

SPA Securities Ltd.
Retail Equity
Risk Policy for Offline Trading

Brief Introduction:

The risk management procedures & tools are defined point wise in this Risk management manual, for a proper & easy understanding. RMS cannot ensure a complete elimination of risk but can reduce the risk & level of reduction of risk depends upon our own efforts. So it is advised that we should follow set norms & give proper attention to various information and alerts send by the RMS during the day /at the end of day for controlling the risks.

Adequate margin must be collected & maintained regularly failing which survival is impossible in the stock market.

Margin Report

Margin Report is mailed to all the branches in the evening giving the exact status of the client in terms of the margin payable by the client, It is advisable to go through the file every evening so as in case of any support or understanding from RMS team can be considered that very moment.

The final Margin report contains the following information:

1. Main Margin Report Sheet --Shows the margin positions of all the clients of a particular branch.
2. Square off sheet— Contains clients below 50% and are marked in Red.
3. 'A' Category Sheet --Shows the stocks in which funding is provided by SPA, along with A category Demat sheet showing the securities lying in client's Depository account with us.
4. 'Z' Category Sheet --Shows the stocks on which no funding is being provided. alongwith Z category Demat sheet for shares lying in client's Depository account with us.
5. Span Margin Sheet --Shows the indicative total margin requirement in particular scrip.
6. Futures & Options Sheet --Shows the clients outstanding positions in the Futures and options segment.

RISK MANAGEMENT POLICIES

Limit and Exposures to the clients:

In the normal circumstances the following limits for the trade to the client will be given by Head Office

Intra day Limit : 8 Times of Margin

Delivery Limit : 3 Times of Margin

Margins (Span + Gross Exposure) for trade in Future & Option Segments are to be maintained as per Stock Exchange for each client individually for carry over of trades. In anticipation of market volatility, the limits can be changed by HO as it deems fit. The change in limits will be intimated by HO to the branches in the morning.

(Auto Square off has to be used incase of 8 times for intra. It has both positive and negative effects. Before initiating this function branches are to be well educated for the trades to be entered as Delivery for Delivery trades and Margin for intra day trades. In case trades is wrongly entered as margin trade it will be squared off in any case on running the option.)

Margins means margin available as per margin report sent by HO to branches.

The Margins calculated in the margin sheet are

Clear Balance in Financial Ledger + Value of approved stock in Margin Account and Demat Account with POA after haircut of 30%.

Square off Transactions

As per the margin report mailed to branches in the evening, the clients have to maintain a margin ratio of above 35 generally and Exposure limits shall be given to such clients only, however the clients in the margin ratio of between 25-35 on exception basis on receiving a mail from the branch head before 9:15 in the morning. The limits for the clients below 25 will not given. Trades for the clients below 25 will be compulsorily squared off next morning before 11.30 am **(in my view this time shall not be given to branches)** in normal market, however in case of volatility in the market the HO may square of the trade earlier also to recover the dues. The squaring off the trades for recovery of dues can be postponed on specific request of the Branch Manager through e-mail to HO before 9.15 am with specific reasons and the Branch Manager will personally be responsible for the loss, if any, to the company in such cases. The Risk Department will not square off the trade on specific approval by HO. **(Here the power of the branch manager and HO may be defined for exception)**

Whenever the *margin* value falls below a certain percentage of the *exposure* on account of market volatility or due to MTM losses (the comfort level of the *margin* is the sole discretion of the HO), the Risk department would *square-off* the transactions (positions) in the *exposure* so that the *exposure* is either fully terminated, or partially terminated in a manner that the *margin* value rises to acceptable levels. Positions can be terminated on the date of transaction itself or at any time during the time the debit continues in the customer's account. The position of the client is reduced as per the following procedure

'Z' Category – As it releases Pure Cash in the Clients ledger

Futures position – This releases span margin. If the client has no

'Z' Category stocks or his 'Z' Category position is not enough

'A' Category --Shall be liquidated next, if he still remains below 50%

Lastly, the Options position is closed out

In case of cheque bouncing / non clearance due any reason or non deposit of cheques by the branch trades of the client will be squared and any fresh cheque will not be entertained.

