Risk Management Policy

Marwadi Shares and Finance Limited has more than 30 years of reputation and legacy for having a stringent Risk Management System and High Compliance Standards to ensure clients' investment safety and security with maximum transparency.

We have built efficient risk control parameters for exposure, mark-to-market, and turnover limits to attain the objective of handling Trade as well as Non-trade Risks. This has enabled us to become one of the most trusted financial services providers in India.

Risk Management is an integral part of any organization. An organization in stock broking services needs to manage risks like Credit Risk, Market Risk, Default Risk, and Liquidity Risk. In the Securities Market, clients have to be alerted with respect to their obligations, open positions, market conditions, margin requirements, regulatory requirements, and steps initiated by the brokers in case of changing market conditions. With a view to enhancing customer knowledge and safeguarding investor interests, MSFL has devised a comprehensive Risk Management & Surveillance (RMS) Policy to make sure that clients are aware of criteria based on which MSFL monitors risk and initiates actions to safeguard the interest. The parameters of the RMS Policy are mentioned below:

1. Setting up Clients' exposure Limit:

At Marwadi Shares and Finance Limited, we will be using the following clients' limit setting formula as a standard procedure compliant with market regulators.

Clients' available margin constitutes of the following=

	Customers' Ledger Account Balance
Add	*Pledged Securities Value*
Less	*Unclear value of cheque*
Less	*Open Payin Securities Value where EPI not Executed (Securities yet to pay in to the Clearing Corporations)*
Less	*Unsettled MTM profit*
	(Here, Securities Values will be considered after deducting Exchange or MSFL haircut whichever is higher)

Trading Limits will be allowed on the basis of available margin for all segments at combined level for all segments like Equity, Equity Derivatives, Currency Derivatives, Commodity Derivatives, and such other segments that might be added from time to time for the relevant activation of client at UCC level. Margin will be collected as per the requirement of the Exchanges. i.e. Total Margin comprises of VaR Margin (Value at Risk) + Extreme Loss Margin (ELM) + SPAN (initial) Margin + Additional Margin + Tender Period / Delivery Margin + Special or any other Margin (if any made applicable by the Exchanges from time to time). MSFL at its sole discretion may collect additional margins on the basis of risk perception or any other factor considered relevant.

Only approved lists of securities for margin will be accepted as collateral. Such collateral will be valued at previous day's close price after reducing haircut at the rate of 30% or Exchange VaR + ELM + Additional Margin, whichever is higher. MSFL at its sole discretion may revise the percentage of haircut as deemed fit from time to time, with or without prior intimation.

Scrip wise Exposure Limits:

Cash Segment:

To keep in mind the surveillance measures and also to stop unusual activities in illiquid stocks, scrip wise limits will be set on the basis of the following parameters at the MSFL level:

Scrip Group	Available Limit
Exchange Prescribed Illiquid Scrip	No Buying allowed. Selling Allowed on Approval of Risk Team
Low Volume Scripts	Limit is restricted to 12.50 % of the Exchange Volume on T-1 day
Additional Surveillance Measure (ASM Group Scrip)	Buying/Selling is allowed with additional margins as per exchange norms.
Graded Surveillance Measure (GSM Group Scrip)	No Buying allowed. Selling Allowed on Approval of Risk Team
All other Securities	Limit applicable as per the available margin.

• The scrip on which unsolicited news circulations are taking place (SMS Scripts) may be banned for transactions.

F & O Segment:

Far month future, stock, and options contracts, i.e. Third-month contracts onwards are not allowed for derivative trades. For selling In-the-money (ITM) options, the available exposure limit will be 100% of its intrinsic value.

Collection of Margins from Clients:

As per SEBI directives, the collection of upfront Margins (VaR, ELM, and Span, Exposure) from clients is required mandatorily. The clients must ensure that the upfront margins are paid in advance of trades failing which the exposure may not be approved or assigned.

