Risk Management Policy Equity and F&O - For Retail Clients

INDMONEY PRIVATE LIMITED

TABLE OF CONTENT

Document Control

Document Title	Risk Management Policy Equity & F&O - For Retail Clients
Document Version	Version 1.2
Prepared By	Vaibhav Pandey
Approved By	Ameya Mahendra Bhelekar
Effective Date	July 01 2022
Approved By	Board of Directors
Board approval date	July 08 2022
Review Periodicity	Annual
First review date	July 08, 2022
Second review date	July 26, 2023
Last review date	December 28, 2023

Introduction/Objective

The objective of this document is to articulate clearly the market risks that INDmoney Pvt Ltd is exposed to as a stock broker, and the mitigations proposed to be put in place. This policy will be reviewed from time to time depending on the requirement of the business and market conditions. This document articulates risks based on the market conditions currently prevailing. Changed circumstances or additional knowledge could necessitate enhancing this document from time to time to cater for additional risks or directions from regulators / exchanges. Besides, it must be emphasized that this document is an enabling policy document, intended to articulate the boundaries of risk-taking.

All constituents are reminded that if risks are higher for a specific transaction, even if the transaction is within the boundaries articulated in this document, more stringent criteria may be followed to restrict trades & transactions due to risk associated with the same / require more rigorous verification. The Policy document is subject to change according to our risk perceptions of the market and SEBI/Exchange regulations in force from time to time, changes to this document are to be included as an addendum to this policy document.

1. **Scope of Offerings**

   INDmoney Pvt Ltd will be offering transactions for the registered clients in the following Exchanges & segments. INDmoney Pvt Ltd have launched services by offering Equity Market Segments of BSE & NSE and Derivative Market Segment of NSE:

   NSE - Cash Segment
   BSE - Cash Segment
   NSE - Derivative Segment
   BSE- Derivative Segment

A) **CASH SEGMENT**

- ***Delivery (Cash N' Carry)***

  This is the simplest form of equity trading product available. Delivery trade using this product provides no leverage. Once bought shares will be delivered to clients' demat account and if sold shares will get debited from clients' demat account. Clients should have 100% cash deposits available with INDmoney Pvt Ltd or should be able to transfer (using payment gateway facility or such similar mode of funds transfer that is made available) such amount before he/she executes a Buy trade. Client will be allowed to sell only such quantity of shares those are available in Company's (Under settlement/CUSA) on his/her behalf or those which are available in his/her own depository participant (DP) account maintained with INDmoney Pvt Ltd and for which client has executed transaction with confirmation via Electronic Delivery instruction (E-DIS). Normal settlement of funds & securities takes place after two trading/working days from trade day.

INDmoney Pvt Ltd may keep an additional buffer up-to 0.5% for all orders placed.

- ***Intra-day***

The client is allowed to take intraday positions only based on the margin available (funds and securities with haircut) with INDmoney Pvt Ltd in-line with policy requirement on the condition that the position will be compulsorily squared-off on the same day. Clients will be allowed to initiate positions in Intraday products only in selective scrips allowed by INDmoney Pvt Ltd. Clients to be informed INDmoney Pvt Ltd reserves the right to change/modify such list from time to time without giving any prior notice or any reason thereof (This would depend on the market conditions).

The amendment to the list to be done at the EOD only so as to avoid complications. However, in case of extreme circumstances such as high market volatility INDmoney Pvt Ltd may revise the list during the day. In such cases, Clients with open positions would be permitted to square off their open positions or convert them to cash and carry or margin products but new positions in the scrips removed from the list will not be permitted.

During the day, the client can convert his intraday positions into cash and carry products provided he has/ brings in adequate margin applicable for such products. The client positions will be automatically squared-off as per practice from time to time before closure of the market, if the same are open and not converted into cash and carry or margin positions.

B) DERIVATIVE SEGMENT

We at INDmoney are offering Trading in Derivatives Market on NSE Exchange in:

1. Index Futures and Stock Futures
2. Index Options and Stock Options

- ***Index Futures and Stock Futures***

Index Futures are standardized financial contracts that obligate the buyer to purchase or the seller to sell a basket of underlying securities at a pre-determined future date, for an agreed-upon price. The user who wants to create his position in Index OR Stock Futures have to deposit the Initial Margin (SPAN + Exposure) to enter into a contract. Usually, Margin requirement for buying/selling a particular Futures contract are same. Both Index Futures and Stock Futures get settle on daily MTM basis. The user having an open position in the Index/Stock Futures contracts is agreed that the initial margin may change as per the volatility in the market and the user have to deposit the funds equivalent to the shortfall amount or reduce few of his position(s).

Stock Futures are the financial contract that provide the buyer with an obligation to purchase and the seller with an obligation to sell, a specified quantity of individual stocks at a pre-determined future date and price. Unlike Index Futures, they pertain to individual company shares.

- ***Index Options and Stock Options***

Options are versatile financial instruments that grant the holder the right, but not the obligation, to buy or sell an underlying asset at a specified price within a pre-determined time frame. Two primary categories of options contracts are Index Options and Stock Options. These options grant the holder the right, but not the obligation, to buy or sell the underlying index at a specified strike price on or before the pre-determined expiration date.

Index Options are derivatives contracts where the underlying asset is a stock market index, such as Nifty, Bank Nifty etc. Whereas, Stock Options are derivative contracts with individual stocks as the underlying asset.

In the case of Index/Stock Option buying, the user have to pay the complete upfront premium to enter into the position. And in case of Index/Stock Option selling, Margin requirement may change with respect to the market volatility and momentum which also depends upon the Exchange SPAN File which are going to upload 6 times in a Trading Session.

