RISK MANAGEMENT POLICY

OF

IIFL WEALTH MANAGEMENT LTD

(BROKING)

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Table of Contents

1. Introduction

This document details the guidelines and procedures to be followed by the Risk management department of IIFLW with main objectives as mentioned below.

- ✓ To enumerate the key risks in the broking business and lay down steps on how they are managed and mitigated
- ✓ To define a clear and simple procedure for risk management relating to equity and derivative trades.
- ✓ To ensure consistency, uniformity, zero errors and transparency in various risk related activities.
- ✓ To assist in faster turnaround time thereby ensuring higher customer satisfaction and higher revenues

2. Key Risks in the Broking Business

Risk Category	**Key Risks**	**Mitigating Controls**	**Residual Risk**
Credit Risk - purchases	Exposure to clients on account of purchase positions taken on their behalf, and failure of client to settle pay-in amount	• The stock is received on T+2 and it can be sold to recover the amount • As a routine measure all new clients have to keep 10% margin in the form of "Net worth"(defined below) for price changes • Institutional client trades are confirmed by Custodians latest by T+1	Immediate liquidity requirement for pay-in Losses on account of price movement beyond the margin maintained Approved exceptions
Credit Risk - derivative positions	Exposure to clients on account of open derivative positions (Long or short Futures, written options) taken on their behalf, i.e. risk of clients failing to pay margins when called upon to do so	Please refer to Section on Derivative positions below (3) (C) (ii).	Operational risk in terms of failure to call up margins from the client in time

Credit Risk - Sale – Settlement risk	Where the client requests a special dispensation for sale of stock without having it in his POA Demat A/c with IIFLW, if the client fails to honour the pay-on obligation, there will be an auction (Buy-in)	Such transactions would need to be approved by authorised personnel and have mitigating controls, as given in Section (3) (C) (i)	Auction charges would be levied. Immediate debit would hit IIFLW's margins maintained with the exchange. The stock would be sold to recover proceeds. If this exceeds client net worth, then it would hit IIFLW's books
Price / Market Risk - --Margin Management	IIFLW's margins on the exchange getting exhausted leading to lockdown of our terminals	Margins are regularly monitored and the moment we reach 85% of our total margins, MTM margin calls are made to clients for immediate payment. Please refer to the section 3(D)	Operational risk in terms of failure to call up margins from the client in time If clients do not pay then their positions would need to be closed out
Price / Market Risk - change in value of collateral	For computation of net worth, holdings of clients are valued at current market price. Their value might fall leading to steep fall in margins kept with us	These are monitored daily at end of day and net worth is uploaded into the Omnesys system, and fresh margin calls are made whenever required	Intra-day price movements might lead to a gap in margins Also, clients may pay margins in approved stock while for us cash margins are debited, leading to a net funding cost
Compliance Risk	• Market manipulation and creation of volumes using circular trades, synchronised trades between market participants	• Surveillance files are received from the exchange, which are reviewed to assess whether there are any suspicious trades	

	• Possibility of money laundering by layered trades • Insider trading • Front-running	• Rules around employee trading • Mobile phones are not allowed inside the Dealing room • A standard surveillance questionnaire has been prepared to send to clients when we receive enquiries from the exchange	
Operational Risk - System Risks	• Omnesys goes down, so information on client collateral / net worth becomes inaccessible • CLASS goes down making it difficult to account for settlement obligations and positions • Recorded lines /email servers down, so audit trail of trades not maintained	• If Omnesys goes down, client orders would directly be input into the exchange system (eg NEAT / BOLT) and a record of orders would need to be kept in an Excel sheet (detailed format given below in Annex II) • Last day's collateral positions would be used. • If CLASS goes down, we would work with the Trade Excel sheets received from the front office • In the absence of email, recorded lines would be used. In the	• While the last day's positions are captured on tape, these might take time to recover • Orders would need to be executed without knowing current limits

		absence of recorded lines, mobiles would be used, and a confirmation email should be sent in every case. • We are working on a BCP / DR plan that would enable a quick switch to the back-up server	
Operational risk – erroneous execution	Trades devolving to IIFL Wealth because of discrepancy between client intent / instruction and execution Clients are not allowed to directly put in orders at present. But if internet trading is allowed, then there is the added risk of fat finger risks by the client	• All orders executed are either confirmed using emails or recorded lines, so that trail is maintained • Institutional trades are confirmed on T (for derivative trades) and latest by T+1 (for Cash Equity trades) Additional price / quantity validations will be built in to check potentially erroneous trades (which are at variance from the current market orders) This is anyway subject to the current exchange limit of 10 Lac shares or Rs. 10 crore per order	A dispute may take time to resolve; immediate liquidity for pay-in obligations is required

