

DOCUMENT ON  
RISK MANAGEMENT POLICY

September 2024

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Safeguarding of **SHAH INVESTOR'S HOME LTD (SIHL)** financial transactions and Credit worthiness is critical to the functioning of SIHL. Our business transactions are at risk from potential threats such as bad intent of our clients, Excess exposures positions, Problem with Payment and Delivery obligations etc.

Such events are the situations where SIHL has to follow the Risk Management Systems Policy (RMS Policy) to counter the situations which may result in loss to the organization.

These guidelines identify the set of measures that form part of the company's security programs. Risk Management policy is a policy aimed to create safe and secure environment with respect to client obligations and to achieve minimum risk possible for such events.

The underlying document outlines various policies and procedures the Company has framed on the basis of various rules, regulations and circulars of the Regulatory Bodies with respect to its dealing with clients for capital market transactions to ensure transparency and facilitate understanding on various aspects related to service delivery. Kindly note that the below stated policies and procedures are subject to changes from time to time depending upon our internal risk management framework and market requirements.

## **II. SCOPE**

Various circulars of SEBI, Depositories, Exchanges and other governing bodies have laid down the principal of Risk Management with respect to Intermediary Transactions.

SIHL needs to balance the need for expansion and growth of the organization to survive in highly competitive industry on one hand and managing the financial risk posed by various market scenarios on the other hand.

With these in mind, we have developed the following as a Policy which gives Risk Management norms accepted by the management and applicable across all the levels of employees including Managers and Directors.

### **III. Risk Assessment, Sensitivity and Criticality**

Various circulars of governing body like SEBI, Exchanges, NSDL, CDSL etc.. have thrown emphasis on the surveillance of client activities. Our company ensures that risk assessments are conducted to identify the Point of Transaction ( POT) where the Risk Management Theory needs to be applied.

POT require protection and to understand and document risks from default by client or delay by client that may cause loss to the out put of that transaction or may result into additional level of procedure like – Auction of Shares, Pay in Problems, etc.

#### **Risk Assessment Team :**

SIHL has developed a Group of people that are part of Risk Assessment Team and are continuously identifying for the potential Client Risk Areas. The team is also active for the Risk assessment for **Information Security** Procedures, **Anti Money Laundering Standards** and **bifurcation of client into Critical Level** considering size and volume of transactions, Nature of transaction etc.

Risk assessments have been conducted by teams composed of appropriate administrators, managers, staff and other personnel associated with the activities subject to assessment.

#### **Risk Assessment Fundamentals :**

We define the following as:

Risk : Potential of any action or event occurrence which will adversely affect business

Threat : An action or event that will compromise desirable outcome of business process

Vulnerability : Weakness in a system that can be exploited by a threat

Control : Tools and techniques for mitigating risks

Exposure : Risk – Control

We foresee the following are top threats which can adversely affect our functioning :

Bad intent of Client / Fraud

Undue Exposure

Problem with Pay in / Delivery

Critical dependencies :

- Current Locational Setup

#### **IV. Risk Management Plan & Procedures**

This section addresses the security measures related to Client POT that are identified by Risk Assessment Team.

##### **A. Client Acceptance Policy :**

SIHL strictly believe in full implementation of KYC norms and total observation of client risk levels. SIHL has developed a Client Application form where in, total documentation for each category of client has been outlined and check list is being filled by the person who is collecting client application form.

- a. No Benami account is opened
- b. All the required details are being physically checked, marked and verified by different degree of persons from Client Account Opening section, Trading Division personnel and also from DP Division for the sufficiency and accuracy of information.
- c. At both the Trading and DP Division, client reference needs to be checked
- d. KRA – KYC registering Agency has been established by the government and access of KRA facility should be availed for better KYC compliance.
- e. Details about previous trading activity, experience in the trading, business outline, etc needs to be observed and reflected at specific places.

- f. Residential address, Office address, Phone numbers, PAN, Aadhaar copy are need to be verified at different levels of client opening.
- g. E-trading client needs to be separately educated for systems operations and importance of passwords and risk exposures of e-trading.
- h. In all our Client Application Forms, authority is being obtained for Usage of Funds / Shares at time of any of the Defaults by client for pay ins and also Holding of Funds for outstanding payment obligations.

**B. Client Risk Category :**

CDD is to be performed for KYC norms and Internal observation of flow of transactions. Continuous tracking of Client transaction, verification of financial and correlating the same is part of monthly routine of SIHL surveillance team.

Clients are being bifurcated into different risk category for better monitoring:

**(A) High Risk Client:**

A client is under a high risk is called as Special Category (CSC) when he is identified / grouped as

- NRI client,
- All the Sub- brokers/ Authorized Persons
- Politically Exposed Person and family members
- Companies offering Foreign Exchange Offerings
- Client having turnover more than Rs. 1 Crore in a month for intra-day activity
- Client having monthly turnover of Rs. 50 Lacs in a Demat account
- An ID wherein trades less than 5 share has been found
- Clients who perform off market Traders more than Rs. 1 Crore in a month.
- Upon receipt of frequent alerts for the client from the Depository / Exchange / SEBI.

-Clients in high risk countries where existence of money laundering control is suspected and the same is reported under the FATF statements and published at [www.fatf-gafi.org](http://www.fatf-gafi.org)

**(B) Medium Risk Client:**

A client is under a medium risk when he is identified / grouped as

- Not in the category of high risk but still the volume and activity is Critical
- Turnover in the account is not being routinely identified

**(C) Low Risk Client:**

A client is under a low risk when he neither in (A) nor in (B).

**C. Client Due Diligence :**

For CDD the measures that need to be taken are as follows :

- a) Identify your customer and verify his identity by using independent source document. Client needs to be identified for residence, business set up, reference etc and related proofs needs to be verified for completeness of KYC norms and correctness of information.
- b) Identify Beneficial Owner, verify his identity and get information about ownership and control structure of your customer.
- c) Obtain information on the purpose of business relationship and more importantly intended nature of the same and also ensure that whether the customer is a politically exposed person.  
Team has to perform for the business relationships, trading experience and whether client or nominee has been politically exposed.
- d) Undertake risk profile of your client by utilizing KYC document.  
The same to be done by collecting Financial of clients, bank account details, trading cycle and experience, mode of payment and volume with respect to each points.
- e) Obtain sufficient information in order to identify person who is beneficially the owner of the transaction. Whenever it is being found that, the beneficially owner is different

person than who is acquiring or dealing the security, the account needs to be scrutinized by the team for cross verification in detail and will be shifted at High Risk Client Group.

Team has to finalize a list of client IDs who are segregated for detailed verification in a month considering Risk Profile and Activity conducted. Each of the client is demanded for required information and necessary clarification pertaining to the activity undertaken in the respective account. Send all such writings by registered post and the details of the same with the list of IDs needs to be kept in the file for future reference.

Team has to verify the same by independent source document and following is insisted for detailed scrutiny :

- Client Information given at the time of account opening
- Bank and Depository Account details
- Investment / Trading Experience
- References : positive references of existing customers, friends
- Financial Income Proof & Income Tax Documents and resolutions etc
- Photograph
- Proofs of identity and address
- MAPIN / PAN / Passport / Driving License / Ration Card / Aadhaar
- Nature of Transaction being undertaken

Adequate separation of duty should be imposed between (a) back office personnel responsible for trade reconciliation, margin, position limits, preparation and maintenance of books and records and other similar matters as well as compliance personnel, risk management personnel and treasury or funding personnel, and (b) personnel responsible for customer relationships. The authority of appropriate personnel in these areas should be clearly established. This will add CDD quality.

***D. Live Surveillance System :***

To safeguard against the Undue Exposure by any of the Client of SIHL, company has a live surveillance system to track the client exposure limits and restrict any client from placing transactions beyond a particular exposure level per day and / or per script.

There are following limitations placed by the live surveillance system:

- Trading terminals have Trade & Order Level limits of quantity, value, etc to ensure there are no large orders placed in the system by mistake.
- Trading terminals allow placing or orders only up to the limits allowed by RMS system for each trading code.



- After the orders are placed, the surveillance system monitors live exposure of each trading code and alerts the RMS manager as well as terminal operator to take corrective actions as required.
- Scrips in ASM / GSM / SMS / Video transactions framework are banned from CTCL terminals. Only transactions through Corporate Dealer terminals are allowed in such scrips.

Depending upon the risk profile of the customers, each customer is assigned particular RMS scheme. As per the assigned scheme, trading terminal allows / rejects orders placed in respective customer code.

Each of these RMS schemes is verified by the RMS Manager of our company and there is monthly scrutiny of Master Data Updation by RMS Manager in case of change in RMS Scheme of clients. The system also prevents transactions wherein no trade is allowed temporarily or wherein the trade is required to be blocked due to norms of SEBI or exchange etc.

***E. Client Obligations and Payment Terms :***

To safeguard against various client obligations including payment and delivery issues, SIHL has developed the Risk Management System as follows:

- For all the Futures and Options transactions in equities, currency & commodities, each client has to give 100% of the required margin and the same is adjusted as per MTM positions.
- For client collections, we have a separate nominated bank account called “SIHL Client Bank Account” and there is Online Real time system of Bank Reconciliation to track any of the defaults by client.
- In Derivatives market, as there is T+1 settlement, cheque has to be collected from the client and deposited in SIHL Client Bank Account before the appropriate time to enable T+1 clear balance in the SIHL Client Bank account.
- As per the Client Application Form agreement of SIHL, company has right to Hold or Use funds / shares in case of any of the pending payment / delivery obligations that are not fulfilled by the client. Detailed policy for Aging Debit Squareoff is as follows:

**F. Ageing Debit Square off (T+1+5) - Clients unpaid Securities Account debit**

- As per the SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated 20<sup>th</sup> June 2019 to be implemented from 1<sup>st</sup> October 2019, if the client defaults on the payment, brokers have been asked to hold the securities up to 5 days after payout day. After this they can liquidate the securities in the market and recover dues on or before 5 days from the date of payout if dues are not recovered.
- Further, SEBI has said the securities which are lying with brokers for non-receipt of payment from clients, which may now be called unpaid securities from clients, cannot be used by the broker as collateral margin or cannot be pledged with financial institutions like banks /NBFC's to raise funds but is to be transferred to Clearing Corporation.
- As per the FAQs published by the NSE & the BSE on this matter, SIHL is following clarification allowing SIHL to transfer securities from the exchange pool account directly into the client's Demat account instead of transferring it to the CUS Account. Risk arising from the Debit exposure of such client is mitigated with auto-payin POA that the client has given to SIHL.
- It is client's obligation to clear his / her outstanding dues by T+ 1(T indicates Trading day). The client shall ensure timely provision of funds / securities to SIHL so as to meet exchange obligations. SIHL reserves the right to close the positions / sell securities to the extent of ledger debit and / or to the extent of margin obligations.
- If any client's funds got reversed or bounced or the client debit is not fully recovered, then the SIHL has the right to liquidate the securities held in Client Collateral or POA account of the respective client.
- No fresh exposures should be granted to any client if debit is not cleared by T+1+5 Days (T indicates Trading day), and account will be in square off mode only.
- If any securities lying in client collateral account with SIHL, which is provided by client as collateral margin for their trading exposures and margins in markets is found lying unutilized in periodic interval of times, the unutilized collateral will be returned to the client's Demat account. Rest of client securities lying in client collateral account with us will be settled as per settlement cycle opted by client i.e. monthly / quarterly.

**G. Surveillance Reports:**

For better risk management SIHL has developed various surveillance reports like: High value client amount and shares, turnover details, penny script turnover etc. The same also includes downloads of alerts from exchanges.

**H. Policy for Dealing in Penny Stock :**

A Security that trades at a relatively low price (generally such securities are trading below face value of the security) and has small market capitalization, is called a penny stock. These types of stocks are generally considered to be highly speculative & high risk because of their lack of liquidity, large bid-ask spreads, small capitalization and limited following and disclosure. The Company recommends that its clients desist from trading in any penny stocks in view of the associated risk element while dealing in such stocks.

Depending on the market condition, applicable regulatory guidelines and applicable risk policy of the Company, the Company at its sole discretion, may impose certain restrictions and/ or conditions (on case to case basis) including but not limited to refusal, wholly or partly, for trading in penny stock. Company has decided to revise a list of penny stocks as per the exchange list and norms.

**I. Liquidation Policy :**

(The right to sell client's securities or close client's positions, after giving notice to the client, on account of non-payment of clients dues as an act of risk management towards bad intent of client)

One of the threats of risk management is towards bad intent of client and undue over limits. Act of liquidation, after giving notice to the client for non-payment of margins or other amounts including the pay in obligation, outstanding debts, etc to the extent of client's settlement / margin obligation is towards the risk minimization and part of present day financial markets where client exposure setting has been failed due to market inequalities.

The proceeds of such liquidation / close out, if any, would be adjusted against the clients liabilities / obligations. The client would be required to make good the shortfall, if any post liquidation, immediately on being intimated of the same by the Member.

In the event of such square off, the client agrees to bear all the losses based on actual executed prices.

**J. Voluntary Freezing / Blocking of Trading Accounts:**

As per Exchange Circular : NSE Circular No: NSE/INSP/61529 and BSE Circular No: 20240408-12., and as per the directives, clients trading via Internet-Based Trading (IBT) or Mobile Trading Platforms now have the option to voluntarily freeze or block their trading accounts.

You may initiate a request to freeze or block your account through the following methods:

1. Using Our Mobile Application :

- Login to our Mobile App – SIHL Moneymaker
- Go to Login > Account > Security > Block account option available

2. Telephonic Request: By calling from your registered phone number, subject to OTP verification.

Upon receipt of a request via our application / web portal or via telephone with OTP verification, your account will be frozen or blocked directly by our vendor within 15 minutes. You will receive an email confirmation and SMS confirmation from our vendor confirming that online access to your trading account has been frozen or blocked. Additionally, any pending orders will be cancelled, and you will be notified of any open positions within an hour by our vendor via email.

If the request is made during trading hours, the account will be frozen or blocked within 15 minutes. For requests received after trading hours and up to 15 minutes before the start of the next trading session, the account will be frozen or blocked before the commencement of the next trading session.

Please note that any request to unfreeze your account can only be processed via a telephone call made from your registered phone number, subject to OTP verification to our helpdesk at 079-6822-6822.

Kindly note that this process does not deactivate your account; you may still place trades by calling our office directly / in-person. This feature solely restricts trading through the Mobile Application or Online-Based Trading.

## **V. Testing and Awareness Building**

SIHL implementation of these Guidelines also include procedures for testing of these guidelines and norms.

We have established a timetable for regular review of the Risk Management policy to keep in step with the evolving needs, and with changes in the business processes.

## **VI. Responsibilities**

It is the responsibility of the Top level management to devise the guidelines for Risk Management policy and procedures and to maintenance, update and implement the same in compliance with the legal and regulatory norms of exchanges and SEBI.

Risk management policy is approved by the board after required deliberations. Also, it is decided to put Quarterly MIS for the details of alerts pending at end of the quarter – as a step towards continuous monitoring on compliance aspects of company.

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# Addendum

## **RISK MANAGEMENT POLICY**

### **1. OBJECTIVE:**

**Shah Investor's Home Limited**(hereinafter "SIHL") broadly takes into consideration the regulatory requirement, Client Profile, Internal Risk Management Policy, Market Conditions etc., while setting up the exposure limits for and on behalf of its clients.

The Policy envisage collection of pay in, margin, limits setting for exposures & turnover for clients, terminals, branches & sub-broker level, Monitoring of Debit Balances, Periodicity of such monitoring, periodic reconciliation wherein client has expressly accepted the balance confirmation, Steps taken for recovery of old debts, penal interest charged for long outstanding debts, Mechanism of pay-in and pay-out of funds and securities, Payment, Receipt of funds from/to clients, Policy of square off of positions.

### **2. RESPONSIBILITY:**

The Compliance Officer shall be responsible for the implementation and supervision of this Policy.

The Compliance department and Risk Management department (RMS dept) shall assist and report to the Compliance Officer on a daily basis in respect of all RMS matter.

The Compliance Officer shall take all necessary steps to monitor, document, analyze and report the findings to the Board Members as well as the relevant Stock Exchanges and/or regulatory bodies, in a time bound manner, as detailed hereunder and/or as mandated by the Stock Exchanges and/or regulatory bodies.

The Compliance Officer shall exercise his/her independent judgment and take adequate precautions to ensure implementation of an effective monitoring mechanism, based on the day-to-day activities of the clients, general market information and the facts and circumstances.

The Board of directors shall peruse, review and provide necessary guidance with regard to the "Risk Management Policy", periodically, for strengthening the processes.

### **3. 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. 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.

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For closure of the trading account, the client is required to submit a written request / send the request to "SIHL" from the email registered with the company. "SIHL" 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 "SIHL" as per the terms of the agreement and regulatory requirements from time to time.

#### **4. 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. "SIHL" 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:**

"SIHL" 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. "SIHL" 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 "SIHL" provides exposure based on the multiple of fund put on hold (presently 5 times) for both buy and sell orders. Higher exposure for intraday trading is permitted by "SIHL" only for the scrips on which Future & Options contract are permitted by the Exchange. For trades under BITSOT (Buy in Today & Sell out Tomorrow) no separate margins are stipulated by "SIHL" as the client has already paid the full value of share on the Trade Day itself as the facility is extended for the previous day's delivery trade. Leveraged exposures are provided to the clients at the sole discretion of Compliance officer of "SIHL" 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 Compliance Officer of "SIHL" from time to time and notified in the Initial / FNO margin report available in the client back-office login portal. 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 FD or credit in the account maintained with "SIHL". However, "SIHL" 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 the Compliance Officer of "SIHL" from time to time and notified in the Initial / FNO margin report available in the client back-office login portal. Clients are required to provide the margins as stipulated above

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for both buy and sell of Future contracts and also for writing / selling option contracts. "SIHL" normally does not provide exposure to the clients against the sell trade in Cash segment on the T Day.

#### **5. MAINTENANCE OF MARGINS / CASH – CLOSURE OF CLIENTS' POSITIONS:**

Apart from Exchange stipulated instances and technical failures, "SIHL" 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 "SIHL" 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 "SIHL" at its discretion duly informing the clients through email / publishing in the "SIHL" website. Further, "SIHL" 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. Manager of RMS shall have the discretion to instruct the RMS 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. "SIHL" 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 "SIHL" at all times. Whenever there is shortfall in the margins, client is required to replenish the same. "SIHL" 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 "SIHL" 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 "SIHL" 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, 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 Trading 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 "SIHL". In case of continued non-cooperation other recovery measures as deemed fit by the Company shall be initiated.

#### **6. 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.



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- Poor / Unsound fundamentals.
  - Low liquidity.

Though the “Penny Stocks” have been not defined, RMS shall treat such stocks as penny stocks which qualify to be classified so based on the above criteria stipulated by “SIHL” and monitor trading in penny scrip. On analyzing the trends, RMS team shall place a note to the compliance officer to treat particular scrip as penny scrip in tune with the policy. “SIHL” may at its discretion categorize any stock as penny stock as per its Policy and risk perception. “SIHL” has adopted the following Policy on the Penny stocks:

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

“SIHL” at its sole discretion, introduce online blocks to restrict clients from order placement in such penny / illiquid stocks through the online trading portal. “SIHL” may seek declarations from the clients before accepting such orders. “SIHL” 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 “SIHL” 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.

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

“SIHL” 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. “SIHL” 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 “SIHL” for any loss caused / may cause to “SIHL” on account of client’s trading in penny / illiquid stocks.

## **7. TRADE RESTRICTIONS ON SCRIPS COMING UNDER GSM 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.

The criteria for short listing & review of securities under GSM Framework are subject to changes from time to time. "SIHL" shall intimate its Clients vide Circulars and updation on the Website regarding such changes. Clients are advised to follow the same to keep them updated on the GSM Framework.

## **8. ADDITIONAL SURVEILLANCE MEASURE (ASM)**

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, have been introducing various enhanced pre-emptive surveillance measures such as reduction in price band, periodic call auction and transfer of securities to Trade-to-Trade category from time to time.

In continuation to various surveillance measures already implemented, SEBI and Exchanges, pursuant to discussions in their joint surveillance meetings, have decided that along with the aforesaid measures there shall be Additional Surveillance Measures (ASM) on securities with surveillance concerns viz. Price variation, Volatility etc.

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Accordingly, review for identification of securities for placing in ASM Framework has been carried out by the Exchanges. The surveillance action applicable for the shortlisted securities is as under:

- a) Securities shall be placed in Price Band of 5%
- b) Margins shall be levied at the rate of 100%

The shortlisted securities are monitored on pre-determined objective criteria and would be moved into Trade for Trade segment once the criteria get satisfied. Market participants may note that ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

In view of the above we have incorporated trading done in such scrips in the trading software

- 1. The records so generated are compared visa vis. exchange volumes, repeated days of trading, price volatility in the scrip.
- 2. Additionally, the financials of the company are also analyzed to ascertain whether the trading volumes and price movements are justified.
- 3. In case any trading is found to be abnormal, initial alerts are sent to the branches. If repeated, after proper verification and analysis the scrip may also is blocked from further trading.

In case of any further regulatory developments, the same would be implemented in spirit and accordingly deemed to be part of this policy.

It may be noted that the shortlisting of securities under ASM is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company

The criteria for shortlisting & review of securities under ASM Framework are subject to changes from time to time. "SIHL" shall intimate its Clients vide Circulars and updation on the Website of "SIHL" regarding such changes. Clients are advised to follow the same to keep them updated on the ASM Framework.

#### **9. ADDITIONAL MARGINS (CASH MARKET SEGMENT & EQUITY DERIVATIVES SEGMENT):**

In view of the volatility observed in the market it is proposed by the Exchanges to levy additional margins in respect of specified securities.

- 1) Additional margins shall be levied in Capital Market Segment on F&O securities where:
  - i. Intra-day price movement of more than 20%
  - ii. Close to close price movement is less than 20%,
  - iii. Intra-day price movement shall be computed as change from previous day close to high/low price of day whichever is higher
  - iv. An additional margin of 50% of the intra-day price movement above 20% shall be levied as additional margin
  - v. Additional margin% shall be added to total margin% (VAR +ELM). (Details shall be included in the daily VAR file provided on the website)
  - vi. Additional margins levied shall be continued for 15 calendar days, provided no further intra-day volatility is observed.
  - vii. Additional margins levied shall be reviewed periodically.

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2) Additional margins shall be levied in Equity Derivatives Segment where:

- i. Intra-day price movement of more than 20%
- ii. Close to close price movement is less than 20%,
- iii. Intra-day price movement shall be computed as change from previous day close to high/low price of day whichever is higher
- iv. An additional margin of 50% of the intra-day price movement above 20% shall be levied as additional margin
- v. Additional margins shall be specified as a percentage and added to the existing exposure margins of the security. (Details shall be included in the daily exposure file provided on the website)
- vi. Additional margins levied shall be continued for 15 calendar days, provided no further intra-day volatility is observed.
- vii. Additional margins levied shall be reviewed periodically

Pursuant to the above, it has been decided to levy additional margins as under:

- i. Extreme scenario of 20% market fall and 17.74% market rise shall be modelled on all client level portfolios and gross client level losses shall be computed at end of day.
- ii. Net client level losses after considering applicable margins and hedged positions, if any based on the holdings provided by depositories, shall be computed.
- iii. In respect of clients having net loss of Rs.25 crores and more, 50% of the loss in excess of Rs.25crores shall be levied as Additional Margins.
- iv. Additional Margins shall be blocked from the collaterals of clearing member on T+1 day basis

The above framework shall be in conjunction with the prevailing surveillance measures being imposed by Exchange/Clearing Corporation. "SIHL" may collect the above-mentioned margins from their clients.

