RISK MANAGEMENT POLICY

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AFFLUENCE SHARES & STOCKS BROKERS PRIVATE LIMITED

Preamble

The company is regulated by the Securities and Exchange Board of India (SEBI) as a stock broker. Further, we are regulated by stock exchanges through their notices, circulars, rules, regulations, and bye laws.

Risk is the potential harm that may arise from some present process or from some future event. It is often mapped to the probability of some event which is seen as undesirable.

Risk Management is process of measuring, or assessing risk and then developing strategies to manage the risk. Typically involves utilizing a variety of techniques, models and financial analyses.

MEMBER is exposed to variety of risks including market, credit, liquidity, operational and other risk that are material and require comprehensive controls and ongoing oversight.

The risk management framework of MEMBER for its business is based upon the different client segments, applicable settlement mechanism and SEBI/Stock Exchange/Depository regulations.

We set out below the principles of our risk management framework:

1. RISK MANAGER

For smooth operational efficiency, a full time Risk Manager will be available with full control a tool that manages the surveillance system. However Risk Manager is bound to perform some of the operations which are listed below

- There may be cases when client is not able to connect the online trading program, may be because of Internet failure, system breakdown etc. At these situations, it will be responsibility of RM to execute trade on telephonic conversation with respective client, if the client wants to do so. But only in clients login.
- If the total margin required at the commencement of the day falls short by more than 10% (Expressed as a % of margin required i.e. IM + EM), the risk manager will be authorized to square off open positions of his choice and client will be able to trade only to close positions already open. (GE = 0) However Risk manager will take oral confirmation for such square off.
- Our risk manager will be authorized to cut off client's position at the end of the day if the positions are exceeding margin requirements by 3:10 PM. Risk manager will be free to select which position he should square off under due intimation to client.
- Risk Manager is required to give margin utilized details, M2M details, account position details etc. at any time to the clients who requires the same.
- Risk Manager will be available to monitor the operations and for solving queries

arising during trading hours.
- Risk Manager is liable to restrict the client if he is not following trading standards set.
- Risk Manager shall take proper steps to prevent clients from trading in illiquid scrips.
- Risk Manager shall be authorized to refuse acceptance of orders in penny stocks.
- It shall be the duty of risk manager to report any significant event, which may have adverse impact on company's business, to the senior officer.
- Risk Manager has to continuously monitor margin utilization of the company and report immediately to the senior officer or designated person if it crosses beyond 80%.
- Risk Manager has to identify list of Securities placed in Graded Survelliance Measure and S + Surveillance by Exchange. Additional Surveillance Margin levied on S+ Scrips based on Stage in which scrip falls. Ensure proper Surveillance Margin are available before trade. Ensure that no trades in such shares are executed without approval of Risk Admin.

2. REGISTERING A CLIENT

While registering a client, due care is required to be taken regarding identity of clients. Due diligence process as enumerated in the Anti Money Laundering Policy with regard to registration of clients and continuing updation of client information shall be followed.

3. CLIENT ADMINISTRATION

Any changes, locking, unlocking, swapping in Client, Client Profile, and Segment shall be done by Sr. Executive –Risk under specific approval from Risk Head.

4. EXPOSURE AND LIMIT SETTINGS

Risk control parameters are inbuilt in the front end system on the basis of which the clients are prevented from taking further position and risk.

Such parameters are;
- Gross Exposure Limits
- Turnover Limits
- Mark to Market Limits
- Buy and Sell Limits

Above parameters are expressed as multiplier of deposits.
Deposit Means: Available Ledger Balance only
Client wise deposits and multiplier are required to be inserted in the front end system. On the above deposit, different limit multipliers are set base on the risk profile of the client. Collection of upfront margin in the cash and derivative segments is mandatory. The above

monitoring is done on a daily basis and at the end of trading day, value of deposits and multiplier are set for the next trading day.

Exposure shall be provided to clients on the basis of available deposit and client risk profile. Such Exposure Value shall be derived from Value at Risk (VAR) Margin and/or pre-defined margins by member. Further, before allowing exposure, proper allocation shall be made with clearing corporation.

Further Exposure beyond 5th Day from the date of pay in shall not be granted unless, client fulfills the outstanding obligation, However in case where debit balance is below Rs. 500/- or debit is arised out of Delayed Payment Charge, Demat Instruction Slip Charge, DP AMC, etc, further exposure shall not be denied.

