Commodity Segment Physical Delivery:**
Physical delivery commodities with compulsory delivery will be closed from the start of their respective tender period / delivery intention if clients are not willing to take delivery as per required margins. All the deliverable contracts of MCX, NCDEX and ICEX enter "Tender Period positions" as mentioned by exchange from time to time. Clients' positions will be squared off from the start of the "Tender Period" till expiry date, where compulsory delivery period of the contract is applicable and if the intention of the client is not submitted to take / give delivery of the said contract. No positions will be allowed to carry over in Tender Periods except clients having Demat a/c complied with GST registration for commodity segments (COMRIS, CCRL or NERL A/C).

5. Other Surveillance Actions

1) **Refusal of order for penny stocks / illiquid contracts:**
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.

2) **Regulatory conditions under which a client may not be allowed to take further position or Abans may close the existing position of the client:**

In case overall position in a scrip / derivatives contract has reached the Regulators prescribed or any limit set by **Abans** / Exchange limit / Market wide open interest limit / Client level limit, then client may not be allowed to take further positions, till such time Regulators prescribed limit comes down to create a new position.

Further **Abans** may close the existing position of a client to the extent of debit balances to release the margin from the Exchange. In case if **Abans** has sufficient margin cover on behalf of its clients, it may still decide based on the market conditions and risk perception not to allow further position or may close the existing position of a client.

3) **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.

Exposure to the client may also be governed by customer profiling mentioned above from time to time. The client needs to furnish their income details on a yearly basis. Following documents will be accepted as income proof

- Copy of ITR Acknowledgement
- Copy of Annual Accounts
- Copy of Form 16 in case of salary income
- Net worth certificate

• Salary Slip
• Bank account statement for last 6 months
• Copy of Demat account holding statement
• Any other relevant documents substantiating ownership of the assets

If there is a major disparity between financial details and trading volumes, the client may be asked to furnish suitable explanations and based on the same further trading limits will be sanctioned.

4) **Suspension of Clients:**
Abans may withhold the payout of a client and suspend trading account due to any internal surveillance (if client indulges into manipulative trade practice) / regulatory orders (debarring orders), etc.

5) In case the client has created any position in banned securities, penalty as levied by stock exchanges will be applicable.

6) **Abans** may withhold the payout, if the client has traded in unsolicited SMS securities identified by exchanges periodically. Further trading on such scrips may be barred.

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.

Abans has a discretion to alter/change any of exposure limit, margin limit, and/or liquidation/close out parameters defined in this policy on the basis of prevailing market conditions, considering the dynamics of operations, business plans, and strategy of managements from time to time, and/or any risk perception with or without prior intimation and can use their discretion to grant any kind of exemptions/permissions in case they deem fit on case to case basis. In the time of extreme volatility or major impending event which might trigger such volatility, **Abans** reserves the right to withdraw the same. The company may modify or amend any of these rules without prior notice. The amended policy will be uploaded on the website of **Abans** from time to time.

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