

Document Name	Comprehensive Integrated Risk Assessment, Governance and Management Framework
Document Creation Date	14/09/2023
Document Created By	Manager Surveillance
Version Control History	1.0
Document Reviewed Date	05/12/2024
Document Reviewed By	CISO & CRO
Document Approved By	Standing Committee on Technology

Comprehensive Integrated Risk Assessment, Governance and Management Framework

PURPOSE:

Integrated Risk Management for transactions in NSE/BSE segments u/s 13 of SCRA is the main purpose of this procedure to mitigate real-time risk associated to securities trading through NSE & BSE under section-13 arrangement of SCRA. To carry out Risk Management Process in multi exchange trading software like ODIN as we use it for Section-13 trading arrangement with NSE & BSE.

COMPREHENSIVE RISK MANAGEMENT POLICY

The Business model for CSE consists of Trading of Brokers & their Authorized Persons in CSE as well as BSE-CSE and CSE-NSE arrangements. The clients are linked or mapped to the Brokers, herein after called as Branches, and are engaged in trading from these Brokers. Controlling and monitoring of these trades are done from RMS/ surveillance department

Major Functions of RMS/Surveillance:

- Allocating exposure/margin to the Brokers/clients' trading account as per instruction of broker and enabling the clients' to do trades.
- Monitoring of orders & trades by Brokers. Checking of order rejections and increasing Margin/exposure, if required.
- Monitoring the MTM profit/loss incurred out of trades, comparing the Actual Margin requirements of clients and the Total Margin available for clients on a one to one basis and initiating remedial actions, if required.
- Decision taking with regard to squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may come across.

In short, the Risk management in relation to all the trading activities for Clients is handled by Surveillance Department

HIERARCHY:

In CSE, Surveillance department employs one executives & one staff, who are reporting to Manager-Surveillance. Manager Surveillance is reporting to CGM. Decisions relating to routine activities are made by Manager-Surveillance. Activities which contain high risk and complications are to be put forward to the notice of CGM and proper guidance should be taken before executing any action on such activities.

The Calcutta Stock Exchange Limited classifies Brokers into High Risk Profile, Medium Risk Profile and Low Risk Profile. Such classification is done based on a relationship maintained with Brokers and based on the input received from Surveillance department of NSE and BSE. Apart from this, all the Brokers are evaluated based on the initial margin and subsequent margins paid by them. The trading patterns of Brokers are also taken into consideration for classification of risk profile.

POLICY ON COLLATERAL DEPOSITS:

Trading members are required to provide liquid assets which adequately cover upfront margin requirements. A trading member may deposit liquid assets in the form of cash, bank guarantees, fixed deposit receipts, approved securities and any other form of collateral as may be prescribed from time to time. The total liquid assets comprise of the cash component and the non-cash component wherein the cash component shall be at least 50% of liquid assets.

Approved Securities:

Trading members are permitted to pledge shares which includes existing approved list of the Exchange and all scrips listed with NSE, and Group – A & Group -B securities of BSE. And units of mutual fund subject to assessment of Head of Risk Management Group. Securities are required to be pledged in electronic form ('demat securities') in the CSE's designated depository accounts. These securities shall be pledged in favour of The Calcutta Stock Exchange Ltd. (CSE). CSE may revise the list of approved securities and the haircuts from time to time. Trading members who have deposited securities which have been discontinued from the list of approved securities, shall be required to take due care to replace such securities.

Valuation:

The securities are valued on a daily basis based on the closing price of the security in the Capital Market segment of NSE / BSE. The haircut applicable for the security will be VaR of BSE /NSE and as per the assessment of head of Risk Management Group... This haircut shall be applied on the value of the securities provided by the Trading Members to arrive at the net value of the securities. Only the value net of applicable haircuts shall be considered as the value of the securities.

Fixed Deposit:

Members are permitted to submit fixed deposit receipts as collateral towards liquid assets.