THIS PORTION OF OVERDUE BALANCES SHOULD NOT BE GIVEN IN WRITING TO ANY BODY SINCE IT IS TO BE SEEN FROM THE COMPLIANCE POINT OF VIEW.

Overdue Balances

A file is sent to branches from HO for the Debit balances for upto 5 days on daily basis in the evening T-1 day.

The dues from the Client having debit for more than 4 trading days will be compulsorily recovered after 12 noon on the 5th day by squaring of the stock of the client by HO. However the branch may clear the balance before 12 Noon. Either by clearing the position or intimating the cheques received from clients. The copy of the cheques should also be mailed to the HO. It will be the responsibility of the Branch Manger the cheque is immediately deposited in the bank and ensure it is not bounced. However for exceptions in some cases, the Branch Manager has to take approval from HO for clearing of overdue balance upto 2 pm. In such cases the Branch Manager will be personally liable for clearing of balance upto that time.

In case the balance is not cleared by the branch on the 5th day or as approved by HO, the Dues will be recovered by HO by squaring off the stocks on the next morning without any further notice and HO will not be responsible for any loss.

(The limits for the clients on 5th day debit can be opened for trade, but the branch should be responsible that the dues on account of loss if any are also cleared by the clients on the same day)

The branches should try to get the cheques from the clients on the trade date itself and the next day for the debit balances. And case of not getting the cheques the branches should take steps to clear the dues of the clients on the 4th day only.

However

Forms of Margins

Margins collected may be in the form of

Demand Draft

Cheques or

Approved Securities deposited by the client.

1.1. *Cash*: The **clear balance** available in the customer's ledger account in our books. For the purpose, it is not enough to have received a cheque or intimation of an online credit to our Bank account. The amount should (i) be reflected in our Bank account as a cleared credit and (ii) we should also be able to connect this credit to the specific customer.

1.2. *Margin*: The underlying stake provided by the customer in the form of cash and/or stock to mitigate market (price) or settlement (auction) risk

1.3. *Margin Stocks*: Only **(A) List of Approved Stocks with Hair Cut** (customer stocks appearing on the approved list of NSE (after removing the illiquid scrips as appearing on NSE's *Illiquids* list)) shall be considered for margin purposes, **updated list of approved stock is been provided by RMS team**. The amount released towards margin would be after applying an appropriate haircut (percentage of haircut to be decided by us) to the market value of these stocks.

1.4. *Exposure*: The aggregate of the customer's

1.4.1. Obligations arising out of buy + sell trades awaiting settlement in the cash segment and

1.4.2. The span + exposure + mark-to-market margins underlying the customer's open

positions in the F&O segment, and profit/ loss amounts that are yet to be settled on the closed positions

1.5. *POA accounts*: Demat accounts with us where the customers have also executed a Power of Attorney (POA) in our favour to facilitate shifting of securities to our Pool, Margin or Collateral accounts. **IT is advisable to open demat with POA with us so that stock lying under poa demat can be considered while calculating margin.**

1.6. *Non-POA accounts*: Demat accounts opened with us without any Power of Attorney (POA) in our favour. Such accounts would have the following operational limitations:

1.6.1. Stocks lying in Non-POA accounts would not qualify as *margin for exposure*.

1.6.2. Sales of stocks lying in these accounts would have to be made either on the availability of *cash margin*, or on the availability of the stocks (which are to be sold) in our pool account by executing a transfer before the sale order is initiated.

Category of Scrips:

For the purpose of funding, the scrips have been divided into the following two categories:

Category 'A' Scrips: Scrips which have good liquidity, high turnovers and market capitalization.