Clients, at any point of time, are required to maintain adequate and sufficient margins as prescribed by the exchanges.
In case of short collection or non-collection of margins, the client will be levied the following penalty:

'a' (Short-collection/non-collection of margins per client per segment per day)	Per day Penalty as %age of 'a'
(< Rs 1 lakh) And (< 10% of applicable margin)	0.5
(≥ Rs 1 lakh) Or (≥ 10% of applicable margin)	1.0

If short/non-collection of margins for a client continues for more than 3 consecutive days, then a penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of the shortfall.

If short/non-collection of margins for a client takes place for more than 5 days in a month, then a penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.

2. Handling of Client's Securities:

For customers having no outstanding debit ledger balance/other obligations, on the due date, MSFL may transfer the securities purchased by its customers to their Demat account. MSFL will check the clear ledger balance while approving the securities transfer.

Customers having outstanding debit ledger balance/other obligations on the due date, MSFL as per SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated 11th November 2022, shall transfer the securities in the Client Unpaid Securities Pledgee Account (CUSPA).

If any client fails to fulfill the required funds' obligation and/or Margin Obligations/other dues, the securities may be liquidated on or before T+1+5 days (T indicates Trading day) as per MSFL Risk Management Policy and charges or duties, if any, levied by Depositories /Clearing Corporations to sell the securities from Client Unpaid Securities Pledgee Account (CUSPA) will be recovered from the clients.

3. Right to sell clients' securities or close clients' open positions on account of non-payment of dues:

It is the clients' obligation to settle the dues on T+1 day (T indicates Trading day). In case the client falls short of providing clear funds on due date, MSFL has the right to sell the clients securities and the right to close the open positions of the clients in derivatives segments to the extent of shortfall amount and/or settlement dues and other dues.

MSFL at its sole discretion may hold the debits beyond T+1+5 days and liquidate the customers' pledged securities, Demat Account Securities, and/or liquidate the client open positions in derivatives segments in case of funds/margin shortage with or without giving prior notice to the client on the basis of the net risk/funds shortage position of the clients.

MSFL at its sole discretion may not liquidate the securities and/or allow exposure, where there are no dues outstanding against the settlement obligations of its clients. Such debits may arise because of charges against brokerages, value-added services, delayed payment charges, and any other charges as applicable.

MSFL may liquidate securities by prioritizing 1) FIFO (First in First Out) securities from the Client Unpaid Securities Pledgee Account (CUSPA). 2) For the clients where POA is given in the favour of MSFL: Low VAR (Value at Risk) and the highest value securities in the Demat account. 3) Low VAR and the highest value Margin Pledged securities. For more than one security having the same VAR margin, the script with the highest closing price on T-1 day may be selected first for liquidation. However, in case, the securities are not sold due to any legitimate reasons like low liquidity or lower circuit, or any other reason, MSFL may liquidate other securities to clear the outstanding debits. 3% additional amount of the stock or Rs. 1000 whichever is higher is marked on outstanding debit obligations for liquidation of the securities. MSFL reserves rights to change the formulas base on market conditions if need be and inform the client by possible mode of communication.

MSFL at its sole discretion may revise the procedure without giving any reason and inform the clients by possible mode of communication.

Time-based Intraday Square off (Daily 3.15 pm onwards)

All positions (Cash and derivatives) which are created in a special 'INTRADAY product' will be squared off after 3.15 pm. This includes all types of Intraday i.e. Covered Order, Bracket Order, and Stop Loss Orders.

Every day at 3.10 pm, the system may automatically stop allowing any further intraday orders. The system would first remove all pending orders and then square off all Intraday Orders. Clients can see all squared off orders in their mobile app or Web or exe platforms. Client requires to verify if all trades are squared off as per their positions. If due to any reason, the position remains opened, client will have to fulfill all margin and/or market obligation and/or pay in – payout obligations entailing the trade.