Operational risk – client A/cs and Demat A/cs	Credits / debits to the wrong A/c	Bank and demat A/cs related to a client are maintained by the Operations team with a four-eye (maker-checker) system, based on documentation provided by the client as part of the A/c opening formalities (or subsequently). Cancelled cheque copy is required for bank A/c	Failure of checker to catch an error or collusion between employees
Operational Risk - unauthorised trading	Unauthorised trading by the front office using client positions	All client instructions need to be backed either by email or recorded line instructions & are subject to audit Segregation between dealers (front-office staff) and back-office staff. All trades are settled by separate personnel in the back-office by a maker-checker process based on counter-party / exchange confirmations	

3. Major Parameters of the Risk Management policy

With respect to broking operations, IIFLW follows a margin based automated Risk Management System (RMS) . Cash margins of the clients are uploaded in the Omnesys system for trading purpose every day morning on the basis of their **Net worth (Adjusted ledger balance + Span margin paid by the client + IIFL Wealth approved stock in the client's POA demat A/c with IIFL Wealth)** criteria as prescribed below.

Adjusted Ledger balance is arrived at as follows:

ALB =

Ledger balance

Less 1.5 times value of undelivered stock

Less Buying value of short option, which is implied Purchase value of Short Options Position

Add Fixed deposit / Bank Guarantee pledged with exchange

Add Margin charged on Options Premium (NSE Currency) on T day

For the purpose of ascertaining the value of approved stock, haircuts will be applied, depending on the scrip category. The current scrip categories are provided in Annexure I. This will be changed from time to time, depending on communication received from the Exchanges, and hence, will not require Board approval.

Clients will be given a trading limit based on their net worth, as specified below:

A) Limits for Trading

Daily margin/limits are given in Omnesys trading system as per below-mentioned criteria in the table. Any deviation from these limits/margins will be uploaded in Omnesys on the basis of specific approval from the authorised personnel (as specified below).

OMNEYSIS LIMITS

Account Type		
	Cash	**F&O**
NFDC (Non Funding accounts)	Upto Networth with cap on max limit of Rs. 10 crore per client	Up to Networth with cap on Max Span margin of Rs. 2 crore per client
NRI Clients (NRIC)	Standard limits are given basis balance available under PIS account	No F&O trades allowed
Margin Funding clients	As per approved sanction and margin terms with cap on max buy/sell limit of	As per approved sanction and margin terms with cap on max Span limit of Rs. 2 crore per client

	Rs. 10 crore per client	
PMS	Default Buy sell limit of Rs. 50 lakh	Default Buy sell limit of Rs. 50 lakh
DII & FII	Default Buy sell limit of Rs. 10 cr	Default Buy sell limit of Rs. 10 cr

Further client wise position limits are uploaded in Omnesys system for all F&O traded stocks to avoid breach/penalty to clients by exchange. **Also all the above limits are subject to the exchange-level single order restriction set for 10 lakh qty or Rs. 10 crore value across clients, whichever is lower.**

B) Authorised Personnel

Any waiver / exception approval under this policy needs to be copied to the respective Relationship Manager, if it is not initiated by him /her, and approved by the following authorised personnel.

Nature of Exception	**Authorised personnel**	**Remarks**
Limit of up to Rs. 50 Cr, where margin is maintained	Head of the Broking Business OR Head of Credit OR Chief Risk Officer	Limit represents the total exposure that would be taken, and not just the margin amount This would include situations where a sale is being requested for without stock being present in the client's POA demat A/c with IIFLW
Limit of above Rs. 50 Cr where margin is maintained	Additional approval of CEO (apart from the above)	This would include the above situation
Limit of any amount, where no margin is to be maintained	Additional approval of CEO (apart from the above)	This would include the above situation

C) Risk Management Procedures

i) Cash Equity / Stock Purchases and Sales

For Purchase Transactions:

For all clients (including new clients, with no net worth) upfront margin of 10% of trade value is required either in the form of cash/collateral for trade execution on T day and balance can be provided on exchange settlement date (before 10 AM). Any exception to waive or delay of upfront margin would need to be approved by the authorised personnel as provided in section 3(B).

For Sale Transactions:

Usually, the stock should be there in the client's IIFLW POA demat A/c. If it is not there, then no approval is required, if the client has enough net worth to cover the sale. If there is a shortfall, then an approval from the authorised personnel would be required. In such cases, we should endeavour to have a signed Delivery instruction for transfer of the stock to the IIFLW PoA A/c, or to an IIFLW exchange settlement A/c. A scanned copy can be followed by an original, with approval from the authorised personnel mentioned above.

Details of the client's existing net worth position need to be provided when seeking approval. Approvers should take into account that a default and auction would lead to auction charges of around 20% of trade value being levied on top of the overall position.

ii) Derivative Positions

For purchase of futures, full upfront SPAN margin in collateral that is acceptable by the exchange needs to be there. **No exceptions can be allowed, since this is required by regulation.**

We should continue to follow the existing process of seeking approval from authorised personnel where there is a Single stock F&O deal of more than Rs. 10 Crore. This is taken to assess the capability of the client to fund MTM margins in the event of a large MTM movement.

Mark-to-market (MTM) margins would be taken based on market movements. If a client cannot provide MTM margins by end of day, or if IIFLW's margins with the exchange have crossed 85% utilisation, then approval from the authorised personnel will be taken. Details of net worth should be provided when seeking approval. If approval is not given, then client positions need to be liquidated (squared off) immediately and latest by the next day (T+1). Front office may take a call on which positions to square off first, to release margins.

In all cases if 85% of client's' net worth is exhausted and MTM margin is not made good by the client then the Client / RM need to be informed and a reminder needs to be sent to the client that his positions would get closed out. At least two hours notice must be given. If the client does not make good the MTM margin within the given time, the position should be squared off.

Any exception would require re-approval from the above authorised personnel.

For purchase of options, only option premium is required to be paid by the client in cash.

Writing Options

The client needs to provide upfront SPAN margins in terms of the exchange prescribed collateral. No waiver is possible, as per regulatory requirements.

MTM margins would also be taken based on market movements. If a client cannot provide MTM margins by end of day or if IIFLW's margin with the exchange crosses 85% utilisation then approval from the authorised personnel will be taken. Details of client's net worth should be provided when seeking approval. If approval is not given, then client positions need to be liquidated immediately, and latest by the next day

In all cases if 85% of net worth is exhausted and MTM margin is not made good, then the Client / RM need to be informed and a reminder needs to be sent to the client that his positions would get closed out. At least two hours notice must be given. If the client does not make good the MTM margin within the given time, the position should be squared off.

Any exception would require approval from the above authorised personnel.

Options would be written for only up to 3 months. Longer dated options will only be taken after approval of the above authorised personnel, since they encounter extreme volatility in prices and margin requirements.

iii) NEAT/BOLT Limits

Besides Omnesys we have NEAT/BOLT limits also granted to ultra HNI Clients and limits for the same are given as per approval from Mr. Karan Bhagat (CEO).

D) Margin Management on the Exchange

IIFL Wealth's margins on the exchange need to be continuously monitored during market hours to ensure that we do not exhaust the margins, causing our terminals to be locked down. This can lead to an embarrassing situation with both our clients and the Exchange.

Typically, though not necessarily, this will be on account of derivative trades undertaken on behalf of clients. Whatever may be the cause (Cash Equity Trades / derivative trades) the margin requirement needs to be allocated to client positions (it could be initial SPAN margin or MTM margins), client margins need to be debited and the Exchange margins needs to be replenished. Procedures for making client level margin calls are given in Section C of this policy. Usually, client positions where the client has failed to pay margin would be squared off to reduce margin requirements. However, to deal with exigencies, a line of Rs. 200 Crores has been taken from ICICI Bank. It should be the endeavour of the front office team that IIFLW's margin utilisation should not cross 85% at any given time.

In accordance with regulatory norms, client securities can be placed with the exchange as security only when there is a net debit balance for that client in the client ledger and it can only be used to pay for the margin of that client. The securities to be pledged shall be pledged from Beneficial Owner (BO) account tagged as "IIFL Wealth - Client Account" and appropriate statements need to be sent to the client whenever this is done.

