



RMS Policy and Procedure		
Definedge Securities Broking Private Limited		Document Number : DSBPL/RMS/1
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Introduction

The primary purpose of this policy is to address credit risk; however, during the process of credit risk monitoring and surveillance, we also come across and mitigate reputational, liquidity and other operational risks. These are typical to the broking industry and are being managed by Risk department across the industry.

Purpose & Scope

These Risk Policies embody the core principles for identifying, measuring, approving, and managing credit risk in the organization.

These policies are established by the Risk Department, and are designed to meet the organizational requirements as they exist today to provide flexibility for the future. They represent the minimum standards in the organization and are not a substitute for experience and good judgment.

Interpretation

These policies must be implemented conservatively, in accordance with their purpose and spirit. In the event a clarification or interpretation is required, consultation must first be sought from Risk department. Such consultations are an important source of feedback on issues and aspects of these policies that may need adjustment to meet the needs of a changing business environment while maintaining a balance between risk-taking and flexibility

Limitations of the document

The document is intended to be used only as an aid and is made after considering the current activities of the Definedge Risk Management Department.

Modification of the document

Any deviation or modification to this document will require the same to be duly checked and authorized by the Board. The absence of a policy statement does not, by itself, imply that an action is either permitted or forbidden nor is a policy established by precedence.

Policy and Process

Normal activation process of client code

1. On allotment of client code and after approval from the exchanges, the UCC which is generated will get mapped in our Trading terminal
2. Limits and values are cross checked on a general basis for trading by RMS.

Limit to Clients

1. Limit will be given only on available upfront margins in the form of funds and collateral. Any funds transferred through the trading portal will be updated in real time. Funds transfer through NEFT and RTGS during the day will be credited after funds are received in our bank account.

Limit Calculation

For Pledge, only Definedge approved stocks are to be considered with different haircuts based on stock category policy.

1. Margin Deposit = Ledger balance + approved Pledged stocks with haircut -130% of short sell value if any
2. Short sell value = shares that were sold and not lying with us on T Day valued at LCP
3. Haircut: As per Definedge Policy



Definedge Securities Broking Private Limited

DETAILS	GROUP A	GROUP B	GROUP C	NEW D GROUP
Market Cap	Above 10000 Cr.	Above 5000 Cr.	501 to 4999 Cr.	Less than 500 Cr.
Monthly Avg. volume value	Monthly Avg. volume value >5 Cr.	Monthly Avg. volume value >2.5 Cr.	Monthly Avg. volume value >1 Cr.	Scripts in ASM GSM 100 %margin*
Cash Intraday multiplier	4x	3x	2x	1x

Illustration of deposit calculation:

- Definedge approved Pledged Stock Gross Value = 100000, value after haircut= 75000
- Ledger= 65000 (All segments consolidated)
- Short sell value= 10000 130% of short sell = 13000
- Deposit=75000+65000-13000 = 127000,
- Total available limit will be as per 50:50 cash to collateral ratio (Ledger 65000+Collateral 65000) =130000
- Collateral margin will not be considered for equity delivery positions and option buy

As mentioned below

SEGMENT	PRODUCT	LIMITS AVAILABLE
CASH	POSITIONAL	CASH
OPTIONS BUY	OVERNIGHT	CASH
OPTIONS BUY	INTRADAY	CASH
CASH	INTRADAY	CASH+COLLATERAL
FUTURE	OVERNIGHT	CASH+COLLATERAL
FUTURE	INTRADAY	CASH+COLLATERAL

Holding Considered for Limits:

PARTICULARS	LIMITS	SELL ALLOWED	MTM BENEFIT
DP	NO	YES	NO
BTST (T1 Holding)	NO	YES	YES
Pledged	YES	YES	YES
CUSA	NO	YES	YES

Note:- Fresh buying against selling is not allowed currently unless other sufficient margin is available.

