Risk Management Policies And Procedures

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

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

Funds:

Payin: Client can transfer funds into trading account only through banks which are registered with VNS. Any transfer other than registered bank accounts will not be considered and clients may not get credit or limit in client ledger or trading terminal.

- There is a Rs. 8 + GST (Goods & service Tax) transfer fee charged for payments made through netbanking.
- Fund transferred through NEFT/RTGS will be processed/credited as per RBI settlement timings and may take 3-5 hrs.
- Deposits on bank holidays will be processed on the next working day.
- In the case of payment by cheque, the payment will be credited in the account only after the cheque is encashed and credited in our bank account, after the proper authentication.

Payout: All payout requests will be accepted through BOX and trading terminals offered by VNS and processed electronically and the credit shall come to the client's primary bank account only irrespective of bank selected by user in trading application during payout request. Equity/Commodity payouts placed from BOX back office before 7.00 am on any trading day will be debited from your trading account on the same day in the morning around 9:00 am and you would get funds into your bank account as per **RBI** settlement timings.

- Payout requests placed over the phone, chat or email will not be accepted.
- Payout requests placed after Friday 7:00 am to Monday 7:00 am will be processed on Monday morning. Funds will get credited to your bank account as RBI timing.
- Payments shall not be processed on clearing holiday.

Margins:

Trading limits for each client is based on clear credit balance of the client + End of previous day margin carried forward + value of securities pledged by the clients as per revised SEBI/exchange guidelines (SEBI/HO/MIRSD/DOP/CIR/P/2020/143) w.e.f. 1st Sept 2020 (as per exchange approved list) after the haircut, Please note that w.e.f. 1st Sept 2020 the transfer in VNS derivatives beneficiary account as collateral is not allowed and securities can be accepted through pledge and repledge system, upto stipulated % of total margin applicable as decided by the company from time to time. Reference of SEBI and exchange circular are as follows : SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, read with SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020 and Exchange circular no. NSE/INSP/45191 dated July 31, 2020 regarding Margin obligations to be given by way of pledge / re-pledge in the Depository system, which has been implemented with effect from August 01, 2020 and discontinuation of title transfer of securities

collateral with effect from August 31, 2020.
Attention is also drawn towards SEBI circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 read with SEBI circular no.
SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020 and NSE/INSP/45534 dated August 31, 2020 on Collection and Reporting of Margins by Trading Member (TM) / Clearing Member (CM) in Cash Segment.

Equity Segment:

Minimum 20% will have to be deposited upfront on the trading day i.e. in advance. Other margins such as Mark-to-market margin (MTM), delivery margin, special/additional Margin or such other margins as may be prescribed from time to time, shall be deposited within 'T+2' working days as per revised SEBI/exchange guidelines (SEBI/HO/MIRSD/DOP/CIR/P/2020/146) w.e.f. 1st Sept 2020.

Clients can place orders in following products:

MIS – (Intraday-Margin Intraday Square off) For intraday trading, subject to mandatory square off. The margin will be blocked as per minimum 20% or VaR and ELM whichever is higher. In terms of value it comes to approx 5 times of the margin available, as applicable for individual scrips. VNS may allow higher exposure to the client depending upon the product/ plan chosen as mentioned above. For daily margin benefit view here.

VNS provides exposure up to 20 times to clients on the basis of clear credit balance of the client for the equity segment for intraday products.

CO & BO – (Special intraday orders-Cover/Bracket Order product) For intraday trading, subject to mandatory square off. The margin will be blocked as per VaR& ELM margin of the exchange. In terms of value it comes to up to 20 times of the margin available, as applicable for individual scrips. VNS may allow higher exposure to the client depending upon the product/ plan chosen. For daily margin benefit view here.

CNC – (Delivery-Cash N Carry) For taking delivery, upfront amount needs to be kept in a trading account. In the case of a sale transaction, the trading software checks the delivery in VNS DP and only then the sale transaction is allowed in CNC. If a client wants to sell the delivery lying outside DP, he should first transfer the shares in his BO with VNS. Unsettled scrips i.e purchased on T-1 and T-2 can also be sold in CNC (after considering prescribed margin from available balance) by the client but in case the same is not received in pay-out, the loss due to exchange auction or square off (in case there are no bidders in auction) will be borne by the client.

It is mandatory to keep upfront margin to sell unsettled scripts i.e. scrips which are yet to be received in pay out. Thus if scrips bought on T day are sold on T+1 day then upfront margin is required for selling such unsettled scrips.

Securities with the BO account of VNS Depository with POA can be sold without giving any margin.

