Risk Management Policy – Institutional Equities

Name of The Policy	**Risk Management Policy – Institutional Equities Broking**
Prepared By	**Risk Management Department**
Approved By	**Board of Directors**
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1. Background

Axis Capital Limited (ACL) is engaged primarily in Investment Banking (IB) and Institutional Equities (IE) business. As part of the IE business, ACL offers broking services primarily to its Institutional Clients for trading in Equities, both in the Cash and Futures & Options segment. The IE Research team also offers Research Services to their clients aiding them in their investment process through in-depth and fundamental analysis of a wide range of sectors, and the economy.

Most of ACL's trade volumes on any given day relate to Clients whose trades are settled by a Custodian. ACL does not handle the funds / securities of such clients except in case the trades are converted to Delivery versus Payment (DVP). The balance trade volumes are from clients acquired through referrals owing to strong group relationships with highly reputed business houses of India and select few very high net-worth, clients of repute.

ACL therefore acts as an "execution-only" Broker for such regulated, institutional clients which drive a major part of its business volumes, i.e. ACL does not handle the assets of such clients, i.e. funds / securities.

ACL has no branches for executing broking transactions, does not offer margin trading facility and it does not solicit retail clientele.

Given the above background and in keeping with its business requirements, ACL has implemented a risk management system for its IE business that complies with the rules, regulations, by-laws, circulars, and guidelines issued by the Securities & Exchange Board of India (SEBI), The National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE), as may be amended from time to time.

2. Scope and Coverage

The core elements of the Company's Risk Management framework for IE includes the following elements:

a) Compliance with the applicable rules, regulations, byelaws, circulars, and guidelines of BSE, NSE and the SEBI.

b) Risk-based approach through imposition of client margins, wherever applicable in compliance with SEBI / Exchanges- mandated procedures.

c) To identify various risk areas to which the Company may get exposed in the normal course of broking business and build in processes and checks to mitigate / minimize risk exposure.

This risk management framework differs depending upon whether the client is Institutional and Non-Institutional.

This policy shall be read in conjunction with other operational policies applicable to its broking business i.e.:

- Policy on Handling Error Trades

- Policy on Client Code Modification
- Compliance Management Policy

3. Governance Structure

This policy shall be applicable to all the employees who form part of the Broking business and are expected to keep themselves abreast of the Circulars and Guidelines issued by SEBI and the Exchanges from time to time.

The general roles and responsibilities of the stakeholders including the Board, Risk Management Committee (RMC) of the Board, Senior Management of the company related to all Risk policies are covered in the Enterprise Risk Management Policy. The specific responsibilities of the various operating units while carrying out this business have been covered in this policy.

4. Major Policy Areas:

This policy covers the following major areas:

Pre-Trade Risk Monitoring:

- Daily monitoring of Member level Margin at exchanges.
- Setting up new Client wise trading (exposure) limits.
- Monitoring for F&O:
    - Member Level Limit,
    - Banned/ Red Flag List for FPI and NRI clients.

Ongoing Risk Monitoring:

- Ongoing monitoring of the intra-day margin status with respect to Deposit/Margin placed with exchange and utilization.
- Increase of margin limit as per business requirement with appropriate approvals.
- Daily monitoring of Client level margin for all trades.

Post Trade Settlement Risk:

- Timely give up of F&O Trades in case of custodian settled trades.
- Handling of trades punched wrongly / Corrective Measures / Minimize exposure.
- Setting / Release of trading limits
- Settlement of DVP Trades
- Pay-in / Pay-out of Funds and Securities

A. Pre-Trade Risk Monitoring

- After the client on-boarding process, the Risk Team sets up the Client wise trading (Turnover) limits which is reviewed on an ongoing basis. This limit is assigned on the Front Office platforms for Institutional and Non-Institutional clients for all Exchanges.

- To mitigate trade risk, appropriate, terminal-wise, scrip-wise, client-wise limits are set at each of the trading terminals in accordance with the SEBI Circular Ref. No. CIR/MRD/DP/34/2012 dated December 13, 2012, and any subsequent amendments / modifications thereof.