Real-time Risk-based Square off (Anytime during the Day):

Whenever markets are volatile and price movements become very erratic because of some events which can be pertaining to a particular stock(s) market as a whole, MSFL Risk Management systems may monitor such volatility in real time. If the losses arising out of open position across all segments at the given point in time, erodes more than or equal to 85% of the Net worth of the client, then the Risk team may initiate square off all open positions. Clients' needs to be aware about their open position and mark to market profit losses and their net worth position. MSFL will make a best attempt in making the client aware about their positions. All the obligations arising from such trades will be considered as endorsed by the respective client.

Margin Shortage in F&O (equity derivatives + currency + commodity) and Equities Segments:

The Margin Shortfall intimation is sent to the clients via SMS for all segments. Clients need to deposit the cheque or make an online fund transfer to MSFL on the same day of intimation. In case the client fails to transfer the funds, as per exchange guidelines, the client has to bear the penalty on the shortages from 0.5% to 5%. If required, MSFL may liquidate positions to the extent of shortfall for clients in critical situations. In case of a shortfall due to high fluctuations in security price during the day, MSFL may liquidate any open position to mitigate MTM loss or to ensure sufficient margin for clients. The client has to deposit cheque or transfer funds for shortfall amount, ledger debit and any other dues as per regulation to avoid position liquidation.

Physical Delivery Settlement of current expiry Stock Futures and ITM Options positions:

All current expiry stock futures and ITM Options contracts, on expiry, shall be settled through physical delivery, based on the criteria specified in the SEBI circular. The clients having such open positions are required to square off or roll over such positions to avoid physical settlement. In case the positions are not cleared by the clients, such contract will be settled by physical delivery and the clients are required to fulfill funds and securities pay-in obligations accordingly.

Higher Margin Requirement in case of Stock Futures and Long ITM Options Contracts of current month expiry:

All long open positions in "In the Money" Options series will attract delivery margins @ of 10%, 25%, 45%, and 70% till 4 days before current month expiry. In case Margin shortfall arises due to additional delivery margin charge by the exchange, the client has to deposit the shortfall amount on the same day of intimation else, client has to bear the shortfall penalty as per exchange guidelines. If required in critical situations, MSFL may initiate square off from the open positions of the clients.

Any Other Square Off

MSFL may initiate square off of positions for a particular client without prior intimation due to market volatility, debarred by SEBI or any regulatory authority or as prescribed in any other rules and regulations.

4. Delayed payment charges

Delayed payment charges may be levied for the following reasons.

1. **<u>Negative Ledger Balance:</u>**

   If the utilized funds cross the available balance in the clients' Ledger Account, additionally if the charges are debited without sufficient balance, it will lead to a debit balance and in such instances, delayed payment charges (Interest) will be levied as per additional rights and obligations signed and agreed upon by the clients.

2. **<u>Insufficient Cash Collateral in F & O Positions:</u>**

   Exchanges stipulate that 50% of the margin needs to compulsorily come in cash or cash equivalent collateral in F&O positions. Hence, clients are required to maintain collateral in the form of 50% Cash and 50% Non-Cash to meet the margin requirements.

The clients shall have to maintain the sufficient collaterals in the desired ratio which is minimum 50% Cash component and remaining 50 % may be Non-Cash component. Any shortage would be liable to the delayed payment charges as per additional rights and obligations statement signed and agreed upon by the clients.

Cash Collateral Component:

Cleared Credit Ledger Balance **+** Approved Cash Equivalent securities as per the Clearing Corporation valuation and in terms of the prudential norms for the Clearing Corporations (i.e. Approved Cash Securities Valuation will be in accordance with ISIN wise CC Limits and Members Limits)

Non-Cash Collateral Component:

Approved Non-Cash Securities as per the Clearing Corporations valuation and in terms of the prudential norms for the Clearing Corporations (i.e. Approved Non-Cash Securities Valuation will be in accordance with ISIN wise CC Limits and Members Limits)

Clients are requested to access the Exchanges / Clearing Corporation website to check, review and understand the circulars issued by the Clearing Corporations / Exchanges with regards to the approved cash and non-cash securities collaterals.

