Share India Securities Limited

Risk Management Policy

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Risk Management Policy

Preface

Any factor or event that creates uncertainty in achieving organizational objectives is termed as "risk". These risks stem from a variety of sources, including financial uncertainties, legal liabilities, technological challenges, strategic management errors, accidents and natural disasters.

Risk management is the process of identifying, assessing and controlling threats to an organization's capital, earnings and operations. A successful risk management program helps to arrest the disaster, the company may face in any eventuality.

Risk Management Committee of the Company as set up in conformity of Section 134(3) of Companies Act, 2013 read with Regulation 21 of SEBI (LODR) Regulations, 2015 has formulated the below-mentioned comprehensive risk management policy for smooth functioning of operations of the company.

Importance of Risk Management

Generally, it is difficult to predict risks accurately in this dynamic environment, but organization need to prepare for an uncertain and volatile future. The function of Risk Management are as under:

- Implementation of a robust risk management plan help an organization establish policies and procedures around avoiding potential threats and measures to minimize their impact if it occurs.
- It is crucial for any business to understand the nature and extent of risk prepared to take, the level of risk it can tolerate and communicate the same to its employees at all levels of management. This enables limited control all over the organization.
- The ability to understand the risks enables the organization to make well-informed business decisions.
- It protects the organization from unexpected events that can cause a financial and reputational loss.
- Planning and developing structures to address the potential threats of becoming a successful organization.

Risk Management Process:

Risk management process includes the following steps:

- Identify the risks faced by the organization.
- Analyze the likelihood and possible impact of each one.
- Evaluate and prioritize the risks based on business objectives.
- Address or respond to the risk conditions.
- Monitor the results of risk controls and adjust as necessary.

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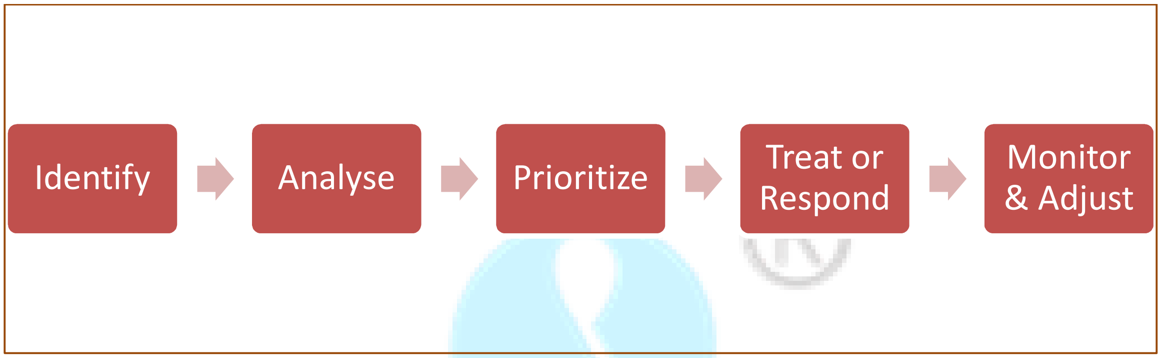
The five step risk management process



Benefits of effective risk management:

Effectively managing risks that could have a negative or positive impact on capital, earnings and operations and the benefits of effective risk management include the following:

- Increased awareness of risk across the organization.
- Increased confidence in achieving the objectives and goals because risk is factored into strategy.
- Better and more efficient compliance with regulatory and internal compliance mandates because compliance is coordinated.
- Improved operational efficiency through more consistent application of risk processes and controls.
- Improved workplace safety and security for employees and customers.
- A competitive differentiator in the marketplace.

Risk Management Committee:

The Board of Share India has constituted a Risk Management committee for overseeing and reviewing risk management across the Company. The terms of reference of the Risk Management Committee are as follows:

- review of strategic risks arising out of adverse business decisions and lack of responsiveness to changes;
- review of operational risks;
- review of financial and reporting risks;
- review of compliance risks;
- review or discuss the Company's risk philosophy and the quantum of risk that the Company, as an organization, is willing to accept in pursuit of stakeholders' value;
- review the extent to which management has established effective enterprise risk management at the Company; inquiring about existing risk management processes and review the effectiveness of those processes in identifying, assessing and managing the Company's most significant enterprise-wide risk exposures;
- review the Company's portfolio of risk and consider it against its risk appetite by reviewing integration of strategy and operational initiatives with enterprise-wide risk exposures to ensure risk exposures are consistent with overall appetite for risk; and

- review periodically key risk indicators and management response thereto.