1. Limits will be given to the clients based on the upfront margins only (Upfront Margin: Minimum margin an investor is required to pay to Definedge before executing the trade)
2. Limit calculation will be as follows,
 - o Collateral Haircut will be as per Definedge Policy
 - o Pledged stocks are considered for margins
 - o In Options, carry forward options Credit for Sale (CFS) is available only for carry-forward option Long position, the benefit of Options CFS is not allowed in any other product or segment
 - o Option buying is allowed only on a clear cash balance
 - o Proceeds from the booked profits for the day will not be allowed for taking fresh positions
3. BTST is allowed only for clients who have sufficient margins to sell
4. Client can sell stock delivery for the existing POA, DP free holding/pledged stocks without upfront margin
5. All the deliverable contracts of MCX enter "Tender Period positions" as mentioned by exchange from time to time. Positions of the client will therefore be squared off one day prior to the start of the "Tender Period" of the contract. No positions will be allowed to carry over in Tender Periods
6. The contracts will be blocked for fresh trade 1 day prior to the start of the tender period
7. In MCX futures, for the Intraday product only 2 contracts are allowed for trading, i.e. current month and near month
8. All contracts are allowed to be carried forward (positional) subject to volume and price difference (spread))
9. Commodity Option Contracts will not be available For Trading in Intraday products
10. All open options contracts will be devolved into futures on the expiry date of the options contract
11. Physical Delivery of Commodities is not allowed



Segregation and Monitoring of Collateral at Client Level

It is mandatory for all clients to maintain a minimum of 50% of the total available margin in the form of cash/cash equivalents.

Client will get limits on stocks only up to the extent of credit in ledger.

Liquid funds are considered as cash equivalents by the exchange, so the above 50% rule will not be applicable. The Margin received from pledging liquid funds will be as good as having cash in your trading account.

Illustration:

Assumption: Let us assume that the client has Rs 100 cash & cash equivalent available in the account and Rs 200 worth of approved noncash securities then the limit given will be 200.

A ratio of 50:50 needs to be maintained at all times. In case of funds pay out, this ratio will be considered and only on the availability of sufficient balance, funds pay-out will be generated.

This is illustrated with the below example-

Client has:

Margin obligatory in FO segment of Rs. 5 lacs

Approved pledge stock worth Rs. 10 lacs,

Cash available Rs. 2.50 Lacs

In such case (Cash and Pledge stock) 50: 50 ratio margin is applied and no pay-out will be issued to the client.

AMO (After Market Order) timing:

AMO orders are accepted at 5:01 pm for all the Segments.

AMO orders stop at 8.59 am for all segments: All eligible pre-open orders are sent to the exchange at 9.00 am and the remaining pre-open orders will be sent at 9.15 am when the exchange opens

Intraday Time-based Auto square-off:

Timer Based auto square off will be enabled for all the clients for the order periodicity (INTRADAY) and the same will be squared off as per the time defined and mentioned further in this report.

Conversion of Positions (Positional/Overnight)

- Client can convert positions from Intraday Product to Positional/Overnight from their trading application itself
- Conversions of positions in Equity and FNO are allowed only till 3:12 pm
- Client should have sufficient margins to convert position from Intraday to positional/overnight

NOTE : If client wants to take delivery in cash segment, then order should be placed in positional product

GSM, Penny stocks restrictions:

Scrips under GSM above 2 stage as well as un-solicited SMS scrips are blocked for trading.

A list of such scrips is regularly published on the NSE and BSE websites –

NSE GSM	https://www.nseindia.com/regulations/graded-surveillance-measure
BSE GSM	https://www.bseindia.com/markets/equity/EQReports/graded_surveil_measure.aspx
NSE SCRIPS (UNSOLICITED MESSAGES)	https://www.nseindia.com/regulations/unsolicited-messages-report
NSE SCRIPS (UNSOLICITED MESSAGES)	https://www.bseindia.com/downloads1/List_of_scrips.xlsx



