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OPERATIONAL RISK MANAGEMENT POLICY – EQUITY SEGMENT

(Version 2.6)

Oct-2024

(Policy approved by the Board of Directors)

Owner: Risk and Audit Department

(A policy assures a degree of consistency among departments. By writing down what is expected, the arms of the company (whether marketing, dealing or finance) realize that they have a common set of goals. Conversely, a written policy can delineate each department's functions so that duplication of effort and needless friction are avoided. It provides for a consistent approach among customers. Decision making becomes a logical function based on pre-determined parameters. This simplifies the decision process and yields a sense of fairness that will only improve customer relations.)

1.Introduction:

Risk management for a broking house would mean putting in place a strong mechanism to ensure that the organization is safeguarded against all kinds of uncertainty and risk. Efficient Risk Management is a reflection of strong operations and management. It is an iterative process that contributes to overall improvement by providing greater insight into risks and their impact.

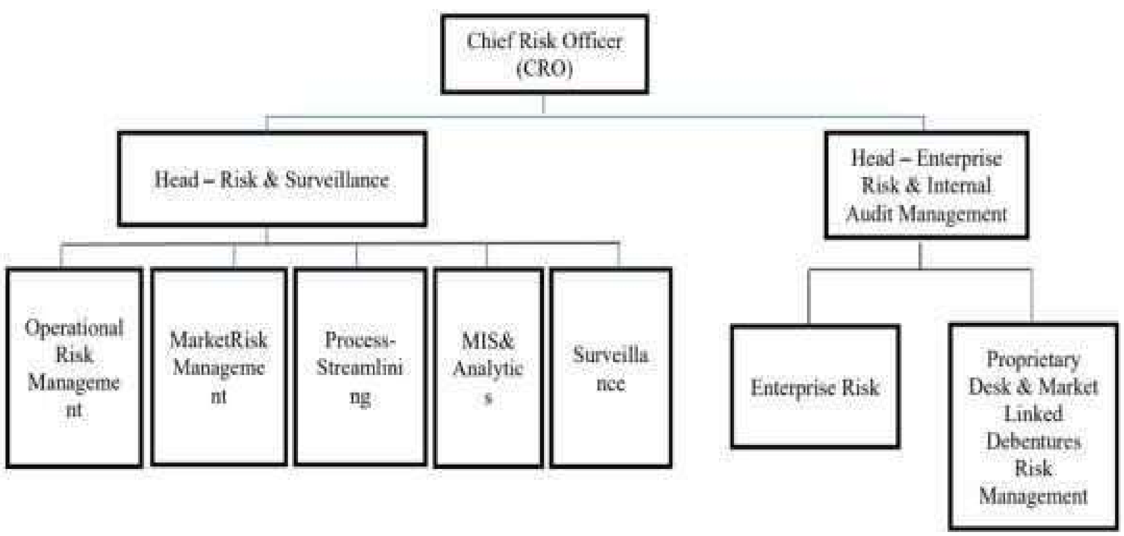
The company is regulated by the Securities and Exchange Board of India (SEBI) as a stockbroker. Further, we are regulated by stock exchanges through their notices, circulars, rules, regulations, and bye laws.

2. Objectives:

At Reliance Securities, the key objectives for operational risk management are:

- To ensure that all the risks affecting the profitability and other material risks are identified, assessed and analysed.
- To limit and mitigate fluctuations in the economic value of the company; and to ensure the overall efficiency, security and continuity of operations.
- To establish clear operating procedures and parameters for managing risk in securities broking business.

3. Risk Team Structure:



4. Type of products:

1. Cash and Carry (CNC)

   Delivery-based trading, where system will require the client to bring in 100% margin only in the form of cash for buy orders and should have sufficient holdings for sell orders unless squaring off an existing open position.

2. Margin Intra-day Square off (MIS)

   Intra-day, margin-based trading in the Cash Segment and Futures Segment where the open positions will be squared-off by surveillance at a predetermined time.

3. Normal (NRML)

   Margin-based trading product where the open positions will not be squared-off subject to other surveillance and risk management & settlement rules.

