CANARA BANK SECURITIES LIMITED

(A WHOLLY OWNED SUBSIDIARY OF CANARA BANK)

RISK MANAGEMENT POLICY

(updated & reviewed till 18.01.2022)

RISK MANAGEMENT POLICY

Canara Bank Securities Ltd., (CBSL), as a Corporate Broking entity and for providing hassle free Depository Operations, conducts its business operations based on sound Risk Management Policies to pursue prudent business practices and, for providing hassle free trading / investment facility to the registered clients. The function of Risk Management being an ongoing exercise is reviewed periodically and necessary measures are initiated to enhance its overall effectiveness.

Various Risk Management Measures implemented by CBSL are detailed below:

In the entire policy, any regulatory changes in between the date of review of policy and implementation of guidelines shall automatically applicable.

A. CLIENT’S ACCOUNT – ACTIVATION, MAINTENANCE ETC.:

For a new client, password should be auto generated, without human intervention and should be automatically mailed to the client from within the Surveillance system. Trading account opened shall be in inactive mode till the client makes a request over dedicated telephone number to CBSL for activation of the same. Surveillance department should verify the credentials of the client before activating the account. In case a client gets locked for any reason, it should be unlocked only on a specific request by the client from the registered mail ID or after verification of client credentials. Once a client is provided with a password, the client will be forced to change the password mandatorily after first login. If the password is forgotten or the client is unable to reset the same through the online portal, the request for password change shall be entertained only through written request or through mail from the registered mail ID of the client. Any changes made in the client account like unlocking, changes in Client Profile, and trading segment addition shall be done only based on the request made by the client either by way of letter or E Mail from his registered e mail ID duly supported by document proof wherever required.

Surveillance Department after obtaining the necessary permission from General Manager (Front Office) may at any time temporarily suspend the trading account of the client based on the written request received in this regard from the client. Where the client has requested for temporary suspension of the account, no trades shall be permitted in such account. To reactivate such suspended accounts, Client is required to make a written request / send the request to CBSL from the email registered with the company. Before reactivating such accounts CBSL may ask the client to provide for financial statement or other documents as it deems fit and reactivation shall be solely at the discretion of CBSL. Surveillance Department after obtaining the necessary permission from General Manager (Front Office) may suspend the accounts from trading on notices received from Statutory, Government or Local Bodies, Income Tax, Judicial or a Quasi-Judicial authority, Regulators etc. or client reported to have expired.

For closure of the trading account, the client is required to submit a written request / send the request to CBSL from the email registered with the company. CBSL shall examine the same in the light of the compliance requirements, pending queries, security / funds dues if any from the client. The account shall be closed after the necessary approvals as above and after the notice period as decided by CBSL as per the terms of the agreement and regulatory requirements from time to time.

B. CLIENT'S EXPOSURE LIMITS:

Exposure is permitted based on the funds / securities put on hold by the client through the portal / the dealer in the account linked to the trading account. CBSL also permits exposure to the clients to the tune of value of sale proceeds of T day under the delivery based trading product. Unused exposure on account of such value of sale proceeds is carried forward till T+ 2 day. Mark to Market loss if any shall be reduced from the available exposure of the client.

CASH SEGMENT:

CBSL stipulates 100% margin by way of hold on funds for the value of buy orders and hold of securities to the extent of sale order for delivery trades. CBSL provides exposure to the extent of 99% of the funds put on hold by the client so that the remaining 1% meets the cost of trading for the client. For non-delivery (intraday) trades CBSL provides exposure based on the multiple of fund put on hold maximum of 8 times for both buy and sell orders. Any changes/modifications in SEBI/Exchange guidelines shall automatically appliesHigher exposure for intraday trading is permitted by CBSL only for the scrips on which Future & Options contract are permitted by the Exchange. For trades under BTST (Buy in Today & Sell out Tomorrow), upfront margin will be collected based on the scrip's (Var+ELM)% stipulated by exchange along with any other additional margin prescribed by Exchange/CBSL. Leveraged exposures are provided to the clients at the sole discretion of Managing Director of CBSL and is subject to change based on the market conditions and client profile.

FNO SEGMENT:

Clients are required to provide Initial Margin i.e., SPAN Margin and Exposure Margin as stipulated by NSE and an additional margin of 20% of SPAN margin or any other percentage as decided by Managing Director of CBSL from time to time and notified in the Initial / FNO margin report available in the trading page. Clients are required to provide the margins as stipulated above for both buy and sell of Future contracts and for Sell / Writing of Options. The premium on purchase of options is recovered upfront by way of available balance in the form of hold in bank accounts or credit in the account maintained with CBSL. However, CBSL does not provide exposure to the clients against the sell trade in Cash segment on the T day and exposure available in FNO segment to CDS segment and vice versa.

CDS SEGMENT:

Clients are required to provide Initial Margin i.e. SPAN Margin and Extreme Loss Margin as stipulated by NSE and an additional margin of 25% of Initial margin or any other percentage as decided by Managing Director of CBSL from time to time and notified in the Initial / FNO margin report available in the trading page. Clients are required to provide the margins as stipulated above for both buy and sell of Future contracts and also for writing / selling option contracts. CBSL normally does not provide exposure to the clients against the sell trade in Cash segment on the T day.

C. MAINTENANCE OF MARGINS / CASH – CLOSURE OF CLIENTS' POSITIONS:

Apart from Exchange stipulated instances and technical failures, CBSL shall not allow the client to take further positions or close the existing positions whenever there is shortage of margins. This may be either security specific or client specific based on the circumstances.

Under Intraday Trading client is not allowed to take fresh positions after 3.10 p.m. or any other time stipulated by CBSL from time to time.

Client is required to maintain the requisite margin for the open positions under cash segment and open / carry forward positions under FNO / CDS at all the times. The intraday trades (IDT) in the Cash segment shall be squared off without referring the clients at the cut off time (presently 3.10 p.m.) or any other time decided by CBSL at its discretion duly informing the clients through email / publishing in the CBSL website. Further, CBSL shall monitor the client's positions through the Risk Management System (RMS) and has the following policy for squaring off the positions:

20% Cover (80% erosion in value of allocated funds under IDT)

Surveillance Department shall monitor the erosion in the margins. GM Front Office shall have the discretion to instruct the Surveillance Department to square off open position of the clients under IDT as soon as the clients MTM losses erode 80 % of the total fund allocated for trading.

CBSL shall also resort to selling the clients' securities / square off the positions when the client fails to provide the funds towards the valuation debit / auction against the BITSOT trade.

In case of FNO and CDS the client is required to maintain the margins stipulated by CBSL at all times. Whenever there is shortfall in the margins, client is required to replenish the same. CBSL shall square off the positions of the clients under FNO / CDS with further notice to the client by way of email and telephone when the shortfall is to the extent of additional margin and exposure margin required for the open positions.

All losses consequential to such square off or sale of collaterals shall be borne by the client. In case CBSL is unable to square off or refrain from squaring off the position due to margin shortfall, the client shall not have a right to claim that the position was not squared off and the same has resulted in additional losses. Square off shall be at the discretion of CBSL and all consequential losses and charges shall be borne by the client.

Consequent to square off of F & O / Intraday positions, if any amount is due from the client on account of loss/ brokerage/ exchange penalties/ statutory charges, long pending dues of DP account, the same is to be recovered from client by close follow up by way of E Mails, telephonic reminders and letters to the registered address of the client. If the client is not cooperating for payment of dues, then the DP account of the client shall be put on hold and only sale of shares shall be permitted which would help in recovering the amount due to the Company. In case of continued non-cooperation other recovery measures as deemed fit by the Company shall be initiated.

D. ORDERS FOR BUYING / SELLING OF PENNY STOCKS:

Generally, Penny stocks have all or any of the following characteristics:

_ Trading at a price which is less than the Face value of the share.
_ Small Market Capitalization.
_ Poor / Unsound fundamentals.
_ Low liquidity.

Though the "Penny Stocks" have been not defined, mid office shall treat such stocks as penny stocks which qualify to be classified so based on the above criteria stipulated by CBSL and monitor trading in penny scrip. On analyzing the trends, Mid Office shall place a note to the General Manager (Front Office) to treat particular scrip as penny scrip in tune with the policy. CBSL may at its discretion categorize any stock as penny stock as per its Policy and risk perception. CBSL has adopted the following Policy on the Penny stocks:

CBSL shall have the absolute discretion to restrict its clients from placing buy or sell orders in Penny / illiquid stocks inspite of client providing adequate hold of funds, Margin / balance in his / her / its account. To this end CBSL, may at its discretion accept and /or refuse any buy or sell order for penny / illiquid stocks from clients over phone.

CBSL at its sole discretion, introduce online blocks to restrict clients from order placement in such penny / illiquid stocks through the online trading portal. CBSL may seek declarations from the clients before accepting such orders. CBSL may place such restrictions at the beginning or in between the market hours notwithstanding the client has / had previously purchased and / or sold such scrip / contracts through CBSL itself in the past. Further, client while placing buy or sell order for penny stocks / illiquid stocks shall not specify the price which is substantially different from the then existing market price. Client must ensure that placing of such orders doesn't result in creation of artificial bid / offer / volume or misleading or false appearance of trading. Client shall also ensure that their trading in penny stocks doesn't operate as a device to inflate or depress or cause fluctuations in the price of such stocks.

CBSL may at its discretion, restrict intraday trading in such illiquid / penny stocks. CBSL does not make available far month future / option contracts for trading in FNO / CDS segment of NSE. CBSL shall provide intraday trading only in scrips which are in FNO segment of NSE. CBSL at its sole discretion may restrict order placement in any other contracts or scrip which are extremely volatile and / or subject to market manipulations.

CBSL at its discretion may cancel the pending orders in full or pending portion of the partly executed orders placed by the clients / dealers in respect of such illiquid / penny stocks. CBSL shall not be responsible for any opportunity loss or financial loss to the client consequent to non-acceptance or cancellation of the pending orders. Further, the client shall indemnify CBSL for any loss caused / may cause to CBSL on account of client's trading in penny / illiquid stocks.

E. TRADE RESTRICTIONS ON SCRIPS COMING UNDER GSM & S+ FRAMEWORK

In order to enhance market integrity and safeguard interest of investors, Securities and Exchange Board of India (SEBI) and Exchanges, have been introducing various enhanced surveillance measures. In spirit of the above measures, the exchanges have introduced GSM, Graded Surveillance Measures (BSE Notice No 20170223-44 Dated 23 Feb 2017, NSE Ref No. NSE/SURV/34262 Dated 23 Feb 2017) and S+ Framework (BSE Notice Number 20170607-24, Dated 07-06-2017). According to the exchange circulars, the price rise of GSM and S+ framework scrips are not commensurate with financial health and fundamentals of the company which inter-alia includes factors like Earnings, Book value, Fixed assets, Net worth, P/E multiple, etc.

The underlying principle behind defining various stages under GSM framework is to alert the market participants that they need to be extra cautious and diligent while dealing in such securities as the need has been felt to place them under higher level of surveillance. At present, 6 stages are defined under GSM framework viz. From Stage I to Stage VI. Surveillance action has been defined for each stage. Once the security goes into a particular stage, it shall attract the corresponding surveillance action. The security shall be placed in a particular stage by the Exchange based on monitoring of price movement and predefined objective criteria.

GSM stage wise Surveillance actions as per exchange guidelines are listed below:

Stage	Surveillance Actions
I	Transfer to Trade for Trade with price band of 5% or lower as applicable.
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.
III	Trading permitted once a week (Every Monday) and ASD of 100% of trade value to be deposited by the buyer.
IV	Trading permitted once a week (Every Monday) with ASD of 200% of trade value to be deposited by the buyer.

V	Trading permitted once a month (First Monday of the month) with ASD of 200% of trade value to be deposited by the buyer.
VI	Trading permitted once a month (First Monday of the month) with no upward movement in price of the security with ASD of 200% of trade value to be deposited by the buyer.

In addition to the existing surveillance actions, a new tool called S+ Framework has been introduced for enhancing the monitoring of securities exclusively listed / traded on main board of BSE which are not a part of GSM framework and whose share price is not satisfying the Financial Health and such parameters or whose shares prices fluctuates abnormally i.e without any corporate event.

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, these securities shall be monitored for the price/volume movement and based on the predetermined objective criteria and would attract following additional surveillance actions.

For taking positions in the scrip coming under S+ framework, Additional Surveillance Deposit (ASD) shall be paid only in form of cash and to be retained for at least a period of 5 months. This ASD shall not be refunded or adjusted even if securities purchased is sold off at the later stage and also shall not be considered for giving further exposure. ASD shall be over and above the existing margins or deposits levied by BSE /ICCL on transactions in such companies and shall be interest free. In case of default in payment of ASD, the same would be viewed as violation of Exchange's directions and penal actions may be imposed.

S+ Framework Surveillance actions as per exchange guidelines are listed below

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"

The Exchange notification shows the seriousness of restricting the speculative trade malpractices in line with the SEBI guidelines. The scrip price movement not in line with the fundamentals of the scrip is matter of concern and may lead to the unwarranted situation to the clients as well as capital market intermediaries. The scrips under GSM / S+ Framework may move dynamically from one stage to the other stage as per the Exchange notifications demanding high level of compliance and monetary obligations apart from the trade restrictions.

In view of the seriousness assigned on the matter by the Exchanges and regulators and to curtail the abnormal price movement of the scrips and also to safeguard interest of our clients, we have restricted the trades pertaining to the scrips coming under GSM and S+ Framework. The client who wishes to trade in GSM scrip should justify the reasons for trading in the above scrips. The clients should be permitted to trade only after receipt of formal request duly supported with valid reasons. General Manager front office shall be the competent authority to permit trading in GSM / S+ scrips based on the request from the client on merits. Mid office shall take permission from GM, front office for permitting trading in GSM scrips belonging to Stage II onwards and from stage I onwards in the case of S+ framework scrips. Before permitting surveillance desk shall also make the client aware of the exchange guidelines and repercussions in dealing with such restricted scrips. A link shall also be given in the Company's website to enable clients to have a detailed understanding on the guidelines/ list of such scrips and any new developments under these categories of scrips.

F. INTERNAL SHORTAGE:

There may be instances where in the clients who have sold the shares under BITSOT may get short delivery of shares resulting in their incapacity to honour their share pay in commitment under BITSOT. There is a possibility that the delivery shortage of one client is compensated by the long position of other client of the Company. In such case the shortage will be an internal shortage and shall not be auctioned on the Exchange as the settlement takes place after netting out the position of all clients across the Trading Member.

Client shall agree that if he/she/it has short delivered any securities against his/her/its pay in obligation which resulted into internal shortage and could not be auctioned in the market, then CBSL may either go in for a Self-Auction on BSE/**NSE as the case may be** or close the transaction at and the closeout price will be 10% above, the closing price on the auction day or closing price of trading day or the settlement day whichever is higher. CBSL may revise the percentage from time to time. In case of purchaser he/she/it will receive a credit the amount calculated as per the above formula. CBSL may resort to any other method of settlement of transaction if it is mutually agreed by both the parties and CBSL.

Decision of CBSL in the matter shall be final and binding upon both the parties.

G. Dealing errors:

Dealing errors may occur on account of punching orders for higher / lower quantity than the ordered by the client or placing a buy order instead of a sell order or placing an order for a scrip other than the one ordered by the client or placing an order at a different price than specified by the client. Immediately on identifying the mistake, the dealer needs to bring the mistake to the notice of the client and seek his concurrence for the trade already executed. Simultaneously the mistake has to be also brought to the notice of the General Manager in charge of dealings. In case the client refuses to accept the trade reversal of the trade needs to be undertaken and the client to be informed that the actual loss on account of dealing error shall be absorbed by the Company. It should be ensured that the Customer has the feeling that his position has been restored without any loss.

After putting the trades, change in the customer code shall not be permitted under normal circumstances. However, if dealing errors necessitates change in customer code, it should be only done with the permission of the Managing Director of the Company. Further internal auditors of the company shall verify such changes made on a monthly basis and confirm authenticity and correctness of the same in their monthly report.

H. Fixing of limits:

Company shall fix the limits at the surveillance level to restrict and monitor the trades based on the price of the shares. The Manager in charge of the Mid Office (Surveillance Department) is the Risk Manager of the company and is responsible for various risk mitigation practices prescribed by the company. Broadly, limits for the following shall be fixed:

1. Quantity limit for each order
2. Value Limit for each order
3. Value limit for each User ID.
4. Security wise limit for each User ID.

In case the client places an order beyond the limits stipulated by the company, an error message that “Client Turnover / Quantity limit not defined” will be displayed to the client. In case the client wants to place an order for higher quantity / value, he / she should immediately contact the Mid Office and send an email request to increase the quantity / value limit fixed by the company for his /her client id to enable to place the order. Mid office on receipt of such email shall place the request along with their views before the General Manager Front Office for permission. Upon seeking the permission as above to increase the quantity / value limit in respect of the particular client required updates shall be made by mid office department in the Surveillance software and confirm the same to the client. Mid office shall preserve the details of daily record of limits set and reset & place before the Managing Director of CBSL for information. Periodic review of Minimum Risk Validation at entry level shall be undertaken by the Mid Office and placed before the Managing Director.

Client Wise Security Limit

Scripts price range below Rs.10/-

5 lakhs shares/Rs.50 lakhs in turnover

Scripts price range Rs. 10-100

1 Lakh Shares/ Rs. 1 Cr. Turnover

Script price range above Rs. 100

50,000 Shares/Rs. 2 Cr. Turnover

I. Following are the basic risks involved in trading on the Stock Exchanges in Equity and other Instruments, which the clients should be aware before commencing the trade / operation of the trading account.

Risk of Higher Volatility:

Volatility refers to the dynamic changes in price that securities / F&O Contracts / Currency Derivatives Contracts undergo when trading activity continues on the Stock Exchange. Generally, higher the volatility of a security/contract, greater is its price swings. There may be normally greater volatility in thinly traded securities/contracts than in active securities/contracts. As a result of volatility, order may only be partially executed or not executed at all, or the price at which order got executed may be substantially different from the last traded price or change substantially thereafter, resulting in notional or real losses.

Risk of Lower Liquidity:

Liquidity refers to the ability of market participants to buy and/or sell securities / contracts expeditiously at a competitive price and with minimal price difference. Generally, it is assumed that more the numbers of orders available in a market, greater is the liquidity. Liquidity is important because with greater liquidity, it is easier for investors to buy and/or sell securities / contracts swiftly and with minimal price difference, and as a result, investors are more likely to pay or receive a competitive price for securities / contracts purchased or sold. There may be a risk of lower liquidity in some securities / contracts as compared to active securities / contracts. As a result, order may only be partially executed, or may be executed with relatively greater price difference or may not be executed at all. Buying/selling without intention of giving and/or taking delivery of a security / contract, as part of a day trading strategy, may also result into losses, because in such a situation, stocks may have to be sold/purchased at a low/high prices, compared to the expected price levels, so as not to have any obligation to deliver/receive a security.

Risk of Wider Spreads:

Spread refers to the difference in best buy price and best sell price. It represents the differential between the price of buying a security / contract and immediately selling it or vice versa. Lower liquidity and higher volatility may result in wider than normal spreads for less liquid or illiquid securities / contracts. This in turn will hamper better price formation.

Risk-reducing orders:

Most Exchanges have a facility for investors to place "limit orders", "stop loss orders" etc". The placing of such orders (e.g., "stop loss" orders, or "limit" orders) which are intended to limit losses to certain amounts may not be effective many a time because rapid movement in market conditions may make it impossible to execute such orders.
A "market" order will be executed promptly, subject to availability of orders on opposite side, without regard to price and that, while the customer may receive a prompt execution of a "market" order, the execution may be at available prices of outstanding orders, which satisfy the order quantity, on price time priority. It may be understood that these prices may be significantly different from the last traded price or the best price in that security.

A "limit" order will be executed only at the "limit" price specified for the order or a better price. However, while the customer receives price protection, there is a possibility that the order may not be executed at all.

A stop loss order is generally placed "away" from the current price of a stock / contract, and such order gets activated if and when the stock / contract reaches, or trades through, the stop price. Sell stop orders are entered ordinarily below the current price, and buy stop orders are entered ordinarily above the current price. When the stock reaches the pre-determined price, or trades through such price, the stop loss order converts to a market/limit order and is executed at the limit or better. There is no assurance therefore that the limit order will be executable since a stock / contract might penetrate the pre-determined price, in which case, the risk of such order not getting executed arises, just as with a regular limit order.

Risk of News Announcements:

Issuers make news announcements that may impact the price of the securities / contracts. These announcements may occur during trading, and when combined with lower liquidity and higher volatility, may suddenly cause an unexpected positive or negative movement in the price of the security / contract.

Risk of Rumours:

Rumours about companies at times float in the market through word of mouth, newspapers, websites or news agencies, etc. The investors should be wary of and should desist from acting on rumours.
Systemic Risk:

High volume trading will frequently occur at the market opening and before market close. Such high volumes may also occur at any point in the day. These may cause delays in order execution or confirmation. During periods of volatility, on account of market participants continuously modifying their order quantity or prices or placing fresh orders, there may be delays in order execution and its confirmations. Under certain market conditions, it may be difficult or impossible to liquidate a position in the market at a reasonable price or at all, when there are no outstanding orders either on the buy side or the sell side, or if trading is halted in a security / contract due to any action on account of unusual trading activity or stock hitting circuit filters or for any other reason.

System/Network Congestion:

Trading on NSE/BSE is in electronic mode, based on satellite/leased line 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. Clients are cautioned to note that although these problems may be temporary in nature, clients having outstanding open positions or unexecuted orders, these represent a risk because of their obligations to settle all executed transactions.

As far as Futures and Options segment and Currency Derivatives Segment are concerned, Client shall get acquainted with the following additional features: -

Effect of “Leverage” or “Gearing”

The amount of margin is small in relation to the value of the derivatives contract so the transactions are ‘leveraged’ or ‘geared’. Derivatives trading, which is conducted with a relatively small amount of margin, provides the possibility of great profit or loss in comparison with the principal investment amount. But transactions in derivatives carry a high degree of risk.

Therefore the client should completely understand the following statements before actually trading in derivatives trading and also trade with caution while taking into account one’s circumstances, financial resources, etc. If the prices move adversely to the position of the client, then the client may lose a part of or whole margin equivalent to the principal investment amount in a relatively short period of time. Moreover, the loss may exceed the original margin amount.

Futures trading involves daily mark to market settlement of all positions. Every day the open positions are marked to market based on the closing level of the index / F&O Contract / Currency Derivatives Contract. Based on the movement of the index / price of underlying client will be required to deposit the amount of loss (notional) resulting from such movement. This margin will have to be paid within a stipulated time frame, before commencement of trading next day.

If client fails to deposit the additional margin by the deadline or if an outstanding debt occurs in client's account, CBSL may liquidate a part of or the whole position or substitute securities. In this case, Client will be liable for any losses incurred due to such close-outs.

Under certain market conditions, an investor may find it difficult or impossible to execute transactions. For example, this situation can occur due to factors such as illiquidity i.e., when there are insufficient bids or offers or suspension of trading due to price limit or circuit breakers etc.

In order to maintain market stability, the following steps may be adopted: changes in the margin rate, increases in the cash margin rate or others. These new measures may also be applied to the existing open interests. In such conditions, client will be required to put up additional margins or reduce positions. Client must ask CBSL to provide the full details of the derivatives contracts which he / she / it plans to trade i.e. the contract specifications and the associated obligations.

Risk of Option holders

1. An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time. This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to its expiration will necessarily lose his entire investment in the option. If the price of the underlying does not change in the anticipated direction before the option expires to an extent sufficient to cover the cost of the option, the investor may lose all or a significant part of his investment in the option.
2. The Exchange may impose exercise restrictions and have absolute authority to restrict the exercise of options at certain times in specified circumstances.
3. In case of close out, STT applicable for **in the money** contracts is substantially more than the normal trading / square off trades. Hence, amongst others, the clients need to monitor their positions especially on expiry day and square off their **in the money** contracts before the closure of the market.

Risks of Option Writers

1. If the price movement of the underlying is not in the anticipated direction, the option writer runs the risk of losing substantial amount.
2. The risk of being an option writer may be reduced by the purchase of other options on the same underlying interest and thereby assuming a spread position or by acquiring other types of hedging positions in the options markets or other markets. However, even where the writer has assumed a spread or other hedging position, the risks may still be significant. A spread position is not necessarily less risky than a simple 'long' or 'short' position.
3. Transactions that involve buying and writing multiple options in combination, or buying or writing options in combination with buying or selling short the underlying interests, present additional risks to investors. Combination transactions, such as option spreads, are more complex than buying or writing a single option. And it should be further noted that, as in any area of investing, a complexity not well understood is, in itself, a risk factor. While this is not to suggest that combination strategies should not be considered, it is advisable, as is the case with all investments in options, to consult with someone who is experienced and knowledgeable with respect to the risks and potential rewards of combination transactions under various market circumstances.

Currency specific risks

1. The profit or loss in transactions in foreign currency-denominated contracts. Whether they are traded in own or another jurisdiction, will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.
2. Under certain market conditions, Client may find it difficult or impossible to liquidate a position. This can occur, for example when a currency is deregulated of fixed trading bands are widened.
3. Currency prices are highly volatile. Price movements for currencies are influenced by, among other things: Changing supply-demand relationships; trade, fiscal, monetary, exchange control programs and policies of governments; foreign political and economic events and policies; changes in national and international interest rates and inflation; currency devaluation and sentiment of the market place. None of these factors can be controlled by any individual advisor and no assurance can be given that an advisor's advice will result in profitable trades for a participating customer or that a customer will not incur losses from such events.

J: HANDLING DORMANT ACCOUNTS:

Background: SEBI vide circular no. dated December 3, 2009 and National Stock Exchange vide circular no. NSE/INSP/13606 dated December 3, 2009 directed that a policy be framed by individual brokers to deal with the inactive/dormant accounts. Accordingly, the policy on inactive accounts were framed and placed in our website www.canmoney.in. As per the guidelines, the same is already defined in our Rights and Obligations, being obtained at the time of opening the accounts. However, the same was not explicitly mentioned in the Risk Management Policy. In order to make it more exhaustive, the definition, transaction, activation and other conditions are bringing as a part of RM Policy.

Definition of Dormant/ Inactive Accounts:`

A dormant/inactive account (demat/trading) is the one that hasn't had any buy or sell transaction for a fixed period, typically ranging from 6 months to two years, depending on the broker's policy. Dividend receipts or corporate actions in the account do not classify as a transaction. The main purpose of reclassifying the accounts as dormant is to reduce the risk of fraud in account. By reclassifying the accounts as active, involves risk and hence it is required to carry out due diligence before allowing any fresh transaction through them. To reactivate dormant account, a written request for reactivation will be obtained by registered mail/written.

Background: SEBI vide circular no. dated December 3, 2009 and National Stock Exchange vide circular no. NSE/INSP/13606 dated December 3, 2009 directed that a policy be framed by individual brokers to deal with the inactive/dormant accounts. Accordingly, the policy on inactive accounts were framed and placed in our website www.canmoney.in. As per the guidelines, the same is already defined in our Rights and Obligations, being obtained at the time of opening the accounts. However, the same was not explicitly mentioned in the Risk Management Policy. In order to make it more exhaustive, the definition, transaction, activation and other conditions are bringing as a part of RM Policy.

Definition of Dormant/ Inactive Accounts:

A dormant/inactive account (demat/trading) is the one that hasn't had any buy or sell transaction for a fixed period, typically ranging from 12 (Twelve) months, depending on the broker's policy. Dividend receipts or corporate actions in the account do not classify as a transaction. The main purpose of reclassifying the accounts as dormant is to reduce the risk of fraud in account. By reclassifying the accounts as active, involves risk and hence it is required to carry out due diligence before allowing any fresh transaction through them. To reactivate dormant account, a written request for reactivation will be obtained by registered mail/written.

Policy: In case of trading account, the term inactive account refers to such account wherein no

trades have been carried out since last 12 (Twelve) months across all Exchanges

In case of *Demat account* the term Dormant/Inactive accounts refers to such accounts where no customer induced (debit /credit) transaction had taken for a continuous period of 12 (Twelve) months.

Transaction in Dormant/Inactive Trading accounts: The inactive accounts identified based on the above criteria shall be flagged as 'Inactive' in UCC database of all the respective Exchanges. Any further trading by such client should be allowed only after undertaking sufficient due diligence (including IPV) and obtaining the updated information related to KYC from the concerned Client. Such IPV shall be carried out by the Company either physical mode/video call/any other mode permitted by exchange/s.

The above stated policy may undergo change/ depending on various rules, regulations and bye laws as may be prescribed by SEBI, exchanges or any other authority or as per internal policy of CBSL from time to time.

<u>Process for re-activation of dormant account :</u>

The clients account would be reactivated only after undertaking proper due diligence process and fulfilment of such conditions as may be deemed fit, in the cases where the account has been freezed/deactivated/Locked.

Client can get his account reactivated by following any of the below mentioned process after due authentication:

a. Call our customer service executive from registered telephone number (recorded line) identifying himself through internal validation questions (Bank account no. /date of birth/Demat Details/Pan Card No.) and request for activation and reset the password/TPIN of account for placing orders/ transacting in the account.

b. An email from registered email id for reactivation and reset the password/TPIN of account request.

c. Submit physical letter of request for reactivation at any of our designated Facilitation Centre along with the documents such as Address proof, Identity Proof, and financial information (required for trading in derivatives segment).

Customer Induced (Debit/Credit) Transaction in Dormant Demat Accounts: The Demat accounts wherein no customer induced (debit/credit) transaction had taken place for a continuous period of 6(six) months shall be flagged as Dormant/Inactive accounts. Additional due diligence would be observed over and above the normal verification procedure while processing off market debit transactions in such accounts.

The transaction shall also be verified with the Beneficial owner in case of high value debits and the details of the process, date, time, etc., of the verification on the instruction slip shall be recorded under the signature of a senior official.

The above stated policy may undergo change/ depending on various rules, regulations and bye laws as may be prescribed by SEBI, exchanges or any other authority or as per internal policy of CBSL from time to time.

Definition of Inactive Trading accounts: In case of trading account, the term inactive account refers to such account wherein no trades have been carried out since last 12 (Twelve) months across all Exchanges

Transaction in Inactive Trading accounts: The inactive accounts identified based on the above criteria shall be flagged as 'Inactive' in UCC database of all the respective Exchanges. Any further trading by such client should be allowed only after undertaking sufficient due diligence (including IPV) and obtaining the updated information related to KYC from the concerned Client. Such IPV shall be carried out by the Company either physical mode/video call/any other mode permitted by exchange/s.

The above stated policy may undergo change/ depending on various rules, regulations and bye laws as may be prescribed by SEBI, exchanges or any other authority or as per internal policy of CBSL from time to time.

K. PHYSICAL SETTLEMENT OF SECURITIES:

Background:-

Derivatives in financial markets typically refer to forwards, futures, options linked for the purpose of contract fulfillment to the value of a specified stock or to an index of securities. Derivatives contract are the most speculative in the financial market. Compared to cash market turnover under derivative market is highest.

Under physical settlement, traders will have to compulsorily take delivery of shares on the expiry day against their derivative positions. When such contracts require physical settlement, it forces traders to roll over positions ahead of the expiry, thus averting taking of rollovers at the end of the series, which leads to excessive volatility. Physical delivery could also reduce short selling.

To curb the excessive speculation, which creates too much volatility in the market, SEBI has introduced the Physical settlement vide circular SEBI/HO/MRD/DOPCI/CIR/P/2018/161 dated December 31,2018. SEBI has made mandatory for all stock derivatives in a phased manner for physical settlement. Starting from October 2019 expiry, all stock F&O contracts which are presently being cash settled shall move to physical settlement.

Definition Physical settlement in derivatives :-

As per above guidelines issued by Regulator, starting from July 2018 expiry, the procedure of settlement for F&O positions changed from existing "cash settlement mode" to compulsory "physical delivery settlement" in a phased manner. Starting from October 2019 expiry, all stock F&O contracts came under purview of the above guidelines.

Accordingly, if clients hold a position in any Stock F&O contract, at expiry and doesn't square-off positions before the close of trading hours on the expiry day, he or she will either have to take delivery (for long futures, long in the money calls, short in the money puts) or give delivery of the underlying stock (short futures, long in the money puts, short "In the money" calls) as per the nature of contract.

Categorisation of the Contract and Obligation:-

Obligation of the clients:-

All positions that result in receiving delivery of shares will require the clients to have funds equivalent:

- **For Futures: Settlement Price * Lot Size * Number of lots**
- **For Options: Strike Price * Lot Size * Number of lots**

All positions that result in giving delivery of shares will require the clients to have shares in their demat account equal to the deliverable quantity i.e Lot Size * Number of lots.

Categorization of the Transactions:-

The receivable/deliverable Stock F&O contracts are categorized into three groups :-

a. **Unexpired Future Contracts:**
    - **Long futures shall result in a buy (security receivable) position**
    - **Short futures shall result in a sell (security deliverable) position**

Illustration:-

Long futures:-Let's assume that you are bullish on Canara Bank and have purchased one lot (i.e. 2000 shares). Suppose the stock was closed at Rs.300 on the expiry day, you will have to pay Rs.6,00,000 (Rs.300 *2000 shares) and take physical delivery, if you have not sold off your position prior to expiry.

Short futures:-If you are bearish on SBI and sold one lot (i.e. 3000 Shares) , you have to give delivery of 3000 shares of the stock, if your position is not closed ahead of expiry.

b. **In-the-Money-Call Options:-**
    - **Long call exercised will result in a buy (security receivable) position**
    - **Short call assigned will result in a sell (security deliverable) position**

Illustration:-

Long Call:-*Let's assume that you have purchased one lot (i.e. 2000 shares) of Canara Bank Strike Price of Rs.300 and on the expiry day the shares of Canara Bank close above the Call Strike Price of Rs.300, at say Rs.305, you have to pay Rs.6,10,000 (2000 X 305) and take physical delivery of one lot i.e 2000 shares of Canara Bank , , if your position is not squared off before expiry.*

Short Call:-*If you have sold one lot (i.e. 2000 shares) of Canara Bank Strike Price of 300 and on the expiry day the shares of Canara Bank close below the Call Strike Price of 300, at say Rs.290 and your position is not closed before expiry, you have to give delivery of 2000 shares of Canara Bank.*

a. **In-the-Money-Put Options:**
    - **Long Puts exercised will result in a sell (security deliverable) position**
    - **Short Puts assigned will result in a buy (security receivable) position**

Illustration:-

Long Put:-*Let's assume that you have purchased one lot (i.e. 2000 shares) of Canara Bank Strike Price of Rs.300 and on the expiry day the shares of Canara Bank close below the Put Strike Price of Rs.300, at say Rs.290, you will have to give delivery of 1 lot i.e 2000 physical shares of Canara Bank , if your position is not squared off before expiry.*

Short Put:-*If you have sold one lot (i.e. 2000 shares) of Canara Bank Strike Price of Rs.300 and on the expiry day the shares of Canara Bank close above the Put Strike Price of Rs.300, at say Rs.305 and your position is not closed before expiry, you have to take delivery of 2000 shares of Canara Bank by paying Rs.6,10,000/-.*

Margin Requirement:-

Clients trading in F&O usually have just a small portion of the overall contract value blocked as margins. The new move from cash settlement mode to compulsory physical delivery settlement will increase the risk for brokerage firm significantly. The actual obligation of taking or giving delivery can be exponentially higher and the same can be covered by increasing the required margin for the contracts which are held till expiry and expected in physical settlement. Span + Exposure margin on potential in-the-money F&O contract shall be levied at client level in a staggered manner as under :

Margin Applicability	% of Contract Value	Remarks
1st day of the Week (Prior 3 days of expiry)	20	Delivery margins will be computed by system on all open positions. The Company shall make it available through Online Trade Portal or shall intimate to the clients by other mode of communication during the
2nd day of the Week (Prior 2 days of expiry)	40	

3rd day of the Week (Prior 1 day-of expiry)	**60**	**EOD Process**
Expiry day	**80**	

Note:- If the SPAN +Exposure margin is higher than the above-mentioned margins, the exchange margin will be levied.

For example:-

Exchange mandated Margin required for Canara Bank futures is normally 25% as Span+ Exposure of contract value, as per above, it will be 20% of contract value on 1st day of the Expiry Week which is lesser than the mandated margin, hence applicable margin in such cases will be 25% only.

Non maintenance of the margin:-

In the event, clients do not full fill these margin obligations on time, the open positions are liable to be squared off. Any loss arising out of such square off would be the sole responsibility of the client. In addition to above, the margin penalties will be charged as prescribed by the exchange for all F&O positions.

Delivery of Security:-

The physical settlement will be settled on Expiry+2 days basis.

Failure to deliver the security:-

In the event the clients do not have the required quantity of shares, this settlement would result in a short delivery. The Short delivery position will be covered in *"buy-in-auction"* for the shares by Clearing Corporation as per auction schedule declared periodically. Currently auctions will be conducted on Expiry+3 days and settled on Expiry+4 days. Appropriate penalties shall be charged on such short deliveries. There is no fixed price for the Auction to happen. The exchange specifies a range within which the auction participants can offer to sell their shares.

Upper cap of the range: 20% higher than the price that it closed on the previous day of the Auction.

Lower cap of the range: 20% lower than the price that it closed on the previous day of the Auction.

Along with this, the Exchange also charges an additional penalty of 0.05% of the value of stock per day. The sum of both the above together is called "Auction Penalty" which will be recovered from the clients. In addition to above interest will be charged by the broker at 0.05% per day, if the client's ledger results in a debit balance.

<u>Brokerages & other charges:-</u>

Since there is a substantial increase in effort and risk to settle these F&O positions resulting in physical delivery, a brokerage of 0.55% of the physically settled value will be charged. All physically settled contracts (both Futures and Option) will carry an STT levy of 0.1% (applicable for equity delivery trades) of the contract value for both the buyer and the seller of the contract.

Clients are required to maintain sufficient funds in their account to recover the required funds, in case account results in a debit balance after physical delivery failing which the delivered shares will be liquidated to make good of the debit balance. Interest will be charged at 0.05% per day on the debit balance in the account.Funds settlement:- Company recovers the Client's obligations on the date of trade or as and when any shortfall in Margin/MTM loss or other receivable by the company and credits the dues or payable to the clients account based on the settlement calendar and compliances stipulated by the Exchanges. The fund/securities earmarked for ready transaction to be released by the clients themselves.

L. HANDLING OF CLIENT'S SECURITIES BY TRADING MEMBERS – OPENING OF EXCLUSIVE ACCOUNTS

As per SEBI circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009 (Exchange Circular NSE/INSP/13606 dated December 03, 2009), the settlement of funds and / or securities shall be done within 1 working day of the pay-out. Clients whose funds and securities are maintained on running account basis have to be settled by members on a monthly / quarterly basis as per client mandate.

As per SEBI directive issued vide Circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 relating to Handling of Clients' Securities by Trading Members/Clearing Members we need to maintain two types of demat accounts for client(s) securities:

1. **Client Unpaid Securities Account (CUSA).**
2. **Client collateral account**

Vide above Circular SEBI, followed by FAQs outlined procedures to be adhered to by the Trading Members/Clearing Members.

<u>Regulatory Requirement/Scope:-</u>

SEBI vide circular CIR/HO/ MIRSD/ DOP/CIR/P/2019/75 dated June 20,2019, SEBI/HO/ MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019 and National Stock Exchange vide circular no. NSE/INSP/42052 dated September 4, 2019 along with FAQ Handling of Clients' Securities by Trading Members/Clearing Members. Accordingly, Company has devised the policy to deal with Non-receipt of payment from client and excess securities received on behalf of clients and defined the procedure for liquidating the client securities in a time frame manner.

<u>MANDATED ACCOUNTS:-</u>

Company shall segregate these securities of the clients in separate accounts.

As mandated by SEBI, company is maintaining the following beneficiaries accounts for settlement purpose:

1. **Client Unpaid Securities A/c. "CUSA" (CLNT UNPAID)**
2. **Client Collateral A/c. (CLNT COLL)**

Maintenance and operation :-

1. **Client Unpaid Securities Account (CUSA):-**
2. **In case of non-payment/partial payment by the clients the securities received from Clearing Member, the concerned client securities shall be transferred from TM's pool account to the "Client unpaid Securities Account".**

"Securities kept in "Unpaid securities account" can be considered towards client's margin obligation after adjusting any debit balances in such client ledger, across all segments and Exchanges.

The securities kept in the 'client unpaid securities account' shall either be transferred to the demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed-off in the market by us within five trading days after the pay-out.

However, sale of securities lying in Client collateral/collateral account, based on client's specific instruction, can be considered towards such unpaid securities provided clear funds are received within such 5 trading days.

As the SEBI circular mandates liquidation of securities in case of non-payment within 5 days from the pay-out date, no pre-order confirmation is required.

However, as a best practice, the Surveillance Desk of the company shall intimate the clients through email/other mode of communication and advise the clients for making payments within 5 days, in case of non-payment the company will dispose off the securities after giving notice of 5 days to the client.

In case of partial payment, company shall retain full value of securities till the 5th trading day from the pay-out date. On 6th day a final call regarding the disposal of the securities in proportion to the amount not received after taking into account any amount lying to the credit of the client will be taken in Strategic Committee meeting and specific instruction will be given to Prop Desk to initiate the Sell Order. Strategic Committee will also instruct the Back Office to release the securities to the client to the extent of the amount received.

In case there are multiple securities in the "Client unpaid securities account", company shall follow the First in First Out (FIFO) method to adjust the outstanding liability at their end.

Penalty:-

In case any security is lying in the "Client unpaid securities account" beyond 7 trading days after the pay out, Depositories shall be levying the penalty except some exceptional cases.

Exceptional cases **like ISIN is suspended, the unpaid securities account is frozen due to a court or regulatory order, lower circuit trading restrictions like GSM or any other reason specified from time to time,(in such cases the Surveillance Desk of the company will bring the facts to the notice of Depository and request not to impose any penalty as per the SEBI circular)**

1. **Client Collateral A/c. (CLNT COLL)**

As mandated, we are maintaining two Client Collateral accounts with NSDL and CDSL. The purpose of opening and maintaining the Client collateral account to transfer the specific securities i.e. SGB, G-secs from pool account, where inter-depository transfer is not available. Excess client securities can be kept in the "Client collateral account" without pledging to CC or transferring to CM.

Maintenance and operation :-

The Client Collateral A/c. will be used in very exceptional scenario, where inter-depository transfer for the specific securities i.e. SGB, G-secs are not permitted. In such cases, to receive the above specific securities, client has to open a fresh Demat account with other Depository in lieu of the same, Member will not able to transfer the securities from their Pool Account.

The Exchanges has clarified in their FAQ that such securities to be transferred from the Pool account to the "Client Collateral Account", after keeping adequate audit trail.

As per extend clients, the specific securities will be transferred to Client Collateral A/c.

Excess client securities can be kept in the "Client collateral account" without pledging to CC or transferring to CM. It should however be ensured that collateral of one client is not utilised for meeting the obligation of any other client or for proprietary obligation.

Monitoring with respect to handling of clients securities :

The Back Office, of the company will monitor the CUSA and Collateral Account on daily basis and a daily report in this regard will be placed before the Overseeing General Manager for further guidance.

Weekly reconciliation of the securities lying in both accounts to be ensured by the Back Office and monitored by overseeing General Manager.

Securities lying in the above accounts shall not be permitted to be pledged/transferred to Banks/CM/NBFC for raising funds.

GENERAL RISK COVERAGE:-The Company should have adequate insurance cover for different types of exposures, including but not limited to fidelity insurance, and replacement of equipment and other business and data processing devices. To reduce the systemic risk, Stock Broker Indemnity Policy of Rs. 5 Lacs which covers losses on account of trading as well as back office losses shall be obtained. The company's risk policies and measurements and reporting methodologies are subject to regular review on annual basis or when there are significant changes to the products, segments, services, or relevant legislation, rules or regulations that might impact the company's risk exposure.

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