- These limits continue to be recalibrated and reviewed on an ongoing basis depending on the internal risk management practices, market, and client activities, as well as exchange and the regulatory directives.

- Monitoring of FPI Red Flag / Breach List / Member Level Limit are done by the Risk team.

- Collection of Margins / Funds / Securities from Clients:

    - The 'margins' for this purpose shall mean VaR margin, extreme loss margin (ELM), mark to market margin (MTM), delivery margin, special / additional margin or any other margin as prescribed by the Exchange to be collected from clients.

    - As per SEBI guidelines, trading members need to mandatorily collect a minimum 20% upfront margin in lieu of VAR margins and ELM margins in advance of the trade from their marginable / non-custodial settled clients. Upfront margins may not be collected in respect of positions for which E block / early pay-in of securities/funds is made by the clients on the date of execution of the transaction. Collection of upfront VAR and ELM margins from clients is required mandatorily for the cash segment. The clients must ensure that the VAR margins and ELMs are paid in advance of trades failing which the exposure may not be approved or assigned.

    - Any new client may be permitted to trade only after establishing a margin deposit commensurate with the exposure level to be taken by the client. Additional margin may be called for as and when required by way of cash and / or acceptable securities. The securities would be subject to an appropriate haircut reduction in its valuation (at a rate not less than the VAR margin rate of the security on that day) as may be decided from time to time.

    - Margins may be collected from the clients in any of the forms as permitted by the exchanges from time to time and with appropriate haircuts.

    - As SEBI has granted the broker the discretion to decide the quantum and mode of collection of margins from marginable non-institutional clients, based on a risk-based approach, it has been decided that the PMS accounts of the SEBI-regulated institutional clients / entities and other clients whose trades are cleared by the custodian shall generally be treated at par with Institutional Investors as long as the Trades are approved by the Custodian on T day.

    - To ensure prudent risk management, at the discretion of the Head of Equities / Head of Risk & Compliance, or the Directors, in case of some high-value transactions, block-trades, etc. the client may be called upon to make advance early pay-in of funds / securities, to be deposited with the concerned exchange(s) to meet the margin requirement, as the case may be.

- Margin requirements are generally determined by the Operations Head / Senior Sales Traders/ Risk (with concurrence of the Head of Compliance & Risk, Directors and / or the Head of Equities, wherever required). Some of the factors that may be considered in determining whether a client should be subject to margin requirement norms include but are not limited to the following:

  a) Scrip price
  b) Transaction value
  c) Exchange-prescribed (ASM/ GSM), scrip-specific margins (e.g Mark-to-market loss (MTM), Value-at-risk (VaR), Extreme Loss Margin (ELM) etc.)
  d) Overall risk-profile of the client
  e) Financial position
  f) Previous track record, if any
  g) Other business relationships, if any

- The margin collected from each client as at EOD and peak margin collected during the day will have to be reported to the exchange. Any shortfall in collection of the mandatory margin obligations shall be considered for levying of penalty as per the exchanges' framework.

- ACL shall have the right to not permit transfer of securities to the clients in the event of non-payment / partial payment, and then such securities can be disposed-off within 5 trading day from the date of pay-out (as per the extant exchange guidelines) in proportion to the amount not received and after considering any amount lying to the credit of the client. The balance securities shall be transferred to the respective client's demat account. Further, as per the demand made by the client, ACL will be required to release the securities to the client demat account to the extent of the amount received. Any exception to the above shall be done with the approval of the Head of Equities.

B. Ongoing Risk Monitoring

- **Daily monitoring of Client level margin for intraday and delivery trades:**

  To mitigate the risk of misappropriation or misuse of client's securities available with the Trading Member (TM)/Clearing Member (CM) including use of client's securities to meet the exposure, margin, or settlement obligations of another client or of the TM / CM, SEBI vide its circular SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated 20th July 2021 has laid down a framework for segregating and monitoring of collateral at client level.

  Accordingly, daily monitoring and reporting of the client level margins, and utilization will have to be followed as per the extant guidelines.