   The clients shall have to make the payment for obligation arising out of such trade within the settlement period stipulated for such trades, failing which recovery proceedings shall be initiated as mentioned in the policy.

4. Cover Order (CO)

   A margin-based product where the client is able to take a position at market price and also place a cover order for the position specifying the Stop Loss Trigger Price (SLTP). The order will not be executed without feeding in the trigger price.

5. Regular Stock Purchase Plan (RSP):

   The Product allows clients to purchase stocks systematically over a period in a basket of stocks either by specifying the amount to be invested or quantity to be purchased. The basket of stocks for the RSP is pre-defined. The purchases will be only against the cash available in the ledger of the client. The frequency is daily, weekly and monthly. The product allows the client to build a portfolio of stocks over a period chosen and gives the benefit of cost of averaging.

6. Currency Derivative:

   Clients who have opted for trading in the Currency Derivative segment are allowed to take positions in both the option contracts as well as the future contracts. The necessary margins applicable as defined by the exchange either in the form of cash or non-cash collateral should be available in the ledger of the client for such positions. The liquidation rules remain the same as the equity derivative segment.

7. Spread Order:

   Clients who want to place 2-3 leg order simultaneously or want to rollover F&O position without any time lag in execution and client gets the margin benefit at order level for execution of hedge or partially hedge positions.

8. Bracket Order (BO)

   A bracket order is an extension of cover order type where traders can place the first leg order and simultaneously can place a square off order for profit booking and a stop loss order from a single order panel.

9. SEBI Margin Trade Facility (MTF)

   Under SEBI MTF client can carry his open position subject to maintaining required margins. The stocks deposited as collateral for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded) shall be identifiable separately. RSL shall not use the fund of any client for providing margin trading facility to another client.

10. Stock lending and Borrowing Mechanism (SLBM)

    SLB is a system in which a trader can borrow shares that they do not already own or can lend the stocks that they own,

    Lenders: - Lenders can earn extra income by lending the stocks from their portfolio.

    Borrowers – Borrowers can borrow the stocks for arbitrage for short selling or to avoid the physical delivery.

5.Leverage and Exposure Limits:

Leverage and exposure offered to the client shall be determined on the basis of RSL internal guidelines as given below, subject to the minimum margin criteria stipulated in SEBI peak margin circular relevant for the product / segment.

a. **Equity Cash Segment:** Leverage is given up to 5x of trade value.

b. **Futures and option Segment:** Leverage is given up to 1x of Span & Exposure margin.

c. **Currency segment: L**everage is given up to 1x of Span &Exposure margin.

d. **SEBI MTF**: The minimum margin required to buy stocks is as per below table:

Category of Stock	Applicable margin
Group I stock available for trading in the F & O Segment	VaR + 3 times of applicable ELM*
Group I stock other than F&O stocks	VaR + 5 times of applicable ELM*

VAR – Value at risk margin **ELM** – Extreme loss margin

- The total indebtedness of RSL for the purpose of margin trading shall not exceed 5 times of its net worth.
- The maximum allowable exposure towards the margin trading facility shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of our "net worth".
- Exposure to any single client at any point of time shall not exceed 10% of the maximum allowable exposure as stated above.
- Exposure towards stocks purchased under margin trading facility and collateral kept in the form of stocks shall be well diversified & single scrip exposure shall be limited to the tune of 25% of total of collateral securities + funded securities.

6. Securities Selection:

Security basket for each of these products will be selected using a set of pre-defined rules. For stocks that are illiquid, or fall under special categories by the exchange, the haircut percentage will be chosen on a discretionary basis. The basket with the applicable haircut percentage for each scrip is published on a fortnightly basis. The entire basket is divided into 7 Categories viz Category A to Category G with haircut ranging from 20% to 99% respectively.

7. Product Specific Securities Basket:

Specific stocks are offered in each basket based on their fulfilling pre-defined criteria's.

The criteria for selecting the stocks are as follows:

a <u>NRML Cash Basket</u>

i. All stocks traded in F&O segment are to be allowed

ii. For non-F&O stocks, the following criteria to be applied.

