# Risk Management Framework

## InCred Capital Wealth Portfolio Managers Private Limited

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## Introduction

InCred Capital Wealth Portfolio Managers Private Limited (**referred as InCred**) leverages strong research capabilities with access to a team of domestic sector specialists and a global network of researchers to bring incisive insights and actionable recommendations for institutional clients as well as large individual investors. We have a strong focus on delivering client value based on our deep understanding of the Indian economy and market forces, our research capabilities, and our client-focused approach.

Our dynamic risk management framework is an essential feature of our operations, which ensures smooth functioning of business, and it also manages all types of risks.

The Policy is subject to change according to our risk perceptions of the market and SEBI/Exchange regulations for the time being in force.

## Types of Risks

All investments carry some degree of risk. It can lose its value – even its entire value if the market conditions sour.

Risk is any uncertainty with respect to the investments that has the potential to negatively impact the financial welfare.

Below are a few examples of different types of risks involved in the stock market.

1. Market Risk
2. Liquidity Risk
3. System Risk
4. Operational Risk
5. Regulatory and Compliance Risks
6. Other risks like Natural Calamities, Geo-Political, Risk of Rumours etc.

## Collateral and Margin

Collateral refers to an amount which is deposited with a broker. Collateral can be kept in form of cash and non-cash (dematerialized securities). Collaterals are collected on an upfront basis from the clients before the actual trade.

There are different types of margins which a client needs to be aware about, whenever client plans to execute a trade in the stock market. Below are the different types of margins collected by the exchange and broker. Margins are evaluated by the exchange and broker daily based on the market risk and other criteria.

- VAR Margin
- ELM Margin
- SPAN Margin
- Delivery Margin
- Additional margin

Client can give margin in various forms as mentioned below. It is mandatory to maintain 50% cash component margin by brokers as per the regulatory policy. However, client can pay entire upfront margin in the form of non-cash component. Failing in maintaining 50% cash component margin.

1. Cash Component
   (Cash, Government Securities, Liquid bees, Liquid funds)

2. Non-Cash Component
   (Equity, Mutual Funds, ETF and other approved securities identified by exchange)

## Trading limits

Trading limits are assigned to the clients based on their trading ledger balance across all the segments and pledged shares approved / accepted by the NCL and InCred after applying the appropriate haircut as per the risk policy.

List of approved securities is provided by the exchange on monthly basis. Exchange may shift the securities in unapproved category at any time.

InCred may charge additional haircut on stocks or may not accept the stocks for the margin benefit. InCred may also charge additional margin for trading in all segments which are above exchange criteria to protect the market risk.

***Trading Limits = (Combined Ledger balance + Value of pledge shares accepted by NCL / InCred – Unclear cheque - undelivered stocks of previous settlement - Unsettled credits if any)***

***** Trading limits to NRI clients is given based on their PIS bank account balance.

InCred offers different facilities to clients based on their risk profile, suitability and trading pattern. Facilities includes various levels of multiple exposure, intraday, margin trading (MTF).

Clients can choose Delivery or Margin product while placing order in equity segment. Below is the product wise set exposure on trading platform.

| **Scrip Category** | **Delivery Product** | **Margin Product** |
|---|---|---|
| A | 1 time | Up-to 5 times |
| B | 1 time | Up-to 3.33 times |
| C | 1 time | Up-to 2.25 times |
| D | 1 time | Up-to 1.66 times |
| Z | 1 time | 1 time |

The category of the scrips are decided by InCred based on certain parameters like market capitalization, liquidity, Exchange VAR, Promoter pledged, market intelligence etc. as mentioned in its risk policy.

In derivative segment margin is charged as per exchange requirement i.e. span + exposure margins + additional margins if any. For Options purchase required margin is equivalent to the premium amount. Incred may charge additional margin above the defined margin by the exchange.

**Below are important RMS points on limit setting on trading platform.**

Trading exposure is provided on combined level for all exchange and all segments.

Trading limits are not provided based on unrealized and booked profits for the day.

New exposure is not allowed on squared-off positions in one segment to another segment. Details mentioned in table below.

| Particulars | Limits available Cash segment | Limits available in Future (All Segment) | Limits available in Options Buy (Segment wise) | Limits available in Options Sell (All Segment |
|---|---|---|---|---|
| On Sq-off of Cash | Yes | No | No | No |
| On Sq-off of Futures | Yes | Yes | Yes | Yes |
| On Sq-off of Options buy positions | No | No | Yes | No |
| On Sq-off of Options sell positions | Yes | Yes | Yes | Yes |

POA / DDPI clients can sell their existing holdings available with InCred DP by selecting the delivery product while placing the order. Credit for Sell (CFS) benefit is not given after selling the holding stocks.