Securities as mentioned above can be sold without upfront margin and early pay-in will be made by VNS. In this case the securities will not be treated as unsettled securities and clients can take the benefit of credit balance arising out of such sale in any segment.

In case the client does BTST i.e. buy today and sell tomorrow and the client has made 100% payment for securities bought, then 20% margin for the buy side and similar margin for sale of unsettled securities will be applicable. Assuming the margin is 20% then the total margin will be 40% and balance 60% can be used by the client for any segment (Cash, FNO and Currency). This 40% margin will be released on T+2 as the delivery of BTST will be received and the early payin will be made by VNS. However if due to delayed payout from exchange/ clearing house the early payin is not made then the margin will not be released.

Derivative Segment (Equity & Currency)

Equity Derivatives:

Initial margin (SPAN margin & Extreme loss margin) will have to be deposited upfront on the trading day i.e. in advance. Delivery Margin and Mark-to-market margin (MTM) and any other margin shall be deposited latest by T+1 day.

Currency Derivatives:

Initial margin & Extreme loss margin will have to be deposited upfront on the trading day i.e. in advance. Mark-to-market margin (MTM) and any other margin shall be deposited by T+1 day. In case of currency future contracts, the final settlement amount shall be deposited latest by T+1 day.

The client can place order in any of the following products

1. **MIS (Intraday)** – For intraday trading
2. **Cover Order & Bracket order** (Special Intraday orders) - For intraday trading (see note given below).
3. **NRML** (Overnight or Normal) – client may carry forward the position to the next day

If a client wishes to trade intraday in the F & O segment, he/she should place orders in the MIS (Intraday) product or cover/bracket order product. Under MIS (Intraday), the client is given higher exposure considering upto 1/3rd of the SPAN + Exposure margin. In the case of Cover/Bracket order further higher exposure is allowed upto 1/4th of the SPAN + Exposure margin. It means that only 1/3rd or 1/4th margin will be blocked in the above products.

Cover order is an order placed as market/limit order, compulsorily with stop loss order. In bracket order there are three legs of orders. First leg can also be placed as a limit order. Second leg is stop loss order and the third leg is normal order for reverse/target order. In case the stop loss is executed, normal reverse order is cancelled by the system. In case Normal reverse order is executed, stop loss order is cancelled. For daily margin benefit view here.

SPAN margin file is uploaded four times on the trading terminal as required by the exchange; therefore the final SPAN margin may vary. It is a portfolio based margin and may vary depending upon the portfolio structure. In the case of variation of portfolio, end of the day margin may change 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 upfront.

For buying options, the total premium amount will be blocked from margin in intraday products (MIS i.e Intraday with or without CO/BO) as well as NRML (Overnight) products. The client should be careful in choosing the product, as intraday position will be squared off as per prescribed time. For selling options, the applicable span and exposure margin is required to be paid by the clients as per the relevant product type. In the case of sale of options, option premium received will not be considered as a deposit for the purpose of exposure. The margin is blocked like in the future approximately. Additionally, whether put or call, in the case of sale the MTM is built in the margin, so the upfront margin may increase substantially during the day and shortfall on this account is required during the T day itself.

Derivative Segment (Commodity)

Initial margin & Extreme loss margin will have to be deposited upfront on the trading day i.e. in advance.

Other margins such as Mark-to-market margin (MTM), delivery margin, special/additional Margin or such other margins as may be prescribed from time to time, shall be deposited within 'T+1' working days.

The client's ledger balance in MCX is uploaded as a deposit in the trading terminal. Intraday exposure available for trading differs as per product type like MIS (Intraday) two times, CO/BO 3-4 times in non agri products. Most of the provisions of the equity/currency derivatives are applicable for commodity derivatives also. For daily margin benefit view here. In the case of sale of options in commodities the same principle as given above for equity options is applicable.

Trading during tender period and staggered delivery period - During the tender/staggered delivery period, delivery can be marked at the instance of counterparty and such delivery will have to be effected compulsorily. Hence the client is required to square off the position 2 days prior to the start of the tender period or shift the position to the next period. Trading in such products in expiring contracts is blocked to avoid any loss to clients. In case the client does not square off the position, the same may be squared off by VNS without prior notice as clients are advised to close their positions well in advance before the tender period starts.

