

Risk Management Policy

Risks that are set out to be addressed in this note are as under:

- 1) Client Credentials Verification
- 2) Client Grading
- 3) Technical & Systems Risks
- 4) Operational Risks
- 5) Credit Risks

Risks are managed through various measures / processes set out as below. All client risks are monitored and managed at client level and not as a group (whether as members of a family or any other association). Exceptions to be considered post credit committee approval

1.1 Client Credentials Verification

The account opening process builds in a minimum level of risk mitigation through some steps as below: *In Person Verification (IPV)* – Documents, Credentials and client profile are verified as per extant regulations and recorded before opening an account *Client Credentials Verification* – KRA verification, PAN verification, websites like watchoutinvestors.com, Trackwiss software etc. used to ensure validation of documents and identification of high risk clients *Initial Risk Categorization of Clients* – High risk clients are identified through their professions as below in line with various notifications / circulars by the introducer at the time of account opening.

Indicative List of clients as categorized as special category clients where high degree of due diligence is required and regular update on KYC profile as defined in PMLA guidelines

- Non-resident clients
- High Net worth clients
- Trust, Charities, NGOs, and organizations receiving donations
- Companies having close family shareholdings or beneficial ownership
- Politically exposed persons (PEP) of foreign origin
- Current / Former Head of State, Current or Former Senior High-profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence)
- Companies offering foreign exchange offerings
- Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
- Non face to face clients
- Clients with dubious reputation as per public information available etc.
- Arm Dealers or any person having past criminal records / directly or indirectly involved in criminal case as per the law.

Ongoing Surveillance – The compliance/RMS group shall undertake continuous regular surveillance to identify, highlight and prevent circular trading, price manipulation and any other such trades that may be in violation of general trading principles.

1.2 Client Grading

All resident clients are graded/classified into groups of A and B as per client profile. The risk group shall make dynamic changes based on market context, underlying exposures, client status from time to time and nothing in this policy maybe binding on the firm vis-à-vis the client. The client classifications shall be reviewed periodically, typically once a quarter. NRIs are allocated exposure separately owing to the regulatory restrictions on their trading

Group A (Normal) – All clients, unless upgraded or downgraded shall be in this group (Default group).

Group B (High Risk Clients) - Clients who are classified as high risk based on profile or have a less than satisfactory payment track record (delayed payment of margins / other obligations, history of forced liquidation etc., Cheque bounces etc.) are classified in this group.

NRI Clients – Conditions for Trading shall be as below

- Exclusive trading account with InCred
- Single PIS a/c mapped to the trading a/c as per regulations
- Clients shall be given exposure purely on a “Cash and Carry” basis.
- Orders can be executed only in RBI approved list
- BTST is not allowed to NRIs as settlement is done on a gross basis to specified PIS a/c and DP a/c
- Orders in derivatives segments can be placed on non-Repatriable basis and subject to the RBI / SEBI regulations

NRO clients, not having PIS, need to maintain sufficient balance in Savings account mapped with InCred.

1.3 Technology /Systems Risks on Trading Systems

Exchange Link failure – Network Redundancy for all exchange links

ORS (Order Routing System) systems Failure - Access to NEAT / BOLT terminals at Central RMS desk with access to outstanding positions

Local Dealer Trading System Failure – “Call and Trade” desk at central office with access to client positions

Local Client Trading Systems Failure – Call and Trade with Dealer and / or central “Call and Trade” desk with access to client positions

Company will not be liable for any loss arising to clients due to technical/system failures.

The broad IT back up and disaster recovery plans are not part of the scope of this document. They maybe separately addressed in a separate document.

1.4 Operational Risks in order execution

Acceptance of Orders - All personnel who operate trading terminals shall be certified to operate such terminals (regulatory certifications). All orders shall be taken from named clients or their formally authorized representatives declared as part of the account set up documentation (Dealers to maintain details of such authority holders where client has delegated authority formally). Orders may be taken over phone, e-mail or through signed deal slips. This is to be ensured by all personnel who receive and execute orders from clients for execution. Any instruction for change in order details is to be treated similar to new orders for the purpose of acceptance of orders. Order details for all orders shall clearly

specify details of security, quantity and price / price range / stop loss etc. *Verbal orders* shall be received over designated recorded landlines. The recording of the same shall be done by the IT infrastructure group and shall be available for reference on demand. for audit / legal / any other purposes. *E-mail orders* shall be taken from registered e-mail IDs of the clients only. Dealers to strictly follow the Dealers Code of Conduct.