Trading in illiquid Futures and Options Contracts

- Stock Futures & Options trading will not be allowed in (Intraday) for far-month contracts (excluding Nifty and Bank Nifty)
 - No fresh positions (Overnight or Intraday) will be allowed in banned securities.
 - The following options contracts will be available for trading
 - ❖ Current Month Index Options :
 - 30% ITM (In the Money) Both CE and PE
 - 30% OTM (Out of Money) Both CE and PE
 - ❖ Next Month Index Options :
 - 30% ITM both CE and PE
 - 30% OTM both CE and PE
 - ❖ Stock Options :
 - Only current & next month CE and PE
 - ❖ Far Month Stock Futures & Options will be opened one week before Expiry of the current month (First Trading Day of Expiry Week)
 - ❖ Leap Options contracts are allowed, subject to a range of 30% on both sides from the current level of the index
1. The risk of an option buyer defaulting goes up significantly and hence exchanges start asking for physical delivery margins from 4 days before the expiry which keeps increasing as the contract gets closer to expiry. Clients will have to square off the existing positions if they do not intend to take physical delivery of the stock. RMS will square off all physical delivery positions on expiry day. If the client intends to take physical delivery of the stock, the client needs to send mail to physicaldelivery@definedge.com. This will be permitted only if sufficient margin is available and mails need to be sent before 11.30 am on expiry day. The margin percentage is explained in the table below. These margins are only applicable for "In the money" (ITM) contracts. The delivery margin is also applied if an "Out of the money" (OTM) position becomes ITM
 2. In case the client has not provided Power Of Attorney (POA), then Sell position in Physical delivery segment will not be permitted as it might lead to auction/short sale

Fresh position on the current month will not be allowed in overnight product on monthly expiry day.

Day (BOD-Beginning of the day)	Margins applicable
E-4 Day (Friday)	10% of Var + ELM +Adhoc margins
E-3 Day (Monday)	25% of Var + ELM +Adhoc margins
E-2 Day (Tuesday)	45% of Var + ELM +Adhoc margins+10% additional
E-1 Day (Wednesday)	70% of Var + ELM +Adhoc margins+ 10% additional
Expiry Day (Thursday)	100% of Var + ELM +Adhoc margins

3. On expiry day, current month open Stock futures and In-the-money option positions will be squared off by RMS any time after 12.00 noon.

Margin Call cash

- In the cash segment a client needs to keep collateral/ margin above 130% of all debits at all times, if the collateral margin falls below 130% client holding will be liquidated to recover the debit
- Total debit balance of the client will be cleared by RMS where the comfort margin is below 130%

Margin Call FNO and Currency

- Clients who are in margin shortfall will not be given any fresh limit. Any EOD margin shortfall in the client account should be cleared by transferring the funds on same day, MTM shortfall should be made good by T+1 day by squaring off the position or by providing additional funds before 9.30 am. If any above scenario is not fulfilled RMS will square off the positions before 9.30 a.m.
- Clients who are in margin shortfall on T-day and are coming in MTM square off, positions of such clients will be squared off and no upcoming fund will be considered.
- The margin in the front end will be enhanced in real-time based on clearance of the receipt of the fund



Cash Ageing Debits –Settlement / T+5 Day

On T+5-day overdue of the client, the account will be in square-off mode for the day. However, as per new regulations, no further limits can be assigned in case of overdue above T+5 on any exchange. In a scenario where it is overdue on any exchanges then the client status remains in square-off mode on all the exchanges

- SMS intimation will be sent to client w.r.t debit T+5 days
- Clients are supposed to transfer funds or reduce their positions on T+5
- In case a client fails to clear the debit, RMS will sell the stock to clear the ageing debit on T+6
- The selling of scrips will be done on FIFO basis i.e., scrips bought on T Day will be sold first by RMS to clear the debit

MTM Loss monitoring during trading hours

- During the day, if the client's loss exceeds 50% of the total available margin, warning alerts will be sent to the client at 60%, 70% as a margin call to top up with additional margin. If the client fails to bring in adequate margin, all open positions would be squared off at 80% by RMS Team at market price. If MTM loss breaches 80%, positions will be liquidated at the market rate on a best effort basis and clients will be liable for any such losses resulting due to such orders. All open positions of the clients excluding the CNC buy position and option buy position would be squared-off by RMS Team once MTM is triggered.
- The MTM square-off would also consider brokerage and other taxes and charges which are levied. These charges would not be exact but be levied on an ad-hoc basis so as to cover a part of the actual amounts. Actual brokerage will be charged as per agreed brokerage after billing process.

Timer based Auto square off.

- The Clients are required to square off their (Intraday) positions up to 3:12 pm (the system will be in square-off mode from 3:12pm to 3:15pm). Client will not be allowed any fresh positions in Intraday after 3.15 pm. All intraday positions will be squared off at 3.15 pm. The above is applicable for Cash and FNO Segments
- In Currency, clients are required to square off their (intraday) positions before 4:42 pm (the system will be in squared-off mode from 4:42 pm to 4:45 pm). The Client will not be allowed any fresh position in Intraday after 4:45 pm. All intraday positions will be squared-off at 4.45 pm. The above is applicable for the Currency Segment
- In MCX, Agri commodities Market closes at 5.00 PM. The international referenceable commodities market closed at 9.00 PM. Bullion, Base Metal and Energy commodities market closes at 11.30 PM Hence, client needs to square off their intraday positions before 4.42 pm for Agri commodities, before 8.42 pm for International referenceable commodities, and before 11.12 pm for Bullions Metal and Energy. After that the system will square off all intraday positions of clients at 4.45 pm, 8.45 pm and 11.15 pm respectively. During daylight saving days MCX Market time is extended till 11.55 pm for Bullion, Base Metal and Energy commodities and during that period clients need to square off their position before 11.32PM and the System will square off those positions at 11.35 pm

Password reset request

- For password reset, the client needs to visit the Definedge website to access the Login Tab and then click on the "forgot password" button to create a new password.

Action during connectivity failure

- We will have Direct TWSs (Trade Workstation) at RMS in Mumbai and we shall ensure that the TWS is switched on every day.

Type of Risk	Risk Description	Risk Mitigation Measure
Market Risk	Risk arising due to high volatility in the market and the value of scrips. These risks arise due to adverse market rate movements	Upfront margins are collected from the clients before allowing an order to go through. Upfront margins are in the form of cash and/or approved securities with haircut and/or in any other form.
		Mark to Market square-off: For clients having a debit balance, constant portfolio valuation based on LTP will be done and MTM square-off initiated at prescribed cut-off limits



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Financial Risk	Risk arises when the client doesn't meet the financial obligation	The position will be squared off to maintain the margin after Intimation to the client on the best effort basis. Limit against un-cleared cheque / NEFT is not allowed
Liquidity Risk:	Risk arising from the difficulty in Squaring off of Intraday Position and selling the securities to clear the debit	<p>Scrips are allowed for trading with leverage based on value, volume, VAR %, market cap, etc.</p> <p>Haircuts on collaterals: Based on the risk perception of security and based on its historic data, appropriate haircuts are imposed</p>
Operational Risk	Risk of loss arising due to procedural errors, mission, or failure of internal control system.	System-based file preparation
	Operational risks that as may be associated by generating or uploading the wrong files with risk management.	Changes in the client risk profile is done by Admin.
	Generating wrong files	Limit, position, margin and stock will be checked after uploading BOD files before market opens
System Risk	Risk of loss arising due to failure of systems or due to wrong punching of orders	<p>Back-up lines in case of failure</p> <p>Single order value and quantity limits have been placed so that large quantities or prices that are away from the market are not placed erroneously.</p>

Dos and Don'ts

1. Place orders within DPR (Daily Price Range) only, else those orders will be frozen by the Exchange System; such orders will block the Margin i.e., if the free ledger balance is 1,00,000 and the margin applicable in such order is Rs. 5,000, the free margin will be reduced by 5,000
2. If there are hedged positions in the Derivative segment, the client should always square off positions that need higher margins to avoid peak margin shortfall
3. In case of any connection being lost, or rates not being updated please contact the Customer care department
4. In case of any problem in the client positions displayed, please contact the Customer care department
5. If there is any delay in funds update or any difference in the ledger value, preferably the client can seek clarification from the Customer care department