Ohm Dovetail Private Limited

RISK MANAGEMENT POLICY

Version dated 20th September 2024

Ohm Dovetail Private Limited (ODPL), A corporate broking cum clearing entity providing hassle free Clearing Operations, conducts its business operations based on sound Risk Management Policies to pursue prudent business practices. The function of Risk Management being an ongoing exercise is reviewed periodically and necessary measures are initiated to enhance its overall effectiveness.

We have a client level risk management system wherein the margins/collaterals of all the clients are uploaded to the back-office software. The clients are allotted exposure based on the margin/collaterals available with us. VaR / Initial margin is collected upfront from all the clients. Margins are collected either by cheque, RTGS, NEFT or other banking channels, by way of securities and other eligible instruments prescribed by SEBI/Exchange.

Different forms of margin/collaterals which may be collected are Funds (money in the Bank account), Securities, Mutual Fund Units, Government Securities / T-Bills, Bank Guarantee, Fixed Deposits etc.

The collaterals given by the clients towards margin are accepted only after haircut called "VaR" which is never less than that fixed by the Exchange. An extra VaR may be applied for haircut on collaterals to give extra cushion against volatility and exposure is allowed accordingly. Additional VaR may be calculated taking into consideration many factors such impact cost, Market Capitalization, turnover etc. The clearing for the trades executed by the clients are done based on the VaR / Initial margin which is blocked based on the exposure.

Various Risk Management Measures implemented by ODPL are detailed below:

CLIENT'S EXPOSURE LIMITS:

Exposure is permitted based on the funds / securities offered by the client through direct transfers to the Client bank account of ODPL or by creation of margin pledged of approved securities after Haircut to Margin pledged account of ODPL. Mark to Market loss if any shall be reduced from the available exposure of the client.

FNO SEGMENT:

Clients are required to provide Initial Margin i.e. SPAN Margin and Extreme Loss Margin as stipulated by NSE and an additional margin can be collected in addition of Initial margin at such percentage as may be decided by Management of ODPL from time to time looking in to volatility in the Market. 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.

MAINTENANCE OF MARGINS /COLLATERALS AND CLOSURE OF CLIENTS' POSITIONS:

Apart from Exchange stipulated instances and technical failures, ODPL shall not confirm client trades and / or square off existing positions whenever there is shortage of margins. This may be either security specific or client specific based on the circumstances.

Client is required to maintain the requisite margin for the open positions / carry forward positions under FNO / CDS at all the times. Only free and unencumbered balances of securities available with ODPL for respective TMs/CPs in different segments shall be considered for margin collection and reporting. Accordingly, securities received in pay out shall be considered only after it is actually received from the clearing corporation.

In case of FNO and CDS the client is required to maintain the margins stipulated by ODPL at all times. Whenever there is shortfall in the margins, client is required to replenish the same. ODPL 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.

ODPL shall collect margins on Consolidated Crystallised Obligation from its respective TMs/CPs only in the form of Cash (and not in the form of FDRs/BGs or any other form of collateral) in the F&O and Currency Segment.

For F&O segment the delivery margin and margin on consolidated crystallized obligation shall be collected from TMs/CPs by T+1 day. In case of Currency Derivatives segment also, it shall be ensured that all upfront margins are collected in advance of trade. Margin on consolidated crystallized obligation shall be collected from TM/CPs by T+1 day. However, in case of currency future contracts, final settlement amount shall be collected by T+2 day.

All losses consequential to such square off or sale of collaterals shall be borne by the client. In case ODPL 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 ODPL 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 ODPL. In case of continued non-cooperation other recovery measures as deemed fit by the ODPL shall be initiated.

Following are the basic risks involved in clearing of trades on the Stock Exchanges in Cash Equity / Equity Derivatives / Currency Derivative Segment, which the clients should be aware before commencing the trade / operation of the trading account and clearing through the Company.

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, there may be price movements and margin movements intraday.

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. Lack of liquidity may lead to client's inability to square off a position on time.

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 leading to change in the margins.

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 exchanges 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 trade confirmations by ODPL.

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.

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.

PHYSICAL SETTLEMENT OF SECURITIES:

Derivatives in financial markets typically refer to forwards, futures, options linked for the purpose of contract fulfilment 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.

<u>Categorisation of the Contract and Obligation:-</u>

<u>Obligation of the clients:-</u>

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. <u>Unexpired Future Contracts</u>
   - Long futures shall result in a buy (security receivable) position
   - Short futures shall result in a sell (security deliverable) position

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

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

<u>Delivery of Security:-</u> The physical settlement will be settled on Expiry+2 days basis.

<u>Failure to deliver the security:</u>

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.

HANDLING OF CLIENT'S SECURITIES BY CLEARING MEMBERS:

Based on SEBI 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 the Company has devised the procedures 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. As mandated by SEBI, ODPL is maintaining the Client Unpaid Securities Account (CUSA) and Client Securities Margin Pledge Account for settlement purpose. To manage the exposure and other risks the Operations of the Company shall be brought in line with the Operational Mechanism and Framework for utilisation of client's pledged securities for exposure and margin provided by SEBI and NSE vide their respective circulars.

SEBI vide Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/595 dated July 16, 2021, has introduced the process of Block Mechanism in demat account of clients undertaking sale transactions on optional basis. When the client intends to make a sale transaction, shares will be blocked in the demat account of the client in favour of Clearing Corporation. If sale transaction is not executed, shares shall continue to remain in the client's demat account and will be unblocked at the end of the T Day. Thus, this mechanism will do away with the movement of shares from client's demat account for early pay-in and back to client's demat account if trade is not executed.

SEBI vide Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/109 dated August 18, 2022, has made the facility of block mechanism mandatory for all Early Pay-In transactions. The same is applicable with effect from November 14, 2022.

It is clarified that the block mechanism shall not be applicable to clients having arrangements with custodians registered with SEBI for clearing and settlement of trades.

SEBI has vide Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 prescribed guidelines regarding Segregation and Monitoring of Collateral at Client Level, in order to further strengthen the mechanism of protection of client collateral from (i) misappropriation/ misuse by TM/ CM and (ii) Default of TM/CM and/or other clients. The Company shall comply with the reporting, collateral deposit and allocation, collateral valuation, blocking of margins, change of allocation, client margin reporting and default management process and procedure of default.

Early Pay-in of funds

Clearing corporations have provided a facility for early pay-in of funds to avail margin benefit and laid down the procedure for making EPI of funds and allocation of early pay-in of funds at client level or client-security level. In this regard, in cases where clients have made an early pay-in of funds, the Company shall also mandatorily make an early pay-in of funds to the clearing corporation.

Upstreaming of clients' funds by Stock Brokers (SBs)/Clearing Members (CMs) to Clearing Corporations

SEBI has issued circulars bearing Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023 (Exchange Circular no. NSE/INSP/57041 dated June 09,2023), Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 (Exchange Circular no. NSE/INSP/57382 dated June 30,2023) and Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 (Exchange Circular no. NSE/INSP/59725 dated December 12,2023), on the subject "Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)".

(1) The Company shall upstream all the clients' clear credit balances to CCs on End of Day (EOD) basis. Such upstreaming shall be done only in the form of either cash, lien on Fixed Deposit Receipts (FDRs) created out of clients' funds, or pledge of units of Mutual Fund Overnight Schemes (MFOS) created out of clients' funds.

(2) The nomenclature of existing designated client bank accounts which the Company uses to receive from the clients shall be changed to Upstreaming Client Nodal Bank Account (USCNBA). Similarly, the nomenclature of existing designated client bank accounts from which the Company uses to pay funds to their clients shall be changed to Down streaming Client Nodal Bank Account (DSCNBA). In addition, while clearing trades for other stock brokers, ODPL shall only use designated bank account(s) maintained with the nomenclature "Name of the CM – TM prop account" to receive/pay proprietary funds from/to stock brokers.

The clients may request release of funds to the Company at any time during the day. The processing of such release requests shall be in accordance with the risk management practices of the Company. All payment requests of the client received on a day shall be processed on or before the next settlement day. In cases, where the payment request is not processed on the same day, the Company needs to ensure that the funds of the client are placed with CC in terms of the Upstreaming Guidelines.

SEBI has issued Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023 and Exchange has issued Circular No. NSE/INSP/56489 dated April 25,2023 wherein creation of BG out of clients' funds has been prohibited as under:

a. Beginning May 01, 2023, no new BGs to be created out of clients' funds by the Company.

b. Existing BGs created out of clients' funds to be wound down by September 30, 2023. In view of the aforesaid circulars, member cannot create BG out of clients' funds and accordingly, value of any BG including BG created out of members' own funds cannot be considered for the computation of availability of client payables effective from October 01,2023.

Since the Company cannot create BG out of clients' funds as per aforesaid circulars, value of any BG including BG created out of members' own funds cannot be considered for the computation of availability of client payables effective from October 01,2023. Further, as per point number 3 of above SEBI Circular, trading members were required to report breakup of BG placed as collateral with clearing members on a periodic basis. In view of the same, for the purpose of reporting of BG details, Exchange vide circular NSE/INSP/56839 dated May 26, 2023, clarified following points as under:

a) The Company shall be required to report details of Bank guarantee breakup on weekly basis.

b) Reporting requirement shall be effective from May 27, 2023 and first submission of this data shall be for the week ended May 27, 2023 to be submitted by next trading day of following week i.e. by May 29, 2023 and for every week thereafter. Data shall be reported for Saturday of each week.

SURVEILLANCE AND GOVERNANCE:

Apart from monitoring the availability of margins and recovery of Debit balance ODPL shall also identify the incidents which in its opinion, or as per the directions given by the NSE, NCL and SEBI are required to be scrutinized. The following procedures will be followed for the surveillance and effective governance.

Surveillance of Trading Members and Custodial Participants:

ODPL Shall on **half yearly basis** initiate steps to monitor non compliances and serious defaults by TMs/CPs, especially in the areas of Margin shortfall and Mark to Market payment shortfall.

ODPL shall also look into the criteria of TMs and CPs registered on regular basis to ascertain any incremental risk from margin perspective. If any of the above defaults arise on repeated occasion ODPL may seek additional data and records to ascertain the cause of such defaults to ensure proper governance. Such monitoring may require seeking data information from TMs/CPs in the event of repeated cases of shortfall in margins / margins on Consolidated Crystallised Obligation or governance issues. ODPL shall obtain data of segregation of the TM proprietary and Client collaterals and ensure the same is the reported to Clearing Corporation. The reporting structure shall entail disaggregated information (segment-wise and asset type wise break-up) of each client collateral in the following manner:

TM shall report disaggregated information on collaterals up to the level of its clients to ODPL.

ODPL shall report disaggregated information on collaterals up to the level of clients of TM and proprietary collaterals of the TMs to the Stock Exchanges (SEs) and CCs in respect of each segment.

Internal escalation matrix with respect to non-compliances / defaults by TMs/CPs shall be having Head of Operations at first level, with same day escalation to Compliance Officer at Second level & thereafter T+1 day escalation to Designated Directors.

Performance of TMs/CPs registered with the ODPL shall be evaluated in terms of Margin maintenance and Collaterals along with additional surveillance checks on annual basis. Inspection of TMs shall be undertaken on annual basis or at such regulatory intervals as may be required from time to time.

Governance mechanism for Margin and Collateral maintenance:

ODPL shall only accept the FDRs and BGs from the NSE Clearing Limited (NCL), approved banks. Also, the securities that shall be accepted as collaterals shall be from the NCL approved list of securities. Clearing Corporation may revise the list of approved securities and, the haircuts from time to time. In cases ODPL has deposited securities which have been discontinued from the list of approved securities, then ODPL shall be required to take due care to replace such securities.

Currently, securities forming part of VaR Margin Group 1 in the Capital Market segment shall be accepted as approved securities. The valuation of the securities shall be in accordance with the norms prescribed by the Clearing Corporation from time to time. The securities shall be valued based on the closing price of the security at the Exchange. The value of the securities shall be reduced by such haircut as may be prescribed by the Clearing Corporation from time to time to arrive at the collateral value of the securities. Only the value net of applicable haircuts shall be considered as the value of the securities pledged. Valuation of securities shall be done by the custodians at such periodic intervals as may be specified by the Clearing Corporation from time to time.

The liquid assets are segregated as cash component and non-cash component. Cash component shall mean cash, bank guarantees, fixed deposit receipts, units of money market mutual fund, Gilt funds, Government of India Securities, Sovereign Gold Bonds and any other form of collateral as may be prescribed from time to time. Non-cash component shall mean all other forms of collateral deposits like deposit of approved list of demat securities, units of the other mutual funds, corporate bonds and any other form of collateral as may be prescribed from time to time.

ODPL Shall maintain at least 50% of the total collateral in the form of cash or cash equivalents. The minimum 50% cash equivalent collateral requirement may not be applied at the client level, the excess cash-equivalent collateral of proprietary account of TM/CM can be considered for clients trading/clearing through them, for the purpose of monitoring minimum 50% cash-equivalent requirement.

Haircut percentage for all types of collaterals other than Cash, FDRs and BGs shall be subject to a minimum of VAR and other collateral to minimum haircut of 10%. Applicable hair cut for the respective G-Sec/T-Bills shall be as per the Circular issued by Clearing Corporation for the respective month.

When the initial margin liability of a TMs/CPs exceeds the effective deposit less minimum liquid net worth or the margin liability exceeds the margin limit specified by ODPL at any time, including during trading hours it shall be treated as a violation.

ODPL may take following action for breach of threshold limit of margin:

At the threshold of 70% of the collateral of the total limit allowed, ODPL shall send email alerts for maintaining the collateral and in case the same reaches 90% the TMs/CPs shall be insisted to send additional fund or square-off the position. However, in case of breach of 90% threshold the TMs/CPs will not be able to execute fresh positions and will only be allowed to reduce the positions or introduce funds on the same day. Else the position will be requested to be squared off by the TMs/CPs on T-day basis.

ODPL shall report segment wise shortfall amount of Crystallised Settlement Obligation of TMs and CPs to the Clearing Corporation in excess of Rs 5 lakhs, if the shortfall continues beyond 1 day ODPL shall report to Clearing Corporation on T+1 day basis.

“An upper cap is a limit imposed on the quantity or value of a particular security that can be held within a portfolio. This is done to mitigate concentration risk, which arises when a significant quantity in a single security or a small group of securities are placed as Collateral with ODPL & or Clearing Corporation . The company at its own discretion shall communicate to clients to withdraw the Securities if any single security reached 70% of the total acceptable limit at CC level.”

Key Considerations for Upper Caps:

Risk Assessment: The determination of upper caps should be based on a thorough risk assessment of the securities involved, considering factors such as:

- Market Risk: Volatility and liquidity of the security.
- Credit Risk: The creditworthiness of the issuer.
- Concentration Risk: The overall concentration of the security within the CM's portfolio or across the market.

ODPL shall maintain upper caps for the acceptance of securities from individual members and across all members. These caps shall be determined based on factors such as market risk, credit risk, and concentration risk. ODPL shall regularly review and adjust these caps to ensure effective risk management”

GENERAL RISK COVERAGE:-

Internal Audit of the Company shall be conducted on specified timelines and the reports shall be submitted to exchange in accordance with the provisions of respective circulars issued from time to time. The company’s risk policies and measurements and reporting methodologies are subject to review on need 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.

Issued under the order of the Board of
Ohm Dovetail Private Limited

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