SPARK INSTITUTIONAL EQUITIES PVT LTD

Risk Management Policy

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V3	October 21, 2024	SIEPL Risk Team	Board of SIEPL	Penalty provision is added
V4	January 29, 2025	SIEPL Risk Team	Board of SIEPL	Penny stock clause is added

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Introduction and Objective

Spark Institutional Equities Pvt Ltd. ("SIEPL") has adopted the Risk Management Policy (the "Policy") in compliance with stock broking regulations and circulars issued by SEBI and exchanges and its amendments from time to time.

The objective of this policy is to document the Risk Management Framework in the broking business at SIEPL which will help govern the identification, measurement, monitoring, and management of risks.

Below are the objectives set out by SIEPL:

- To integrate risk management into the culture of the organization.
- To establish an integrated framework for the company's risk management process and to ensure proper implementation.
- To implement a pro-active approach in reporting, evaluating and resolving risks associated with the business.
- To define necessary controls required for each category of client considering the risk involved, the market conditions, etc.
- To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.

Overview of Risks in a Broking Business

The broking business at SIEPL may face numerous risks, both for itself and its clients. These risks can be broadly classified as under:

a) **Regulatory Risk:** Regulatory changes, compliance failures, or legal issues can pose significant risks to Broking business. Brokers need to stay abreast of regulatory developments and ensure compliance to avoid penalties and legal liabilities.

b) **Market Liquidity Risk**: Liquidity refers to the availability of volumes in the market for trading in a stock or the ease of buying or selling an asset without significantly affecting its market price. In case a Broker is unable to fulfill client orders, the same may result in transfer of trades in error account /

c) **Counterparty Risk:** Arises in case of failure of a client to meet their contractual obligations. This may interrupt cash flows and result in funding requirements which may increase costs.

d) **Operational Risk:** Encompasses risks arising from lapses in internal processes, systems, and people. It includes risks of errors, fraud, technology failures, and compliance breaches. Operational failures can lead to financial losses, reputational damage, and regulatory penalties for brokers.

e) **Reputational Risk:** Brokers face reputational risk if they engage in unethical behavior, provide poor service, or fail to meet client expectations. A damaged reputation can lead to loss of clients, business opportunities, and revenue.

f) **Cybersecurity Risk:** With the increasing digitization of financial services, brokers are vulnerable to cyber threats such as hacking, data breaches, and ransomware attacks. Cybersecurity failures can result in financial losses, data theft, and reputational damage.

g) **<u>Systemic Risk</u>:** This refers to risks inherent in the financial system, such as economic downturns, systemic financial crises, or disruptions in the clearing and settlement systems. Brokers and their clients may suffer losses during periods of market stress or instability.

Managing these risks requires a combination of well-defined risk management practices, compliance with regulations, ongoing monitoring of market conditions, investment in technology and cybersecurity measures. SIEPL has set up robust systems & procedures to mitigate the risk involved in day-to-day operations.

Risk Governance at SIEPL

The responsibility towards Risk Management has been defined at each level of the organization structure:

The Board of Directors provides guidance, approves the strategic plans and objectives and assigns primary responsibility for managing risk.

The Risk Management Team of SIEPL is responsible for creating the policy and strategy for risk management, building a risk awareness culture within the organization, designing and reviewing / continuous monitoring of processes for mitigating ongoing risks.

All employees shall actively support and contribute to risk management initiatives, maintain an awareness of risks that relate to their area of business and escalate un-attended risk to attention of the senior management.

Risk Management Practices at SIEPL

I. Limit setting

Setting limits for broking clients is a fundamental risk management practice aimed at controlling exposure to potential losses and ensuring compliance with regulatory requirements. At SIEPL, clients are bifurcated as under, and limits are pre-defined for each category of client:

- **Custodial Participant (CP) code:** The default limits are set in the Omnesys and Greek system for Custodial Participant (CP) code also referred as “INST” clients.

- **Non-CP code clients:** The limits given to clients in the cash segment will be as per the collaterals placed with SIEPL either in the form of Cash or Securities by these clients.
  - <u>Limit calculation methodology:</u> The limits given to Non-CP code clients are based on the collateral value (i.e. ledger balance and securities provided as margins) post haircut.
  - <u>Limit revision during the day:</u> During the day, the client exposure may be restored / enhanced on receipt of additional valid collaterals or withdrawal (funds and securities).

  Note: Collateral value is calculated as per VAR haircut during market hours.

II. Trading restrictions

SIEPL, at its own discretion, may restrict trading in certain categories of scrips and restrict single order quantity & value at client level based on exchange requirements as well as at trader level on their terminal based on its internal analysis:

1. **Scrip restrictions:**

Trading in restricted / exchange cautioned scrips will be selectively allowed on a case-to-case basis depending on the specific scrip and client profile. The list of restricted scrips falls under the following categories:

- Additional / Graded Surveillance Measure securities (ASM/GSM scrips)
- Exchanged specified Banned securities.
- NRI banned scrips for NRI clients.
- FPI banned scrips for Institutional clients.

The data for all restricted or banned scrips is captured from the exchange site or exchange files and updated on the terminals either via uploader or through an automated process.

In certain cases, the client shall be allowed to trade in ASM/GSM/F&O banned scrips based on his specific request.

2. **Restriction on single order quantity and value:**

SIEPL imposes restrictions on single order quantity and value to manage risk and ensure compliance with regulatory requirements. The single order value is defined as INR 10 crores for both segments (Cash and F&O) according to exchange guidelines, and the order quantity limit is defined based on the type of clients.

3. **Other Trading restrictions:**

SIEPL imposes restrictions on market orders for Normal and Algo trades. Further, price protection mechanisms are implemented in the system to safeguard against significant price fluctuations or volatility for Normal and Algo orders as per regulatory restrictions.

Every terminal has been assigned with a predefined limit on a transaction value. This limit may be revised during the day based on a request from the Head of Dealing / Dealers. This limit is reversed back to the original limit at the end of the day. The risk management team shall send a consolidated list of all changes / enhancements during the day to the Head of Dealing before the end of day.

Based on the details provided by exchanges, the client wide position limits and freeze quantities are monitored by the risk management team through the system.

SIEPL may, at its own discretion, impose restrictions on the trading of penny stocks.

III. Square off / Close out of Positions

SIEPL follows the process of liquidating or offsetting an existing position depending on various factors such as market conditions, regulatory requirements, and the terms of the brokerage agreement. This action may be initiated by SIEPL or by the client. Some common scenarios where SIEPL may square off or close out positions are Margin Calls, and adherence to Regulatory requirements.

Wherever applicable, a debit in the ledger means an amount to be paid by the Non-CP clients to SIEPL. A ledger of the client can be in debit due to all or any of the following reasons:

- Shares purchased under delivery or under collateral benefit,
- Transaction in F&O,
- Any other charges incidental to trading.

The Client must clear the debit balance either by transferring funds or SIEPL can sell the shares held in SIEPL's account such as CUSPA (Unpaid) and pledge of securities in client accounts and lein marked with SIEPL.

The Debit balance which is equal to or more than 5 days after Settlement Day would be considered for calculating the amount to be recovered. A suitable markup would be levied on the amount to be recovered to the extent of:

- Brokerage and other statutory charges
- To factor in a probable drop in the share price on the day of the square off.

IV. Changes in policy during high market volatility

Market is considered volatile when either of the following event occurs:

- Market Price movement by 5% in a day, in any direction.
- 5% price movement in a day and regaining either the full or part during the day.
- Any other exceptional circumstances.

During high market volatility (generally a downward trend in the market), changes may be made to this policy as deemed fit to safeguard the interest and prevent any unforeseen events based on the approval of the Head of Dealing and / or Business Head. Changes that can be made during such period are:

- Change in limit computation methodology
- Exposure margin shortfalls, if applicable
- Withdrawal of default limits given, etc.
- Increase in haircut on collaterals
- Disallow trading in illiquid scrips/ T2T scrips
- Disallow trading in scrips where there is negative news
- Payout to be released on discretionary basis
- Withdrawal of any other special benefits given to all categories of clients

In exceptional circumstances, the changed parameters would be retained if the downward trend continues or until the market is back on track. A proper review will be carried out to reset the parameters to normal levels. In case of any changes in the parameters, the same will be communicated to the respective business teams.

V. Requirements of Upfront Margin Collection & Allocation

SEBI vide circular SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021, made it mandatory for the Trading Members to collect and allocate upfront margins to clearing corporation ("CC") received from the clients.