Trading in non-deliverable commodities – in the case of non-deliverable commodities like crude oil, the client is requested to square off the open interest at least 2 days before the expiry or transfer the position to the next period. In case the client does not square off or transfer to next month, he/she will be required to pay 200% **of the value of underlying** as an additional margin for keeping the position till the expiry day. This additional margin will be applicable at the 2 days before the expiry date at End of the day. In case the margin is not paid, the outstanding position may be squared up by VNS

Additional points relating to commodity derivatives are as under:

- GTD & GTC orders are not available.
- Physical delivery of commodities is not allowed.
- NRML (Overnight) product (carry forward buy/sell) will not be available for trading on expiry day and one day prior to tender period start day.
- For commodities, on the start of delivery intention period, no contracts will be available for trading.
- MIS (Intraday)/ CO/ BO products are not available for MCX options.

General:

Further, unsettled amounts will not be considered for initial margin requirements (Intraday/ delivery trades). The unsettled amounts may be due to:-

- Realised profits made on intraday trades (Equity derivatives and Currency derivatives)or carry forward Futures position
- Net sell premium (The amount released after the Option contract is sold in case of carry forward bought position)
- The Amount received from selling stock (Demat or unsettle scripts)
- Realised profits made on intraday trades in Cash, etc.

Above prescribed amount has to be deposited on a given timeframe to avoid margin shortfall and exchange penalty including Cash segment.

Pledged (approved securities) amount after hair cut will be considered for exchange margin reporting.

Margin displayed on the margin calculator on our website is based on the previous day’s price and volatility and is indicative only. It may vary with actual margin requirements on exchange platforms. Clients should maintain some extra margin in their account to meet margin obligation and MTM losses if any. VNS reserves the right to square off clients positions/ trades in case of margin shortfall without prior notice. VNS reserves rights to restrict additional exposure and can place a client's account only on square off mode in the case of margin shortfall.

In the case of NRML or carried forward derivative open position no shortfall is allowed in margin. In the case of shortfall or insufficient margin due to MTM or increase in volatility or any other reason, VNS reserves rights to square off or reduce the open positions/trades at any time during the day. There will be no margin call before the position is squared off during times of extreme volatility. All resulting charges or debts that might occur from such square offs will have to be borne by the client. The client should check the shortfall and any shortfall should be made good in the morning and whenever the system demands either by providing additional margin or by reducing open position.

In the case of debit in any segment for any reason, delayed payment charges of 0.05% per day (considering pay-in and pay-out days) will be payable by client. The client’s securities will be parked in CUSA account. In no case client’s debit balance should exceed 80% of value of such parked securities (after hair cut). In such a case the securities purchased can be sold or/and open position in derivatives can be squared off by VNS in the case of debit or margin shortfall without prior intimation.

Physical Settlement in Equity Derivatives

With reference to SEBI Circular number.SEBI/HO/MRD/DP/CIR/P/ 2018/67 dated April 11, 2018 Specified securities contracts of futures as well as in the money options are required to be settled by physical settlement instead of cash settlement on expiry. As per the circular, all open contracts of specified securities in futures segment and in option segment, in the money options/close to money options will be compulsorily settled in physical mode on expiry. The Physical Settlement Scrips list specified may be revised from time to time by the exchange. The settlement process will happen in the equity segment and customers have to provide additional funds for buy obligation or securities for delivery obligation as per delivery marking. Additionally, according to the guideline, stocks which do not meet the enhanced eligibility criteria for introduction in the derivative segment shall move from cash settlement to physical settlement and hence will not be available for roll over.

Hence, it is advisable for a client to square off or roll over all positions in futures and options on or before 2 working days before expiry. In case the client wants to take delivery then he should pay additional margin equivalent to 100% value of underlying (after reducing the margin paid for derivative position in that scrip) at least two days before expiry The client should also signify his/her intention to take delivery in writing through email at least two days before expiry. In the event the client does not fulfill the margin obligations on time and does not roll over, the client's positions are liable to be squared off. Any loss arising out of such square off would be the sole responsibility of the client. This policy may be changed at any time at the discretion of the VNS. There will be additional delivery brokerage/charges @2% (Two percent) of the value of securities, in case the client opts to take physical delivery instead of square off or roll over.

All positions resulting into giving delivery of shares will require to have obligation quantity in the client demat account as free balance with VNS only at least two days before expiry.

Example, For delivery client needs to fulfill the margin obligation on time, or rollover or square off July 2018 expiry contracts on or before July 24, 2018 where the expiry date is July 26, 2018. However, if the margin obligation is not fulfilled or rolled over or squared off or the July 2018 contracts are open beyond July 24, 2018, the same shall be squared off by VNS Finance & Capital Ltd. And any loss arising out of such square off would be the sole responsibility of the client.