 # Intraday Product Policy.

1) Any intraday positions which is not converted to delivery shall be eligible for intraday square off at 3:15 PM. Additionally, the square off time may extend from the above mentioned time with or without a prior intimation on the client level based on prevailing market conditions. In case of any trading losses whether it is an opportunity cost loss or real loss will be borne only by the client who has traded on the platform.

2) In case of Auto square off/Admin Square off at the prescribed mentioned time, this is to inform to the client that charges are levied Rs. 50 + GST per executed order.

3) All pending orders/un-executed order/ partial orders will be cancelled as per the Intra-day product features.

 # Margin Product Policy.

1) A user can hedge his positions only when the product type is same. In different product types, Margin benefit cannot be provided.
2) Pending orders can be in the same product type else trading terminal will block the additional margin.

3) Risks Outlined

a) Cash Segment

i. Buy order: In case of buy orders, if positions are initiated based on intraday margin requirement which cannot be squared off due to liquidity issue or scrip being hit circuit breaker there is a risk that the obligation may not be honored in full on the settlement date. Further, there is Risk of decline in stock price (during this period) exposing INDmoney Pvt Ltd to the Risk on client position.
ii. Sell order: For placing a sell order, the holding is required to be in the depository or

under settlement and hence, delivery of the scrips to the exchange may be met on the due date. Short selling shall not be permitted in Margin Carry Forward Product. The risk is limited to short delivery in the coming settlement.

b) Risks as per the Products allowed

i. CNC – No Risk as the client pays 100% obligation amount (In Cash) upfront before executing the order. A small/partial risk may exist in case of Market orders in non-liquid scrips where the market price at which the order is executed exceeds the amount paid by the client

ii. Risk mitigation measures

Risk	Risk Description	Mitigation
Higher Volatility	Volatility in price > Margin blocked/charged	1. Sufficient margin from the clients based on Exchange issued VaR and other criteria
Lower Liquidity/ Wider Spread	Timely Square off of Intraday Position could not be done due to lower liquidity or wider BId/Ask spread	1. Stringent Selection Criteria like Avg Turnover, Impact Cost, Promoter Pledge %, Quarter Sigma, Position Limit Cap 2. Square off trigger @ 75% loss keeping 33% of loss as buffer
System / Technological Risk	Delay in order execution / confirmation due to high volume or network congestion/Failure	1. Multiple lines 10 X 400 orders / sec with Back-up lines in case of Redundancy 2. Multiple DC in case of failure 3. Fallback Lines
Concentration Risk	Trading volumes concentrated to few scrips / industry segment	1. Client Wise Position Cap 2. Scrip Wise Position Cap
Order Punching error	Order is Placed in Wrong Client/Wrong Quantity or Wrong Price by Call & Trade Dealer	1. Order cap both in Qty and value 2. Broker Indemnity Insurance 3. Approved Scripting for Dealer while order placement 4. Immediate communication of order execution to Client to identify error promptly

Risk of News / Rumours / Announcement	Sudden movement/volatility in price/volume due to some Rumours/News/Announcement in Scrip/ Industry or Broad Based	1. Lowering the Multipliers on Announcement to take care of margining for Fresh Orders 2. Lowering the MTM Trigger % to have more buffer on positions for broad based sell off in market

B) **Derivatives Segment**

(i) Market Order: It is a user's responsibility to check Market Depth promptly and placing the order. Here, the user is agreeing that if he is placing Market order in the trading system and the order got pumped at the best available counter price that might far from the user expected price, then INDmoney Pvt Ltd is not going to responsible for the same.

(ii) **Credit Risk**: It is also known as counter-party risk, ocuurs when a client or trading counterparty fails to fulfill the obligations. If any point of time if there is an obligation on the Client Level remain un-settled, then INDmoney is not liable for any Exchange penalties.

(iii) **Operational Risk**: It encompasses a wide range of risk related to day-to-day operations. This risk associate with the Technology failures, data breaches, trade in any order execution and an in-adequate internal controls, Settlement Risk etc.

3. Addressing of Risks & Mitigating Control

a) Order Level Restrictions- Single order quantity and value Caps

To avoid erroneous trading, lower of the below will be the single order level maximum cap applicable for any order

- Per order Quantity: 75,000
- Per order Value: Rs. 25 Lakhs

Client wishes to buy / sell in higher quantities or values can slice the order in multiple in such a way that above maximum limit criteria is not breached.

Note:

Order per value is depend upon Broker's RMS Policy and this value might change without updating the policy or any cmmunication with the users.

c) Dealer Level controls

INDmoney Pvt Ltd provides a fully electronic platform to the clients. All orders are electronically placed through the mobile App or website. However in case the online platform/app is not available INDmoney Pvt Ltd may decide to permit clients to call and trade.

- All dealer-based trades to be on a centralized trading platform on recorded lines.
- Communication to be sent to the customer through approved means by EOD.
- Email to be sent to clients registered email id by EOD
- Consolidated Contract note will be sent to the customer (for each transaction)
- All single order quantity & value restriction as mentioned above will also be applicable to all the dealers as well

d) **Dealing in Restricted Category Scrips as defined by INDmoney Pvt Ltd:-**

In order to exercise additional due diligence while accepting orders on behalf of their clients:

- INDmoney Pvt Ltd shall from time to time classify and publish on its website/App a list of securities which are restricted based on internal criteria. This list of scrips will be available to INDmoney Pvt Ltd clients for Delivery Basis only with below mentioned restrictions applicable.
- INDmoney Pvt Ltd reserves the right to refuse execution of any transaction requests of the client on such restricted securities or to reduce the open market interests of the client in such securities/ contracts.
- INDmoney Pvt Ltd also reserves the right not to allow any trades or transactions in respect of certain securities or segments or orders/requests which may be below/above certain value/quantity as may be decided by INDmoney Pvt Ltd from time to time.