In the joint meeting between, SEBI, Exchanges and Clearing Corporations the levy of additional margins in Capital Market Segment as mentioned in above shall be modified as under:

- i. Additional margins shall be levied in respect of securities where derivative contracts are available
- ii. Securities with Intra-day (High-Low) price movement of more than 10% for 3 or more days in last one month shall be identified.
- iii. In respect of securities identified the minimum total margins (VAR, Extreme Loss Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in last one month.
- iv. The above mentioned minimum total margins shall be continued till expiry date of derivative contracts which falls after completion of three months from date of levy.
- v. Additional margins levied shall be reviewed periodically

In the joint meeting between, SEBI, Exchanges and Clearing Corporations the levy of additional margins in Equity Derivative Market Segment as mentioned in above shall be modified as under:

- i. Securities with Intra-day (High -Low) price movement of more than 10% in the underlying market for 3 or more days in last one month shall be identified.
- ii. In respect of securities identified the minimum total margins (SPAN margins, Exposure Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in underlying market in last one month.

- iii. The above mentioned minimum total margins shall be continued till expiry date of derivative contracts which falls after completion of three months from date of levy.
- iv. Additional margins levied shall be reviewed periodically

#### **10. EXPOSURE MARGIN OF SECURITY UNDER MARKET WIDE POSITION LIMITS (MWPL)**

In the joint meeting of Exchanges, Clearing Corporations and SEBI it has been decided on 23.01.2018 that markets should be alerted at different levels of MWPL utilization so that investors can take an informed decision on whether to hold or square off their existing positions well before regulatory /Surveillance actions sets in.

<b>Combined MWPL utilization at End of Day across Exchanges</b>	<b>Applicable Exposure margin of the security</b>
60%	No additional Margins
70% to less than 75%	To be increased by 50% of the normal applicable Exposure margin from next trading day
75% to less than 80%	To be increased by 100% of the normal applicable Exposure margin from next trading day
80% to less than 85%	To be increased by 150% of the normal applicable Exposure margin from next trading day
85% to less than 90%	To be increased by 200% of the normal applicable Exposure margin from next trading day
90% to less than 95%	To be increased by 300% of the normal applicable Exposure margin from next trading day

Alert shall be provided once the open interest in a security exceeds each level of MWPL limit as mentioned above. The change in exposure margin shall be applicable from the next trading day and shall be applicable till the open interest in the security reduces to below 70% of MWPL at end of the day.

The mechanism enshrined in first paragraph was reviewed in a joint meeting between Exchanges/Clearing Corporations and SEBI and it has been decided that, in Equity derivatives segment, additional exposure margins shall be levied on those scrip's wherein the top 10 clients are accounting for more than 20% of MWPL. The scrips shall be identified under this framework based on 3 months rolling data and reviewed on monthly basis. The applicable additional exposure margin on the identified scrip shall be at the rate of 15% over and above the applicable Exposure margin, including those based on MWPL utilization.

In view of the principles enshrined at 19.3, the Exchange shall w.e.f. 14.09.2018 discontinue levying the additional exposure margin on security under MWPL.

However, the Exchange/Clearing Corporation shall if required, impose stringent additional surveillance margins, as deemed necessary; in cases where open interest exceeds 70% MWPL utilization or where significant client concentration is observed.

#### **11. 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

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executed may be substantially different from the last traded price or change substantially thereafter, resulting in notional or real losses.

#### **12. 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 price, compared to the expected price levels, so as not to have any obligation to deliver/receive a security.

#### **13. 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.

#### **14. 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.

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#### **15. 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.

#### **16. RISK OF RUMORS:**

Rumors 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 rumors.

#### **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.

#### **17. 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.

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If client fails to deposit the additional margin by the deadline or if an outstanding debt occurs in client's account, "SIHL" 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 "SIHL" 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.

#### **18. 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 they're in the money contracts before the closure of the market.

#### **19. 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



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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.

## **20. HANDLING OF CLIENTS' SECURITIES**

Based on the SEBI and Exchange circulars on requirement of CUSPA (Client Unpaid Securities Pledge Account) we would like to mention that we are following "Direct Payout Facility" so we have not opened any CUSPA (Client Unpaid Securities Pledge Account) as per the exchange circular no: NSE/INSP/42229 dated 27<sup>th</sup> September, 2019.

## **21. KILL SWITCH**

When the Kill switch function is executed, all outstanding orders shall be cancelled. This is to assist you in avoiding taking large positions when trading due to anxiety brought on by greed or fear. If the client is losing money, this feature aids trading discipline and risk management by allowing the client to immediately disable trading in one or more segments, forcing you to stop trading. The kill switch is available at the following levels:

A. **Trading member level:** *The trading member level kill switch shall be available to Corporate Manager (User ID) of a trading member. When trading member level kill switch is executed, all outstanding orders of that trading member shall be cancelled.*

***The salient features of trading member level Kill Switch are:***

- *Only corporate manager can execute this Kill Switch*
- *All outstanding orders of all users of that trading member shall be cancelled*

B. **User level:** *The User level kill switch functionality shall be available to all users. When user level kill switch is executed, all outstanding orders for that user shall be cancelled.*

***The salient features of Kill Switch at user level are:***

- *User Level Kill Switch is available to all users.*
- *On executing user level Kill Switch, all outstanding orders entered by that user shall be cancelled.*

## **22. 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 or 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

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participating customer or that a customer will not incur losses from such events.

**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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## **Guidelines Followed by us:**

### **1. Internal Escalation matrix**

The said is disclosed on our website as per the regulations and we update the same on requirement.

### **2. Performance evaluation process**

We conduct regular performance evaluations for TM as SIHL and CPs. These assessments, aligned with compliance standards and organizational goals, occur periodically to ensure ongoing improvement and development. The assessment frequency is determined based on business cycles, industry standards, and regulatory requirements.

### **3. Data information from TMs/CPs**

Within the framework of our Risk Management System (RMS) policy, TMs/CPs are obligated to furnish data in instances of recurring margin. Furthermore, TM ( SIHL)/CPs are enjoined to collaborate closely with our risk management team to discern root causes and enact preventative measures. The expeditious and accurate submission of data is imperative for the efficacious monitoring and mitigation of risks within our organizational structure.

### **4. Procedures for segregation of TM proprietary and Client collaterals**

We strictly adhere to procedures for segregating TM proprietary assets and client collaterals. This includes meticulous documentation, segregation, accurate accounting, compliance monitoring, security measures, and ongoing training. These measures ensure the integrity and protection of both types of assets.

### **5. Inspection of TMs**

We are involved for clearing the trades for Shah Investor's Home Ltd as a Trading member. However, we usually do documentation review, interviews, and observations to assess compliance and identify areas for improvement. Findings are communicated transparently, and follow-up activities ensure corrective actions are implemented.

## **6. Upper Cap for acceptance of securities**

Limits setting are in absolute terms, serve to mitigate concentration risk and fortify the stability of client. The ongoing vigilance and adherence to these limits, coupled with the flexibility to make prompt adjustments in response to evolving market conditions or risk profiles, exemplify our commitment to sound risk management practices.

## **7. List of banks from which FDRs and BGs shall be accepted**

The said is applicable as per terms provided by regulatory requirements.

## **8. List of securities that shall be accepted as collaterals**

We accept securities from approved list of securities provided from exchanges.

## **9. Components of cash collateral and non-cash collateral**

The collaterals are accepted on the basis of the rules and regulations determined by regulators.

## **10. Ratio of Cash and Non-cash component of collateral**

We carefully determine the balance between cash collateral and non-cash collateral. This decision considers factors such as liquidity needs, risk profiles, counterparty creditworthiness, regulatory compliance, transaction specifics, and our risk appetite. By maintaining a balanced ratio, we optimize risk management while supporting our business objectives. Regular reviews ensure alignment with evolving market conditions and regulatory requirements.

## **11. Haircut percentage for all types of collaterals other than Cash, FDRs and BGs.**

Haircut percentages for non-cash collateral are considered from approved securities files and VAR files provided from exchanges.

## **12. Securities subject to a minimum of VAR and other collateral**

Securities are considered on the basis of securities files and VAR files provided from exchanges.

**13. Timelines and threshold limits beyond which action such as square off of positions shall be undertaken**

We set clear timelines and threshold limits to address instances where Trading Members (TMs) or Custodial Participants (CPs) fail to meet margin obligations on consolidated crystallized obligations. Prompt margin calls are issued, and if deficiencies persist beyond established thresholds, actions will be guided by management committee. Regular reviews ensure these measures stay aligned with market dynamics and regulatory standards, promoting effective risk mitigation while maintaining transparency and fairness.