- Stocks should compulsorily be in a rolling segment.
- Free float Market cap shall be equal to 100 crores or more.
- Daily VAR + ELM (EOD VaR published by exchange) or 10 Days historical VaR (Based on 200 days historical data on rolling basis calculated internally)- whichever is higher is used to derive the Margin % (haircut)
- Combined quarterly average daily volume should be greater than 25,000 or Stock Average daily turnover should be greater than 1 crore.
- Impact cost of the stock shall be equal to 0.75 or less.
- Stock in which the promoter pledge exceeds 50% of the promoter holdings should be excluded.

  However, in case, if this is the only condition for exclusion then an exception can be done, and the stock can be included in the basket subject to fulfilment of below conditions:

- Stock volume is greater than 100,000.
- Impact cost is less than 0.25 and
- Free float Market cap shall be greater than 500 crores.
- New Listing shall be added on a case-to-case basis any criteria /exception as approved by Risk committee/CRO.

iii. Corporate bonds to be included in the basket subject to fulfilment of below conditions:

- The bonds should be pledge able with NSE or BSE
- The maturity of bonds should be more than 3 months.
- Any criteria / exception as approved by Risk committee/CRO.

The entire NRML basket will be evaluated on a fortnightly basis for any scrip addition or deletion. In case of any exceptional circumstances the NRML basket will be evaluated as the need arises.

b MIS Cash Basket

MIS Basket needs to be a part of NRML basket.

The entire MIS basket will be evaluated on a fortnightly basis for any scrip addition or deletion. In case of any exceptional circumstances the MIS basket will be evaluated as the need arises.

c CNC Cash Basket

- All stocks except illiquid will be allowed. Apart from this, the Risk Committee reserve the right to include a stock depending on the market conditions in CNC Basket.

d CO/BO Basket

- All stocks traded in F&O segment are to be allowed; Furthermore, stocks may be allowed based on volume and volatility of the stocks. The addition of non – FNO stocks in the CO/BO basket is at the discretion of the risk management department.
- Index futures – Nifty and Bank Nifty of current month are only allowed.
- Stock futures – All the stock futures of current month expiry are allowed.

e SEBI MTF

- Group-1 securities shall be eligible for SEBI Margin Trading Facility and Criteria applicable for NRML basket shall be considered for SEBI MTF.
- Any criteria / exception as approved by Risk committee/CRO. Considering the dynamic nature of the market, all exception approval authority shall rest with the CRO. Risk committee shall be appraised about all the exception made on a quarterly basis.

8.Implementation of Mid office System at regions:

- RSL shall endeavour to implement mid office system in the regions. This shall in turn enhance the risk awareness at the ground level and shall help the regions to effectively monitor the positions of their clients and take the necessary action when required.
- RSL has started sending Mailers & SMS on real time basis as and when shortfall /MTM arises or increases to ensure that clients get a real time alert and to avoid future dispute that the client are not informed before liquidating his positions.

9.Risk Alerts:

- There are two platforms used by Risk department to generate risk alerts:
- Trading System & Mid Office System

I. Alerts generated by Trading System –:

- Alerts generated by Omnesys will be based on the MTM alert % which will be calculated by the trading system as mentioned below:

*MTM Alert Percentage = (MTM loss/Margin Available) * 100*

- Risk/Position alerts are now computed based on MTM warning % formula built in the trading system. The client in alert is flashed in the trading system whenever this ratio gets triggered.

II. Alerts generated by Mid Office System –:

- Alerts generated by Mid-office system will be in the form of a report which is fetched at regular intervals.

T6 Debit clients (NRML):

- In case of clients having only cash positions (i.e. Debit clients/ NRML T6 clients), a combined margin report is generated through Hawkeye which gives the margin details of clients based on which LTV is computed for all clients. This LTV ratio serves as a tool to judge the client risk level.

SEBI MTF clients:

- In case of clients who have opted for SEBI MTF facility & having cash positions, a combined margin report is generated through Hawkeye which has pre-defined column LTV without FO & MTM %. Based on the current LTV and MTM %, call regarding liquidation needs to be taken.

Liquidation Reason

- The position of the client will be squared off as soon as he is unable to maintain certain predefined percentage of Margin available.

Futures & option segment:

- The clients are supposed to maintain Span & Exposure margin as specified by the exchange from time to time. In case, if there is any shortfall due to MTM Losses or margin being increased by exchange due to high volatility in market then risk will act by squaring off open position till the time shortfall becomes zero/ or (shortfall is minimized/ risk is minimized/ acceptable levels).

Equity Cash Segment:

- In case of clients having cash positions (debit clients), risk team will be monitoring the LTV of those clients and act before his LTV crosses 90%. the cash position will be reduced to the extent of margin erosion. After liquidation the LTV will be bought to an acceptable level as compared to the margin available.

SEBI MTF:

- The risk team will monitor LTV above 90 % & MTM above 70 % value for every client. Position is reduced until the risk reaches at an acceptable level. (or minimized).

- In case of intraday positions (both in Cash & FNO), the positions will be liquidated if there is a shortfall & MTM breaches acceptable levels.

10. Liquidation Process:

A. Risk/MTM Liquidation:

When a client is in a shortfall, the following steps are followed for liquidation. The Risk officer starts liquidating the position in a logical fashion, starting from step A and proceeding to step B and so on until the client is out of shortfall. After executing each step, the margin requirement will be recalculated, and risk officer will check if the client is still in shortfall.

1. MIS Positions–

Futures Position -→Square off loss-making positions-→ Square off other positions.

Cash Position-→ Square off loss-making positions-→ Square off other positions.

2. NRML Positions–

Futures Positions-→Square off loss-making positions →Square off other positions.

Options Positions-→Square off loss-making positions→Square off other positions.

Cash Positions-→ Square off loss-making positions-→Square off other positions (Position taken during the day).

3. Stock Holding-→Square off Approved Shares -→ Square off Unapproved Shares.

B. T6 Liquidation:

- Unpaid securities (i.e., the securities that have not been paid for in full by the clients) shall be transferred to respective client's demat account followed by creation of an auto-pledge (i.e., without any specific instruction from the client) with the reason "unpaid", in favour of a separate account titled – "Client Unpaid Securities Pledgee Account", (CUSPA)
- Intimation to this regard to be sent to the clients informing the creation of pledge, fund obligation and right of RSL to sell such securities in event of failure by client to fulfil their obligation.
- If the client fulfils its funds obligation within five trading days after the payout, RSL shall release the pledge so that the securities are available to the client as free balance.
- If the client does not fulfil its funds obligation, RSL shall dispose off in the market such unpaid securities in the Unique Client Code (UCC) of the respective client post 11.30 am on the fifth trading day after the pay-out. RSL, before disposing the securities, shall give an intimation (email / SMS) to the client, one trading day before such sale. RSL however, reserves the right to dispose of the unpaid securities earlier by giving adequate notice to the client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.

  Shares shall be liquidated on FIFO basis after checking the following points:
- Any Pay-In by the client.
- Liquidation done by the client in CNC segment.
- Cheque deposited by client.

  Liquidation will not be done for the cases where there is any dispute, or the account is suspended due to some reason, or any other reason which may result in compliance issue or complaint by the client to regulators.

11. Receivables Management:

- The responsibility of managing receivables is a serious undertaking. It involves limiting bad debts and improving cash flow. With outstanding receivables often being a firm's major asset, it is obvious that a reasoned and structured approach to receivables management is necessary.

- The surveillance department shall circulate necessary MIS to the top management and the business team to ensure better and effective monitoring and control of receivables.

12. Special Risk Monitoring:

Apart from the usual methods used to track shortfall for clients, Surveillance team shall be using new metrics to get a perspective on the non-linear risks in the portfolio. Risks categorization for clients will be done based on the exposure they have to option positions in FNO, and if the positions are heavily concentrated in options with similar payoffs and little hedge. Some of these metrics are listed below -

a) Options Greeks

- Primarily to manage the risks associated with non-linear positions, Surveillance team shall be tracking the option Greeks for clients active in the options market.
- This includes looking at risk using Greeks like Delta, Gamma, Vega and Theta to find out the clients that are most susceptible to huge market swings.
- This will ensure the squaring off the positions of such client in a systematic manner.
- There will also be a Delta-adjusted exposure figure tracked at the client level, as well as the overall book level. This number shall help to figure out the un-hedged delta portion of the portfolio that exists.