5. MARGINS COLLECTION

For Cash, F&O and currency derivative segment, company is required to collect initial, Exposure and Net Buy Premium margin from respective constituents on an upfront basis. It is to be ensured that the adequate margin amount from respective client is available with the company, on the day the relevant trades are done. Further, Peak Margin is also required be collected as per exchange directives.

Initially, Member is required to allocate fund to client before allowing exposure and any shortfall in allocation has to be explained to exchange via shortage response file. Further, on T+1 day, Member is required to report segregation of client wise fund balance.

It is mandatory for all trading / clearing members to report details of such margins collected on an upfront basis to the Clearing Corporation.

Company may collect margins from its respective client in any of the following forms only, after taking into account their risk management systems and liquidity aspects.

- ⇒ Funds
- ⇒ FD/BG to the extent allowed by Exchange and in case of BG , norms as mandated by SEBI for commodity segment, shall be followed.
- ⇒ Liquid securities in dematerialized form, actively traded on the National Exchanges, which are specifically not declared as illiquid securities. (List of illiquid securities are declared on a regular basis by the Exchanges) with appropriate hair cut as the case may be
- ⇒ Units of liquid mutual funds in dematerialized form, whose NAVs are available and which could be liquidated readily with appropriate hair cut as the case may be.
- ⇒ Government securities and Treasury bills in electronic form with appropriate hair cut as the case may be.
- ⇒ Any other such collaterals, as may be specified by Clearing Corporations from time to time

Margin shall be calculated as per exchange and SEBI guidelines issued from time to time.

The following is an indicative list of collaterals that shall not be considered towards margin collection:-

1) Immovable properties
2) Securities declared as illiquid by the National Exchanges
3) Post-dated cheques
4) Cheques not cleared / bounced back / returned unpaid
5) Cheques not banked till the margin date
6) Value of BG created by the member against funds / FDR's / any other collaterals received from clients / constituents
7) Free Balances available in the sister concerns or group company or associates.

Margin Collection in case of Hedge Break or removal of cross margin benefits

A. Hedge Break and Loss of Cross Margin Benefits

Clients are informed of potential situations that may result in a break of hedge positions or loss of cross-margin benefits. These situations can arise from:

- **Square off by the client**: When a client closes part of a hedge position, the remaining open position may lose its hedge status, leading to higher margin obligations.
- **Expiry of one or more legs of the hedge**: If any leg of a hedge position expires while the other leg remains open, this can trigger a loss of cross-margin benefits, resulting in higher margin obligations on the open position(s).

  The client is responsible for monitoring the expiry dates of their derivative positions and ensuring that appropriate action is taken to maintain hedge integrity.

B. Higher Margin Obligations

Upon loss of cross-margin benefits due to the above conditions, the margin obligations on the open position(s) may increase. In such cases, the client will be required to deposit additional margins as per SEBI's guidelines, specifically in relation to upfront margin collections for option premiums and the treatment of calendar spread margins on expiry days.

C. Measures on Expiry Day

As per SEBI's recent circular (SEBI/HO/MRD/TPD-1/P/CIR/2024/132 dated October 1, 2024), the following measures are implemented on expiry day:

- **Removal of Calendar Spread Benefit**: On the expiry day, calendar spread benefits will not be available. As a result, if one leg of the spread expires, the client must cover the increased margin requirements for the remaining position.
- **Tail Risk Coverage Increase**: An additional 2% Extreme Loss Margin (ELM) will be applied to short options contracts on the day of expiry due to heightened speculative activity.

D. Margin Management

- All margin requirements, including initial margin (IM) and extreme loss margin (ELM), will be collected upfront from clients, as mandated by SEBI. This includes upfront option premiums.
- Intraday position limits will be monitored, especially on expiry days, to prevent violations of permissible limits.

  In case, Client failed to deposit such increase in margin or deposited Cheque is dishonored, **Penalty levied for such upfront margin collection** shall be levied on client as per SEBI and Exchange Circulars in this regard.

6. MARK TO MARKET (MTM) COLLECTION

The mark to market margin (MTM) shall be collected from the client before the start of the trading of the next day.

The MTM margin shall be collected on the gross open position of the client. For this purpose, the position of a client would be netted across its various securities.

There would be no netting off of the positions and setoff against MTM profits across two rolling settlements i.e. T day and T-1 day. However, for computation of MTM profits/losses for the day, netting or setoff against MTM profits would be permitted.