Classification of Risks:

We hereby classify the risk applicable to our organization as under:

1. **Trading Risk:** Trading risk is the risk associated with trading activities carried out by the company. Due to various conditions attached to the trading activities, including excessive market volatility, various trading strategies deployed by the organization may generate lesser than expected profits or even losses beyond the tolerance limits. Such risks also include adverse effects of movements in equity and interest rate markets, currency exchange rates, and commodity prices.

2. **Credit Risk:** Credit risk, also called default risk, is the risk associated with a person going into default (not making payments as promised). Credit risk comprises risk of loss resulting from clients' default in making payments/deliver securities towards his/her pay-in obligations as per agreed timelines.

3. **Liquidity Risk:** Liquidity risk is the risk in which an organization may not have sufficient financial liquidity to pay-off its' debtors or such other entities with whom the organization has business relations as per pre-agreed time schedule. Liquidity risk may be managed through effective asset liability management (ALM).

4. **Regulatory Risk:** Regulatory risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules, regulations, circulars, prescribed practices, internal policies and procedures, or ethical standards etc. Some steps to mitigate regulatory risks are as follows:
   - Periodically perform broad regulatory risk assessments.
   - Perform cost-benefit analysis.
   - Set deadlines for updating policies and procedures.
   - Leverage technology.

5. **Technological Risk:** Technological risk is the risk that one or more hardware, software and/or networking equipment/processes implemented by the organization aren't functioning on expected lines leading to unwarranted delays, inability to execute trades for a short or longer duration and/or temporary/permanent loss of data critical for company's operations and well-being. Following steps may help mitigate technological risks:
   - 'Identify' critical IT assets and risks associated with such assets.
   - 'Protect' assets by deploying suitable controls, tools and measures.
   - Detect' incidents, anomalies and attacks through appropriate monitoring tools/processes.
   - Conduct periodic training programs to enhance knowledge of IT / Cyber Security Policy and standards among the employees incorporating up to date Cyber Security threat alerts. Where possible, this should be extended to outsourced staff, vendors etc. The training programs should be reviewed and updated to ensure that the contents of the program remain current and relevant.

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6. **Operational Risk:** Operational risk is the risk that improper operation of trade executions, trade processing or management systems will result in financial losses. Operational risk encompasses the risk of loss due to the breakdown in controls within the organization including, but not limited to, unidentified limit excesses, unauthorized trading, fraud in trading or in back office functions including inadequate books and records and a lack of basic internal accounting controls, inexperienced personnel, and/or unstable and easily accessed computer systems. Once type of operational risk is identified and determined which risks to address, internal checks are developed to control them. Solutions can range from process automation or added oversight to enhancing training programs.

7. **Systemic Risk:** Systemic risk refers to (1) the scenario that a disruption at an organization, in a market segment, or to a settlement system could cause a "domino effect" throughout the financial markets toppling one financial institution after another; or (2) a "crisis of confidence" among investors, creating illiquid conditions in the marketplace. Systemic risk encompasses the risk that failure in one firm or one segment of the market would trigger failure in segments of or throughout the entire financial market. Systematic risk is both unpredictable and impossible to completely avoid. It cannot be mitigated through diversification but may be managed only through hedging or by using the correct asset allocation strategy.

Risks Management:

The stock broking industry is associated with two types of risk, viz internal risks and external risks. To avoid such risks and to survive in this competitive environment, Company itself maintains a Risk Management system followed on a regular basis at separate operational level activities. In line with our commitment towards enhancing investor protection and providing greater transparency, we have endeavored to implement a comprehensive risk management system.

Given below are various possible risks and the company's risk management methodologies to deal with them:

a. **Own Trading (Proprietary desk) :**

Proprietary (prop) trading involves trading with a firm's capital, rather than on behalf of clients. As a result, proprietary trading firms take on risk to generate profits, but managing that risk is essential to protecting the firm's capital and profitability. Risk management in prop trading refers to the process of identifying, assessing, and mitigating potential risks associated with trading with a firm's capital. Share India manages risks in own trading by following methods:

1. **Limit Settings:** Company shall fix the limit for each trader at the surveillance level to restrict and monitor the trades taken by an individual trader. Limits shall be set-up to capture quantity and value limit for each order and each trader ID. Further, a daily loss limit shall be set for each trading desk. Once the daily loss limit is breached; trading ID shall remain suspended for the day.

