

## **RISK MANAGEMENT POLICY**

VARDHAMAN CAPITAL PVT LTD herewith referred as VCPL, is the SEBI registered Stock Broker & Depository Participant. The under-mentioned Risk Management Policy is created by the Compliance Officer and approved by the Board of Directors on 01/07/2022.

### **INTRODUCTION**

As a prudent stock broker, VARDHAMAN CAPITAL PVT LTD would like to make customers aware of the inherent Risks involved in dealing in Equities and other instruments. Through this Risk Policy document our approach has been to further simplify the understanding of various Risks involved in Equity Dealings and the important Policies formulated which the customers need to understand and be clear about while dealing to minimize the risk of loss.

In view of the above, VARDHAMAN CAPITAL PVT LTD as a stock broker, has adopted the following system of risk management:

### **RISKS INVOLVED IN TRADING ON THE STOCK EXCHANGE (EQUITY AND OTHER INSTRUMENTS)**

Investment in Equity shares, derivatives or other instruments traded on the Stock Exchange(s), which have varying element of risk, is generally not an appropriate avenue for someone of limited resources / limited investment and / or trading experience and low risk tolerance. In considering whether to trade or authorize someone to trade for you, you should be aware of or must get acquainted with the following: -

Basic Risks:

#### **1. Risk of Higher Volatility**

Volatility refers to the dynamic changes in price that a security/derivatives contract undergoes when trading activity continues on the Stock Exchanges. Generally, higher the volatility of a security/derivatives contract, greater is its price swings. There may be normally greater volatility in thinly traded securities / derivatives contracts than in active securities / derivatives contracts. As a result of volatility, your order may only be partially executed or not executed at all, or the price at which your order got executed may be substantially different from the last traded price or change substantially thereafter, resulting in notional or real losses.

#### **2. Risk of Lower Liquidity**

Liquidity refers to the ability of market participants to buy and/or sell securities / derivatives contracts expeditiously at a competitive price and with minimal price difference. Generally, it is assumed that more the numbers of orders available in a market, greater is the liquidity. Liquidity is important because with greater liquidity, it is easier for investors to buy and/or sell securities / derivatives contracts swiftly and with minimal price difference, and as a result, investors are more likely to pay or receive a competitive price for securities / derivatives

contracts purchased or sold. There may be a risk of lower liquidity in some securities / derivatives contracts as compared to active securities / derivatives contracts. As a result, your order may only be partially executed, or may be executed with relatively greater price difference or may not be executed at all.

Buying or selling securities / derivatives contracts as part of a day trading strategy may also result into losses, because in such a situation, securities / derivatives contracts may have to be sold / purchased at low / high prices, compared to the expected price levels, so as not to have any open position or obligation to deliver or receive a security / derivatives contract.

### **3.Risk of Wider Spreads**

Spread refers to the difference in best buy price and best sell price. It represents the differential between the price of buying a security / derivatives contract and immediately selling it or vice versa. Lower liquidity and higher volatility may result in wider than normal spreads for less liquid or illiquid securities / derivatives contracts. This in turn will hamper better price formation.

### **4.Risk-reducing orders**

Most Exchanges have a facility for investors to place “limit orders”, “stop loss orders” etc”. The placing of such orders (e.g., “stop loss” orders, or “limit” orders) which are intended to limit losses to certain amounts may not be effective many a time because rapid movement in market conditions may make it impossible to execute such order.

#### **i. Market Order: -**

A Market order will be executed promptly, subject to availability of orders on opposite side, without regard to price and that, while the customer may receive a prompt execution of a market” order, the execution may be at available prices of outstanding orders, which satisfy the order quantity, on price time priority. It may be understood that these prices may be significantly different from the last traded price or the best price in that security.

#### **ii Limit Order: -**

A Limit order will be executed only at the “limit” price specified for the order or a better price. However, while the customer receives price protection, there is a possibility that the order may not be executed at all.

#### **iii. Stop Loss Order: -**

A stop loss order is generally placed “away” from the current price of a stock / contract, and such order gets activated if and when the stock / contract reaches, or trades through, the stop price. Sell stop orders are entered ordinarily below the current price, and buy stop orders are entered ordinarily above the current price. When the stock reaches the pre-determined price, or trades through such price, the stop loss order converts to a market/limit order and is executed at the limit or better. There is no assurance therefore that the limit order will be executable since a stock / contract might penetrate the pre-determined price, in which case, the risk of such order not getting executed arises, just as with a regular limit order.

### **5.Risk of News Announcements**

News announcements that may impact the price of stock / derivatives contract may occur during trading, and when combined with lower liquidity and higher volatility, may suddenly cause an unexpected positive or negative movement in the price of the security / contract.

## **6.Risk of Rumors**

Rumors about companies / currencies at times float in the market through word of mouth, newspapers, websites or news agencies, etc. The investors should be wary of and should desist from acting on rumors.

## **7.System Risk**

High volume trading will frequently occur at the market opening and before market close. Such high volumes may also occur at any point in the day. These may cause delays in order execution or confirmation.

7.1 During periods of volatility, on account of market participants continuously modifying their order quantity or prices or placing fresh orders, there may be delays in order execution and its confirmations.

7.2 Under certain market conditions, it may be difficult or impossible to liquidate a position in the market at a reasonable price or at all, when there are no outstanding orders either on the buy side or the sell side, or if trading is halted in security / derivatives contract due to any action on account of unusual trading activity or security / derivatives contract hitting circuit filters or for any other reason.

## **8.System/Network Congestion**

Trading on exchanges is in electronic mode, based on satellite/leased line based / internet communications along with combination of technologies and computer systems to place and route orders. Thus, there exists a possibility of communication failure or system problems or slow or delayed response from system or trading halt, or any such other problem/glitch whereby not being able to establish access to the trading system/network, which may be beyond control and may result in delay in processing or not processing buy or sell orders either in part or in full. You are cautioned to note that although these problems may be temporary in nature, but when you have outstanding open positions or unexecuted orders, these represent a risk because of your obligations to settle all executed transactions.

Risks Pertaining to Derivatives Trading: -

### **1. Effect of "Leverage" or "Gearing"**

In the derivatives market, the amount of margin is small relative to the value of the derivatives contract so the transactions are 'leveraged' or 'geared'. Derivatives trading, which is conducted with a relatively small amount of margin, provides the possibility of great profit or loss in comparison with the margin amount. But transactions in derivatives carry a high degree of risk.

You should therefore completely understand the following statements before actually trading in derivatives and also trade with caution while taking into account one's circumstances, financial resources, etc. If the prices move against you, you may lose a part of or whole margin amount in a relatively short period of time. Moreover, the loss may exceed the original margin amount.

A. Futures trading involve daily settlement of all positions. Every day the open positions are marked to market based on the closing level of the index / derivatives contract. If the contract has moved against you, you will be required to deposit the amount of loss (notional) resulting from such movement. This amount will have to be paid within a stipulated time frame, generally before commencement of trading on next day.

B. If you fail to deposit the additional amount by the deadline or if an outstanding debt occurs in your account, the stock broker may liquidate a part of or the whole position or substitute securities. In this case, you will be liable for any losses incurred due to such close-outs.

C. Under certain market conditions, an investor may find it difficult or impossible to execute transactions. For example, this situation can occur due to factors such as illiquidity i.e. when there are insufficient bids or offers or suspension of trading due to price limit or circuit breakers etc.

D. In order to maintain market stability, the following steps may be adopted: changes in the margin rate, increases in the cash margin rate or others. These new measures may also be applied to the existing open interests. In such conditions, you will be required to put up additional margins or reduce your positions.

E. You must ask us to provide the full details of derivatives contracts you plan to trade i.e. the contract specifications and the associated obligations.

## **2.Currency specific risks**

A. The profit or loss in transactions in foreign currency-denominated contracts, whether they are traded in your own or another jurisdiction, will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

B. Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example when a currency is deregulated or fixed trading bands are widened.

C. Currency prices are highly volatile. Price movements for currencies are influenced by, among other things: changing supply-demand relationships; trade, fiscal, monetary, exchange control programs and policies of governments; foreign political and economic events and policies; changes in national and international interest rates and inflation; currency devaluation; and sentiment of the market place. None of these factors can be controlled by any individual advisor and no assurance can be given that an advisor's advice will result in profitable trades for a participating customer or that a customer will not incur losses from such events.

## **3.Risk of Option Holders**

A. An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time. This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to its expiration will necessarily lose his entire investment in the option. If the price of the underlying does not change in the anticipated direction before the option expires, to an extent sufficient to cover the cost of the option, the investor may lose all or a significant part of his investment in the option.

B. The Exchanges may impose exercise restrictions and have absolute authority to restrict the exercise of options at certain times in specified circumstances.

#### **4.Risks of Option Writers**

A. If the price movement of the underlying is not in the anticipated direction, the option writer runs the risks of losing substantial amount.

B. The risk of being an option writer may be reduced by the purchase of other options on the same underlying interest and thereby assuming a spread position or by acquiring other types of hedging positions in the options markets or other markets. However, even where the writer has assumed a spread or other hedging position, the risks may still be significant. A spread position is not necessarily less risky than a simple 'long' or 'short' position.

C. Transactions that involve buying and writing multiple options in combination, or buying or writing options in combination with buying or selling short the underlying interests, present additional risks to investors. Combination transactions, such as option spreads, are more complex than buying or writing a single option. And it should be further noted that, as in any area of investing, a complexity not well understood is a risk factor. While this is not to suggest that combination strategies should not be considered, it is advisable, as is the case with all investments in options, to consult with someone who is experienced and knowledgeable with respect to the risks and potential rewards of combination transactions under various market circumstances.

#### **TYPE OF PRODUCTS AND ASSOCIATED RISKS**

##### **a)Cash and Carry – Equity (NSE and BSE)**

In Cash Segment for Delivery or CNC trades, customers are required to have in their ledger balance funds upto the 100% of the gross value of stock at the time of the transaction.

##### **b)Day Trading Equity (NSE and BSE)**

The product is offered to customers who have deposited minimum amount of upfront margin as prescribed by the Exchanges and Clearing Corporations from time to time. Clients are hereby also informed that they may be charged a margin higher than the Exchange prescribed margin if any of the afore-mentioned risks are identified and such levy of additional margins will be at our sole discretion.

Presently, in Cash Segment for Intraday trades, clients are provided a limit which is as per the exchange defined VAR+ELM for the respective scrips and subject to a minimum of 20%. For e.g.: customer A has effective ledger balance of Rs. 50,000 and wishes to buy a scrip X, assuming that the VAR+ ELM for the scrip X is 25%, customer can buy/sell scrip X only upto worth Rs. 2,00,000 for intraday.

### **c)Derivatives**

In terms of Delivery / Carry forward Based derivative trades, the client is provided a margin which is as per exchange defined margin that also is equal to Span + Exposure + Delivery + Special Margin. For Futures and Options traded on NSE/BSE/MCX, the limit provided to the customer is as per margin requirements for the respective contract. For Example, customer wishes to trade in 1 lot of Nifty, assuming the margin required to create position in 1 lot of Nifty is Rs. 1,50,000. The customer needs to have an effective ledger balance of at least Rs. 1,50,000 to initiate the trade.

### **CUSTOMER TRADING LIMIT**

The trading limit that is available to the customers is a function of their combined ledger which is available to customers across all segments along with the value of the pledged securities. Trading Limit = Total combined ledger (Net segment-wise ledger) + Pledge value (Net of Hair Cut).

### **POLICIES AND PROCEDURES FOLLOWED**

#### **A.Refusal of orders for Penny Stocks**

The stock broker may from time-to-time limit (quantity/ value) / refuse orders in one or more securities due to various reasons including market liquidity, value of securities, the order being for securities which are not in the permitted list of the stock broker / exchange(s) / SEBI. Depending on the market condition and risk management policy of the company, the stock broker reserves the right to refuse to provide the limit in Penny Stocks and losses if any on account of such refusal shall be borne by client only.

#### **B.Setting up Clients Exposure Limits**

The stock broker may from time to time impose and vary limits on the orders that the client can place through the stock broker's trading system (including exposure limits, turnover limits, limits as to the number, value and/or kind of securities in respect of which orders can be placed etc.) The stock broker may vary or reduce the limits or impose new limits urgently on the basis of the stock broker's risk perception and other factors considered relevant by the stock broker including but not limited to limits on account of exchange/SEBI directions/limits (such as broker level/market level limits in securities specific/volume specific exposures etc.), and the stock broker may be unable to inform the client of such variation, reduction or imposition in advance. The stock broker shall not be responsible for such variation, reduction or imposition or client's inability to route any order through stock broker trading system on account of any such variation, reduction or imposition of limits. The stock broker may at any time, at its sole discretion and without prior notice, prohibit or restrict the client's ability to place order or trade in securities through the stock broker, or it may subject any order placed by the client to a review before

its entry into the trading systems and may refuse to execute/allow execution of orders due to but not limited to the reason of lack of margin/securities or the order being outside the limits set by stock broker/exchange/SEBI and any other reasons which the stock broker may deem appropriate in the circumstances. The losses, if any on account of such refusal or due to delay caused by such review, shall be borne exclusively by the client alone.

We have a margin-based Risk Management System. Client Exposure Limits are set based on collateral and funds deposited by the client. The type of acceptable collateral as well as the exposure limit varies from customer to customer depending on the profile and the channel of trading of the customer. We may allow trading in selected option / Future contracts at our discretion.

The categorization of the stocks and the haircut applicable is reviewed from time to time. Any specific event which leads to increase in risks involved related to a particular scrip would also lead to change of category/haircut of such scrip. Also, in extremely volatile market with abnormal price/volume movements, or in case of warnings by regulators/exchanges, scrip may be re-categorized without prior notice and the customers shall regularize their accounts and trades accordingly.

### **C.Imposition of penalty/delayed payment charges**

Any amounts which are overdue from the clients towards trading or on account of any other reason to the stock broker will be charged with delayed payment charges at the rate up to 2% per month. The stock broker may impose fines / penalties for any orders / trades / deals / actions of client which are contrary to this agreement / Rights & Obligations rules / regulations / bye laws of the exchange any other law for the time being in force, at such rates and in such form as it may deem fit.

Further where the stock broker has to pay any fine or bear any punishment from any authority in connection with / as a consequence of / in relation to any of the orders / trades / deals / actions of the client, the same shall be borne by the client. Further the Member may restrict the client to trade or take further positions.

### **D.The right to sell clients' securities or close clients' positions**

The client has to immediately deposit with the stock broker such cash, securities or other acceptable security which the stock broker may in its own discretion from time to time require as margin. The stock broker shall be entitled to require the client to deposit with the stock broker a higher margin than that prescribed by the Exchange. The client is liable to pay an initial margin up-front on or before creating a position in any Derivatives Contract. Such margin shall be decided upon by the stock broker or the Exchange from time to time. Furthermore, the client is liable to pay (or receive) daily margins depending on whether the price of the Derivatives Contract moves for or against the position undertaken. The client may also be liable to pay withholding margins, special margins or such other margins as are considered necessary by the stock broker or the Exchange from time to time. The stock broker is permitted in its sole and absolute discretion to collect additional margins (even though not imposed by the Exchange, the Futures and Option Segment of the Exchange, any other segment of the Exchange, the clearing house or clearing corporation of the Exchange or SEBI) and the client shall be obliged to pay such margins.

In case the client does not provide the required margin or any other payment whatsoever within the time frame specified by the stock broker, the stock broker shall have the right to appropriate and/or sell /or transfer all or any Securities or money in the client's Account and/or square-off all or any outstanding positions, prevent any new orders from being placed and / or executed by the client or take

such other action as the stock broker thinks fit and proper. The stock broker may exercise all or any of the above rights in such manner as the stock broker thinks appropriate, without demand for additional margin, security or collateral, or advance notice or advertisement, on any exchange or other market where such business can be transacted, at a public auction or by private sale and the stock broker may be the purchaser / seller for its own account. The giving of any prior demand, call or notice shall not be considered as a waiver of the stock broker's right to exercise its rights without any such demand, call or notice. In case of high market volatility, the stock broker may require the client to pay instantaneous margins in addition to the margins that may have already been paid by the client as per margin calls. The stock broker may be compelled to in such circumstances of market volatility, in absence of the payment of the said instantaneous margins by the client, square-off all or any outstanding positions, prevent any new orders from being placed and / or executed by the client or take such other action as the stock broker thinks fit and proper.

The stock broker may in exceptional circumstances be compelled to square-off all or any outstanding positions, prevent any new orders from being placed and / or executed by the client or take such other action as the stock broker thinks fit and proper, even without calling for the payment by the client, of the aforesaid instantaneous margins by the client.

#### **E.Shortages in obligations arising out of internal netting of trades**

The stock broker shall not be obliged to deliver any securities or pay any money to the client unless and until the same has been received by the stock broker from the Exchange, the Clearing corporation/ Clearing House or other Company or entity liable to make the payment and the client has fulfilled his / her / its obligations first. The policy and procedure for settlement of shortages in obligations arising out of internal netting of trades is as under:

- a. The short delivering client is debited by an amount equivalent to 20% above of closing rate of day prior to payin / payout day.
- b. The short delivering seller is debited at the closing rate on T+2 day or auction day on Exchange +10% or The highest price prevailing in NSE from the first day of the relevant trading period till auction trade day. The provisional entry debited to the short delivering client will be reversed on auction settlement day.

#### **F. Suspending or closing a client's account at the client's request**

On the request of the client in writing, the client account can be suspended temporarily and the same can be activated on the written request of the client only, the stock broker may do so subject to client accepting / adhering to conditions imposed by stock broker including but not limited to settlement of account / release of holds and / or other obligation. The stock broker can withhold the payouts of client and suspend his trading account due to his surveillance action or judicial or / and regulatory order/action requiring client suspension.

#### **G.Security Order Qty & Value limits Single Order and Overall**

In accordance to the regulatory guidelines there are various checks in place at single order quantity level, order value level and overall security quantity / value level, individually or combination thereof as may be applicable.

#### **H.Securities in Ban Period in F&O Segment**



In compliance of rules laid down by Exchange for Securities in Ban Period in F&O segment, VARDHAMAN CAPITAL PVT LTD allows trade only to decrease the positions through offsetting positions.

### **I.Exchange Trade Alerts**

For each of the transactional alerts received from the Exchanges, appropriate analysis, monitoring and reporting is done as the process and guidelines defined by the Exchange.

### **J.Huge Debits with Single Scrip Concentration**

For any client, if the outstanding debit exceeds a certain amount and concentration is in a particular security on account of buying done / collateral provided, VARDHAMAN CAPITAL PVT LTD may restrict the client from further buying or trading in that security. The client will be allowed to place only sell orders to reduce the debit. VARDHAMAN CAPITAL PVT LTD will take discretionary decision to allow the client to trade if he brings in fresh Funds to clear the Debit or brings in different security as collaterals other than security which forms the significant concentration. The Clients Position may be squared off if necessary to reduce the debit.

### **REPORTING TO THE EXCHANGE(S)**

In case the client is found indulging in suspicious activities, VARDHAMAN CAPITAL PVT LTD may report such transactions to the exchange(s). The company is not responsible for any loss incurred by the client if he/she is found guilty of unethical practices. The company will share all the required information to the regulator, exchange, or any other recognized regulatory body when a client specific detail is asked for. The company reserves the right to inform the client based on the directions received by the afore mentioned regulatory body.

### **RMS SQUARE-OFF POLICY**

#### **Timer Base/Intraday Square off**

At VARDHAMAN CAPITAL PVT LTD a timer based intraday square off policy is followed where all positions created in Intraday/BO/CO will be squared-off from RMS side before closing of Market. All pending orders / unexecuted / partial orders will be cancelled as per intraday product feature. At the respective segments square off times, the positions will be squared-off at the best available price. The table below specifies the square-off time by each segment:

Segments	Square off Time
NSE/BSE CASH, DERIVATIVES	3.15 PM

### **System Failure**

If due to reasons such as connectivity, link or system failure, i.e., circumstances beyond control, an intraday position is not squared-off then it will be treated as a carry forward position and RMS reserves the right to liquidate the same on next trading day as soon as markets open for the day, if required margin is not available.

### **Ageing based square-off**

It is the customer's obligation to clear ledger debit balances in T+2 days (i.e., on settlement day) where in T is the transaction/trading day. If there is a failure on part of the customer to clear the ledger debit then VARDHAMAN CAPITAL PVT LTD reserves the right to liquidate the stock upon ageing of the ledger debit beyond T+5 days.

### **Margin shortfall based square-off**

The customer needs to maintain the defined margin to retain position in derivatives segment (FNO, Currency, Commodity ), RMS team reserves the right to initiate liquidation of position up to the required margin at any point of time. If the defined margin or exchange margin is short any open position can be squared-off at the VARDHAMAN CAPITAL PVT LTD discretion.

### **Pledge/Repledge/Unpledged**

With reference to SEBI circular reference no: SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020 & SEBI/HO/CFD/DCR-2/CIR/P/2020/164 dated September 02, 2020, all the Collateral margins can be given only in accordance with the securities pledge to Clearing Corporation (NCL). The request shall be initiated by the customer.

Pledge will be allowed for selected stocks defined by exchange and VARDHAMAN CAPITAL PVT LTD RMS team.

Pledge Benefit: Pledge benefit will be calculated on real time basis RMS defined haircut

Pledge Benefit could be used for all segment on combined basis.

### **Unpledge of Shares**

At the time of unpledge request, our systems will check that there will be no margin used or negative balance against pledge holdings. Accordingly, collateral benefit is removed on successful unpledge request and limit is reduced on real time basis.

When selling a pledged stock, unpledging will happen in real time and in line without the need of un pledging stocks by client before selling.

The Company reserves right to amend/modify any of the policies/procedures mentioned above from time to time depending upon regulatory, market, external conditions and our internal risk management framework.

### **APPROVAL AUTHORITY & REVIEW OF POLICY**

The policy is approved by the Board of VARDHAMAN CAPITAL PVT LTD This policy may be reviewed as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change the policy due to business needs post the approval of the Board of Directors.

### **POLICY COMMUNICATION**

A copy of this policy shall be made available to all the relevant staff/persons such as: compliance officer / department in-charge /authorized persons.  
Further, a copy of this policy has also been displayed on our website.