b) Opening Gap Scenario analysis

- This metric would help in identifying the large loss-making clients due to an extreme up or down gap opening.
- This will be tracked by calculating the P&L using a series of stress test price change number for the entire portfolio.
- The series of stress test market change percentage would range from -20% to +20%, in pre-defined steps.
- A sample header is shown below -

Scenario Analysis (only Px movement)											
-20.0%	-15.0%	-10.0%	-5.0%	-3.0%	-1.0%	1.0%	3.0%	5.0%	10.0%	15.0%	20.0%

c) Price and IV change Scenario analysis

- This metric would help in identifying the large loss-making clients due to an extreme up/down movement in price, along with a commensurate increase/decrease in the Implied Volatilities.

- This would be tracked by calculating the P&L using a series of stress test price and implied volatility change number for the entire portfolio.
- For example, the P&L would be calculated for a scenario where the market drops by 20% and the IVs increase by 40%.
- There will be a set of P&L for 7-10 such scenarios (example below) that will be computed.

	Scenario Analysis (Px and IV movements)											
Price Change	-20%	-15%	-10%	-5%	-3%	-1%	1%	3%	5%	10%	15%	20%
IV Change	40%	30%	20%	10%	6%	2%	-1%	-3%	-5%	-10%	-15%	-20%

d) Options Concentration risk

- This metric would help in creating a concentration map at an overall level and a client level, based on the positions held at the end of the day.
- The concentration would be initially checked at a security level, followed by concentration based on Money-ness and expiry of the Futures and Options contract that exist in the holdings.
- The Money-ness will be categorized into five buckets namely,

1. Deep In-the-Money
2. In the money
3. At the money
4. Out of the money
5. Far out of the money

- The Expiry will be tracked at four levels namely,

1. Current month (CM)
2. Next month (NM)
3. Far month (FM)
4. Longer-dated (LD).

The above-mentioned reporting will happen daily on an end of day basis, and requisite actions (square-off, etc) will be taken on next day.

13. Special Cases:

a. <u>Corporate-action effects</u>

- In case of corporate-action the following activities shall be taken as mentioned in the table against each type of corporate-action.

Corporate Action type	Benefit type	Action
Bonus	Stock Benefit	Stocks shall continue to be the part of the NRML basket; however no credit for corporate action shall be given. Clients shall have to provide adequate fund /
Splits	Stock Benefit	
Rights	Stock Benefit	
Merger/ demerger	Stock Benefit	Pledge stocks shall be released; New pledge will be created out of the other available approved stocks and security shall be removed from NRML basket with 48 hours notice to the clients. In absence of the same clients shall have to provide additional fund or collateral to maintain his positions
Amalgamation	Stock Benefit	
Consolidations	Stock Benefit	
Hive-off	Stock Benefit	
Warrants	Stock Benefit	
Dividend/ Ex-or dividend	Cash Benefit	No action

b. <u>Surveillance action</u>

These actions are taken if the risk attributes associated with a security change due to a specific event or a market level event. The security basket for all the products will be changed periodically to incorporate scenarios that are more recent in nature and are a better representative of the situation in hand.

Any benefit/loss incurred due to these actions will be passed on to the client.

- A stock is added or removed from the approved security basket.
- The margin blocked for a security increases or decreases based on stock specific event.
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c. <u>Funds withdrawal requests</u>

- All withdrawal requests shall be processed to the extent of available clear funds after taking into consideration the unpaid obligation & uncollected charges.
- In case the available fund is not enough to meet the withdrawal request, the request shall be partially executed to the extent of available clear funds. Clients will be informed about the partial acceptance of the withdrawal requests via email and/or SMS.

d. Off market transactions

All off-market instruction slip shall be approved after the close of trading hours. The following parameters are to be considered before approving any off-market instruction slip.

- The Ledger balance at the beginning of day
- Bank transfer received during the day.
- Margin Blocked at the end of day.
- Delivery Sale proceeds
- Booked Profit and loss.
- Realized or Unrealized MTM
- Whether shares are pledged or not
- Ad-hoc debit.

e. Uncovered short sells.