   Limits for each trader are based upon the years of experience which they bring on the table and the consistency with which they have been working during that tenor. There is no scientific computation to determine the limits for the traders. Higher the experience and the more disciplined the trader, the better is the chance of a higher limit. These limits are specifically monitored by the management team on a regular basis who also provides feedback to the traders on the areas of improvements. There is continuous engagement between the management team and the respective team leaders (and if the need be, along with their teams). Any instances involving breach of specified limit/s by any team are to be dealt with strictly.

2. **Trading beyond the specified parameters:** All the traders are provided with the parameters within which they need to operate. These include the contract specification along with the strategies to be deployed. No one is allowed to trade beyond the specified parameters allocated to them. Any trader found trading beyond the scope of activities provided, will be subjected to appropriate disciplinary action/s.

3. **Position Square Off:** By default, all traders are supposed to square off their positions before the end of the trading day except in case where their trading strategy is such that requires carry forward of open position/s. The quantum of allowable carry forward position shall be defined for each trading team separately.

4. **Algorithmic Trading Software:** In case of trading through algorithmic software, following additional RMS checks shall also be installed in the relevant RMS systems:
   - Limits for single order quantity and value.
   - Limits for total traded quantities and values.
   - Limits for net traded quantities and values.
   - Limits for pending order quantities and values.
   - Limits for maximum MTM losses.
   - Values w.r.t. market-price protection.
   - Limit w.r.t. order per second to be sent by Algo System.

Stress-Testing

The company also uses the principles of stress testing for managing risks pertaining to own trading activities. For the purpose of stress testing, the Prop-desk RMS team employs various tools based on option greeks and portfolio analysis etc. that keeps on alerting the RMS team personnel about maximum possible loss/es that may be incurred by each prop dealer in various market scenarios. These tools helps the team in taking the prompt remedial actions in cases involving fast market conditions as well as all such scenarios wherein the prop dealers are found to have undertaken undesirable open positions.

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b. Clients' trading:

Clients' trading means trade of a market participant held on behalf of a Client. For the purpose of appropriate risk management, approved securities are divided into categories based on profitability, market capitalization, promoter holding & pledge, P/E ratio, average daily volumes, exchange margins, perception of risk etc. Haircuts are applied to various buckets basis categorization done. The Risk Head to periodically review the categorization, haircuts etc. linked to individual securities.

Based on above parameter, scrips are categorized as below which shall be applicable only in respect of non-MTF transactions.

Category	Margins
Low Risk	20%
Medium Risk	50%
High Risk/Carry Over	100%

1. **Conditions under which no further conditions shall be allowed or existing clients' positions shall be squared off:**

- Stop loss for the day has been activated;
- Downtime in servers during market hours leading to activation of kill switch;
- As a result of regulatory directive;
- Technical reasons;
- Limits as specified by the exchanges hit 90%;
- Any force majeure event beyond the control of company.
- Any other condition as may be specified by the company from time to time in view of market conditions, regulatory requirements and internal risk management policies.

2. **Dealing in Illiquid/Restricted Scrips:** Illiquid scrips are high-risk stocks that cannot be easily and readily sold or exchanged for cash without a substantial loss in value, even using a stock trading app. They are difficult to sell as a result of the cost, lack of ready buyers, low trading activity, and other such factors.

In order to exercise additional due diligence while trading in these securities on behalf of their clients:

- Share India reserves the right to refuse execution of any transaction requests of the client on such restricted securities or to reduce the open market interests of the client in such securities/ contracts.
- Share India also reserves the right not to allow any trades or transactions in respect of certain securities or segments or orders/requests which may be below/above certain value/quantity as may be decided by Share India's Risk Team from time to time.
- Circular or Insider trading is strictly prohibited. Suitable action shall be initiated in respect of all such orders/trades that are considered as un-desirable from regulatory or business ethics perspective.
- Share India shall not be responsible for non-execution/delay in execution of orders in restricted scrips and contracts (as may be specified by the Risk team from time to time) and consequential opportunity loss or financial loss to the customer.
- Share India shall have the discretion to place such restrictions, notwithstanding the fact that customer has adequate credit balance or margin available in his account and/or the customer had previously purchased or sold such securities / contracts through Share India itself.
- Share India shall have the right to revise the list of such securities / contracts on a periodic basis.

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3. **Assigning Trading Limits:**

- Limits are allowed to the clients as per margining norms of the relevant exchanges. Client is required to provide upfront margin in the form of funds / securities (after appropriate haircut as prescribed by Exchange from time to time) before punching any trade.
- Limits are set at 1x of Margin received from the client.
- Margins are blocked at scrip level on the position taken by the clients as below :
  For Cash segment – As per scrips' category.
  For Derivative segment – Gross total margin prescribed by clearing corporation ("CC").
- Deposit is calculated at customer level after netting off ledger balance in all Segments and Collaterals pledged with Share India.
- The limit for trading on pledge securities will be given to client on best effort basis only post confirmation of creation of pledge in favor of Share India. Share India will not be responsible for any delay or non-receipt of link / OTP from depository for creation of pledge or non-confirmation of pledge request by the client or due to technical or any other issue at depository or Share India's end.

4. **Exposure:**

Exposure refers to the amount of money invested in a particular asset. Client can take exposure based on total collateral made available to Share India.

Exposure in Cash Markets (excluding MTF transactions): Based on scrip category as detailed herein after:

Category	Margins	Exposure(Times)
Low Risk	20%	5
Medium Risk	50%	2
High Risk/Carry Over	100%	1

Derivatives Exposure: A derivative is a contract between two parties which derives its value/price from an underlying asset. Clients can take exposure in derivatives segments by paying applicable upfront margin prescribed by CC.

Type of Margins:

Cash Component: Credit balance in clients' combined financial ledger; Securities considered as Cash Security by respective CC.

Non-Cash Component* (Accepted only through Margin Pledge Mechanism): Approved listed securities, Approved Mutual Funds or Any other securities acceptable to CC from time to time.

*Value of clients' non-cash components shall be determined only as per CC's prudential securities valuation norms.

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Margins are blocked in each segment as tabulated below:

Segment	Margin%	Remarks
NSE/BSE Equity	Scrip wise fixed margin	As per scrip category
NSE/BSE Derivative	Span + Exposure + Additional (if any)	As determined by CC/Share India
Currency Derivatives	Span + Exposure + Additional (if any)	As determined by CC/Share India
Commodity Derivatives	Span + Exposure + Additional (if any)	As determined by CC/Share India

- Margin Required = Gross total Margin on Equity & Derivative Positions.
- Margin Available = Margin received from client in form of cash & non cash components*
- Margin calls will be made to client in case of any margin shortfall.
- Margin Shortfall = Margin Required – Margin Available.

*As CCs require Stock Brokers to maintain minimum 50% of total margin deposits in the form of cash components, Share India may in its' sole discretion restrict clients' exposure in respect of clients' non-cash components only to the extent of total value of cash components deposited by the client/s. Further, in such cases where client is allowed exposure against disproportionate non-cash component, suitable charges may be debited from the client after providing prior intimation.

5. Liquidation :

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

In case of Margin shortfall, following actions shall be initiated by Risk Team:

- Making margin calls, and requiring clients to provide additional margins; and/or
- Liquidating clients' position or collaterals to the extent of shortfall obligations.

6. Risk square off process :

A) Auto liquidation of client positions or collateral will be carried by Risk Team in case clients' net debit balance exceeds 80% of clients' available collaterals' value or margin shortfall.

Share India reserves the right to close/liquidate the open positions / sell securities / liquidate other clients' collaterals available with Share India to the extent of clients' net debit balance and/or margin shortfall, as the case may be, in case the client fails to top-us his collateral amount within stipulated time period. Depending upon market conditions, Share India may not be able to send any prior intimation to the client before initiating square-off process in some cases involving extreme volatility conditions. Clients themselves shall be solely responsible to duly ensure availability of sufficient margin at all times.

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

RMS team would strive to conduct the liquidation process in the following sequence:

1. Derivative position.
2. Stocks lying in client's POA/DDPI covered Demat Account.
3. Clients' securities pledged in Share India's favor.

The above-mentioned liquidation will be done on a best-effort basis and at the sole discretion of RMS team.

B) Margin Square-Off: Positions which do not have sufficient funds can be squared off any time at the discretion of our Risk team. There may or may not be margin calls or intimation from our Risk team. Positions would be squared off proportionally by the risk team to bring down clients' margin shortfall.

C) Positions taken under Intra-day Products will be automatically squared-off during last 15 minutes before market closure time.

In case the said position is not squared off before closure of the market due to any reasons whatsoever, the position shall be carried forward to the next day. In such cases, the client shall be responsible for ensuring that adequate margins are made available by him to avoid square-off of open position by the RMS team. Further, the clients shall be solely responsible for associated losses, if any.

7. **Ageing Debit Square off:**

- As per SEBI guidelines, clients account cannot be funded by broker except as per MTF guidelines.
- It is the client's obligation to clear his/her outstanding dues by T+1 day ("T" here indicates Trading day). The client shall ensure that sufficient funds / securities are made available to Share India by the exchange prescribed deadline timeline, failing which clients' securities received towards his payout shall be automatically pledged in Share India's favor.
- RMS team may, in its' sole discretion, grant grace period of up to 5 working days from settlement day to the client for clearance of dues.
- In case of non-clearance of dues as aforesaid, RMS team shall liquidate clients' unpaid securities by T+6 day, without any prior intimation to client. The associated losses, if any, shall have to be borne by the client himself.
- Share India reserves its' right to sell the collaterals pledge by the client towards margins where the unpaid securities appear to be comparatively illiquid and cannot be sold at reasonable rates to the extent of clients' debit balance/s.

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Special conditions in respect of MTF transactions:

MTF stands for **"Margin Trading Facility",** which is a special facility through which brokers are allowed to funds clients' securities, purchase transactions in cash segment only;

In case of transactions covered by MTF, the clients are allowed to carry their debit balance beyond afore-mentioned T+6 deadline, subject to deposit of applicable margins/MTMs from time to time;

- Only such clients who have specifically applied for MTF facility shall be granted such facility;
- MTF facility shall be granted only in respect of a selected set of securities specified by the RMS team from to time. Scrips forming part of such list only shall be allowed to be deposited towards MTF related clients' margin requirements;
- The client shall have to specify if he intends to buy the scrip under MTF facility at the time of placing relevant buy order itself;
- Applicable margin requirements in respect of MTF facility shall be Scrip Var+3 times ELM in case of F&O Scrips and Scrip Var+5 times ELM in case of remaining scrips;
- The client shall have to confirm the pledge OTP before the securities payout deadline in case the client intends to continue with the MTF transactions;
- In some cases such as non-confirmation of pledge OTP by pay-out deadline, short securities payout from CC or non-availability of sufficient margin in clients' account etc., the MTF transaction shall be converted into Normal non-MTF transaction and shall be dealt with accordingly;
- In order to continue with the MTF facility, the client shall have to diligently deposit applicable margins, MTMs, and applicable charges including interest etc. by the RMS team specified deadline;
- In case of exclusion of one or more scrips from the MTF list by Share India, already funded scrip shall be moved to non-MTF category and the client shall have to pay for the same by the RMS team specified deadline to avoid liquidation of the same;
- In order to avail the MTF facility, the client shall have to also comply with the relevant norm prescribed by the RMS team in this regard such as maximum scrip wise limit, maximum client wise limit as well as granularity in clients' MTF portfolio.

Clearing of Outstanding Ledger Balances

Clients are expected to pay any debit balance outstanding in their ledger promptly. In case of non-payment, Share India will not grant further exposure and in extreme scenarios can liquidate client's holding to recover dues.

Share India at its sole discretion shall determine the time of sale and securities to be disposed of and/or which open position that is/are to be liquidated/closed.

Liquidity management and capital adequacy

Our company is a cash rich company with comfortable debt equity ratio of about 0.20 as on 31st March, 2023. The facts that as on 31st March, 2023, more than 83% of our total standalone assets were parked in cash and cash equivalents along with the fact that our cash and cash equivalents stood at above 400% of our trades payable, adequately shows our liquidity robustness.

The regulatory directives recently implemented by Stock Exchanges ensures that the entire amount equivalent to total clients' credit balances remain s parked with the clearing corporations on each day-end basis. We have never defaulted on this count.

