

VNS FINANCE & CAPITAL SERVICES LTD.

Risk Management System for online trading clients (Trade Smart online)

The objective of this document is to effectively manage the various risk involved in the business operations like credit Risk, Market Risk, default Risk, liquidity Risk etc. and thereby providing a shield to clients against losses. Below given Risk Management & Surveillance (RMS) Policy has been devised to make sure that customers are aware of criteria based on which VNS monitors risk.

The names of the products given below are the options provided in the trading software. Client may choose any product he wants to trade.

VNS provides margin to its clients on the basis of clear credit balance lying in the client's account as well as the securities pledged by the client to keep them as collateral.

Client can use Margin against Shares facility for taking positions in Cash, F&O and currency Segment.

Collateral will be valued on daily basis at previous day's closing price or the Last Traded Price. After applicable hair-cut, the collateral benefit will be valued after considering the cash to collateral ratio.

The Policy is subject to change according to risk perception of the market and SEBI/ Exchange rules, regulations and circulars issued time to time.

Cash Segment BSE/NSE:

Clients are required to have sufficient balance in their accounts to hold/carry forward positions. The client credit margin will be uploaded in terminal and exposure will be allowed on that basis. Exposure limits for each client will be based on clear credit

balance of the client + Collateral benefit value after Haircut.

Clients can place orders in four products:

1. **MIS** – For intraday trading, subject to mandatory square off. The margin will be applicable as per VaR & ELM margin of the exchange. In terms of value it comes to approx 7 to 10 times of the margin available, as applicable for individual scrips. VNS may allow higher exposure to the client depending upon the product/ plan chosen.

2. **CNC** – For taking delivery, cash balance will be blocked to the extent of 100% value of securities. In the case of sale transaction, the trading software checks the delivery in VNS DP and only then the transaction is allowed. If a client wants to sell the delivery lying in outside DP, he should first transfer the shares in his BO with VNS. Scrips purchased on T-1 and T-2 pending payout can also be sold in CNC by the client but in case the same is not received in pay-out, the loss due to exchange auction or square off will be borne by the client.

3. **NRML** – VNS will provide higher exposure to the client to buy shares in delivery under this product. Scrips purchased in NRML can only be sold by the client in NRML only. Delayed payment charges @0.05% per day will be levied in case of total debit ledger (on the amount funded by us). If there is no ledger debit at the end of the day, no interest will be charged.

4. **Cover Order (CO)** – For intraday trading with a higher exposure.

If a client wishes to trade intraday, he/she should place orders in the MIS product code. **In such cases the client needs to square off his/her position by 3:10 p.m.** In case the client does not square off the intraday position, the same may be squared off by the VNS after 3.10pm. (*may not be Squared off in some cases e.g.

circuit etc., in which case the Exchange square off cost will be borne by the client). In case client wants to shift his MIS position to CNC, he/she can do so as per option given in trading software e.g. trade book (F8).

Derivative Segment (equity & currency)

Exposure limits for each client is based on clear credit balance of the client + End of previous day margin carried forward + Collateral benefit value after Haircut.

Clients can place orders in three products in the F&O segment:

MIS - For intraday trading

Cover Order & Bracket order (Intraday) -For intraday trading (see note below given).

NRML (Normal) - client may carry forward the position to the next day

If a client wishes to trade intraday in F&O segment, he/she should place orders in the MIS product code or cover / bracket order product. Under MIS, the client is given higher exposure considering upto $1/3^{\text{rd}}$ of the SPAN + Exposure margin. In the case of Cover/ Bracket order further higher exposure is allowed upto $1/5^{\text{th}}$ of the SPAN + Exposure margin. It means that only $1/3^{\text{rd}}$ or $1/5^{\text{th}}$ margin will be blocked in above products **but client needs to square off his position by 3:10 p.m.** In case the client does not square off the intraday position, the same may be squared off by the VNS **after 3.10pm.**

SPAN margin file is uploaded four times on the trading terminal as required by the exchange; and the last file is provided by the exchange after the market is closed, therefore the final SPAN margin as appearing in contract note may vary. It is a portfolio based margin and may vary depending upon the portfolio structure. The Exchange penalty for short margin will be borne by the client.

If a client wishes to hold his F&O position overnight he/she needs to place the order under the NRML product code. This will require 100% of the applicable span and

exposure margin. For any MTM debit arising due to such overnight open position/s the client shall be asked to clear the debit in full cash on T basis and no collateral shall be adjusted against such debit.

In case clients want to shift his MIS position to NRML, he/she can do so as per option given in trading software e.g. trade book (F8). **Cover /bracket order cannot be shifted to NRML or MIS.**

For buying options, full premium amount will be blocked from margin in MIS as well as NRML products. The client should be careful in choosing product, as MIS position will be squared off. Only in the case of cover/bracket order higher exposure for option buying is given but it is subject to square off at end of the day. For selling options, the applicable span and exposure margin is required to be paid by the clients as per the relevant product code. The margin is blocked like future. Option premium received will not be considered as deposit for the purpose of exposure.

Cover /Bracket Orders: Cover Order facility is currently available for Nifty & Bank Nifty in NOW Software and for all F&O contracts in NEST software. Bracket order is currently available in NEST only.