The following criteria have been decided based on the Investment Limit at a client level in allowing trading in restricted scrip:

Dealing in scrips listed on SME Board of NSE/BSE

Scrips listed in the **SME segment** will be restricted for trading on our trading platforms on an Intra-day Level – These series having huge lot sizes with low liquidity. However, the client can place Normal Order/ CNC Order. Eventually these have miniscule participation in terms of volume at the exchange. In order to avoid manipulations or erroneous trading, this category is restricted for Trading.

e) **Monitoring of market conditions (Extreme Volatility Conditions)**

Conditions refers to conditions specific to the scrips as well as macro specific conditions. This requires ongoing market monitoring to ensure that the market is not getting overbought. Accordingly, Windows on Risk must be produced on a daily basis with the following aspects addressed and take diligent call on reducing broad based multiplier or scrip specific multiplier based on the assessment of Risk Management Team. Below are the indicative scenarios

- Daily price change of 5% at an index level or 10% at a specific scrip level
- Rolling 5 day price change of 10% at an index level or a specific scrip level
- Rolling 30 day price rise of 25% at an index level or a specific scrip level
- Increase in daily turnover of a specific scrip by more than 50% over the 3 month average turnover.
- Events like Union Budget, Election Results Centre/Important States, Prime/Finance Minister Commentaries on economy
- US$ INR Exchange rate band (<70, 70-75, 76-79 and 80+) – the higher the exchange rate, the higher the risk,
- Interest rates : RBI Repo rates (<5%, 5-6%, 6-7%, 7-8% and > 8%) – the lower the interest rate, the lower the risk; for example, > 8% would be in Red zone, 5-7% in amber and < 5% in green zone)
- External macro events – e.g. Greece, Italy downgrade, War like situations, Terrorist Attacks, Volatility in Crude Prices
- GDP/IIP Nos, Reserve Bank Policy Decisions, Inflation Nos etc will impact the broader market conditions

If there is any breach, it must be escalated to the Risk Committee for appropriate decision. Decisions could include requirement of higher margins for any specific scrips or across the board.

f) MIS and exception reports

The following MIS / Exception reports must be generated on a daily basis and circulated to the CEO/ Whole time director and CFO, Head Business, Products, Compliance Operations & Risk:

- ◻ Client Level Exposure Report- Showing top clients by Exposure.
- ◻ Scrip level Exposure Report- Showing Scrips/Indices based on Exposure.
- ◻ Ageing of Positions
- ◻ Market movements as per previous Section on market conditions

<u>Penalty on account of failure to maintain adequate stipulated margins</u>

As per SEBI regulations, Customers at all the times should maintain adequate stipulated Margin with INDmoney Pvt Ltd. Adequate margin must be supplied by Customers in advance of order placement. Customers are also advised to make good the MTM (Loss) Margins immediately and not later than Market opening on Next

Trading day. Below is the details of different margin customers has to maintain with INDmoney Pvt Ltd

- Initial Margins (Span, VaR & Extreme Loss Margin)
- Additional Margins
- Peak Margins for Intraday square off Trades
- Other Margins if any prescribed by Exchanges/INDmoney Pvt Ltd from time to time

Penalty on account of failure to maintain adequate stipulated margins in Derivatives Segment:

- As per the Exchange Peak Margin Regulations, Customers at all the times should maintain adequate stipulated Margin with INDmoney Pvt Ltd. Adequate margin must be supplied by Customers in advance of order placement.

- **A Client should agree that any penalty imposed by the Exchange on any of the Client is not going to pass to INDmoney Pvt. Ltd. Additionally, a client should adhere all the Margin and MTM Policies by the Exchange to avoid discrepancies on an Exchange level.**
- Penalty is leviable as per below mentioned table on each trading day of Margin Shortfall Amt

Short collection for client each day	Penalty %
(< Rs 1 lakh) And (< 10% of applicable margin)	0.50%
(= Rs 1 lakh) Or (= 10% of applicable margin)	1.00%
Beyond 3 days of continuous Short Margin	5%
Beyond 5 Instance of Margin Shortfall in a Month	5%

Customers should note here, Penalty is levied by regulators to regularise and create discipline in maintaining adequate margin by the Customers with the brokers. It should not be construed as liberty to carry forward a position in Margin Shortfall.

Delayed payment charges:

INDmoney Pvt Ltd will post the daily obligations to the client's ledger on the trading day itself. The clients are required to clear the debits as per the ledger on or before settlement day. Clients not clearing the debits on or before settlement day, INDmoney Pvt Ltd will debit client's ledger by the Delayed Payment Charges.

Delayed payment charges will be computed on the effective debit balance of the client at the end of the day on a daily basis. Delayed Payment Charges will be computed daily and will be posted monthly in the client's ledger. The rate of interest for the Delayed Payment Charges will be applicable as decided by management from time to time with applicable GST amount if any. **(On Broker's Discretion).**

Effective debit balance will be computed based on the client's available debit ledger balance netted across all the Exchange segments at end of the day post removing all the unsettled credit/debit bills and unclear fund receipts. This also will be inclusive of accumulated Depository transaction charges plus applicable GST amount after they are posted in the client's account.