Further, to augment our margin requirements, we have entered into various fund and non-fund based credit arrangements with various banking companies. Further, with the help of various Over draft facilities availed by us, we are able to easily tide over liquidity crunch situations at the time heightened market volatilities.

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Adherence to regulatory stipulations

We are maintaining a team of dedicated professionals including Chartered Accountants, Company Secretaries and legal professionals to oversee compliance and regulatory functions of the company, commensurate with the company's operations and requirements.

MIS processes as well as regular audits through internal teams and external auditors ensures that the all the operations as well as various regulatory reportings are carried out in accordance with the applicable regulatory directives in a timely manner.

A team has been dedicated to ensure that all the changes in applicable regulatory framework are implemented in a timely manner. The same team also ensures that all regulatory communications are attended and responded to in an appropriate and time-bound manner.

Further, we have also implemented software that keeps on alerting the concerned team members about approaching deadlines as well as pending tasks, if any.

System/Server alternates and Contingency planning

We are maintaining sufficient redundancies in terms of power backups, internet connectivity, and hardware etc. that are required for smooth company's operations.

A provision is being maintained for login of Corporate Manager Ids (the master Id provided by Stock Exchanges through which all open orders and/or positions may be managed) at multiple locations so that in case of instances of emergent nature such as fire etc., open orders /positions may be managed from alternate location.

We are also maintaining dedicated RMS desks at multiple locations which are sufficiently equipped to track open position of all the dealers across India and square-off the same, if the situation so warrants.

Further to the above, considering the criticality of company's data, we are simultaneously maintaining all the important data/information in alternate databanks from which the relevant details may be retrieved in case of failure / non-availability of primary source.

Means to mitigate operational risks

To mitigate various operational risks faced by the organization, the company has adopted relevant policy and procedures relevant to each of the critical operational activity besides maintaining required backup mechanisms which help organization in minimization of associated risks.

Monitoring and Reporting of Risks:

To fortify our risk management capabilities, we have deployed a dedicated team tasked with the generation of comprehensive Management Information System (MIS) reports. These reports play a pivotal role in equipping the management team with a nuanced understanding of various performance metrics. By leveraging these insights, the management team is empowered to make strategic and well-informed decisions that align with organizational goals.

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a) Rigorous Examination of Audit Reports:

Our commitment to risk oversight extends to the systematic review of audit reports issued by both internal teams and external auditors. This meticulous examination provides the management team with a thorough analysis of potential areas of weakness within our operational framework. Armed with this knowledge, we can implement targeted measures to fortify vulnerable aspects and enhance the overall resilience of our systems.

b) Strategic Collaboration- Periodical Meetings with Functional Leaders:

In addition to structured reviews, we facilitate periodic meetings between the management team and leaders spearheading critical functional areas, including Trading, IT, and Compliance operations. These sessions serve as forums for comprehensive discussions on potential risks inherent in each function. By fostering open communication, we not only identify risks but also work collaboratively to formulate and implement risk-mitigation strategies.

c) Maintaining Risk Within Acceptable Limits:

The overarching objective of our risk monitoring and reporting efforts is to ensure that identified risks are kept within predefined acceptable limits. By proactively addressing vulnerabilities and leveraging insights from MIS reports and audit reviews, we aim to uphold the integrity and stability of our operations. This approach aligns with our commitment to delivering sustained value and safeguarding the interests of stakeholders.

Review and Evaluation:

The Risk Management Policy and Procedures employed by the company are reviewed on an yearly basis to reduce the possibility of existence of unidentified risks or unsystematic risk and also to give a reasonable assurance to the management that all the risks faced by the company are adequately covered.

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Abbreviations

NSE- National Stock Exchange

BSE- Bombay Stock Exchange

SEBI (LODR)- Listing Obligations and Disclosure Regulations of Securities and Exchange Board of India

ALM- Asset Liability management

RMS- Risk management system

CC- Clearing corporation

OTP- One Time Password

MTF- Multilateral Trading Facility

T+1 day - Trading day + 1 day

MTM- Mark to Market

POA- Power of Attorney

DDPI- Demat Debit and Pledge Instruction

VaR- Value at Risk

Id- Identification Document

MIS- Management Information System

IT- Information Technology

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