Title of document	Manual of Risk Management of: ISE Securities and services ltd Registered office: Vashi ,Navi mumbai
Date of Approval & Signature of Approving Authority	
Version Name &Number	RM 1.0.5

Sr.No.	**Process Title**
A1	Risk Management scope & Objectives
A2	Risk Management Organization
A3	Risk Recognition Statement
A4	Risk Management Policies and Controls
A5	Risk Acceptance Statement
A-6	Monitoring of Risk

Operation	**Risk Management**
Process number and name	**A1- Risk Management Scope & Objectives**

1. ***Risk Management Scope& Objective:***

The management of ISE SECURITIES AND SERVICES LTD .commits to put in place a Risk Management system to recognize, assess and mitigate the risks that the organization maybe exposed to. The risk management function shall be modified and improved as business changes and improved processes and procedures become available.
The objective of the Risk management function is to ensure that all risks, which threaten the business, are recognized, controlled and reduced to an acceptable level and all applicable regulatory requirements of the various regulatory authorities are complied with.

Risk at ISE SECURITIES AND SERVICES LTD .is classified into two broad categories-

1- Trading Risk
2- Non- trade risk

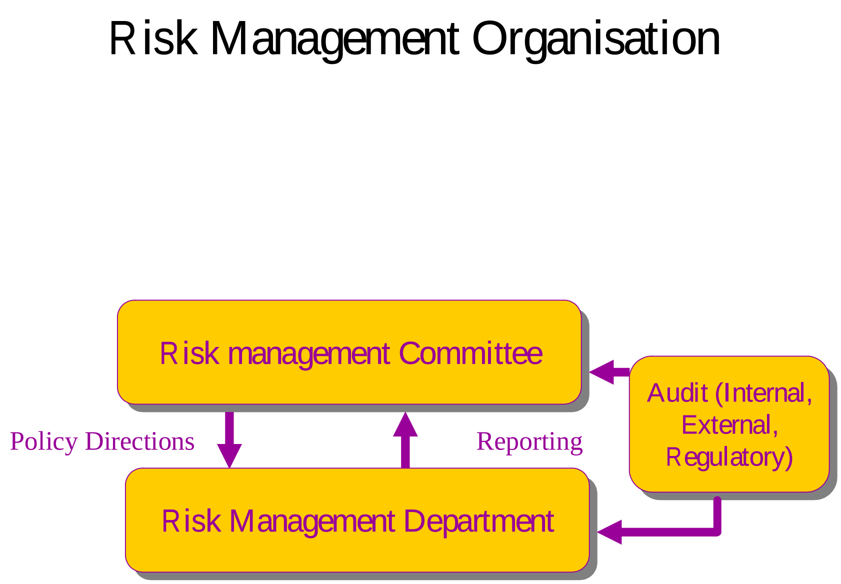
1.1 ***Trade Risk***

Trading risk encompasses risk arising out of trading operations of ISE SECURITIES AND SERVICES LTD. on behalf of the clients and Sub Broker trading with the Exchange. The objective of Trading risk management is to ensure that obligations of ISE SECURITIES AND SERVICES LTD. with the Exchanges ,Sub –Broker & Clients ,Sub Broker & client Obligations with ISE SECURITIES AND SERVICES LTD are fulfilled in an accurate and efficient manner. Trade Risk Management encompasses adherence to Capital Adequacy requirements of the exchanges, limit setting and monitoring mechanism, liquidity management fulfillment of trading and settlement obligations and receivables management.

1.2 ***Non-Trade Risk:***

Non- trade risk management includes management of Client Risk (Client default/sub Broker default /Client absconding), Human risk (override of internal controls and regulatory framework) and Information technology risk.

Operation	**Risk Management**
Process number and name	**A2- Risk Management Organisation**



Risk Management Committee – Constitution and Role Definition

The CEO of ISE SECURITIES AND SERVICES LTD. shall form a Risk Management Committee (RMC) to control and mitigate Risks confronting the organization. The Risk Management Committee shall be the apex committee to perform environment scanning particularly with respect to developments in the business and political environment, regulatory changes, and their impact on capital markets and more specifically the business operations of ISE SECURITIES AND SERVICES LTD. The RMC shall based on such analysis and assessment formulate Risk Management Policy guidelines or necessary changes thereto, Oversee and monitor the implementation of a comprehensive Risk

Management framework, Develop Risk Management processes and Monitor the overall performance of the Risk Management function.

Composition of the Risk Management Committee:

The Risk Management Committee (RMC) shall comprise of

Mr. K M Sivaraman , CEO ISE Securities & Services Ltd.

Mrs Sandhya Sapaliga –AM –Surveillance Department

Mr. Sanket Ahire – AM - Surveillance Department

The RMC shall also delegate powers to one/two Directors for overseeing and monitoring Risk Management Activities and taking appropriate action if the same is outside the Risk Guidelines framed by the RMC. The directors shall also approve actions to be taken by the Risk Department as mentioned in the Risk Management guidelines.

Frequency of Meeting

The Risk Management Committee shall meet as and when the situation demands

Roles and Responsibilities of RMC:

The Roles and Responsibilities of RMC shall be as follows:

1. Formulate a Risk Policy Framework to be followed by the organization and obtain the Board of Director's approval for the same.
2. To approve the procedures/changed procedures to be followed by the Risk department for implementing the policies.
3. Review the Key Risk Indicators and exceptions report prepared by the Risk Department.
4. Review and follow of decisions taken by Directors in the Risk Policy Framework and require review/additions to the Risk Management Policies.
5. To approve new products proposed to be introduced by ISE SECURITIES AND SERVICES LTD for trading after ensuring that proper systems and processes are in place for the said new products and all risks issues are addressed and fully covered.

6. To approve trading in new products introduced by the Exchange after ensuring that proper system systems and processes are in place for the said new products and all risks issues are addressed and fully covered.
7. Review the major issues of the previous fortnight, exceptions and action taken
8. Review any other Risk Management Issues arising out due to change in ISE SECURITIES AND SERVICES LTD Business policies, Exchange Rules and Regulations, SEBI Guidelines/Regulations or any other Statutory Authorities.
9. ISE SECURITIES AND SERVICES LTD to delegate powers to directors for monitoring the risk exceptions and for taking necessary decisions

RISK DEPARTMENT

The Risk Department shall be responsible for controlling risk and ensuring that proper mechanism/system is in place to check/monitor Clients/Branches/sub broker's turnover and gross exposure positions. He shall monitor and optimize the Capital adequacy with Exchanges for ensuring smooth flow of operations. No Operation activities shall be undertaken by the Risk Department and the Risk department shall focus solely on controlling risks activities.

Roles and Responsibilities of HOD-Risk Department:

The Roles and Responsibilities of HOD- Risk Department shall be as follows:

1. To implement the Risk management policies and follow the procedures strictly as approved by the RMC.
2. To ensure that the amount of Capital Adequacy to be kept with the Exchanges is adequate commensurate with the market conditions at the start of the day and throughout the trading hours.
3. To disable terminal ID's limits, and increase/decrease limits based on market situations.
4. To enable terminal limits, fix limits for Sub Broker/Client as approved by the RMC.
5. To set limits for VAR based on NSE CM, BSE CM and SPAN for Derivative segment.
6. To prepare the Combined Risk Report and to ensure that the same is before the start of the trading hours.
7. To monitor online and offline Clients, Branches, Sub Broker exposure position and take appropriate action as per the Risk Guidelines.

8. To square off Client's positions in case the branch/Sub broker fail to square off the trades.
9. To review the documentary evidence made available to the Risk Department with respect to Turnover and Gross Exposure for new Sub Broker and to propose ID limits based on such documentation.
10. To review the documentary evidence made available to the Risk Department for anticipated Turnover and Gross Exposure of new Clients dealing in derivative through Sub Broker and to fix ID limits based on such documentation.
11. Prepare supporting documentation for the reviewing the ID limits fixed for various Sub Broker/Client.
12. Prepare supporting documentation for the limits to be fixed for Derivative Clients of various Sub Broker.
13. To disable Sub Broker/Client from trading in case any Sub Broker/Client position is not commensurate with his/her financial strength.
14. To conduct scenario analysis by collating statistical analysis for understanding the impact on the organization and Sub Broker/Client positions in different scenarios and to take informed decisions on occurrence of such events.
15. To ensure that proper risk mechanism is in place for new products to be introduced by ISE SECURITIES AND SERVICES LTD Exchange prior to its actual launch and to ensure that all risks issues are addressed and fully covered.
16. To ensure that the Risk management practices as approved by RMC are implemented and properly followed by Risk Department personnel at H.O and also by Branches.
17. Any other Risk Management Issues arising out of day-to-day business Operations.

Risk Department Monitoring Set Up:-

Risk Management Committee

Risk Management Department

Monitoring of Risk Management

Monitoring of NOW

Monitoring of ODIN

Internal Audit and others

CTCL

Margin Computation Process:-

ISS has been registered by SEBI as a Trading-cum-Clearing Member in the Capital Market segment and Futures & Options segment of NSE and Capital Market segment of BSE. Trading Members of ISE can access NSE and BSE by registering themselves with SEBI as Sub-brokers of ISS.

ISS manages fund and securities risk on sub-broker as well as client level in cash segment. ISS has authorized person in NSE FO segment. ISS collects up front margin from sub-broker and client before start trading.

ISS collect minimum margin in different segment are as below mention:-

BSE CM: - Sub-broker maintains 50,000/- before starting trading in BSE CM segment

NSE CM: - Sub-broker maintains 50,000/- before starting trading in NSE CM segment

FNO:-Sub-broker maintain 50,000/- before start trading in FNO segment and 5,000 /- for authorized client.

1- Margin and Fund Risk Management IN Cash Segment: -

ISS risk management system is based on sub –broker and client level. ISS manages risk on various trading day cycle process. E.g.: T days risk management process, T +1 day risks management process.
ISS follow below mentioned cycle to manage margin and fund risk in cash segment

T DAYS (VAR margin based trading system)

T+1 DAYS (Deduct VAR margin and release early pay-in of fund and securities benefit)

T+2 days (same as T+1 and adjust net obligation amount of T days from available margin–If negative)

Every day we check negative client debit balance against his securities and his sub-broker margin

If any client Debit continuous on T+7 trading day ISS sell the securities after that if MTM is there ISS adjust from sub-broker margin

T Days risk management process
ISS has VAR margin based trading system. Value at Risk (VAR) has one of the most advanced management system. It covers 99% of market loss during the trading day.
The calculations of T- day margin are mentioned below:-

Provide margin as per GE (Gross Exposure) file in NSE CM and BSE CM Segment:- ISS prepares Gross exposure file based on the sub-broker deposit. It is computed on sub – broker level.

A – CM Gross Exposure computation process:-

Trading Deposit

Cash: - ISS receives cash margin from sub-broker. Sub-broker cash margin is confirmed by account department.
Cash
Bank Guarantee (BG) valuation with 25% haircut
Fixed Deposit Receipts (FDR)
Currently we do not accept BGs and FDs

Non-cash:- ISS receives collateral from sub-broker. Collateral can be in the form of securities. ISS only provide benefit on Exchange accepted securities. Sub-broker non cash margin confirmed by custody department.

Pledge Securities (VAR %) Hair-cut.

Cash: Non-cash ratio ➔ 25: 75

Maximum permissible 75% non-cash component is 25% of cash component, incase the non-cash component is more than 75% of cash component then the balance non-cash component will be treated as un-utilized.

Currently, BGs and FDs are not accepted

Deductions & Release of VAR Margin

Deduction of Margin: - ISS blocks respective Exchange T-1 day VaR Margin and MTM.

Release of Margin:-

VaR Margin on Purchases done on T-1day: Incase, the Branch Bank Balance (Net obligation report of T+2 days) is Positive at 8.00 am, T-1 day Purchase side VaR Margin is released fully else not released. It is confirmed by account department.

VaR Margin on Sells done on T-1 day: Incase, shares are received in early pay-in the ISS pool Account up to 8:00 am, the VaR Margin on the sells done on T-1 day is released proportionately .ISS surveillance considers only EPN file which is uploaded by custody department to respective Exchange or is confirmed by custody department .
Maximum release in VaR Margin = i + ii

Total client default amount Cash Segment

Total client default amount = Total negative clients ledger balance
Add Securities withheld by ISS-Pool/BEN
Of negative clients.
Add Securities withheld of sub-broker
Total Negative Initial Margin (IM) Amount of Clients of Futures & Options segment on sub-broker level.

Available trading deposit for a day =

Cash Trading Deposit + B) Non-cash
(Maximum permissible non-cash limit 75% of cash component)

Less C) VaR Margin(Purchase side VaR margin release only, if branch bank is positive and Sell side VaR margin appropriately released against early pay-in of shares

Less D) Total clients default amount (Cash Segment)

Less E) Total negative IM (F&O segment)

Available trading deposit for a day = A + B – C – D – E

Condition for Increase Margin =>

=> During the day if ISS receives instruction of the clear fund from account department.
=>If during the day ISS receives early pay in of fund or securities instruction from relevant department

T+1 Days risk management process

ISS work on same procedure as on T days.

T+2 Days risk management process

We compute GE exposure file as per computed process on T days. If Net obligation of sub-broker is negative then ISS surveillance department deducts negative amount from sub-broker available margin.

* ISS also consider net risk report on daily Basis. Net risk report considers net negative client balance after deducting his securities balance (after 25% hair cut). ISS also considers sub-broker deposit and sub-broker cash balance.

Net risk of sub broker = Net negative balance of all negative client – negative client securities balance - sub broker cash balance – sub broker securities balance – sub broker BSE and NSE margin and FNO margin(sub-broker only)

2- Margin and Fund Risk Management IN F&O Segment: -

ISS risk management system based on sub–broker and client level. ISS has manages risk on various trading day cycle process. E.g.: T days risk management process, T +1 day risks management process.
ISS follows below mention cycle to manage margin and fund risk in FNO segment

T DAYS (SPAN margin based trading system)

T+1 DAYS (Deducted SPAN margin and EXPOSURE margin from available margin)

T+2 days (Square off client F&O position if client in negative from T Days and adjust from cash margin of sub broker if any debit in client account

Initial Margin (IM) file Computation: Initial margin file used for computing client level available margin for client in FNO segment. It considers client available cash and

securities after adjusting his open position and the margin is accordingly blocks by the Exchange.
IM File computation processes are below mention:-

1. Initial Margin Deposit:

(a) Cash – ISS considers as per party ledger balance of client in FNO segment. It is provided by account department.
Non-cash
Bank Guarantee (BG) valuation with 25% haircut
Fixed Deposit Receipts (FDR)
Pledge Securities (Var %) Haircut.

ISS receives collateral from client. Collateral can be in the form of securities or others. ISS only provides benefit on Exchange accepted securities. Client's non cash margin is confirmed by custody department.

Cash: Non-cash ratio ➔ 50: 50

Maximum permissible non-cash component will be 50% of cash component, incase the non-cash component is more than 50% of cash component then the balance non-cash component will be treated as un-utilized.

Currently, BGs are not accepted.

2. Deductions from Initial Margin:

A- ISS has blocks initial Margin (intra-day and carry forwarded quantity) and exposure margin (carry forwarded quantity)
1**-Initial Margin**: If client creates fresh position. ISS blocks initial margin of particular script lot.

2-**Exposure Margin**: If client carries the position for next day. ISS blocks exposure margin of particular script lot.

So for intra–day, ISS has blocks Initial Margin.

If client carry forward position, ISS has blocks Initial Margin and Exposure Margin.

So available margin for trading = Cash + collateral – initial margin

So Client fresh position limit = Cash + Collateral – Initial Margin – Exposure Margin

T+1 Days: - we follow the same procedure for margin computation as on T days. if sub total of all client IM is in negative. ISS deducts that negative amount from sub –broker available NSE cash margin.

T+2 Days: - we follow the same procedure for margin computation as on T days. If the sub total of all clients IM is in negative. ISS deducts that negative amount from sub–broker available NSE cash margin, If any client debit is continuous on T +2 Days, ISS squares off client debit and adjust from sub broker margin.
In BOLT and NEAT the no of times the limit is set is fixed at 5-7 times the amount of margin 5-7 times buying and 5-7 times selling based on the sub broker available deposit and past track record

3. Risk Management in CTCL Terminal allocation:

1-Verification of CTCL application form: -

Surveillance Department receives terminal paper request from membership department for new and additional sub-broker terminal activation.
Surveillance department checks both new and additional terminal request.
Surveillance department check below mention points:-
A-Trader name and NCFM authorized person name should be matched.
B-NCFM validation with expiry date
C-Pin code should be proper.
D-50,000/- should be maintained for new sub-broker.
F- PAN card copy

2-Uploading CTCL data in NSE, BSE and FNO segment: - After checking CTCL application, surveillance department upload data in BOLT or E-NEAT terminal and after checking and confirmation from E-NIT and BOLT, ISS surveillance updates in ODIN Surveillance.

3- Deactivation of CTCL: - Surveillance Department receive terminal deactivation paper request from sub-broker. If sub-broker need additional terminal he directly send the papers to surveillance department. After receipt of the papers, surveillance department upload deactivation request in BOLT and E-NEAT. Next day as per confirmation from Exchange, surveillance department deactivates the sub-broker terminal.

Monitoring of Admin Terminal (Appointing Risk Personnel):-

1. ISE Securities and Services is allotting margin on the basis of VAR (value at risk) and SPAN (as defined by the Respective exchange) for providing exposure to sub broker and clients . ISS appoints Risk personnel to oversee Sub Broker's risks and monitor its Sub Broker/Client exposure , turnover positions and net obligation.
2. The Risk personnel shall follow the Risk Guidelines/Procedures as laid down by the Risk Department.
3. The Risk personnel shall monitor Sub Broker/Client online and offline Exposure and Turnover limits and take appropriate action in case the risk exposure exceeds the limits as per the procedure prescribed by the Risk Department.
4. The Risk personnel shall ensure that the Risk Reports are prepared on timely basis and appropriate actions taken in consultation with the Branch head before the start of the trading day.
5. The Risk personnel shall ensure that Sub Broker/Client exceeding the margin limits are not allowed to place fresh orders unless funds are brought in or the Sub Broker/Client squares off the trade.

6. The Risk Personnel shall be directly reporting to the Risk department at H.O. The Risk personnel shall at the EOD send a report of the actions taken by him during the day and shall also Clients Risk Report.

Daily Risk Management Practices in Cash segment

1. Tracking of shortage on T+2 and reduction of margin

The clients have to make the pay in on T+2. If the clients do not fulfill the obligation then the shares will go into auction. We calculate the expected losses of the clients under the particular sub broker and compare with the margin of the sub broker and take suitable action

2. Tracking of Auction on T+5 and reduction of margin

We calculate the actual losses of the clients who have not delivered the securities and the shares have gone for auction. The total actual losses of the clients under a sub broker is compared with the margin of the sub broker and action is taken for limiting the risk

3. Compulsory selling of securities of high risk sub brokers on T+3

If we expect the debits of clients at any point of time will exceed the value of securities and margin of the sub broker then we sell the securities on T+3 itself .The sub broker is given reasonable opportunity to explain.

4. Withdrawal of Pledge Securities only after approval from surveillance

The approval of surveillance is taken for withdrawal of securities of the sub broker in the NSE and BSE margin

5. Net loss report (of negative client)

This report considers the net of debits balances of clients and considers below components of SPRK software
Debit balance of client = Securities lying in Beneficiary account + Exchange pending Securities +T1 purchase + T2 purchase+ Branch adjustment account
Total debit balances of clients give fair net risk report
This report is monitored and we compare the same with the sub broker's margin
Every day net loss compared with the sub broker's margin (cash component)
Surveillance department take action prior to the net loss exceeds the sub broker's margin .This report is also sent to the sub broker for suitable action

6. Branch Risk Report

Net risk report compared with Sub broker Total Assets on daily basis. If the net amount is Negative then the sub broker is at net Risk

Immediately Surveillance department contact the sub broker and ask him to top up his margin and also to clear the clients debits .Sub brokers Terminal Is blocked till he clear is net loss.

7. Shutting down the terminal if the potential net loss is greater than 50 %

Branch Risk Report is prepared in two ways Which Include First report shows clients debit and 100 % value of Securities lying in beneficiary account, Exchange pending securities, Scurrilities purchased on T1 and T2
Second report shows Clients Debit and 25 % haircut on Securities lying in beneficiary account, Exchange pending securities, Scurrilities purchased on T1 and T2
Second report gives picture of bad debt in advance so that necessary action can be taken.
First Report gives actual picture of Net Risk
If in first report net loss of the clients under a particular sub broker is compared with sub brokers cash margin and collateral. In case the potential net loss is more than 50% of the total margin then the terminal is shut down after intimating the sub broker

Risk Management Practices in Futures and Options segment

1. Upfront initial margin

In FNO segment initial margin is taken upfront .The client is not allowed to take positions in FNO segment unless initial margin is first deposited by the client. The funds deposited should be of clear balance and not unclear cheque

2. Online monitoring of FNO positions and MTM loss through Reliable Software

We have installed a third party software which is linked to the NEAT admin terminal It takes the trades from NEAT admin on a real time basis and displays the same in the Reliable software The software on a real time basis gives us initial margin blocked, exposure margin blocked, the free margin of shortfall if any Also the clients who approach risk on a real time basis their positions can be squared off immediately

3. Withdrawal of Pledge Securities only after approval from surveillance

Earlier the securities were released in FNO segment without taking the approval of Surveillance dept. We approve for releasing the securities only after considering the positions and the Losses if any of the client

4. Initial margin default in FNO is deducted from margin available in cash segment (GE file)

The initial margin default of clients on a net basis is calculated. If the resultant figure is negative then the same is deducted from the margin available to the sub broker in cash segment

5. Compulsory square off of the client positions in case of shortfall

Upfront initial margin is collected in case of creating positions in FNO if in case there is shortfall in the margin then the client has to clear the shortfall within T+1 day. If the same is not cleared within T+1 then we square up only the required positions

General Points

The objective of these points is to explain the Surveillance Process and systems used for Risk management by Surveillance Department.

The key points are following:

Margin Limits are set through ODIN Admin (Chief user) and surveillance department can check rejected orders in ODIN Admin.

Margin limits are changed only on phone calls / confirmation from designated people of Accounts department / Relationship managers

ODIN Admin (Chief user) gives the margin utilized by the client and Mark to Market loss at the current market price of the underlying scrip in which the client has the positions.

These Online Surveillance systems (Odin) are used to monitor positions but orders that exceed the limits are rejected.

Every day, limits of dealers /Ids are updated based on additional base capital.

Margin Limit is set as zero by default for Retail Clients and dealers.

Margin is collected from sub broker even if they want to sell securities.

INTERNAL CONTROL

INTERNAL CONTROLS: Internal controls are in place at all levels in the organization. The activity wise details are as under:

1. Refusal of orders for penny stocks:

ISS is advising to the clients not to deal in penny securities and if client deals with the penny stocks, 100%margin will be taken from the client and these shares will not be taken to as Margin deposit. ISS shall have authority from time to time limit (quantity/ value) or refuse orders in one or more securities due to various reasons including market liquidity, value of securities) or may require compulsory settlement / advance payment of expected settlement value/ delivery of securities for settlement prior to acceptance / placement of order(s) as well, the order being for securities which are not in the permitted list of the ISS / exchange(s) / SEBI or does not commensurate with the risk profile of the client as assessed by the ISS.

2. Trading banned in Z group securities:-

ISS clients cannot directly trade in Z Group. If the client wishes trade in Z Group he has to request with detail .The Surveillance department checks the genuineness of the request and allow the trade.

3. Securities in banned period:-

ISS block securities which are in Ban period in trading soft ware .Thus no clients can trade in banned scrip (Except to square off existing position) which ensures to avoid MWPL penalty.

Decision of ISS will be binding on the client and will be final.

Bulk Deal
A "bulk" deal constitutes all transactions in a scrip (on an exchange) where the total quantity of shares bought/sold is more than 0.5% of the number of equity shares of the company listed on the exchange. The quantitative limit of 0.5% can be reached through one or more transactions executed during the day in the normal market segment.

Disclosures by ISS

I. The disclosure shall be made with respect to all transactions in scrip where total quantity of shares bought/sold is more than 0.5% of the number of equity shares of the company listed on the stock exchange.
ii. ISS shall disclose to the stock exchange the name of the scrip, name of the client, quantity of shares bought/sold and the traded price.
iii. The disclosure shall be made by the ISS immediately upon execution of the trade.
iv. The Stock exchanges shall disseminate the aforesaid information on the same day after market hours to the general public.

Block Deal
Block deal is execution of large trades through a single transaction without putting either the buyer or seller in a disadvantageous position. For this purpose, stock exchanges are permitted to provide a separate trading window.

Block deal will be subject to the following conditions:
I. The said trading window may be kept open for a limited period of 35 minutes from the beginning of trading hours i.e. the trading window shall remain open from 9.15 am to 9.50 am.
ii. The orders may be placed in this window at a price not exceeding +1% from the ruling market price/previous day closing price, as applicable.
iii. An order may be placed for a minimum quantity of 5, 00,000 shares or minimum value of Rs.5 crore.
iv. Every trade executed in this window must result in delivery and shall not be squared off or reversed.

v. The stock exchanges shall disseminate the information on block deals such as the name of the scrip, name of the client, quantity of shares bought/sold, traded price, etc to the general public on the same day, after the market hours.

ISS shall disclose to the stock exchange of trade details of "bulk deals" as specified by the stock exchanges.

Negotiated Deals

All negotiated deals (including cross deals) shall not be permitted except for those which are executed on the screens of the exchanges in the price and order matching mechanism of the exchanges just like any other normal trade. Provided, however, that Foreign Institutional Investors (FIIs) can avail of the provisions of the special bargains on the exchanges in accordance with their bye-laws or obtain suitable exemptions from exchanges for purchases or sales between FIIs in such companies where the ceiling of FII investment of 24% or 30 % as the case may be, has been reached.

ii. Negotiated deals in listed corporate debt securities shall not be permitted and all such trades will have to be executed on the price and order matching mechanism of the stock exchanges as in the case of equities.

iv. Exemptions would also be granted for dis-investment of Public Sector Enterprises by SEBI on a case to case basis.

v. No Exchange shall allow the 'All or None' or 'Minimum Fill' order facility in their trading system.

Inspection & Audit

Compliance requirements pertaining to members of the Exchange are given in byelaws, regulations and circulars of the Exchange and the Clearing Corporation.

I. Order Management System and Internal Controls

Procedures to be put in place for receipt of orders, recording the same and placing the orders in the trading system of the Exchange.

Client-wise and security-wise limits on exposure, open position, etc. to be set up.

Risk mitigation measures to be documented and made accessible to clients.

Documentation of internal controls on areas like order modification / cancellation, client code changes and post-trade activities.

Ensure monitoring mechanism for client's debits / obligations and appropriate collection procedures

II. Dealing with clients' funds and securities

Ensure that funds / securities are received from respective clients' accounts only.

Ensure that pay-out of funds / securities is made to respective clients within one working day of pay-out by Exchange.

Clients' funds / securities are not used for any purpose other than meeting the respective client's margin / pay in obligations.

Authorization should be obtained from clients for deposit of their collaterals with exchange / clearing corporation towards margin.

Clients' securities should not be pledged to bank / financier for raising funds.

Funds are received from / paid to clients by way of crossed cheques / demand drafts or by way of direct credit into the bank account through EFT or any other modes allowed by RBI only.

Ensure that no cash dealings are made with clients.

III. Margin Requirements

- Ensure to collect initial margin and maintenance margin in the approved mode (funds / bank fixed deposits / bank guarantee / approved securities with appropriate hair cut) from the clients.
- Ensure to put in place risk management system regarding the amount of margin collection and the mode of collection from other clients in Capital Market segment.
- Ensure to collect initial margin in the approved mode from clients in F & O segment on an upfront basis.
- Trading member is required to report margin actually collected from clients, to NSCCL on a daily basis.
- In the computation of margin collection from the clients for the purpose of reporting to the Exchange.

- Unencumbered funds received only from the respective clients on an upfront basis can be included. Any Debit balances in the F&O client ledger should first be set off by apportioning the free balances / value of securities and the only balance amount if any should be considered towards margins collected from clients.

- Any free balance of the same clients in other segments after considering the debit balances and margins (if any) applicable in the respective segments can be considered towards margins for the F&O segment.

- Margins taken in the form of securities in the approved list should be valued as per the closing rate on the previous trading day and not the trading day, with an appropriate hair-cut.

Information related to margin applicable, utilised and required / balance in respect of each client is to be sent on a daily basis to the respective clients in both the segments. This information should show break up details in terms of funds, bank guarantee, bank deposits and securities

IV. Internet Trading

- Ensure reliability, security and confidentiality of internet trading system.

- Client specific user id and password to be used for execution of trades by the respective client.

- Password policy to be adhered (secrecy, periodic change and other aspects).

- Internet clients shall trade through internet trading system and only in case of connectivity problems, their orders can be entered through back up system (like call and trade facility) after proper identification of the client.

- Ensure that clients do not deal on behalf of others.

- Trading Members providing internet based trading facility are required to submit SSL certificate, for year ending June every year.

V. Other dealings with clients

- Issue contract notes for all trades in respect of the constituents introduced by sub-brokers also.
- Have direct dealings with clients introduced by a sub-broker and ensure that the sub-broker does not issue any bills / notes to the clients nor deal with the clients' funds and securities in any manner.
- Reconcile dividend account periodically and ensure that dividend received on behalf of clients is credited to the respective clients within 30 days of receipt.
- Inform all the constituents if you are engaged in own trading.
- Provide exclusive e-mail id for registering investor complaints and display the id on your website and other materials, pamphlets and advertisement campaigns.
- Maintain confidentiality of all client related information.
- 'Statement of Securities Transaction tax' to be issued on an annual (financial year) basis within one month from the close of the financial year, unless required by the clients otherwise as to receive the STT statement on a daily basis.

VI. Location and Operation of Terminals

- Ensure that trading terminals are not located at any place other than the main / branch office and the offices of registered sub brokers / authorised persons of the member.
- Ensure that trading terminal is not operated by a person other than an approved user / approved person.
- Ensure that all terminal operators in F & O segment are NCFM / BDCE qualified and that at least one of every 5 Capital Market terminal operators in a location is NCFM qualified.

- Ensure that no NEAT terminals are extended to another location without the approval of the Exchange.
- Upload details of all CTCL terminals to the Exchange prior to their activation. Any change in the details viz. terminal id, user, location, etc. also needs to be uploaded prior to such change.
- Ensure that secrecy of terminal-wise logon and password is maintained.
- Trading Members are required to undertake system audit on annual basis, for period ending 30th June, of all the branches where CTCL or Internet Based Trading facility is provided and submit one consolidated report thereof to the Exchange within one month from end of the period.
- Ensure to place orders on own account using 'PRO' code only and through trading terminals authorised for such purpose.

VII. Control over branches and sub brokers

- Ensure due diligence and credentials of entities proposed to be appointed as sub brokers/authorized persons.
- Ensure proper procedures while opening and closing branches.
- Ensure that clients are informed in advance in case of closure of branch.
- Ensure that branches, sub-brokers, authorized persons do not indulge in unauthorised trading activities.
- Monitor the activities of sub brokers/relationship managers /officials' in-charge of branches to avoid unregistered intermediation, fraudulent activities, misuse of clients' accounts, etc.
- Ensure proper procedure for accounting of demand drafts and pay orders received from clients in the respective clients' accounts.
- Obtain and analyze periodic reports and information from all branches/sub brokers, to address various risk areas.

- Take feedback from the clients of sub brokers and branches on their dealings with the sub brokers and branch officials.
- Inspect at least 10% of branches and sub brokers every year and ensure that each branch and sub broker is inspected at least once in every five years.

VIII. Maintenance of Records

- Maintain separate books of accounts and records for trades executed on each recognized stock exchange (in case of membership in different exchanges).
- Maintain records and registers relating to business for a period of five years either in hard form or non tamper able soft form, including the following:
    - Statements of funds and securities obligations received from NSCCL.
    - Client ledger, Margin register, Register of complaints.
    - Records in respect of brokerage collected separately from constituents.
    - Register of transactions.
    - Register or Ledger Account of Securities, client wise and security wise.

IX. Due diligence in employee activities

- Trading Member shall establish and enforce procedures to supervise its business and the activities of its employees that are reasonably designed to achieve compliance with all the relevant regulatory requirements.
- Trading Member shall specifically authorise in writing persons, who may be authorised to transact on behalf of the member and do such acts which the member delegates to such persons.

X. Compliance with Prevention of Money Laundering Act (PMLA), 2002

- Appointment of and change in Principal Officer to be intimated to the Financial Intelligence Unit, India (FIU).
- Written procedure for compliance with PMLA to be adopted.
- Adopt customer acceptance policies and procedures sensitive to the risk of money laundering or terrorist financing transactions.
- Strictly adhere to customer due diligence requirements from establishment of new account to transaction monitoring and report suspicious transactions, if any, to the FIU.
- Organise suitable training programmes for employees and ensure awareness

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Risk Management in CTCL Terminal allocation: -

1-Verification of CTCL application form: - Surveillance Department receives terminal paper request from membership department for new sub-broker terminal activation. If sub-broker needs additional terminal he directly sends the papers to surveillance department. Surveillance department checks both new and additional terminal request. Surveillance department check below mention points:-

A-Trader name and NCFM authorized person name should be matched.

B-NCFM validation with expiry date

C-Pin code should be proper.

D-50,000/- should be maintained for new sub-broker**.**

2-Uploading CTCL data in NSE, BSE and FNO segment: - After checking CTCL application, surveillance department upload data in BOLT or E-NEAT terminal and after checking and confirmation from E-NEAT and BOLT, ISS surveillance updates in ODIN Surveillance.

3- Deactivation of CTCL: - Surveillance Department receive terminal deactivation paper request from sub-broker. If sub-broker need additional terminal he directly send the papers to surveillance department. After receipt of the papers, surveillance department upload deactivation request in BOLT and E-NEAT. Next day as per confirmation from Exchange, surveillance department deactivates the sub-broker terminal.

NSE Cash trading is done through NEAT/ TWS terminal. NEAT /TWS is mapped with ODIN Admin that is provided to set margin limits for sub broker.For ODIN there is one ODIN Admin (Chief user) that can monitor the entire sub broker Connected with that particular NEAT/ TWS server. There is only 1 NEAT /TWS server and thatNEAT /TWS server is connected with ODIN manager that manages all the clients attached with the server.

Dealer ID Creation

Department gets the details of new User ID from the membership Department. The details are uploaded using ENIT to NSE. Once NSE / approves the User ID are mapped ODIN Admin. It is communicated to sub broker that new User ID has been created. Once the user id is created the user log-on and password is communicated to sub broker. On the first login sub broker has to change the password.

Retail ID Creation

Retail User id creation form is being collected from the client who desires to trade in NSE, BSE or FNO segment. Retail id is created only after the approval of CRD department...
All User Ids are password protected.

Monitoring of Web Clients

Separate Risk personnel shall be exclusively assigned for monitoring online and offline positions of Web Clients.

Role of Internal Audit

1. The scope of Internal Audit shall include review of Operation Activities of the Risk Department.
2. The Internal Audit team shall also review Client's exposure position/sub broker exposure limit based on the Combined Risk Report (NSE CM,BSE CM,NSE FNO) vis-à-vis the exposure guidelines framed by the RMC.
3. The Internal Audit shall review overall risk management practices, policies and procedures followed by Risk personnel vis-à-vis the Risk guidelines and report deviations if any.
4. The scope shall include identifying and reporting suspicious transactions/circular trades if any undertaken by Clients/franchisees.
5. The Internal Audit staff shall do specific cause audits such as reviews in reaction to reported news events/ reported development in the industry.
6. An automated tracking system shall be available to track audit findings and resolution of the same.

Audit findings not resolved within the established time frames shall be escalated to senior management

Operation	**Risk Management**
Process number and name	**A3- Risk Recognition Statement**

RISK RECOGNITION STATEMENT

This statement recognizes the risks/threats, which allow the company in understanding the underlying potential for loss or damage caused from break down of internal controls and corporate governance. Risk is recognized as all costs resulting from inappropriate managerial decision, incomplete controls and resources (viz. people, systems, facilities and processes), and uncontrollable environmental factors. The costs associated may be direct losses/ expenses or immeasurable losses such as damage to company's reputation. The management has adopted the following broad risk containment measures:

Risk Type	Definitions	Control Measures	Reports	Responsibility
Market(M)	Market risk is the risk of loss due to the changes in the market prices, which may adversely affect the clients and sub broker and company's trading portfolio.	Analysis based on Optimistic, Pessimistic and Moderate conditions.	.	Risk Management Committee
Credit Risk	It is the risk that the client /sub broker will be unable to fulfill their payment obligations and/ or company shall be unable to meet its payment obligations on settlement dates.		Daily fund planning and allocation statement. Cost-Benefit analysis of composition of funds management.	Surveillance & Account's department.

	Funding client margins and open client positions or debit balances, which may impact the liquidity position of the company and subsequent loss of interest.			
Compliance Risk	Its is the risk that client and sub broker full fill the legal and compliance mandatory requirement of SBI ,NSE ,BSE and others .		proper Framework for compliance and others requirement	Compliance department
Operations Risk	Its is the risk which arises due to operation mistake .		proper policy and procedure for respective department	
Systems/IT Risk	Its it the mistake which arises due to system failure		having system back up remove the down time error	Technology department

Operation	**Risk Management**
Process number and name	**A4- Risk Management Policies and Controls**

RISK MANAGEMENT POLICIES AND CONTROLS

PROCESS RELATED TO	REQUIREMENT	POLICY	OWNER OF THE PROCESS	MONITORING OF THE PROCESS	ESCALATION
Exchange	**Capital Adequacy with Exchange-NSE and BSE**	1. Capital adequacy shall be monitored on a hourly basis during trading hours (T day) and capital adequacy requirements for the next day(T+1 day) shall be maintained on a timely manner after keeping a cushion for 20% increase in trade volumes.	HO-RISK	Risk Management Committee	Top Level management
		2. Sub Broker -wise capital exposure utilization shall be monitored and documented on a daily basis.			

Margin	1. Margins must be collected VAR based system in CM and SPAN based system in derivative system	Sub-broker /client	HO-Risk	RMC	Top Level management
	2. Violation to be kept at minimum as exchange permits outstanding collections at less than 5% of SPAN margin liability.				
Limit setting for Branches	1. Limits shall be monitored on a daily basis with Branch head.		HO-RISK	RMC	
	2. Intra-day branch limits need to be changed after approval of the RMC.				
	3. Limits set vis-à-vis utilized must be monitored and documented on a weekly/daily				Top Level management

	basis.				

Branch	Margin	***Intra-Day exposures***
		• exposures for sub broker /client shall be permitted only after collection of adequate UPFRONT margins.
		• Approval must be taken from HO for exposures in such scrips without upfront margin before market closure.
		If margin on any stock is increased by the exchange, the same needs to be covered from the client on the same day, else the position needs to be reduced to that extent..
		Stock, which block 100% Capital adequacy limits.
		Margins must be collected upfront/by end of day for stocks where 100% Capital adequacy is blocked. Approval must be taken from HO for exposures in such scrips without upfront margin before market closure.
		Stocks in lieu of margin
		Approved Stock
		Stocks provided, as margin must be from Approved list. A haircut as per exchange norms shall be assigned to

		the stock.
		Unapproved stock
		Unapproved stock shall not be accepted as margin.

	Credit Appraisal	1. Sub Broker/Client must be rated on the basis of turnover/cheque bouncing/pay-in and payout of scrips and funds.
		2. Defaulting clients/Sub Broker's must be brought to the attention of the Risk department at HO.
General Clients	**Trade &Margin**	1. Exposure for any client at any point of time shall be commensurate with the VAR margin and margin available with Sub Broker Eg. For Rs 1 lakh credit exposure with 10%VAR margin can have 10-lakh exposures and 1 lakh credit exposure with 25% VAR margin can have only 4 lakh exposure.
	Collections	1. Uncovered debit balances shall not be permitted for any client . Instances of Uncovered debit balance shall be Adjusted with sub broker margin .
		2. Squared off loss against purchases made without intent of delivery must be collected from the client.
		3. Collection of debit from clients/sub broker must be done by T+1 days. Non-payment within T+7 days shall result in sale of shares.

	Pay-in of securities and Funds	Third party cheques/shares shall not be permitted against client obligation.

Operation	**Risk Management**
Process number and name	**A5- Risk Acceptance Statement**

RISK ACCEPTANCE STATEMENT

S.NO	Risk	Risk Type
1	Market Risk	Bad debts to be restricted upto 0% of Annual revenue.

Operation	**Risk Management**
Process number and name	**A6- Monitoring of Risk**

Risk Monitoring Process

I. CAPITAL ADEQUACY AND MARGIN RELEASE:

1. Maintenance of the Capital adequacy of the member with the exchanges is very essential for trading in the equities and derivatives segment.
2. Capital is maintained with the exchange in the form of Bank guarantees, Cash, Securities and Fixed deposit. However the composition of the constituents of Capital with the exchange is to be defined by ISE SECURITIES & SERVICES LTD. The same needs to be defined after performing a cost benefit analysis periodically.
3. Currently a 25% capital cushion is being maintained on a daily basis to ensure adequate exposure availability after considering volatility of the market. A scenario analyses shall enable projecting the capital required with the exchange.
4. Early pay-in is done by settlement 2 times a day to ensure release of margin blocked. An analysis of pay-in amounts vis-à-vis margin released shall be communicated to risk on a daily basis.
5. Forecasting of maintenance of Capital with exchange can be monitored in the following lines:

SEGMENTS											Available exposure limits		
NSE Derivatives													
NSE Cash													
BSE Cash													

II. PLEDGE AND UNPLEDGE OF SECURITIES

1. Approved securities received as Collateral from customers in NSE/BSE Cash (Offline and NSE Derivatives shall be pledged with the exchange. Collateral received from web customers are also pledged with the exchange as they are pledged with ISE SECURITIES & SERVICES LTD.
2. As a policy securities of clients with debit balances shall pledged with the exchange.
3. If after pledging the shares, the client position achieves a credit balance, the securities shall be unpledged from the exchange.

III. Monitoring of Risk at Branches

1. All branches having considerable gross exposure and turnover shall appoint Risk personnel to oversee Branch's risks and monitor its Sub Broker/Clients gross exposure and turnover positions.
2. The Risk personnel shall follow the Risk Guidelines/Procedures as laid down by the Risk Department.

At the Start of the day

3. The Risk personnel shall in co-ordination with the Branch Risk person determine whether the limits set for the branch are adequate considering the market situation and demand requirements of its sub broker/Clients and trading volumes of the previous day.
4. If the limits are not adequate, then the Risk personnel shall before the start of the trading hours inform H.O. through e-mail/fax/phone to reset the limits and shall also provide reasonable justification for the same.
5. Similarly if the limits are very high compared to the branch volumes, then the Risk personnel shall in co-ordination with the Branch Head determine the limits required by it.
6. The Risk personnel shall on the basis of previous day's Risk Reports and Combined Risks report take note of the Sub Broker/Client's position and set limits for Sub Broker/Client's having a comparatively higher exposure positions. This is required for ensuring that Clients position does not exceed the exposure limits as fixed by the RMC.

Intra-Day

7. Intraday will be allowed only based on sub broker/client volume and others.But it should not exceeded 150% of his margin and MTM should be less then Available margin.

At EOD

8. The Risk Personnel shall generate Risk Report and Combined Risk report at the EOD.
9. The Risk personnel shall ensure that the Risk Reports are prepared on timely basis.
10. The Risk personnel shall ensure that SPAN margins are collected upfront.
11. Interest on peak exposures blocked is recovered from the Sub Broker client.
12. The total Gross Exposure and Turnover limits of Clients shall be reviewed and appropriate action shall be taken in case the risk exposure exceeds the limits as laid down by the RMC. The actions to be taken shall be in consultation with the Branch Manager before the start of the next trading day.
13. The Risk Personnel shall be directly reporting to the Risk department at H.O.
14. The Risk personnel shall ensure that SPAN margins are collected upfront.
15. Interest on peak exposures blocked is recovered from the client.