5. Commodity Segment Physical Delivery Contracts

The clients whose positions are open in physically deliverable commodities future and ITM options contracts, intimation will be sent to the clients before the last 5 trading days (Tender Period) of the contracts' expiry to square off or rollover the open positions to avoid any physical delivery related settlement compliance issues. All physically deliverable commodities will be banned for trading in last 5 trading days and no fresh positions will be allowed to carry over in Tender Period except it will be open for clients who intent to take or give deliveries and having Active Demat a/c (COMRIS, CCRL and NERL) complied with required state GST registration for particular commodity.

MSFL may liquidate physically deliverable commodities open positions of the clients who do not have Commodities Demat account (COMRIS, CCRL and NERL) with required state GST Registration for the particular commodity.

In case, during the tender period, the current expiry open positions are not squared off or roll over by the clients, the contract will be settled physically for futures and ITM options. In case the client does not fulfill the deliveries / Funds pay-in obligations, the client will be penalized and have to bear charges as per exchange guidelines.

Clients who do not have required GST compliant Demat accounts, we strictly advise those clients to square off or rollover their current expiry open positions in Futures and Options before the tender period starts.

6. Settlement of Clients Funds

As per the regulatory guidelines, the actual settlement of clients' funds shall be done by MSFL at least once in a quarter or month (First Friday of the Quarter or Month). Further, MSFL shall settle funds of the clients who have not traded in last 30 days. On the date of settlement, MSFL may retain the requisite funds towards outstanding obligations and may also retain the funds expected to be required to meet the open margin obligations calculated in the manner specified by the exchanges.

7. Other Surveillance Actions:

i) Refusal of order for penny stocks / illiquid contracts:

MSFL may refuse or restrict a client in placing the order in certain securities depending on various conditions like volume / value / part of illiquid scrip's / Z group of securities although a client may have credit balance or sufficient margin in the trading account. However, MSFL under exceptional circumstances may execute clients' orders. MSFL has the discretion to reject execution of such orders based on its risk perception.

In the F&O segment, MSFL may refuse or restrict the client in placing the order for far month Future & Option contracts.

ii) Regulatory conditions under which a client may not be allowed to take further position or MSFL may close the existing position of the client:

In case overall position in a scrip / derivatives contract has reached the Regulators prescribed or any limit set by MSFL / Exchange limit / Market wide open interest limit / Client level limit, then client may not be allowed to take further positions, till such time Regulators prescribed limit comes down to create a new position.

Further MSFL may close the existing position of a client to the extent of debit balances to release the margin from the Exchange. In case if MSFL has sufficient margin cover on behalf of its clients, it may still decide based on the market conditions and risk perception not to allow further position or may close the existing position of a client.

iii) PMLA Guidelines:
A client will be categorized as High, Medium, and Low risk customer as per their risk appetite and their current profile as mentioned in Know your client form (KYC). The same will be reviewed at regular intervals as per PMLA Policy of MSFL.
Exposure to the client may also be governed by customer profiling mentioned above from time to time. The client needs to furnish their income details on a yearly basis. Following documents will be accepted as income proof

- Copy of ITR Acknowledgement
- Copy of Annual Accounts
- Copy of Form 16 in case of salary income
- Net worth certificate
- Salary Slip
- Bank account statement for last 6 months
- Copy of Demat account holding statement
- Any other relevant documents substantiating ownership of the assets

If there is a major disparity between financial details and trading volumes, the client may be asked to furnish suitable explanations and based on the same further trading limits will be sanctioned.

iv) Suspension of Clients:

MSFL may withhold the payout of a client and suspend trading account due to any internal surveillance (if client indulges into manipulative trade practice) / regulatory orders (debarring orders), etc.

v) In case the client has created any position in banned securities, penalty as levied by stock exchanges will be applicable.

vi) MSFL may withhold the payout, if the client has traded in unsolicited SMS securities identified by exchanges periodically. Further trading on such scrips may be barred.