7. EARLY PAY IN OF SECURITIES

Entire Early Pay-In (EPI) value of sold securities, without any 20% upfront margin deduction, will now be available as margin for other positions across all segments.

- ***EPI as Peak Margin:*** *The EPI value, once accepted by depositories through the Block mechanism, will be considered as margin collected for the peak margin of the sale transaction*

- ***Subsequent Margin:*** *Once the sale value (EPI) is credited to the client's ledger account, it will be considered as margin for subsequent margin requirements.*

- ***100% Margin Availability:*** *The entire sale value (100% of the EPI value) will be available as margin for other positions across segments.*

The above guidelines shall be governed by SEBI and Exchange circulars.

8. LIQUIDATION/SQUARE OFF OF INTRA DAY POSITION

All outstanding intraday position shall be squared off daily at 3.10pm at Market rate. All pending intraday order in Cash Segment shall be cancelled prior to Intraday Square off execution.

For Intra Day Trades, Warning shall be issued to clients when 60% of available margin is eroded. Further, In case Margin Eroded Exceeds 80%, client is informed to make RTGS of amount equal to margin eroded to carry forward his position, and if he fails to do, Trades shall be squared off by member.

Upon payment of full settlement obligation, such intra day position can be coverted to delivery or overnight position, before 3.00 pm.

9. HANDLING OF CLIENT 'S SECURITIES AND LIQUIDATION/SQUARE OFF OF DELIVERY TRADES

- As required by circular and exchange clarifications, we have opened Client Unpaid Securities Pledge Account (CUSPA).

- Shares received in pay out for debit clients shall also be transferred directly to Client's Demat account and shall be marked for pledge with Client Unpaid Securities Pledge Account (CUSPA).

- Risk Manager /Admin in consultation with senior officer shall make a list of such identified debit clients whose shares are to be pledged with CUSPA. Shares shall be pledged to the extent of Debit balance only.

- Shares lying in CUSPA account, shall be either be invoked for market sell or pledge shall be removed automatically after T +3 days.

10. CLIENT DEFAULT & OUTSTANDING

Contract slip/bills must be signed properly by the clients/authorized representatives. Proper authorization letter should be taken in case client sends somebody else for collection. Contract Notes are to be sent within 24 hours of execution of trades.

In case of default, if client is not able to pay his/her/its dues immediately adopt following procedure:-

- Try to take post dated cheque/s for amount due;
- Get the ledger and contract notes signed by the client;
- Obtain letter from the client covering the schedule of future payments;
- Preserve
  - Signed contract notes / bills ;
  - Proof of sending of bills/contracts by courier etc.; and
  - Proof of delivery of bills/contracts by courier etc.
  - Arrangement for recording of telephone conversations with defaulting client should be made covering Amount/s, Due Date/s, Date of recording Exchange/s and major scrips.

If hopes of recovery by follow up have faded, inform the designated department immediately but not later than 15 days in case of cheque bouncing and within 4 months in other cases. Also send original above mentioned documents to designated department. For small amounts i.e. below 50,000/- offer the client to settle the payment for lesser amount and close the business with him since it is not economical to initiate such cases.
Major defaults older then 6 months may also be intimated to the designated department for civil recovery.
When default has already occurred, do not pass JV for transferring funds. Obtain letters for all the inter exchange, inter segment, inter family/friend transfers and third party payments should be backed by proper authorizations singed by all the parties.

Outstanding more than 90 days shall be closely monitored and recovery procedure shall be initiated for the same. Further, client shall not be provided Buy Limits and Only Sale Limits shall be made available if shares are lying with us. Account Department shall take all reasonable steps to clear such debits.

11. INTERNAL SHORTAGE & CLOSE OUT

Due to Internal shortages, company might not be in a position to deliver the shares purchased by the Client. In such circumstances, on T+1 day, company may buy the shares from the market and deliver the same to the client The Client undertakes that it will not hold company responsible for any loss/damages arising out of the same.

Similarly, if the Client fails to deliver shares against its sale transactions, the appropriate amount will be debited to the Client's ledger equal to the buy value of such undelivered shares. Such Amount shall include internal auction or close out charges @ 1% of Auction /Close out rate. The Client undertakes that he will not hold company responsible for any loss/damage arising out of the same.

In case where such buying is not possible from the market due to reasons beyond control viz circuit breaking, etc., exchange guideline for internal shortage and close out shall be followed.
Internal auction or Close out shall be done on T + 1 day.

12. 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 systematic 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.