- **Continuous monitoring of margin status w.r.t. Deposit placed with exchange and its utilization:**

  It is important that the Risk / Operations Team is aware of the extent of the margins available before start of day and on an ongoing basis for each of the exchanges/ segments. The Dealers/Traders must check the margin availability before punching any large marginable trades. Any exposure beyond the margin limits will lead to the deactivation of the terminal. Presently, this limit is 90% of the capital placed with the Exchange; the breach of which may lead to the trading member being placed in risk reduction mode. As and when the member moves into risk reduction mode, all unexecuted orders shall be cancelled. Accordingly, the internal threshold has been fixed at 80% and would be monitored on an ongoing basis. If the internal threshold is triggered, Operations / Risk should immediately alert the traders and appropriate action such as bringing in extra funds to be placed as margin with the exchange, slowing down on incremental client orders, etc. needs to be initiated to ensure that we remain within the limits.

- **Increase of margin limit as per business requirement with appropriate approval:**

  Sales Traders / Traders should also be aware of the margin utilization and in anticipation of any large trades, if required, in consultation with the Risk and Operations team, seek enhancement of limits by increasing the margins.

  The Operations / Risk team shall co-ordinate with the Finance team for any such requirements for increasing the funds placed with the exchange.

- **Receipt of Orders from Clients:**

  Any communication gap in receiving orders from the client poses a risk to the Company. Accordingly, order from Clients shall be received only through such means of communication which leave an audit trail. ACL shall execute trades of clients only after keeping evidence of the client placing such order and also maintain records in accordance with the SEBI circular SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, as amended from time to time.

C. Post-Trade Settlement Risk

- **Settlement of Funds /Securities**

  1. Any amount due against securities purchased shall be generally collected on T+0-day basis or T+1 day basis in line with the requirements of the Exchange.

  2. In the case where the client has sold securities, the same are received from the client on T+0 / T+1 day basis to facilitate the securities' pay-in as per the exchange's settlement program announced from time to time.

  3. As per SEBI circular SEBI/HO/MIRSD/DoP/P/CIR/2022/143 dated October 27, 2022, the facility of block mechanism shall be mandatory for all Early Pay-In transactions, excluding for clients having arrangements with custodians registered with SEBI for clearing and settlement of trades. However, on an

exceptional basis the client can transfer the securities to the firm.

4. As regards introduction of T+0 rolling settlement cycle, which is in addition to the existing T+1 settlement cycle in the equity cash markets, all guidelines as issued by SEBI and exchanges from time to time will have to be followed.

- **Auction / Close-Out**

1. If the shares sold are not received from the client in time for pay-in of securities on T+1 or T+0 day as the case may be, the obligation may be deemed to be closed-out at the auction price or close-out price in terms of the applicable Exchange Regulations, and the loss, if any on account of the close-out may be debited to the account of the client.

2. If payment for the shares purchased is not received from the client in time for pay-in on T+1 or T+0 day, as the case may be, the securities received in pay-out may be sold out in terms of the applicable Exchange Regulations, and the loss, if any, may be debited to the account of the client. Any exception to the above shall be done with the approval of the Head of Equities.

- **Transferring Securities / Payments to the Client:**

1. As per SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 8, 2023, no client funds shall be retained by Stock Brokers (SBs)/ Clearing Members (CMs) on End of Day (EoD) basis. The clients' funds shall be upstreamed and downstreamed by SB/CMs to CCs and vice versa in the form and manner as defined in the circular.

2. Securities purchased for the client are to be held in the pool account upon receipt from the Exchange clearing house and released to the client's beneficiary account after receipt of payment of funds for the same.

3. Similarly, payment for securities sold shall be made after receipt of the securities from the client. However, the same may differ in case of DVP trades and in other cases, provided however that in so doing, there shall be no contravention of the SEBI requirement of complying with the guidelines regarding payment of funds/ transferring securities to clients within the specified timeframe.

4. Payment of funds or transfer of securities to the client shall take place as per the settlement program as announced by the relevant exchange(s) but not later than 1 working day from such declaration of pay-out.

5. Review of the Policy

This operational Policy shall be reviewed once a year. However, during the year whenever there is a regulatory amendment which necessitates any changes to the policy, it will be updated and approved by MANCOM.