NON-POA client's need to give delivery instruction slip (DIS) before selling the stocks.

Short selling of Equity shares is not allowed.

InCred has set various RMS rules like single order value, single order quantity limits, market order and price protection to avoid market and liquidity risk.

Margin for trading against receipt of funds through online portal / cheque clearance / NEFT and RTGS are provided only after successful allocation at the exchange end. This process may take up to 15 minutes time.

**Margin Trading Funding (MTF)**

Margin Trading Facility (MTF) is a product approved by exchanges that allows clients to buy stocks by paying the upfront margin in form of Cash or pledged securities.

MTF allows an investor to buy a stock by paying required margin of the total transaction value. The balance amount is funded by InCred. Interest is applicable on the amount funded by InCred as per agreed terms.

For example: If a client wants to purchase stocks worth Rs. 20,000 but the funds or collateral securities available is only Rs. 5,000. In this case the client can opt for the MTF facility and get the trade funded through InCred MTF Facility.

MTF Funding and collaterals are allowed as per stocks classified by the exchange in group 1 securities and further classified in InCred's risk management policy.

Please refer terms and conditions, agreement for more details on acceptance of collateral, funding, margin, haircut and liquidation etc.

**Dealing in Restricted Scrips and derivative contracts as per exchange and InCred**

To exercise additional due diligence while trading in restricted securities and derivative contracts either on own account or on behalf of their clients:

InCred shall from time to time classify a list of securities which are restricted based on internal risk policy.

InCred reserves the right to refuse execution of any transaction requests of the client on such restricted securities or to reduce the open market interests of the client in such securities/ contracts.

InCred also reserves the right not to allow any trades or transactions in respect of certain securities or segments or orders/requests which may be below/above certain value/quantity as may be decided by InCred from time to time.

InCred may also restrict the market orders and price protection to mitigate the risk of dealing error and liquidity.

## Ageing Debit (T+5)

Ageing Debit Square off (T+ 5) It is client's obligation to clear outstanding dues by T+5 (T indicates Trading day). The client shall ensure timely provision of funds to InCred so as to meet exchange obligations. InCred reserves the right to close the positions / sell securities to the extent of ledger debit and /or to the extent of margin obligations. Selling will be done in clients account on T+5 days for the ledger debit which is more than T+5 days on ageing basis. For e.g.: All trades executed on Monday will be squared off on next Monday (T+5) where T indicates Trading day. In other words, if funds are not received for scrips purchased on Monday by Friday i.e. T+4, Incred shall liquidate securities to the extent of T+5 debit.

## Running account Settlement

Clients who have opted for monthly or quarterly settlement should also ensure the settlement as per the duration. Any credit balance lying in the client trading account (after adjusting the margin requirement) shall be paid back to the client on the settlement dates given by the regulators. If any debit is going on continuous basis during the settlement period and client fails to settle debit balance before the settlement date then risk will settle their account by selling the holdings before the settlement duration.

## CUSPA Pledge and Square off process

As pr SEBI Circular Stock broker is required to maintain a separate client unpaid securities accounts (CUSPA), which will pledge the shares of clients who have not paid for the purchases. Such shares cannot be held for more than 6 (T+5) trading days. After the creation of pledge, a communication (email / SMS) shall be sent by InCred informing the client about their funds obligation and also about the right of TM/CM to sell such securities in event of failure by client to fulfill their obligation.

## Criteria for holding stocks in CUSPA pledge and liquidation

Total Broking ledger including derivative margins if any will be adjusted against the available margin pledge holdings and payout for any outstanding post calculations will be pledged in CUSPA account. InCred considers the 1.50 value of the outstanding value for CUSPA calculation.

On 5$^{th}$ day (T+4) if client fails to make the payment then InCred RMS will liquidate the CUSPA pledge shares. CUSPA square off will be done to the extent of ledger debit or CUSPA holding value whichever is lower. Client will be informed one day prior of the liquidation.

InCred shall invoke the pledge only against the delivery obligation of the client post sending an intimation to the client. On invocation, the securities shall be blocked for early pay-in in the client's demat account with a trail being maintained in the InCred's client unpaid securities pledgee account.