Category 'Z' scrips: Scrips which are illiquid, low turnovers and market capitalization.

All the scrips not covered in category 'A' above belong to this category.

Scrips keep shifting from one category to another, **it is advisable to check the category before going considering the stock for margin calculations.** Prior Intimation is given to the Branches and Relationship Managers in case of any such shifting.

Square-off

The termination of client *exposures* on the market. Whenever the *margin* value falls below a certain percentage of the *exposure* on account of market volatility or due to MTM losses (the comfort level of the *margin* is the sole discretion of the Broker), the Risk department would *square-off* the transactions (positions) in the *exposure* so that the *exposure* is either fully terminated, or partially terminated in a manner that the *margin* value rises to acceptable levels. Positions can be

terminated on the date of transaction itself or at any time during the time the debit continues in the customer's account. The position of the client is reduced as per the following procedure

'Z' Category – As it releases Pure Cash in the Clients ledger
Futures position – This releases span margin. If the client has no
'Z' Category stocks or his 'Z' Category position is not enough
'A' Category --Shall be liquidated next, if he still remains below 50%
Lastly, the Options position is closed out

Limit and Exposures to the clients:

Intra-day limit of 10 times and a delivery limit of 3 times. (as & when there is a change it has to be intimated to branch)

Margin percentage to be maintained above 50%, intraday limits shall be given to the clients having margin percentage between 35-50 on exception basis on receiving a mail from the branch head before 9:15 in the morning,

The Margin Report shall show all cases below 50% in the square off sheet.

Squaring of a client below 25% will be compulsorily squared off the next morning, in case no proper reply received from the concerned Manager/Branch.

Cheque for Mark to Mark losses has to be submitted on daily morning basis, failing to do so may lead to liquidation of stock for the said amount of loss in future(in case where in stock available in Margin is adequate enough and RMS is comfortable then the considerable delay in payment of M2M cheque or squaring of positions can be allowed, for the same branch manager is suppose to request to RMS team & in term take the responsibility of the same.)

2. NATURE OF CUSTOMER TRANSACTIONS

2.1. Intraday - Cash segment: The amounts of purchase (or sale) in a scrip on any trading day that is reversed by the end of the day by making a contra sale (or purchase) of the exact same quantity, thereby nullifying the original position

2.2. Delivery trades: The net purchase or sale of a scrip in a client account that is settled by way of a delivery on T+2. Delivery in respect of sale transactions in the cash segment has to be settled by the client by tendering securities in demat form before the pay-in deadline. Else the client faces the risk of auction.

Buy Today Sell Tomorrow (BTST): A purchase order executed on the

BTST is advised to be done in only prescribed scripts and does not carry any responsibility of broker in case of Auction in the said script, whatever loss happens in such event would be borne by the client only. Other than Specifically informed by the RMS through mail.

Exchange today and the (undelivered) purchased stock sold on the next trading day. The first leg, the Purchase, would be settled on T+2, and the Sale would be settled on the third business day after the purchase transaction. This transaction carries the risk of auction in case delivery is not received for the first leg of the transaction. In such a case, the losses on account of auction would have to be borne by the client.

Derivatives segment of NSE: All clients must tender an upfront initial margin as stipulated by the RMS from time to time. It will constitute the sum of SPAN and exposure margins (MTMV) stipulated by NSE. Mark to Market losses/profits are required to be settled on a T+1 basis

COMPLIANCES REGARDING ORDER PLACEMENT

All orders from the clients must have a trail such that it can be established that the trade took place based on an order from the client. To ensure this All orders placed by the clients on phone should be on a recorded line **only also to None of the Employees are allowed to use their mobile phones in the trading room while trading session is on.**

Final Margin Report:

Margin Report is mailed to all the branches in the evening giving the exact status of the client in terms of the margin payable by the client, **It is advisable to go through the file every evening so as in case of any support or understanding from RMS team can be considered that very moment.**

The final Margin report contains the following information:

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Margin percentage to be maintained above 50%, intraday limits shall be given to the clients having margin percentage between 35-50 on exception basis on receiving a mail from the branch head before 9:15 in the morning

The Margin Report shall show all cases below 50% in the square off sheet. Suda of a client below 25% will be compulsorily squared off the next morning **before 11.30**, in case no proper reply received from the concerned **Manager/Branch**.