Internal Shortage of Securities:

In case any client of INDmoney Pvt Ltd defaults in fulfilling securities pay in obligation against sell transaction in a particular settlement where any other INDmoney Pvt Ltd client is having a buy position then INDmoney Pvt Ltd will consider those short shares as Internal shortage shares.

INDmoney Pvt Ltd will settle all the internal shortage of shares internally only. This will be cash settled with the **Internal Auction Price** discovered as per below calculations, which will be higher of,

(A) Auction price if available in auction session of the Exchange

(B) Closing price on T+2 day + 5% on Closing price

Or

(C) High price from T day to T+2 day (if High prices is > Closing price on T+2 day + 5%)

Based on the above price discovery, Seller clients will be debited with the valuation (Internal Shortage Quantity X Internal Auction Price) and Buyer will be credited with the same value. Clients will be communicated with the Internal Auction bills accordingly.

All the internal shortage shares will be allocated/marked in descending order of quantity to the clients having obligation for that particular settlement and shortage allocation will have preference as per below hierarchy:

1. Excess payin received
2. BTST client
3. Rest of the client

Other Inherent Risks

1. **Short Delivery Risk:-**

   In the Equity Cash Segment whenever a share is bought or sold, and not squared off on the same day (i.e. non-intraday trades), such transactions result in delivery transactions. This means that if the shares are bought, the client needs to pay the full amount and take the delivery of shares in his demat account. Similarly, if the shares are sold for delivery, the client has to give the shares to the exchanges to be transferred to the corresponding buyer. If the seller fails to deliver the shares (whether partially or fully), it is known as "Short Delivery of Shares".

   So, if a client of INDmoney Pvt Ltd purchases any stock on delivery basis on any given day then it will settle on t+2 day where there is possibility for below mentioned two scenarios:

a) It is internal trade i.e. buyer and seller are from the INDmoney Pvt Ltd itself. Then no obligation from the Exchange to deliver the shares to INDmoney Pvt Ltd.
   i) INDmoney Pvt Ltd seller client will deliver the shares to INDmoney Pvt Ltd

pool demat account and then it will be transferred to INDmoney Pvt Ltd buyer as per the INDmoney Pvt Ltd RMS policy.

ii) If seller client fails to deliver the shares then it will lead to Internal Auction and cash settled as defined in the internal Shortage process in this policy
.

b) It is not internal trade i.e. INDmoney Pvt Ltd has an obligation to/from the Exchange.

i) If there is net buy quantity (total buy qty > total sell qty, then the difference qty) then Exchange has the obligation to deliver the shares to INDmoney Pvt Ltd on t+2 day.

ii) If on t+2 day, Exchange fails to deliver the shares then it will lead to the Exchange level auction process and on t+3 day either Exchange will deliver the shares or it will be closed out from the Exchange i.e. cash settled.

iii) If there is net sell quantity (total sell qty > total buy qty, then the difference qty) then INDmoney Pvt Ltd has the obligation to deliver shares to Exchange on or before t+2 day
10.30 am.

iv) If INDmoney Pvt Ltd client fails to deliver the shares then on t+2 day Exchange will levy provisional auction charges and will share the files accordingly. And on t+3 day, Exchange will share the Final auction charges along with respective files.

Auction Market

It is a special market where only members of the exchange can participate as fresh sellers and sell shares which are short delivered. In the auction session, people who already have shares in the demat account can offer their shares. The Auction market is conducted every day between
2.00 p.m. to 2.45 p.m. Clients of the broker where the default has happened cannot participate for the auction in the same script. The auction price is taken at the lowest price offered in the auction. The highest price would be not more than 20% and not less than 20% of the closing price of the T+1 day i.e. the previous day prior to settlement day. If the shares are offered, the shares are given to the buyer of the shares on T+3 day. The seller has to pay the price for the shares offered in the auction, which is generally higher than the market price prevailing on the day.

For example, above, in an auction of shares of Titan where the closing price was 1000, fresh sellers can offer to sell 1000 shares of Titan in the Auction market in the range of 800 to Rs.1200 (+/- 20% above 1000).

If for some reason the shares are not offered in the auction by any existing shareholder, then the settlement happens at a price known as the close out price or close out rate. The close out price is determined according to the categories of the script. A few different types of close out prices suggested by Exchange are as follows:https://www1.nseindia.com/products/content/equities/equities/exceptnl situations.htm

Financial Implications of an Auction

In case of default of shares delivered by a seller, an auction as described would be conducted. The series of events would be as under:

T Day – Sale of 1000 Shares Titan on Monday at Rs. 1000 and Ledger credited by Rs. 10,00,000 T+2 Day (Morning) – Non – Delivery of 1000 shares on Wednesday

T+2 Day (Auction Session) – Auction conducted for 1000 shares. The best price on offer in the Auction session was 1050.

T+2 Day (Post Auction) – Debit Auction Bill generated for 1000 shares at 1050 of Rs. 10,50,000/-. Net Ledger on account of the transactions would be Rs. 50,000/-. The 50,000/- is nothing but the difference price between auction settlement price and the original sale price.

Based on the above the clients who have gone short, we'll have to pay for the loss resulting from the Auction (Auction price + Auction charges + penalty) or close out. In some scripts this amount may be substantial (especially where there is large price movement). The chances of such risks arising is very remote since client will only be allowed to sell shares up-to Holding & shares expected in the upcoming settlement

2. Capital Adequacy at Exchange: -

The amount to be deposited with an exchange/Clearing corporation) as collateral to cover the settlement risk of the C/C.

The capital deposited is of 2 types

- **Base minimum capital** - Capital to be deposited before trading permission is obtained
- **Additional Base capital** – that is capital deposited to meet additional margin requirements after the base min capital is exhausted.