**Physical settlement in Derivative segment**

On the last day of expiry, if the client wishes to convert the futures contract into physical delivery the entire delivery margin will have to be provided.

If the client wants to convert an ITM / ATM contract to physical delivery, the entire applicable delivery margin would have to be supplied in trances of 10% , 25% ,45%,70 % Four days prior in the mentioned sequence respectively as mentioned by the regulators .

All Options contract (ITM / ATM / OTM) will be blocked for trading on the expiry day

In case the required margins are not supplied or consent to convert the position into physical delivery then InCred RMS reserves the right to liquidate the contract

**Liquidation due to non maintenance of minimum margin or margin shortfall**

Based on the risk, all clients positions are evaluated time to time for ensuring that sufficient margin is available at all the times. In case of non-maintenance of minimum margin, following actions are initiated by the RMS department.

Conducting margin calls and asking clients to infuse additional margins or else reduce the positions according to the shortfall amount.

RMS may liquidate client positions in case of failure in providing adequate margin as and when demanded.

liquidation will be done on a best-effort basis and will be solely at discretion of InCred RMS.

Client himself needs to monitor positions, losses and dues constantly. InCred may or may not intimate the clients regarding the positions square off.

Based on the risk, every client account shall be evaluated to ensure that, sufficient margin is available at all the times as per the Margins defined in InCred's Collateral policy.

InCred reserves the right to close/ liquidate the open positions to the extent of the ledger debit or to the extent of margin obligations if the client does not clear margin obligations within stipulated time.

Selection of position to be liquidated will be as per best possible combination, which would cover maximum margin shortfall.

At any given point of time if the MTM exceeds 70% of client's available margin the RISK team would square off the complete positions of the client with or without intimating the clients.

For sake of better understanding, the square off percentage of 70% is basically the threshold base limit and it should not be construed as exact 70% for square off. The position may get squared off at exact 70% above the base threshold limit. Due to market extreme volatility, it may not be possible to monitor the square off limit from percentage (%) to percentage (%).

InCred may or may not intimate the clients regarding the square off process.

**Levy of margin shortfall penalties**

With reference to NSE (Circular No. NSE/INSP/64315) and BSE (Circular No. 20241001-48), dated October 1, 2024, regarding margin collection and reporting requirements. As per these guidelines, any penalties imposed by clearing corporations for short or non-collection of upfront margins will be passed on to the client if the shortfall is due to the following reasons:

- Cheque issued by the client to the broker is dishonored.
- Changes in margins resulting from adjustments in hedge positions or the expiry of one or more legs of the client's hedge positions.

The penalty structure for margin shortfalls is as follows:-

| Shortfall Collection per Client | Penalty on Shortfall |
|---|---|
| Less than ₹1 lakh and less than 10% of applicable margin | 0.50% |
| ₹1 lakh or more, or 10% or more of applicable margin | 1.00% |

Additional penalties include:

- If the margin shortfall persists for more than 3 consecutive days, a penalty of 5% will be applied for each subsequent day.
- If there are more than 5 instances of margin shortfall within a calendar month, a 5% penalty will be imposed for each further instance.

**Delayed payment Charges (DPC)**

- InCred charge DPC to client on debit balance if any in trading account on a monthly basis.
- DPC is calculated on T+1 basis.
- Unclear cheque is not considered as a clear balance till the date InCred receives a credit in its bank account.
- DPC is applicable on the margin positions which are above 90% of the client margin
- DPC is applicable on the margin positions where 50% cash component is not provided by the client.

**Facility of voluntary freezing / blocking of trading account**

NSE Circular- NSE/INSP/61529, dated April 08, 2024, broker to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients on account of suspicious activities. With reference to the circular, 2 modes available for the client for sending communication for freezing/unfreezing the trading account.

1. Email from client's registered e-mail ID
2. Customer Care Tele Calling Desk

**Policy review and Version History**

The Policy shall be reviewed at least once in a year or more frequently and all material changes will be highlighted to the relevant functional teams. Notwithstanding anything contained in the Policy, InCred shall ensure to comply with any additional requirements as may be prescribed under the applicable circular(s) regulations/ guidelines either existing or arising out of any amendment to such circulars/ regulations/guidelines or otherwise, issued from time to time.

Any subsequent amendment / modification in the applicable circular(s) /regulations/ guidelines shall automatically apply to the Policy and the Policy will be suitably amended during next review to avoid any conflict between the applicable circular(s) /regulations/ guidelines and the Policy