Moreover fresh positions in current month expiry contracts will not be allowed from the 2 working day prior to the expiry for stocks that are to be physically settled. For example fresh position in these securities for July 26, 2018 expiry will be blocked from July 24, 2018.

In case VNS is unable to square off such positions/trades due to any reason, then such contracts will be physically settled and client will be liable for the obligations resulting from the same.

Securities contracts in banned period

Fresh position is not allowed in Securities/ contracts under a banned period depending upon market wide position limit(MWPL). Exchange from time to time releases such a list and if a fresh position whether future or option is taken or existing position is carried forward to new expiry, it is considered a violation of breaching the MWPL limit and penalty is levied which will be to the account of the client.

Derivatives Expiries

ITM (In the Money)

On the day of Expiry, option traders will end up paying much lesser tax for derivative ITM options when it is exercised by the exchange. STT @ 0.125% will be levied on the difference between the strike price and the settlement price. Please click here to know more.

CTM (Close to the Money)

Exchange given do not Exercise choice for the Close-To-Money (CTM) options. Three strike prices above and below the settlement price are called as CTM contracts. If STT charge is higher than the premium then it will be marked as “Do-not-exercise”. If STT levied is less than the premium then RMS will give intimation to the exchange to exercise the option and respective amount will be credited to the client account.

OTM (Out of the Money)

All OTM options will expire worthless. There will be no cash/delivery obligations arising out of this.

Trading in illiquid securities and unusual trading pattern

The clients are advised to not trade in illiquid securities/contracts. The Exchanges specifies a list of Illiquid securities where higher due diligence is to be exercised by the Brokers. The unusual trading pattern in such scrips by our clients is monitored. In case of high volume in any scrip compared to Exchange volume, the client is asked to submit written clarification. VNS blocks illiquid futures contracts, and option strike prices which are too far from LTP of underlying on a daily basis.

Trade for trade:-

Trade for Trade orders in BT/BZ/BE/T/Z/XT/MT/ZP/ST or any other falls under trade for trade series 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 mentioned series to avoid short delivery and loss to client due to auction/square off.

Position Conversion:-

If a client wants to convert his position from MIS (Intraday) to CNC/ NRML (Delivery/Carry forward) then for converting position he/she will be required to have 100% credit balance in his account along with the margin used and MTM up to the time of conversion. Conversion of MIS (Intraday) to CNC (Delivery)/NRML (Overnight) is applicable before auto square off timings.

Cover /bracket order cannot be converted to CNC/NRML or MIS and vice versa.

Intraday products (MIS/CO/BO) auto square off timings

Product type	Equity/ Cash	NSE Futures & options	NSE Currency Futures & options/Cross Currency	Commodity
Intraday products MIS/CO/BO	3:10 pm onwards	3:10 pm onwards	4:45 pm onwards/ 7:15 pm onwards	30 minutes before market closing

- Call N trade charges @ 20+18% GST per executed order will be applicable for all orders/positions squared off by RMS desk, including auto square off.
- Intraday products auto square off timings can be changed based on instruction from the risk management department.
- If any intraday position/trade (MIS/CO/BO) is not square off on the same day due to any system failure or any other reason, it will

be carry forward as positional or delivery trade NRML/CNC to the next trading day. In such a situation the onus of squaring of positions will be on client. RMS dept. shall square off any such position without requirement of margin call, if sufficient cash balance is not available in client's account. The client will also be liable for penalty for short margin

General

- Client can sell their holdings (to the extent in Demat account with VNS) in CNC.
- Filter is applied on maximum quantity / maximum value for all individual segments.
- Higher exposure is given in intraday products like MIS/ cover/ bracket order in the normal market conditions. Depending upon the market perception, forthcoming events, volatility etc., VNS may reduce the exposure.
- CO and BO is not allowed in pre-open for Equities.
- Cash and DD payins will not be accepted.
- Illiquid contracts are blocked in commodity derivatives and options.
- Client is solely responsible for losses incurred from order cancellation by exchange saying resulted in self trade; price is out of current execution range or any other reason.
- Intraday products (MIS/CO/BO) are not allowed in currency options.
- In case of short delivery, an additional 0.5% penalty shall be levied towards auction penalty.
- There may be reduction of intra day exposure with effect of Dec 2020 based on exchange circular no. CMPT45627, CMPT45630, CD45628 and MCX/MCXCCL/716/2020.

All policies and procedures mentioned are subject to change at the discretion of the VNS risk management team based on SEBI and exchange requirements.

Please click here to view our ASM-GSM policies.

For VNS Finance & Capital Services Limited / VNS Broking Private Limited (formerly known as VNS Commodities Private Limited)

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