Mutual Funds:

Trading Members are permitted to pledge open ended mutual fund units available in demat form as collateral towards Liquid assets. A deed of pledge is required to be executed in specified formats. CSE may revise the list of approved mutual fund

scheme and the haircuts from time to time. Members who have deposited mutual funds units which have been discontinued from the list of approved scheme, shall be required to take due care to replace such units.

Valuation:

The mutual funds units are valued based on the Net Asset Value of the mutual fund unit. The value of the mutual fund unit is reduced by such haircut as may be prescribed by CSE from time to time to arrive at the collateral value of the mutual fund unit. The hair cut applicable shall be the VaR margin rate and exit load if any applicable for the respective mutual fund scheme. Only the value net of applicable haircuts and exit load shall be considered as the value of the mutual funds pledged. Valuation of mutual funds are done by the Exchange at periodic intervals. Further, the total value of mutual funds units provided as non cash portion of the liquid assets shall not exceed 25% of the liquid assets of the respective member.

Units of money market mutual fund and Gilt funds (including units of open ended liquid mutual funds or government securities mutual funds) where applicable haircut is 10%.

Government Securities and T-Bills:

- Clearing member desirous of providing G-Sec / T-Bills shall enter into an agreement with NSE Clearing as per the format.
- NSE Clearing shall prescribe list of G-Sec/T-Bills that shall be eligible for acceptance as collateral from time to time.

G-sec/T-bill shall be accepted as collateral only in electronic form. Clearing members desirous of providing G-Sec/T-Bills as collateral shall put a request in CIM. Clearing members shall further be required to enter the transaction on NDS under Settlement-Transfer Order-Clearing Agency Contribution by 3.30 pm. NSE Clearing shall confirm the transaction entered on the NDS, based on the information received from member through e-mail.

Computation of Margin:

Value at Risk (VaR)

As per SEBI's circular No. MRD/DOP/SE/CIR-07/2005 dated 23.02.2005 securities traded in the platform of NSE/BSE u/s 13 of SCRA attract VaR margin.

Extreme Loss Margin (ELM)

ELM is applicable as per rate of NSE and BSE.

Mark to Market Margin (M2M)

Mark to Market Loss is calculated by marking each transactions in security to the Closing Price of the security at the end of trading. In case the security has not been traded on a particular day, the last available closing price at NSE is considered as the Closing Price. In case the net outstanding position in any security is nil, the difference between the buy and sell values shall be is considered as notional loss for the person of calculating the mark to market margin payable.

Trade for Trade Segment (TFT segment)

In cases of securities in Trade for Trade segment, the upfront margin rate is 100% and each trade is marked to market basis on the closing price of the security.

Margin Shortfall

In case of any shortfall in margin, the terminals of the broker shall be immediately deactivated and a penalty is charged to the member as mentioned below:

Sl. No.	No. of Instances	Penalty (Rs.)
1	1 to 3 instances	Rs. 500/- per instance +GST
2	4 to 5 instances	Rs. 1000/- per instance +GST
3	6 to 10 instances	Rs. 2000/- per instance +GST
4	Over and above 10 instances	Rs. 5000/- per instance +GST (Matter will be placed before DAC)

Short fall of pay-in of Funds

Traders' Work Station (TWS) of member who fails to meet pay-in of fund obligation is deactivated and the pay out of securities of such is withheld. Upon recovery of the complete shortages, the member shall be permitted to trade subject to his providing a deposit equivalent to his cumulative funds shortage in case of shortfall on six or more occasions in three months period as the "funds shortage collaterals" and such deposit shall be kept with MOP for a period of ten Rolling Settlements and shall be released thereafter. Such deposits shall not be available for adjustment against margin liabilities and will also not earn any interest.