The additional capital can be withdrawn at any time subject to it not being used for Margins. While the Base minimum capital permanently remains with the exchange till the member trades. It is permitted to be withdrawn any after 3 years from the date the trading rights are surrendered. All collateral to meet Capital adequacy can be segregated into cash component and non-cash component.

Cash or cash equivalent (including client's funds) Component: -

- Cash
- Bank Guarantee from approved bank by the exchange (For Rs 1cr BG required FD of Rs.50/-lac)
- FDR from approved bank by the exchange
- T-Bills issued by RBI & approved by exchange
- Government Securities issued by RBI & approved by exchange
- Sovereign Gold Bonds issued by RBI & approved by exchange
- Liquid Bees

Non-Cash Component (with applicable haircut):-

- ➢ Equity Collateral approved demat securities by the exchange (including clients securities)
- ➢ Open ended Mutual Funds approved by the exchange
- ➢ Corporate Bonds which are approved by Exchanges

Benefits of Non-Cash Components will be available in 1:1 proportion to Cash Components. Thus, cash or cash equivalent components will have to be 50% of the collateral deposited.

The trading limits(unsettled buy and sell transactions) are permitted only up to the limit of capital deposited with the exchange. The members shall be compulsorily placed in risk reduction mode (Only Square off) when 85% (or such other limit as notified by SEBI from time to time) of the members capital limit is utilized towards margins for trading & moved back to normal mode when utilization goes below 70%.

Impact of Risk Reduction Mode (RRM):

- ➢ All unexecuted orders (Pending) shall be cancelled
- ➢ Fresh orders placed by clients to reduce open positions shall be accepted.
- ➢ Fresh orders can be placed for immediate or cancel (IOC) only
- ➢ Members will be able to trade in normal mode as and when the utilization goes below 80% of capital limit
- ➢ Opportunity loss for INDmoney Pvt Ltd Clients, since clients won't be able to place fresh orders.
- ➢ Reputational loss as due to RRM, clients will face fresh trading halt.

We will ensure CAPAD as ~ 70% (15% lower than notified) of norm. In case of higher spike in trading volumes, we will ensure to deposit more collateral to avoid breach of such limits.

Delay in PG settlement: -

INDmoney Pvt Ltd clients transfer the funds through online payment gateway i.e. net banking/UPI against that Realtime limit has been given for exposure, to avoid MTM squared off, to convert to delivery or to carry forward the position. According to an estimation approx. 80% no of the transfers will get credited to INDmoney Pvt Ltd bank account Realtime whereas rest 20% may take up to one working day to have the same credited in INDmoney Pvt Ltd bank accounts. In such scenario INDmoney Pvt Ltd has to arrange funds for one working day till the actual credit is received in the INDmoney Pvt Ltd bank account

Moreover, if there is any delay / latency is seen in updating limits through our PG channels to the Trading platform whereas client’s funds are deducted from their respective bank accounts however there is delay in updating funds on the trading platform

Risk involved in PG delay: -

- Client position got squared off due to delay in updating fund on RMS Panel
- Opportunity loss for INDmoney Pvt Ltd Clients, since clients won't be able to place orders/trade

We will ensure that we will keep a close track of timely receipt of funds as agreed with the partners and mentioned above. In case of inordinate delays, we will switch the PG partners so that exposure on such delays can be minimized.

3. Technological Risks:

INDmoney Pvt Ltd provides Trading on exchanges in Mobile/Web based platform, based on leased line/Internet based communications, combination of technologies and computer systems to place and route orders. Thus, there exists a possibility of communication failure or system problems or slow or delayed response from system or trading halt, or any such other problem/glitch whereby not being able to establish access to the trading system/network, which may be beyond the control of and may result in delay in processing or not processing buy or sell orders either in part or in full. INDmoney Pvt Ltd. Although these problems may be temporary in nature, INDmoney Pvt Ltd clients having outstanding open positions or unexecuted orders, these represent a risk because of their obligations to settle all executed transactions.

Impact of the Technological/System failure: -

➢ Revenue loss - due technical issue the trading is on halt
➢ Opportunity loss for INDmoney Pvt Ltd Clients, since clients won't be able to place orders
➢ Reputational Risk
➢ Financial risk due to not squaring the open/risky position at the right time and price

To overcome/reduce such risk we have following controls in place:-

- Multiple lines 10 X 400 orders / sec with Back-up lines (different service provides) ito take care of exchange connectivity failures
- Multiple Data Centres in case one data centre being redundant
- Fallback Lines and setup at Bangalore office to take care of any exigency

4. Easi/Easiest Access to Clients

Easi/Easiest are the facilities given by CDSL(Depository) to Beneficial owners to view their holding lying in the Demat Account. They also can transfer securities outside the demat account using this facility. Since customers can move securities out of their demat account, we have restricted this facility from the risk point of view. The same are detailed below

- When the customer sells the DP holding there is no hold/earmarking marking happening in his dp account. Customers can sell the same holding through INDmoney Pvt Ltd trading system and at the same time can initiate a share transfer instruction outside his demat account too.
- Any delay in the process may lead to non processing off market\Market instructions given through easiest and may result in financial loss

- Clients can place instructions throughout CDSL anytime. this can be beyond the various process cut off timings decided by INDmoney Pvt Ltd and may lead to not executing customer instruction
- In case customer directly updates any details in CDSL through his easiest login, this will result in mismatches with INDmoney Pvt Ltd system data and other peripheral systems because we do not have the process to update our systems real-time based on CDSL's update file

Circuit limit based Square Off

For FNO scrips, INDmoney Pvt Ltd will be squaring off the Intraday positions if the circuit utilization of the day for a stock hits in the last 30 minutes of the market. This way of squaring off the positions also includes o Intraday Derivative Contracts too. The below table consists the threshold limit for squaring off the position.

For non FNO intraday scrips, the auto-square off threshold would be set based on the exchange defined Circuit Filter. This would be applicable for all the Intraday positions in the equity segment and will be auto squared off from RMS when the scrips reaches the following threshold:

Stocks with circuit band	**Threshold limit(80%)**	**Re-open for trading**
20 % price band	16%	12%
10 % price band	8%	6%
5 % price band	4%	3%
2 % price band	1.60 %	1.20 %

Kindly note that the above threshold limit is subject to market price availability and may vary, based on the several Risk factors in accordance with the Risk management control checks without any prior notification / intimation on the Client Level.

*Once threshold breached, No fresh long order will be allowed for that scrip in the current circuit threshold.& no fresh short sell position will be allowed for that scrip in the current circuit threshold.

*Scrip will be re-open for trading once traded 20% below the scrip threshold limit.

<u>Categorization of the securities under Graded Surveillance Measure (GSM) and relevant surveillance actions</u>

In addition to existing Surveillance action being imposed from time to time, it may be noted that securities under GSM shall be monitored for the price movement based on the below objective criteria and shall attract additional graded surveillance measures. Scrips which witness an abnormal price rise not commensurate with financial health and fundamentals like Earnings, Book value, Fixed assets, Net-worth, P/E multiple, etc. All of the scrips under GSM would be under **<u>Restricted scrip Category where orders can only be placed through Central Dealing Desk</u>**

<u>Objective of Surveillance actions</u>

- Alert and advice investors to be extra cautious while dealing in these securities
- Advice market participants to carry out necessary due diligence while dealing in these securities

Stage	Surveillance Actions	What this means for Clients
I	Transfer to trade for trade with a price band of 5 % or lower as applicable.	Scrips will be moved to Trade to trade category where no Intraday is possible. All trades have to be taken /given delivery
II	Trade for trade with price band of 5 % or lower as applicable and Additional Surveillance Deposit (ASD) of 100% of trade value to be collected from Buyer	For Poor and Restricted scrips 100% margin is taken upfront. When the scrip moves in this stage, over and above 100% margin, additional 100% ASD would be collected from the buyer which would be kept separately. The client will not get any additional exposure against this ASD
III	Trading permitted once a week trading and ASD 100% of trade value to be deposited by the buyers (Every Monday)	When the scrip moves in this stage, over and above 100% margin, additional 100% ASD would be collected from the buyer which would be kept separately. The client will not get any additional exposure against this ASD. The buying in these scrips would be restricted to once a week i.e. each Monday

IV	Trading permitted once a week trading with ASD 200% of trade value to be deposited by the buyers (Every Monday)	When the scrip moves in this stage, over and above 100% margin, additional 200% ASD would be collected from the buyer which would be kept separately. The client will not get any additional exposure against this ASD. The buying in these scrips would be restricted to once a week i.e. each Monday

V	Trading permitted once a month trading with ASD 200% of trade value to be deposited by the buyers (First Monday of the month)	When the scrip moves in this stage, over and above 100% margin, additional 200% ASD would be collected from the buyer which would be kept separately. The client will not get any additional exposure against this ASD. The buying in these scrips would be restricted to once a month i.e. first Monday of each month
VI	Trading permitted once a month with no upward movement in price of the security with ASD 200% of trade value to be deposited by the buyers (First Monday of the month)	When the scrips moves in this stage, over and above 100% margin, additional 200% ASD would be collected from the buyer which would be kept separately. The client will not get any additional exposure against this ASD. The buying in these scrips would be restricted to once a month i.e. first Monday of each month and there would not be any upward movement in Price

Additional Notes:

a. The list of securities moving from higher stage of Graded Surveillance Measures is informed time to time by the regulators
b. Additional Surveillance Deposit (ASD) shall be paid only in form of cash and to be retained till review of the Graded Surveillance stages i.e. Quarterly review.
c. This ASD shall not be refunded or adjusted even if securities purchased are sold off at the later stage within a quarter and also shall not be considered for giving further exposure.
d. ASD shall be over and above existing margins or deposits levied by the Exchanges on transactions in such companies and shall be interest free.
e. In case the scheduled trading day is falling on a trading holiday, the trading shall be permitted on the next trading day.
f. Periodic review of securities under GSM framework, to assess relaxation of surveillance action, if any, shall be carried out on a quarterly basis. The review shall be done based on the objective criteria and only securities under Stage II onwards shall be eligible for the quarterly review. For example, a company in stage III of GSM can be moved back to stage II if qualified based on the said objective criteria.

Categorization of the securities under S+ framework and relevant surveillance actions

Upon identification and as per the applicable effective date, the securities falling under "S+ Framework" shall be placed in a separate group "SS"/ "ST".

In addition to existing Surveillance action being imposed from time to time, it may be noted that these securities shall be monitored for the price/volume movement and based on the predetermined objective criteria shall attract following additional surveillance actions –

stage	Surveillance Action	Group
0	· Imposition of Weekly and Monthly price bands in addition to existing daily, Quarterly and Yearly price bands. · Imposition of very high transaction charges i.e. 1% of transaction value shall be applicable to both buyer and seller.	"SS" or "ST"
I	· All existing actions including imposed under Stage 0. · Shifting to Trade to trade settlement mode.	"ST"
II	· All existing actions including imposed under Stage I. · Additional Surveillance Deposit of 200 % of Buy value applicable on buyer. · ASD shall be released in the sixth month from the collection month · i.e. minimum retention period of 5 month.	"ST"

Additional Notes: -

a. The list of securities moving to higher stage of "S+" framework as mentioned above shall be
informed time to time by the regulators
b. At the time of identification of securities for "S+" framework, securities part of B/XC/XD group shall be transferred to "SS" group whereas securities part of "T" group and "XT" group shall move to "ST" group.
c. Additional Surveillance Deposit (ASD) shall be paid only in form of cash and to be retained for at least a period of 5 months
d. This ASD shall not be refunded or adjusted even if securities purchased are sold off at the later stage and also shall not be considered for giving further exposure.
e. All actions on securities placed under S+ Framework shall be over and above all prevailing surveillance action

RMS Policies related to FO Segment:

Definitions

1. **RMS (Risk Management System)** - This helps INDmoney Pvt Ltd manage the risk of the company and client from the volatility of the market.
2. **Cash** - This is the clear balance available in the customer's ledger account in our books.
3. **Margin** - The underlying stake provided by the customer in the form of cash, FDR and / or stock to mitigate market (price) or settlement (auction) risk.

We would like to bring into the notice that if you're carrying a Short Position in any Stock Option or Index Options, the client is aware that the Margin requirement keeps on changing in respect to the Open position which depends upon the Exchange SPAN files which changes due to market volatility and momentum. And, the client have to keep his balance positive all the time otherwise broker's RMS might take the necessary action on the position opened. The same has been implied on the Futures position too. Margin for Stock Futures and Index Futures are based upon SPAN + Exposure amount. Any additional MTM Losses will reduce from the Client's Ledger balance or simultaneously gains will be added on there itself.

4. <u>**Margin Collection Derivative Segment**</u>

Initial/Upfront Margin is collected upfront from all the clients in Leveraged segments. Daily Mark-to-Market losses shall have to be paid latest by T + 1 Beginning of the day and any shortages in respect of Initial Margin shall be payable forthwith. INDmoney may charge a margin rate higher than the exchange stipulated margin rates based on the Risk Policy from time-to-time. In case of default provide Mark-to-Market losses or Margins, Peak Margins, Upfront Margins, Additional Margin, Delivery Margin accordingly, INDmoney shall be entitile to square off the open market positions may be without further reference or notice to the clients.

Policies related to Square-off that might happen:

A. Margin Shortfall based Square-off:

The system typically works as follows:

Margin Requirement: Clients trading in the FNO segment are required to maintain a certain level of margin based on the positions they hold. Initial margins and maintenance margins are set for each FNO contract, and the client must ensure they have enough funds or collateral to cover these margins.

Monitoring: The broker's RMS continuously monitors the value of a client's FNO positions and their available margin. If the value of the positions approaches or falls below the maintenance margin level, the system triggers a warning.

Square Off: If the value of the FNO positions further declines and reaches the shortfall level (typically below the maintenance margin), the RMS automatically initiates the square-off process. It sells the positions to close the outstanding contracts and mitigate potential losses.

Notification: Clients may or may not be notified in advance about the shortfall-based RMS square-off process through alerts, emails, or SMS, allowing them to take corrective actions and add funds to their trading accounts to meet margin requirements.

B. MTM-based Square-off:

The process of MTM based square off typically follows these steps:

Mark-to-Market (MTM) Valuation: During each trading day, the broker revalues the client's open FNO positions based on the Last Traded Prices during the day. This MTM valuation determines the unrealized profit or loss on those positions.

Loss Threshold: The broker sets a predefined loss 80% threshold in the Risk Management Policy. If the unrealized losses on a client's FNO positions exceed this threshold, the MTM Based Square Off process is triggered.

Automatic Square Off: Once the loss threshold of 80% is breached, the broker's RMS (Risk Management System) automatically initiates the square-off process. It liquidates the open FNO positions of the client to offset potential losses.

Notification: Clients may be notified in advance about the MTM Based Square Off process through Push Notification, emails, or Whatsapp, giving them a chance to take corrective actions if possible.

C. Ageing-based Square-off:

Position Ageing: The broker tracks the age of each open position in a client's FNO portfolio. The age is determined by the number of trading sessions or days since the position was initiated.

Thresholds and Prioritization: The Risk Management Policy sets specific ageing thresholds. When a position crosses a certain age, it becomes subject to potential square-off in case of a margin shortfall or breach of risk limits. Older positions are given priority for square-off, ensuring that the newer positions are held intact, provided they are within risk tolerance.

Margin Monitoring: The broker's RMS continuously monitors the available margin in the client's trading account. If the account balance falls below the required margin for any open position, ageing-based square-off comes into play.

Square-off Process: When a margin shortfall occurs, the system initiates the square- off process to close positions to the extent of Ledger Debit or to the Limit of Margin Obligation. It liquidates these older positions to bring the account's margin back to an acceptable level.

Potential Shortfall based Square-offs (in case of Expiries over Calendar spread):

A. In the derivatives market, a calendar spread involves taking offsetting positions in the same asset but with different expiry dates. For example, a trader may have a long position in the near-month futures contract and a short position in a far-month futures contract.

The potential shortfall based square-off process in case of expiries over calendar spread typically works as follows:

Margin Calculation: The broker calculates the margin requirements for each individual position in the calendar spread based on the exchange's margin rules and risk parameters.

Shortfall Monitoring: As the positions have different expiration dates, the total margin required for the calendar spread can vary over time. The broker's Risk Management System continuously monitors the total margin requirements for the entire calendar spread.