- The margin blocked for the client will be slightly different for uncovered short sells. The EOD back-office system will block the 1.25 times the value of the position at the highest intraday price of the day the position is created.

14. System Downtime:

Any benefit/loss incurred due to the downtimes caused by the following events will be passed on to the clients –

- Exchange trading systems issues
- Internet connectivity issues
- Trading machine issues
- Power failure
- Strikes
- Force majeure
- Terrorist attacks
- War

15. End of Day Risk Management:

- The clients will regularly receive alerts in case of margin shortfall or MTM losses. The alerts will be shown on the trading terminal or will be sent via SMS/Email.
- End of day reports showing clients in shortfall will be updated on the Business Partner Portal at the BOD for branches/franchisees to access the same and for them to take the necessary action.

- Risk Alert report and a SMS is sent daily to the client providing him the gist of his positions in context to his Cash balance, Notional Cash balance and Collateral Value after haircut. It provides the client prior information about his standing with reference to shortfall level as indicated in the report.
- MIS is prepared for clients with Margin / MTM shortfall or wherein client net margin is negative then all such cases will be sent to CRO.
- Daily activity sheet will be signed by all the concerned Risk Officers. A monthly Dashboard will be submitted by Risk Team to the CRO as a confirmation of various compliances within the risk department.
- Special reports like Cross Trades, Faraway Option Trades, Scrip Concentration Report, Branch/Franchisee Turnover reports etc. are also being generated on a daily basis and an analysis of the same is also done to ensure that no suspicious transactions have been carried out.

16. Exchange Obligations:

- In case the client is found to be indulging in suspicious activities, the reporting to the exchange will be done under the rules set by the compliance team. The company is not responsible for any loss incurred by the client if he/she is found guilty of unethical practices.
- The company will fully comply in sharing all possible information with the regulator, exchange, or any other recognized regulatory body when a client specific issue is raised. The company reserves the right to inform the client based on the directions received by the regulatory body.

Facility of voluntary freezing/ blocking the online access

SEBI Circular No. SEBI/HO/MIRSD/POD-1/CIR/2024/4 dated January 12.2024 and NSE Circular No. NSE/INSP/61529 dated April 08,2024 advised the framework for Trading Members to provide the facility of voluntary freezing/ blocking the online access of the trading account to their clients on account of suspicious activities effective from 1st July 2024.The key aspects include modes of communication, timelines for action, validation and notification, reporting and record keeping, re-enabling access and policy disclosure. The Company shall take necessary steps to ensure compliance at all points of time.

Margin collection

RSL shall ensure that upfront margins, as stipulated by exchanges for each segment are collected from clients before any order is placed. Penalties for short or non-collection of margins shall not be passed on to clients, except in the following cases:

1. The client's cheque is dishonored.

2. Margin requirements increase due to changes in the client's hedge position or the expiration of one or more legs of the hedge.

17. Exception Handling Matrix:

- Any exception in managing client's margin limits will be recorded by the risk officer daily. A tracker with all these exceptions will be reviewed by the CRO monthly.

- All exceptions will be handled in the manner suggested below –

Adhoc Limits	Approving Authority
Upto Rs. 50000	Branch Head
Upto Rs. 1 Lacs	Managing Dealer
Upto Rs. 5 Lacs	Regional Dealing Manager/Regional Head
Upto Rs. 25 Lacs	Segment Head
Upto Rs 2 Crores	Risk Head
Upto Rs. 5 Crores	Business Head
Above Rs. 5 Crores	CEO/CRO/Head Treasury

18. Credit Appraisal of Debtors (Ledger debit >Rs 50 lakhs):

- Credit Appraisal of all the clients with debit higher than Rs 50 lakhs shall be done by the credit risk function. The credit appraisal shall include the conduct of account, client financial strength, client credit history etc.

19. Key Risk Indicators (KRIs):

- The Key Risk Indicators (KRIs) shall be compiled monthly and sent to the ERM function.

20. Policy Review and Amendments:

- The Operational Risk Management policy shall be reviewed on an annual basis and amendments if required shall be carried out. However, the management at its discretion may review the same more frequently as may be deemed fit and necessary for this purpose.