Procedure for Risk Management in ODIN

- A. To carry out Risk Management Process at the beginning of the Day (prior to commencement of day trading)
 - i) download VN file from FTP (File Transfer Protocol) of BSE and NSE;
 - ii) upload this file in Class Back Office System;
 - iii) after RMS process, retrieve file (Limit Report) from CLASS Back Office System, generate customised reports which includes data of Total

- Margin used, Revised Deposits for Cash Market, Revised Deposits for F&O segment for department's use;
- iv) Upload deposit amount of members in Front end system i.e. ODIN system;
- B. To update Margins of members upon transfer of margin by members in Margin Bank A/c of the Exchange :
- As per requirement of trading member(s), they transfer funds to the respective margin (Bank) account of the Exchange. After receiving confirmation from Margin Department, the RMS Department increases the Cash Deposit amount (i.e. Margin amount) of respective member to the extent of amount transferred, in ODIN system.
- C. To reduce margin deposit of members upon release of pledged shares
- RMS team ascertains effective value of pledged shares by deducting VaR margin amount from Gross Value of pledged shares. RMS team reduces the Cash Deposit amount (i.e. Margin amount) of respective member to the extent of the said effective value in ODIN system.
- D. To reduce of margin deposits of members upon release of pledged Fixed Deposits with Clearing Corporations
- Before release of the instrument, RMS team reduces the Cash Deposit amount (i.e. Margin amount) of respective member to the extent of released Fixed Deposit amount, in ODIN system. Thereafter, the said FD would be released from Collateral Module of ICCL.
- E. To release margin amount upon delivery of Early pay-in of Securities (for Cash Segment)
- Generally, Schedule time for Pay-in of Securities is T+2 day. RMS Department Blocks the utilised margin amount for the trades executed in T-day till pay-in completed. If any member completes (fully / partly) pay-in of securities before the said scheduled date, then RMS Department releases the blocked margin amount to the extent of amount blocked on those early pay-in of shares .
- F. To release margin amount upon completion of Early pay-in of Funds (for Cash Segment)
- Generally, Schedule time for Pay-in of Funds is T+2 day. RMS Department Blocks the utilised margin amount for the trades executed in T-day till pay-in completed. If any member completes (fully / partly) pay-in of funds before the said scheduled date, then RMS Department releases the blocked margin amount to the extent of amount blocked on early pay-in of funds.
- G. Actions against members when shortfall in margin occurs (in F&O segment)
- In F&O segment, Shortfall of margin money needs to be collected within Tth day. After End of Day process, the RMS Department checks shortfall

amount and instruct the margin department to collect the same from respective member, failing which penalty of 0.25% plus GST (as applicable) of the shortfall amount is imposed (subject to minimum amount of Rs.500/-). However, during Intra-day shortfall of margin RMS team asks the concerned member to cover the shortfall amount by paying margin immediately or to reduce open position so that the short fall would be covered.