Potential Shortfall Assessment: If the combined margin required for the calendar spread increases and approaches or exceeds the available margin in the client's account, the system identifies a potential shortfall.

Square-off Prioritization: To prevent margin deficits and protect the client from forced liquidation, the system prioritizes square-off actions. Positions that contribute the most to the potential shortfall are considered for liquidation first.

Square-off Process: The system initiates the square-off process by selectively closing some or all of the positions in the calendar spread to bring the account's margin back to a safe level.

Here, the client will be agreeing that the prices which are reflecting in the Trading window, the order might not get execute on the same price as the order will get execute based on the availability of Bid & Ask of a contract.

Policies on Physical Settlement:

With reference to SEBI Circular number SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018, specified securities contracts of futures as well as In-the-Money Options are required to be settled by Physical Settlement on expiry.

As per the circular:

1) All Open In-the-Money positions need to be Physically settled for Stock Futures and Stock Options

whereas, all the Index Futures and Index Options are Cash settled.

2) During the Expiry week, for all the Stock ITM Open Options & Stock Futures, Margin will be blocking as follows:

Day	Margin Applicable
Expiry Day – 4 (Friday BOD)	10% of the delivery margin computed
Expiry Day – 3 (Monday BOD)	25% of the delivery margin computed
Expiry Day – 2 (Tuesday BOD)	45% of the delivery margin computed
Expiry Day – 1 (Wednesday BOD)	70% of the delivery margin computed

And on the Expiry day (Thursday)/Last Thursday of the Month, Complete Contract Value (100% Margin is required) in BOD itself. Else, our Risk Team might square-off the position on the best prices available in the market.

Scenarios

1) Call Option Long = Complete Contract Value required to take Physical Delivery.
2) Call Option Short = Holdings equivalent to Lot size are required to avail the Physical Delivery.
3) Put Option Short = Complete Contract Value required to take Physical Delivery.
4) Put Option Long = Holdings equivalent to Lot size are required to avail the Physical Delivery.

Note:

If there is any hedge position and both the Higher Margin & Hedged position are In-the-Money, then to avail the Physical delivery, Obligations for both the positions must be met.

Information to publish regarding MWPL Limit.

- If any stock is going beyond its 95% of the MWPL Limit, then as per the Exchange guidelines, no fresh positions are allowed and only existing positions can offset/square-off.

- The stock will be out of the MWPL Period automatically when the MWPL Limit will go below 80%

Glossary

1. **Value at Risk (VaR) :**

   is defined as a threshold value such that the probability that the mark-to-market loss on the portfolio over the given time horizon exceeds this value (assuming normal markets) is the given probability level. VAR is a distribution-free metric, which is not dependent on assumptions about the probability distribution of future gains and losses. The probability level is chosen deep enough in the left tail of the loss distribution to be relevant for risk decisions, but not so deep as to be difficult to estimate with accuracy. Distribution of various price scenarios and VAR percentage forms a bell curve which covers 99.96% of instances.

   VAR margin is a set percentage of margin as provided by Exchanges on regular intervals (6 times in a day) during the trading hours by the way of a file which is uploaded in the Risk Management system to compute the required Margin on the client position.

   The higher the VAR, the more volatile is the scrip as it implies that higher the VAR, higher the margin value required to cover the M to M losses of the script.

2. **Extreme loss margin** defined by Exchange is a certain fixed percentage to take care of the tail end of the bell curve, so as to cover close to 100% price variation and MTM thereof.

   The Extreme Loss Margin (ELM) is a percentage levied on the trade value from the clients. Exchanges provide the security wise percentage on a regular basis. The ELM will be collected from the client on an upfront basis by adjusting against the Limits of the Clients at the time of trade.

   The Extreme Loss Margin rate is charged on the net outstanding position (buy value-sell value) of the respective clients on the respective securities across all open settlements.

   The higher the ELM, the more volatile is the scrip as it implies that higher the ELM, higher the probability of extreme losses in the scrip.

3. **Span Margin** is a set percentage of Margins as provided by Exchanges on regular intervals (6 times) during the trading hours by the way of a file which is uploaded in the Risk Management system to compute the required Margin on the client portfolio. The Margins are computed by logic of PC Span, a proprietary logic developed by Chicago Board of Mercantile. The Span margin at INDmoney Pvt Ltd will be collected from the client on an upfront basis by adjusting against the Limits of the Clients at the time of trade.

4. **Exposure Margin** is a set percentage of Margins as provided by Exchanges on monthly

basis by the way of a file which is uploaded in the Risk Management system to compute the required Margin on the client position. The Exposure margin at INDmoney Pvt Ltd will be collected from the client on an upfront basis by adjusting against the Limits of the Clients at the time of trade.

The higher the SPAN and Exposure margin, the more volatile is the scrip as it implies that higher the SPAN and Exposure, higher the margin value required to cover the MtoM losses of the position

5. **Impact Cost:** Impact cost represents the cost of executing a transaction in a given stock, for a specific predefined order size, at any given point of time. It is a practical and realistic measure of market liquidity, closer to the true cost of execution faced by a trader in comparison to the bid- ask spread. This is provided at scrip level by exchange on daily basis. Lower the impact cost, higher the liquidity in the scrip over a given period of time.

6. **Haircut on Collateral:** Margins will be provided for trading after applicable Haircut on collaterals. A Haircut of 10% would mean that if you have given stock worth Rs 1 lac as collateral, 90000 (90% of 1 Lac) will be added to your trading limit.

7. NSE: National Stock Exchange of India Ltd

8. BSE: BSE Limited

9. RMS Risk Management System

10. SEBI: Securities & Exchange Board of India

11. F&O : Futures and Options