Position Conversion :

If a client wants to convert his position from MIS (Intraday) to CNC (Delivery) then for converting position he/she will be required to have 100% cash credit balance in his/her account. For converting position from MIS to NRML the exposure/margin provided will be based on client's cash credit balance and the collateral value after hair-cut.

Conversion of MIS/to CNC/NRML is applicable till 3:10PM Position Conversion will not be available in cover / bracket order.

Carry forward, MTM and Square off

In NRML product, client having margin shortage due to MTM 50% or more, may not be able to carry forward position for the next day. MTM for the day should be paid next day latest by 1 pm (13.00 hrs). MTM short of Trade day is considered as margin short on T+1 day for the purpose of exchange reporting. Therefore, on the next day, i.e. T+1 day if the MTM is not paid or short paid and client has the margin shortage of 10% or above, then VNS may square off the open position to avoid exchange penalty to client.

In case the MTM loss reaches **80%** of the available margin the client position may be squared-off at our end. In case the position is not squared off due to any reason, including circuit, the client will be liable for the loss. The client will be given a warning through pop-up in the trading platform if 60% of the available margin is eroded on account of MTM loss. (Please note the pop-up warning will not be available in Mobile & browser based.). However if the client want to carry-forward the position he will have to remit funds to the extent of shortfall in his margin account.

Trading in illiquid securities:

VNS blocks illiquid futures and sale side of illiquid option contracts. The blocked contracts are updated daily on trading terminal. The trading pattern in such scripts is monitored to identify illiquid contracts.

Unusual trading pattern -In the case of high volume by client in any script compared to Exchange volume, the client is asked to submit clarification. In the case of unusual trading pattern of buying and selling just to create the volume, the client is asked to give clarification. These are required by the exchanges and SEBI.

BT/BZ Group:-Trade for Trade orders or orders in BT/BZ group can be placed only in CNC. Intraday square off results in delivery purchase as well as Delivery sales

simultaneously, therefore to avoid mistake VNS has blocked intraday **sell square off** in BT/BZ group to avoid short delivery and loss to client due to square off by exchanges. In sale transactions, only delivery-based transactions are available in CNC.

Derivative Expiry :

On the day of Expiry, equity delivery STT will be levied on In-the-Money (ITM) expiring options. To prevent higher STT being levied and to avoid additional risk to the client, fresh option buy position will be blocked in overnight/delivery (NRML product code), Cover Order and Bracket Order on last trading day of contract. The client will however be allowed to square off their existing option positions. Further, client can trade intraday (MIS product code) in options on last trading day of the contract. However, all MIS open positions are subject to auto-square off at or after intraday square-off time.

If the STT levied by the exchange is less than the premium received by the clients then their long ITM options position will be exercised by default. However, if the STT surpasses the premium, VNS will go for 'Do not Exercise' choice for the Close-To-Money (CTM) options.

Derivative Segment (commodity - MCX & NCDEX in VNS Commodities (P) Ltd)

Most of the provisions of the equity/currency derivatives are applicable for commodity derivatives also. Additional points relating to commodity derivatives are as under:

Bracket order is not currently available in commodity derivatives.

GTD & GTC orders are not available.

Physical delivery of commodities is not allowed.

In MIS, product margin is blocked half of the exchange margin

In MIS, client needs to square off his position 45 minutes before the close

of the market (closing time = 11.30 p.m. or 11.55 p.m. as the case may be for agri commodities the closing time is 5 pm). In case the client does not square off the intraday position, the same may be squared off by the VNS half an hour before the market close.

Option Expiry:

Exchange will levy additional margins on the buying positions for the last two days of expiry. To avoid additional risk for the clients, fresh buy position will be blocked for the last two trading days of the contract. However, clients can square off their existing positions for the last two days.

VNS will square off all option buy positions before the close of trading hours, two days before the expiry of contract. VNS will continue to do the same on the last two days for all the option buy positions. If any of the buy position of the clients is not squared off during trading hours, VNS will go for 'Do not Exercise' choice through CTM.

General:

1. Client can sell their holdings (to the extent in Demat account with VNS) in CNC, by which his/her margin availability will increase correspondingly, for cash/ Equity Derivatives & Currency Derivatives segments. However this credit is not available for OFS, E-IPO, FPO etc.
2. Margin against shares facility is not available for buying securities in CNC and for buying Options contracts. List of approved collaterals / securities along with applicable haircut, is subject to revision from time to time based on Exchange approved list, market volatility, quality of collateral and internal guidelines.
3. Filter is applied on maximum quantity / maximum value for all individual segments. We have kept enough quantity and value of order and unless the order is very large, this filter is not applied. In the case of exceptionally large orders, client may have to split the orders.
4. Higher exposure is given in MIS and cover/ bracket order in the normal market conditions. Depending upon the market perception, forthcoming events, volatility

7. Trading during tender period and staggered delivery period (for commodity derivatives) -During the tender/staggered delivery period, delivery can be marked at the instance of counter party and such delivery will have to be effected compulsorily. Hence the client is required to square off the position one day prior to start of tender period or shift the same to next month. Trading during such period in expiring contract is blocked to avoid any loss to client. In case the client does not square off the position, the same may be squared off by VNS.