H. Actions against members when shortfall of pay-in funds

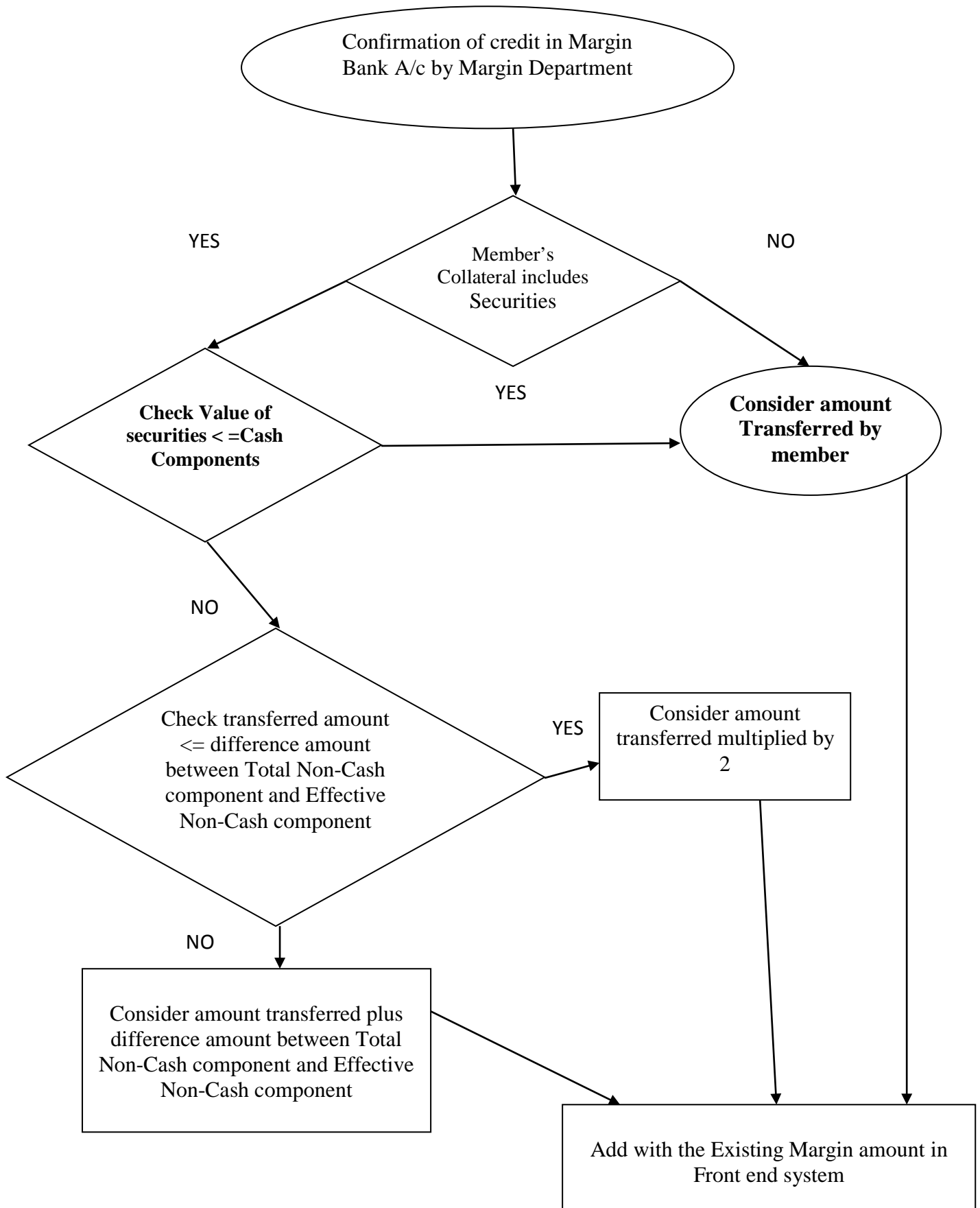
On T+2 day, if any member fails to fulfil pay-in obligation within the specified time, upon getting confirmation from respective department RMS Department suspends TWS of Cash segment of the default member. However, TWS of F&O Segment remains active only for allowing them to reduce their open position in the segment.