Order / Trade Confirmation – All successful orders shall be confirmed to clients on a regular basis. This confirmation needs to be done by the personnel who receive / execute orders on the trading terminals at the very latest before the end of the trading session. Confirmations needs to be done over designated recorded lines only. Alternatively, confirmation maybe taken on deal slips for executed orders. At the end of the day it is the Branch / Regional manager's responsibility that trade confirmations are given to clients over recorded lines. Any failure on order / trade confirmation shall tantamount to a serious lapse on the part of the relevant Dealer/ Branch manager / Regional manager
Trade confirmation through SMS:

1. **Real time:** A system generated SMS is being sent on clients registered mobile number updated in KYC for fully executed orders. (Mandatory for all unless specific request from client)
2. **EOD Basis:** A consolidated system generated SMS is being sent on clients registered mobile number updated in KYC for all trades done during the day across all segments. (Mandatory for all unless specific requests to remove and approved by Business Head)

Contracts – Contract Notes (electronic / physical) shall be dispatched to all clients within 1 business day of order execution

Clerical errors in Dealing - Any mistake in order / trade execution owing to clerical errors (Typing etc.) shall be identified and escalated immediately within 5 minutes of the trade or earlier to the RMS central desk. Such errors shall be remedied summarily within the same timeframe in the designated error account. The request for change of client code for the original trade needs to be placed as per the extant procedure for change in client code. Any losses arising out of such punching / clerical errors may be debited to respective RM/Advisor/Dealer as per the instructions from the business head.

Denial of orders / trades by Clients – Any denial of orders / trades by customers at the time of trade confirmations shall be identified and escalated before end of the same business day to the RMS central desk and other relevant stakeholders as maybe required. If the trading session is still open at the time of detection of such an instance, positions under dispute shall be summarily squared up in the same client code before conclusion of the reason for the deviation. All necessary checks on order acceptance procedure shall be completed by the relevant business unit lead before escalation of the same by EOD (eg: Verification of recorded conversations etc.). If the order acceptance process is ascertained to be as per the defined process, the case history may be prepared and handed over to the compliance and legal team before EOD together with a copy to the CEO for resolution with the client. The request for change of client code for the original trade and the square up trade needs to be placed as per the extant procedure for change in client code in such cases.
Client code change Policy is attached as Annexure

1.5 Credit Risk

InCred may offer different facilities to different clients based on risk profile, suitability and trading pattern. Facilities may include various levels of intraday and end of day exposures on different securities. InCred shall also deploy various forms of risk management tools including those that

highlight violations or losses and subsequently triggers liquidations to ensure that exposures are within the limits set out in this risk framework. The system of credit monitoring is based on adequacy of margins either in the form of securities or cash held with InCred that may be treated as collateral kept by the clients. This presupposes the right of InCred to take possession of and / or liquidate such collateral to recover part/whole of the margins/losses as maybe required. It is to be noted that freezing of collateral owing to statutory orders, direct transfer to third party DP beneficiary accounts or any other such action may impact the access to collateral. While such actions may be factored in an EOD basis, any intraday action of this sort may impact the collateral.

1.5.1 Delivery/Margin Orders

- ✓ Clients may choose this order type for effecting Delivery / Intraday transactions in the cash segment.
- ✓ Automatic limits are available to sell stocks in client's InCred's DP.
- ✓ Selling (in cash segment) securities against pending pay out obligations may be done at clients' risk within margin available. (Risk of short delivery [exchange / internal] from any previous settlements yet to be settled rests with the client)
- ✓ Non-maintenance of adequate Margins required at all times owing to erosion of margins may lead to square off by the RMS desk without any reference to the client

- **Cash Segment Intraday and Delivery exposure details**

| Sr. No | CBL Scrip Category | Haircut % | Delivery |
|--------|--------------------|-----------|-----------|
| 1 | A | 20 | 5 Times |
| 2 | B | 25 | 4 Times |
| 3 | C | 40 | 2.5 Times |
| 4 | D | 50 | 2 Times |
| 5 | E | 60 | 1.6 Times |

Classification of securities shall be done periodically taking into account market capitalizations, volumes, exchange groupings, liquidity and some subjective evaluation.

1.5.2 Derivatives (Margin Orders & Carry Forward orders)

- For derivative orders, futures and short options positions shall be charged margins as per exchange i.e. span + exposure margins + additional margins, if any. Options purchases require margin equivalent to the premium amount. These margins need to be available before the order is placed.
- Any relaxation in margins as above offered to clients may be revoked dynamically by RMS based on market context and insufficiency of margins as per standard requirement above may trigger square off without reference to the dealer / client
- InCred may enhance margin requirements from time to time based on the prevailing market context.
- Non-maintenance of adequate Margins required at all times owing to erosion of margins may lead to square off by the RMS desk without any reference to the dealer / client

- Margins required for derivatives trading need to be in form of Cash collaterals. However, clients can also pledge stock for margins. Such client stocks may be Re-pledged to exchange to avail margins as RMS deem required.
- Risk team can square off any collaterals as margin in case of any losses/shortfalls as per their discretion without any reference to the client.

- **Derivatives Segment Intraday and Carryforward exposure details**

| Category | Carry forward (Carry forward Product) |
|-----------------|--|
| Index Futures | 1 Time only |
| Stock Futures | 1 Time only |
| Options Segment | 1 Time only |

1.5.3 Exposure Limits as on BOD

Exposure Limits are made available against the margin available in a client account in the form of deposits/Pledged stocks executed as per process, ledger balance (funds) and /or securities net of any obligations

Ledger Credit against receipt of funds

Credits are posted into the ledger for direct clients against RTGS / EFT transfers on EOD basis provided the details of such transfers are reported as per due process by the client / relationship / service managers / dealers. Credits for online fund transfer receipts through InCred portal shall be credited same day and given exposures post receipt of funds. Credits against deposit of the cheques are given based on bank statements only. This is typically done once a day. Exposures shall be given only against banked instruments unless otherwise approved

Margin is calculated as below at Beginning of the Day (BOD) as below:

Margin =

- Combined ledger balances as on T date (for cash) and Due date (for FNO & CD) (NSE, BSE, F&O, CD) Value of unclear cheques posted into client ledger
- Derivative margins on outstanding positions as per exchange
- + Client Pledged Stock Valuation as per InCred Haircuts
- + Valuation of unsettled securities obligations (against delivery purchases)
- Gross Value of Securities sold pending to be received

Note

- *Non POA clients will not be allowed limits against stocks lying in their InCred DP account or against stocks sold from their DP account until the pay-in of such shares are effected to the exchange*
- *Margins on Overnight derivatives positions are not debited to the client ledger. Therefore, net BOD trading limits available will be deposit /margin amount available less the FO margin blocked on open positions.*
- *FD / BG maybe accepted from approved banks with relevant documentation from the client, bank and InCred. This is however subject to the discretion and specific prior approval of InCred*

Exposure limits during the day is calculated as below:

Exposure limit at BOD

- fresh buying

- + carry forward positions reduced (cash or FO)
- + booked profit - booked loss
- unrealized loss

Note: Unrealized profits will not be considered for trading limits.

Basis for Limits

- Exposure limits are also determined by risk of the exposure proposed to be taken, i.e., the securities bought / sold (This is governed by securities classification)
- Client securities lying in client's InCred DP beneficiary a/c or client margin a/c can be sold directly selecting the Delivery option. Limits will automatically be enhanced against delivery stocks sold
- For short deliveries (including securities sold from outside DP not transferred into InCred), an amount equal to 20% shall be deducted from margin available in addition to blockage of credit for sale
- Notwithstanding anything that is specified elsewhere in the document, all exposure limits shall be withdrawn / reduced to zero in case of any debits are outstanding to be received beyond 5 business days. Such clients shall be on square off mode on BOD basis beyond 5 business days.

Calculation of Exposure Limits for Derivatives Segment

- Exposure limits shall be given based on maintenance of margins as maybe required

1.5.4 General Trading Policy

- Trading in scrips other than A, B series of BSE and EQ series of NSE segment is blocked in the system. Orders may be placed by the advisor / client / dealer after a request to RMS desk to unblock the same for a particular order. Such unblocking maybe done selectively at the discretion of the RMS desk for limited periods of time. Maximum order size in such stocks should not exceed 20% of DTV at the time of order. Order to be placed strictly as delivery option ONLY to avoid timer based auto square off. Allowing of trades in illiquid / shady / penny scrips will be at the sole discretion of RMS team.
- RM/Advisor/Dealers should not accept the orders from the client in scrips which form part of block scrips. List of such scrips shall be made available on a monthly basis unless there is change during the month.
- GSM and S+Framework (SS and ST) scrips are also blocked by the system. Wherever ASD is applicable, despite client having funds buying is not allowed. Squaring off of existing holding is however permitted.
- The dealer / client shall not take any fresh positions in F&O scrips where incremental exposure is disallowed by the exchange. Only square off trades/rollover trades shall be permitted in such underlying
- Maximum single order transaction quantity, lots and value across cash and derivatives segment shall be set by RMS which is subset of exchange allowed permitted limits. The same varies between dealers as well as clients.
- The client will not be allowed to take any fresh positions in F&O far month contracts.

1.5.5 Collection policy

- Funds may be due from clients towards stock purchases, trading losses, M to M on open positions, option purchases, margins against outstanding positions, past dues, charges etc. from time to time
- All amounts billed against securities traded on the exchange are overdue if funds are not received in InCred's account before the settlement time / date as per the settlement calendar published by the stock exchanges. The settlement date is currently T+1 for F&O and T+2 for the cash segment

- Failure of clients to remit money on time as above towards exchange Funds settlement may trigger square up action as per the square off policy.
- All amounts billed towards charges including DP charges, Annual Maintenance charges etc. are due when billed
- Daily Reports shall be made available to respective advisors / branches in the respective login ID on LD. Typically actions by RMS desk as per square up policy is initiated by 11.00 AM unless any unusual circumstances like unusual/exceptional movement in the market or any specific scrip, RMS call is taken Case to Case basis.
- All Adhoc margins charged by the exchange has to be collected from the client. Failing which DPC on the short amount collected will be levied at the agreed ROI.

1.5.6 Square off policy

- Ledger debits other than MTM losses need to be paid up by T+5. MTM losses need to be paid up by T+1.
- All amounts due in F&O segment needs to be settled by way of clear funds on T+1 day. Security collateral shall not be considered against these debits.
- MTM based square off shall be triggered in case more than 80% / as agreed by the RM / dealer / client of margin at BOD has been eroded during the day. Value (Intrinsic / Implied / Market) of options shall be considered as zero for this purpose.
- Notwithstanding anything specified anywhere else in the policy, if there is any outstanding amount due of more than 5 continuous business days, InCred shall have the option to liquidate collateral any time after that date to recover the receivables despite maintenance of adequate collateral in the form of securities by the client. Only clear balance as evidenced by bank statements shall be considered against such amounts due for receipt of funds at this time.

1.5.7 Quarterly Settlement

As per SEBI compliance, all clients' account needs to be made to zero once in the period of 90 days. This applies to funds as well as securities. Any excess credit lying in client ledger and excess stocks lying in Pool/Margin account needs to be released back to the client. However, broker can hold back these funds outflow in case of any obligations from the client, Outstanding FNO margin (ledger held upto 2.25 times FNO margins).

Note:

- 1) Delayed Payment charges may be charged on the outstanding debit balances and F&O margins not collateralized by cash/stock collaterals on a periodic basis in case monies/stock are not received before settlement date / margin billing date as per the settlement calendar published by the exchange
- 2) Funds and securities payouts are processed by the operations team after the billing is done for T day. Any payouts during the day shall be subject to approval from the RMS desk (To check availability of free funds / securities for payout and make necessary adjustments in the RMS system)
- 3) The baseline approved list shall be reviewed at least once a month with ad-hoc additions and deletions from time to time
- 4) Exposure Limits shall not be provided against DP stocks for clients who have availed online transfer facility through CDSL or who have not provided the Power of Attorney to the broker
- 5) All penalties charged by the exchange owing to margin shortfalls shall be billed to the client along with charges as maybe levied by InCred.
- 6) Business day means Trading Days.