8. Communication
As per regulatory requirements we send 'Statement of Accounts of Funds and Securities', DP Statements, Contract Notes, Daily Margin Statements, etc. A client can view these statements also through his secured login on MSFL Back Office. The client has to be aware about his position, outstanding balance, and risk. MSFL is under no legal obligation to send any separate communication but as a customer centric company; we may take extra efforts to ensure that clients are well informed about the risk and the possible actions.

9. System/Network 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 confirmation and/or execution.

a. During periods of volatility, on account of market participants continuously modifying their order quantity or prices or placing fresh orders, there may be delay in order execution and its confirmations.

b. Under certain market conditions, it may be difficult or impossible to liquidate a positions 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 / derivatives contract due to any action on account of unusual trading activity or security / derivatives contract hitting circuit filters or for any other reason.

c. 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 control and may result in delay in processing or not processing buy or sell orders either in part or in full. You are cautioned to note that although these problems may be temporary in nature, when you have outstanding open positions or unexecuted orders; these represent a risk because of your obligations to settle all executed transactions.

10. Voluntary Freezing/Blocking online Trading facility

MSFL has implemented a policy for voluntary freezing/blocking of trading account for the customers as mandated vide circular No.: SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024 with an intent to safeguard investors from suspicious activity in trading accounts having internet base trading (IBT) facility.

<u>*Freezing:*</u>

1) Client can request for freeze/block the internet-based trading (IBT) facility in trading account through any of the following three modes; (1) Website, (2) Trading Application and (3) Telegram Channel.

2) On receipt of the request, after verification of information, customer's trading account will be frozen/blocked for internet-based trading (IBT) facility in the trading account within 15 minutes. The Customer will receive communication through SMS on the registered mobile number and by email on the registered email id. In the email, customer will be provided i) process for unfreezing/unblocking IBT facility, ii) Details of open positions.

3) All open orders, whether online or offline and AMO orders will be cancelled. It is advisable for customers to close all their open positions, if possible, before requesting for freezing/blocking IBT facility.

4) Customer can place fresh orders by visiting or making a call at our dealing office where the code is mapped.

5) Fund transfers and withdrawals will be allowed.

6) Any request for modification of any of the KYC details will be entertained in physical mode only.

7) Once a freezing/blocking request is received, it cannot be cancelled for any reason. Customer will have to request for unfreezing/unblocking as per instructions given below.

<u>*Unfreezing:*</u>

1) The customer can use any of the two options: (1) Website and/or (2) Telegram Channel to unfreeze the online access of the trading account.

2) On receipt of the request, after due diligence and verification of information, customer's trading account will be un-freeze/unblocked for internet-based trading (IBT) facility within 2 working days.

3) After unfreezing/unblocking IBT facility, customer will receive SMS and email confirmation and can resume IBT in the trading account.

4) It is advisable to change IBT password and mobile trading PIN after resuming the IBT facility.

5) Though IBT facility is frozen/blocked in customer's trading account, the trading account will be subject to RMS policy.

<u>*Risk Management*</u>

1) *Freezing/blocking is only for the online access to the client's trading account, and there shall be no restrictions on the Risk Management activities of MSFL. Clients will be liable to adhere to the existing risk policy already in place.*
2) *The request for freezing/ blocking does not constitute request for marking client Unique Client Code (UCC) as inactive in the Exchange records.*
3) *Client will be able to access the account in frozen state, although trading or profile modification options will be blocked.*

The detailed policy on voluntary freezing / blocking of online trading facility is adopted by MSFL and customers are advised to refer to the same for more details.

11. Disclaimer

MSFL has a discretion to alter/change any of exposure limit, margin limit, and/or liquidation/close out parameters defined in this policy on the basis of prevailing market conditions, considering the dynamics of operations, business plans, and strategy of managements from time to time, and/or any risk perception with or without prior intimation and can use their discretion to grant any kind of exemptions/permissions in case they deem fit on case to case basis. In the time of extreme volatility or major impending event which might trigger such volatility, MSFL reserves the right to withdraw the same. The company may modify or amend any of these rules without prior notice. The amended policy will be uploaded on the website of MSFL from time to time.