The reply should Specify what positions shall be squared off before that **11 .00** a.m, in case the same is not done to the extent of bringing the clients margin above the required 50% margin levels, the RMS shall block the client and square off the balance position **from 12 onwards** so as to bring the client above the required margin levels.

The position of the clients having debit in the account for a continuous period of 4 trading days **have to** be compulsorily squared off **by the Branch itself by 12 noon**. **Otherwise H.O. would square off the position by 2 PM**. In exceptional cases Branch Manager would be given powers to take the responsibility of square off before 3 PM or Report of the cheque status is made by 2 PM so as to bring the ledger in positive on the 5th trading day. **Also it is advised to inform and mail soft copy of the cheque even to the RMS team for such cases before 12 noon**. It is advised to take the payments

from the clients on the 4th day itself as debit till 5th day can be given to only few clients.

(A) further responsibility of the Branch managers to take a note of all debits on the 3rd day evening itself and inform the client about the same and try to obtain cheques.

Liberty irrespective of the 5TH day debits can be given to clients for intraday (specifically) on On the request from Branch managers only, Subject to that the clients is not on Risk.

Automatic margin Delivery Limits should be Set once the client gets into credit irrespective of 5th day, subject to Risk/Compliance issue.

(B) By default 50000/ Limit should be set for selling of any shares after opening a trading account.

Note : The above rule has no Exceptions.

Brief Explanation of the Main Margin Sheet:

Column	Description
Branch mapped	Branch to which the client is mapped
Client Code	Trading code of the client
Client Name office software	Name as entered in the Back office software
Ledger Balance either debit or credit	Ledger balance of the client
Cheques Received cleared	Cheques received but not yet cleared

Stock Before Haircut of the	Category Scrips are valued at 100%
Category A Stock prices)	Market Value (Qty. x Closing
Stock After Haircut	A Category Scrips are valued at
70% of the	
	Market Value(Qty. x Closing prices)

Important Points to remember in case of Five Days Clients:

1. Even if the cheque are received the clients position shall be squared off. The client's cheque should be cleared on the 5th day to avoid squaring off..
2. Only in case of transfer cheques, our bank is credited before 2.00 p.m. The RMS shall hold the position till 2:00 pm. Cheque should be of complete amount, in case the cheque is of a lesser amount required then RMS shall square the balance debit if any. (this will apply even to the cases having a debit balance of Re.1/)
3. On 5th trading client ledger has to be in pure credit.

4. After squaring of the position/ credit of cheque, if clients ledger becomes zero, he shall not be allowed to trade on the same day. In the clients ledger becomes positive after providing cheque, he shall be allowed to take delivery of the amount which is 2% less of the total amount.
5. The client can make his ledger in credit and can avail of five days starting the next day of making his ledger in credit.
6. At the time of SMS, RMS would intimate to the clients the Debits as well as the credits including Margin amount if any.

Branches should send the replies to the square up cases latest by **10:30** in the morning. Above said replies should be mailed from the Branch head's Email Id only Replies should be very specific, giving the name of the scrip and the quantity which shall be reduced.

Only Transfer Cheques or DD would be acceptable, a copy of the same should be mailed to the Funds department and RMS and cheque

Positions will be squared off immediately, if a cheque bounces (due to any reason).

NO intraday limits shall be given after 3 PM **unless specifically stated by the branch manager**

No Limit will be given in case the client is squared off by RMS.

No limits shall be provided to the clients where the client has a history of bounced cheques.

Any exception that the branch requires need to be mailed to RMS .