I. In case of shortfall in pay-in of funds, following steps to be undertaken for recovery:

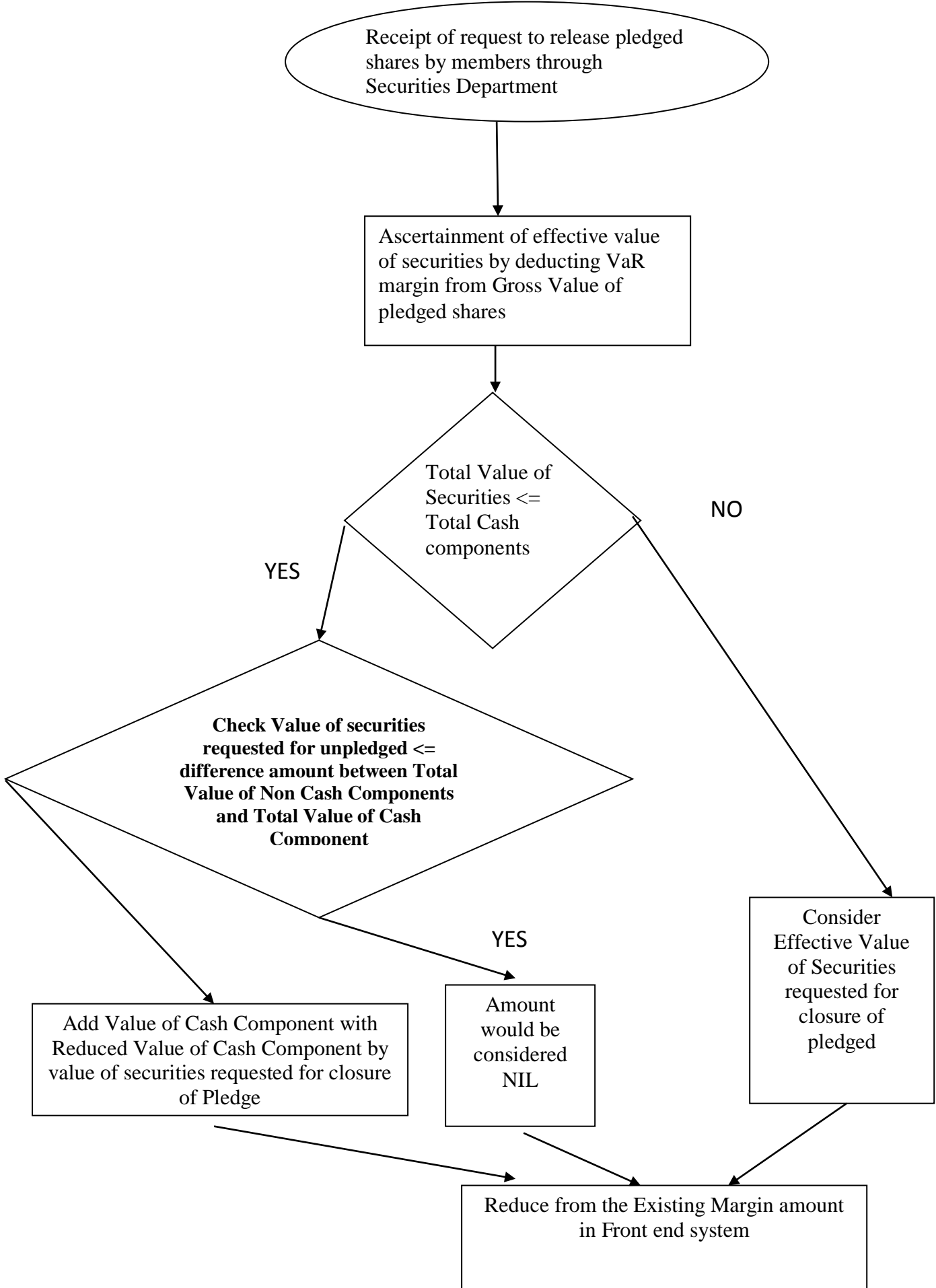
- i) At first, deactivate TWS in Cash Market of defaulting member whereby the said member will not be able to place further orders and execute further trades, however, TWS in F&O segment would remain active of the said member only to allow the member to reduce / square off their open position in the segment;
- ii) Exchange requests the impugned member to complete pay-in shortfall immediately;
- iii) Ascertain the default amount and instruct both margin department and securities department not to release any funds or securities to the said member, till further advice ;
- iv) Utilise funds kept in margin and securities department to meet the defaulted amount. If the amount is insufficient to meet the defaulted amount then revoke pledged FDs and BGs to utilise to meet the defaulted amount;
- v) Even after the revocation of pledged FDs and BGs, if Defaulted amount persists, convene a meeting of defaulter committee and invite the defaulter member to submit their submissions before the said committee;
- vi) Members of Defaulter Committee considering facts and circumstances, may declare the said member as defaulter;

It is pertinent to note that the Exchange applies 0.88 times and 0.96 times as margin multiplier for Cash Markets and Futures and Options Markets respectively.

Flowchart to update Margins of members upon transfer of margin by members in Margin Bank A/c of the Exchange:



To reduce margin deposit of members upon release of pledged shares



Version Control History

Version Creation Date: 14/09/2023
Version Number: 1.0

Changes: