Risk Management Policy

Introduction

Indiabulls Securities Limited (formerly Dhani Stocks Limited) (ISL / Stock Broker / Member) is a SEBI Registered Stock Broker and Depository Participant. ISL's Risk Management Policy provides an integrated framework for managing risks within the Company.

While conducting the stock broking business, ISL is exposed to a variety of risks such as market risk, credit risk, liquidity risk, operational risk etc. that are material and require comprehensive controls and on-going oversight. This document details the guidelines / procedures that need to be followed for the ISL's stock broking business. Further, our risk management framework is based on the SEBI/Stock Exchange regulations, as amended from time to time, and applicable settlement mechanisms for respective segments i.e. Equity, Equity Derivatives & Currency Derivatives.

Trading in stock market is always subject to market risks which cannot be predicted. Different kinds of market risks are communicated to clients at the time of opening an account with us via the Risk Disclosure Document (RDD).

We seek to minimize the risk of loss through a dynamic risk management policy which is an essential feature of our operations. It is important to note that our Risk Management Policy is not an insurance against losses but these are measures and precautions that are adopted by us to minimize the risk.

Our Policy is based on market scenarios and our risk perceptions of the market and SEBI / Exchange regulations for the time being in force. This can be change from time to time based market conditions and decisions basis of internal policies and practices.

1. Objective:

The main objective of this Policy is to ensure sustainable business growth with stability and to promote a proactive approach in reporting, evaluating and resolving risks associated with the Company's business. In order to achieve the key objective, this Policy establishes a structured and disciplined approach to Risk Management. In order to guide decisions on risk related issues, the specific objectives of this Policy interalia are:

a. To establish clear operating procedures and parameters for managing risk in securities broking business.
b. To ensure that all the current and future material risk exposures of ISL are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
c. To measure risk mitigation including systems and processes for Internal Control of identified risks.

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 of the following important stages –

2.1 End of Day (EOD) Processes: The end of day processes of Transaction processing system are carried out at Indiabulls Securities Limited's central processing centre based 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 plus exposure based margins are applied to derivatives positions based on the latest risk management file/parameters received from exchange along with exchange prescribed margins.
> ➢ Margin available and additional margin 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 Indiabulls Securities Limited (formerly 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 the margins and positions and generates the square off calls after incorporating the margin enhancement information.
> ➢ RMS team squares 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.
- Under Intraday facility trade will be placed as per exchange VAR+ELM and any other margin levied by the exchange
- Positions created under Intraday Product would be subject to either client himself squaring off (if done online) OR dealer based square off OR RMS square off position
- RMS square off client position where MTM Loss reaches to 70% of Total Deposit (Clear Ledger + margin pledge stock on BOD after Haircut)
- Intraday position is squared off by RMS around 3:10 pm (Time Based Square off).
- Client cannot Carry Forward any positions in Intraday Product, and if want to carry forward then need to convert his intraday position into delivery position and same will be subject to availability of margin (Clear ledger balance +margin pledge stock after haircut) and can only be done before the time based square off by RMS
- All pending orders unexecuted / partial orders will be cancelled as per intraday product features
- No fresh orders will be accepted in Intraday after Time based square off.

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 Indiabulls Securities Limited (formerly Dhani Stocks Limited) in the form of either cash (ledger credit) or stocks which need to Margin pledge in favour of CM and is valued after appropriate haircut.
- In case of Exchange pledge margin will automatically provide to client against stocks.
- 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 Indiabulls Securities Limited (formerly Dhani Stocks Limited) maximum allowable exposure.

- 100 % of Sale proceeds for sales done during the day can be utilized by the client to make fresh purchases on the same day after initiate early payin of sold shares.

- 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 Indiabulls Securities Limited (formerly 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 Indiabulls Securities Limited (formerly 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. Indiabulls Securities Limited (formerly 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+6 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 150% of such unpaid securities, will be transferred to "Client Unpaid Securities Account" from the payout of securities 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.

   I.   **Process to release shares pledged in CUSPA for POA / DDPI clients :** There is inbuilt procedure in our back office system to release shares pledged in favour CM - Client Unpaid Securities pledgee Account (CUSPA) after verifying financial ledger balance of the clients at around 9.30 a.m. on daily basis. If the ledger balance is in credit then all shares pledged, for the client in CUSPA, are released.

   II. **Process to release shares pledged in CUSPA for NON-POA / NON-DDPI clients** : Shares pledged in favour CM - Client Unpaid Securities pledgee Account (CUSPA) are released after verifying financial ledger balance and net buy and / or sell obligation of the clients, on daily basis post trading / market hours i.e. at around 4.30 p.m. If the ledger balance is in credit and the clients have no selling in the shares to be released from CUSPA then all shares pledged for the clients in CUSPA are released.

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**

The margin report sent 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.

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.

9. Policy for Voluntary Freezing / Blocking of Trading Account

Introduction: The policy for voluntary freezing/blocking of trading account has been designed in accordance with the guidelines prescribed by SEBI vide circular SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024 on the subject "Ease of Doing Investments by Investors-Facility of voluntary freezing/ blocking of Trading Accounts by Clients" and the subsequent guidelines prescribed by the stock exchanges (NSE vide Circular no. NSE/INSP/61529 Dated April 08, 2024 and BSE vide circular no. 20240408-12 dated April 8, 2024) on the subject "Framework for Trading Members to provide the facility of voluntary freezing/blocking the online access of trading account to their clients".

Purpose: The procedures/details mentioned in this document are in accordance with the guidelines mentioned in the above mentioned SEBI & exchange circulars. These guidelines aim to facilitate the freezing/blocking of the client's online trading account (based on request received from the client) incase any suspicious activity is noticed by the client in his/her/its account.

Scope: This policy is applicable to all clients who have opened their trading account with Indiabulls Securities Limited (formerly Dhani Stocks Limited)(ISL). However, it is pertinent to note that –

1. Freezing/blocking is only for the online access to the client's trading account and there shall be no restrictions on ISL to carry out any Risk Management activities
2. The request for freezing/ blocking does not constitute request for marking the client's Unique Client Code (UCC) as inactive in the Exchange records.

Procedure to Freeze/Block the Online Trading Account: This policy has been framed by ISL that outlines the modus operandi to help curb client's risk and thereby forms part of ISL's Risk Management Policy.

The client may request for voluntary freezing/blocking of online access to his/her trading account through any of the modes mentioned below. All efforts will be taken by ISL personnel to fulfil the client's request in the below timeline –

1. **Timelines:** ISL intends to follow below timelines to freeze/block the online trading account in accordance with the request received from the client.
    a. **Request received during the trading hours & within 15 minutes before start of trading** - within 15 minutes.

    b. **Request received after the trading hours & 15 minutes before start of trading -** before the start of the next trading session.

2. **Modes:** Clients can place a request to report any suspicious activity or to voluntarily freeze their trading account via the following modes–
    a. By sending an email from his/her/its registered email id to stoptrade@dhani.com
    b. By calling on customer care desk at 022-61446300 from their registered mobile number during normal business hour.
    Note: stringent identity verification will be conducted before considering any client's block requests. Hence, all clients are requested to keep all their Personal Identification Information (such as PAN, DOB, Trading ID, Demat ID etc.) handy to facilitate smooth and fast processing of requests.

3. While sending email to report any suspicious activity and simultaneously freezing of their trading account, clients are requested to provide detailed information about the suspicious activity that they have noticed in the said account.

4. **Process:** ISL shall follow the below process for the requests received through any mode of communication mentioned above –
    a. Verify whether request is received from the registered mobile number/e-mail ID of the client.
        • If the request is received from another mobile number and/or email id (other than the registered email id/mobile number), proper verification of the client shall be done.
        • During the verification process, ISL personnel would ask the client/s a series of questions (basic checks) to understand the gravity of the request received. These questions would relate to but will not be limited to the existing positions in the client's account, inadvertent sharing of login credentials, OTPs, orders, devices used for trading, etc.
    b. Freeze / block the online access of the client's trading account and simultaneously cancel all the pending orders, if any, of the said client.
    c. Send the acknowledgement to the client's registered email ID and/or mobile number stating that the online access to the trading account has been frozen / blocked and all the pending orders in the client's trading account, if any, have been cancelled.

d. In addition to the above, details of open positions (if any) to also be communicated to the client on his/her/its registered email ID along with contract expiry information. This shall help to eliminate unwanted the risk of unwanted delivery settlement.

5. Clients are requested to make an informed decision based on these suggestions and communicate their decisions clearly and unequivocally such that ISL personnel can proceed with blocking/freezing of client's trading account.

Procedure to Unfreeze/Unblock the Online Trading Account: Clients can unfreeze/unblock their online trading accounts by raising a request via any of the modes –

a. By sending an email from his/her/its registered email id to stoptrade@dhani.com
b. By calling on customer care desk at 022-61446300 from their registered mobile number.

In order to unfreeze/unblock the trading account, the client would need to undergo stringent due diligence checks including validation of reactivation request and/or mandatory re-KYC.

10. Passing of penalty levied on short/non-collection of upfront margins to clients

With effect from November 1, 2024, penalty levied by clearing corporations of short/non-collection of upfront margins may be passed on to client if short/non-collection of upfront margin is on account of following reasons attributable to client:

1. Cheque issued by client to Indiabulls Securities Limited (formerly Dhani Stocks Limited)(ISL / Stock Broker / Member) is dishonoured
2. Increase in margins on account of change in hedge position by client/ expiry of some leg(s) of the hedge positions of the clients

Note - Penalty (if any) shall be passed on to the defaulting client where closing one leg of open position result in a hedge break / loss of cross margin benefits like square off by the clients / expiry of some leg(s) of the hedge positions of the clients, thereby leading to higher margin obligations on the open position(s).

Risk Management System – Order checks

Risk Management System in online trading platform has been built such a way, all order placed through Trading Terminals will be passing through various RMS check at client level, Branch level and Dealer Level.

Any order that is placed goes through risk management validations at multiple (all inclusive) levels.

The levels of validation are –

1. Client level validation
2. Dealer level validation
3. Branch level validation

Any order that is placed by a client or a dealer on behalf of the client will be routed through all these 3 levels of validation and only on successful validation the order will be routed to the exchange.

Client Level Validation:

In this level any order placed by client, will be validated against the set of mandated rules. Both limit and margin rules will be validated at a client level. On the successful validation order will be routed to the exchange.

Given below are the mandated rules added in RMS:

- Single Order Quantity limit
- Single Order Value limit
- Pending Order Value Limit
- Turnover order level limit
- Exposure Level Limit

Single Order Quantity limit:

This rule would restrict the quantity while punching the order. The quantity limit has to be set in RMS terminal.

Single Order Value limit:

This rule would restrict the single order value while punching the order. The Order Value Limit has to be set in Exchange wise Limit in RMS terminal.

Pending Order Value Limit:

This rule would restrict the pending order value while punching the number of pending orders.

Turnover order level limit:

This rule would restrict the turnover while punching the order. The Turnover Limit has to be set in RMS Terminal under Exchange wise Limit.

Exposure Level Limit:

At order level we also check the sufficient margin availability of client. If Margin requirement is not fulfilled by client, the order will be rejected by the system.

Dealer Level Validation:

In this level any order placed on behalf of a client by a dealer will be routed via RMS default. All the validation at a dealer level would be done and if the dealer exceeds the limit sets then the order will be rejected.

The mandated rules at dealer level is "Turnover order limit". The Turnover Limit will be checked at a dealer level and if the validation fails, then the order will be rejected and if the order is successfully validated then it will be checked against all the client rules mentioned.

Branch Level Validation:

In this level any order that is placed across the Branch (different dealers mapped in the branch) on behalf of the client will be routed via the RMS by default. The validation at branch level would be done and if it exceeds there limit sets, then the order would be rejected. .

Branch Wise Turnover limit:

The turnover limit will be checked at branch level and if the validation has failed then the order will be rejected and if the order is successfully validated then the RMS will check at all rules at the dealer level and finally all the rules at client level before it is sent to the exchange.