In case of securities collateral provided to CC through margin pledge/re-pledge in the Depository system, CC has visibility of the client to whom such securities belong to, and accordingly is able to assign the value of the securities collateral, based on applicable haircut, to that client's account.

Similarly, for other forms of collateral placed with the CC, the CCs has provided a facility to Clearing Members ("CM") for upfront segment-wise allocation of collateral to a Trading Member ("TM") / client or CM's own account. The CCs use such collateral allocation information to ensure that the collateral allocated to a client is used towards the margin obligation of that client only. However, upfront margin collection and allocation are not applicable to the clients whose trades are settled by a Custodian.

VI. Securities acceptable as margins

Only exchange approved list of securities shall be accepted as margin All shares will be subject to haircuts as per exchange VAR haircut. Clients may pledge securities to SIEPL's Client Margin Pledge Account for the purpose of margin. SIEPL will further re-pledge the stock with CC.

Request for unpledged shares will be processed / calculated based on client's margin utilization & open position (if any). Securities maintained in the Client Unpaid Securities or margin pledge accounts of SIEPL would be considered for liquidation to the extent of the amount to be recovered.

Note: Debit liquidation process and moving securities to CUSPA will be applicable only for Non-Institutional Clients / Non-Custody Settled Accounts.

VII. Internal Shortage & Close-out of positions (applicable only to Non-CP Code clients)

Operations Team carries out the necessary process to meet the shortages on case-to-case basis for non-CP clients. Systems are in place to mark/generate bills of Internal & Exchange Shortages.

The operations team will follow-up with the clients for timely collection of receivables, clearance of margin shortfall and close out of the positions in case of failure in clearing the dues/shortfall by the client.

Wherever applicable, the client positions are closed out based on ageing of the debit (T+5 day). In the following circumstances, the positions may be closed out where:

- Client delays or fails to meet the pay-in obligation / mark-to-market (MTM) dues / clearance of debit balances by scheduled date or clear effect is not received for the cheque deposited by the client to meet obligation,
- Client has not honored the sale obligation by delivering shares in time,
- Client has exceeded volume more than permissible internal limit, if any, in illiquid / penny stocks / long dated options / far month options or has entered in excessive speculative trading,
- Client has dealt in scrip in BAN list (due to breach of internal / exchange limit defined for market wide position limit / trading member wide position limit / client wide limit in F&O segment),
- There are irregularities in dealing and other surveillance / anti money laundering (AML) related observations on the client,
- Any direction from SEBI/Exchange or such other authorities against the client

Such liquidation may be in full or partial to the extent of shortfall / debit. Securities / positions / contracts selection would be as per applicable regulations and at the discretion of SIEPL.

SIEPL shall have the right to sell a client's securities or close out client's open positions / contracts, but it is not under any obligation to undertake this exercise compulsorily. Clients are expected to ensure that payments are received on a timely basis and liquidation should be exercised on an exceptional basis.

VIII. Controls in place to reduce the impact of punching errors

In case of any error, the trade is transferred to the "ERROR" account and squared off on highest priority to reduce/restrict the impact of the error.

IX. Treatment of dishonored Cheque

An intimation shall be sent to the client about the dishonored cheque by Operations.

X. Third Party Funds and Stock transfer

As per regulations, third-party Funds and Stock transfer are not allowed. Fund transfer must be from the client's designated Bank account. Stock transfer must be from client's own DP account. Transfer of Fund and Stock from Family / Group client codes are also not allowed.

XI. Payout of funds and securities

Payout may be denied in the following cases:

- Debit balance in ledger / Unrealized bill credit
- Unclear funds
- MTM debit
- Margin shortfall
- Exposure given against the credit balance and / or stock value is already utilized

XII. Upfront Margins Penalty

Penalty levied by clearing corporations of short/non-collection of upfront margins can be passed on to client if short/non collection of upfront margin is on account of following reasons attributable to client:

- Cheque issued by client to member is dishonored
- Increase in margins on account of change in hedge position by client/ expiry of some leg(s) of the hedge positions of the clients

Policy Review

This policy shall be reviewed at least once in a financial year or earlier, in case of any changes in regulation and exchange requirements.