E) Stocks Classification for trading

Out of wide range of stocks available for trading on NSE and BSE platform, Risk Management team has identified/classified stocks which are to be restricted for purchasing on Omnesys screen for IIFLW clients on the basis of the criteria given below. Any deviation/Exceptions are to be allowed only on the basis of approval from the authorised personnel.

Below criteria are used to disallow/block stock for trading on Omnesys Screen

1) VAR margin of the stock is above 50%.
2) Free float market cap of the stock is less than Rs. 250 crore
3) Daily average traded value for past six month is below Rs. 50 Lacs per exchange.
4) All Penny / Z stocks / illquid stocks as specified by exchange from time to time are restricted for trading purpose.

Sales will also be subject to approval for these stocks since these stocks may be vulnerable to market manipulation or tax structuring transactions.

Further to the above conditions:

- All IIFL Coverage, PSU & MNC Companies are default allowed irrespective of Market cap and volumes
- No Restriction for single order up to INR 5 lacs in value
- No Restriction for scrips resulting because of corporate action
- If a block scrip was purchased through us, no approval will required to sell through us
- All Group 3 Stock & Graded Surveillance Measure (GSM) stocks are Default block irrespective of Market Capitalisation and volumes

F) Compliance Procedures

- **KYC:** KYC procedures prescribed by SEBI will be completed for all clients who are on boarded. Any suspicious activity like repeated circular trading in stocks will be reported to the FIU_IND

- **Surveillance of Markets/Stocks:** Risk Management also does daily Surveillance/Monitoring, as given below and informs the RM/ SRM / Dealer.
  1) Daily monitoring and Intimation of client taking position in F&O ban stocks
  2) Daily monitoring and Intimation of position taken for more than 0.5% of issued capital of stock
  3) Daily monitoring and Intimation of NRI/FPI restricted stocks
  4) Single scrip volume concentration Intimation to be incorporated in system (already under process).

Daily Cross trades monitoring to be incorporated in system. Surveillance files received from the Stock Exchanges are checked for any red flags in this regard.

- **Insider Trading / Front running:** Employees should only trade through IIFL or IIFLW, as given in the employee trading policy.
- In order to avoid front running, mobile phones shall not be permitted inside the dealing room. The same should be deposited outside the dealing room on a daily basis during trading hours. Further, in case for any reason landline phones are not working then Dealers shall take permission (through email) from Chief Risk Officer (CRO) to use mobile phones inside the dealing room. Post analysing circumstances CRO may permit the use of mobile phones only till the time landline phones are not working. In this situation, all client orders should also be confirmed on email.
- **FPI / NRI clients** – foreign portfolio investors / NRIs have limits on positions that they can take in companies. These need to be tracked.

G) IPO / New Listing trading policy:

Trading in any new listing scrips will be permitted basis below criteria:

1) Issue Size of IPO < than 250 crore
   Any New listing scrip/IPO scrips having issue size of less than 250 crore will be kept under illiquid / ban list from day 1. Even exchange also keeps such stock in T2 T segment for Initial 10 days and only delivery based volume is permitted by exchange. Also exchange takes 100% upfront margin for such scrips. Post completion of 1 month such scrip will be either permitted /kept under illiquid block list basis selection criteria prescribed above (in section E). However such scrips will be opened only for selling purpose if client carries that stock in demat account with IIFL Wealth and buying will be permitted only on receipt of approval from the authorised personnel.

2) Issue Size of IPO > than 250 crore

Any new listing scrip/IPO scrips having issue size of greater than 250 crore will not be kept under illiquid / ban list from day 1. Exchange also takes only applicable VAR margin hence these will not be kept under block list. Post completion of 1 month such scrip will be either permitted or kept under illiquid block list basis selection criteria prescribed above.

H) Error Trades:

A record of error trades will be kept separately and authorisation will be taken from the authorised personnel to unwind positions as soon as possible. Error trades will invariably devolve on IIFL Wealth and arrangements have to be made for pay-in obligations. Reasons for error can be recorded on the email. Further operational processes are provided in Standard Operating Procedures (SOPs).

If a client or a custodian (acting for a client) disputes a trade, then one would need to go back to the original client order (that would be recorded either on a recorded line or on email) and check. Accordingly, it will either lead to an error trade or will be taken up by the client.

Annex I Categories of Scrips and Haircuts to be Applied

Category	VaR Margin	M.Cap (Rs.Crs)	6 month avg daily traded volume (Rs. Crs)	Hair cut	No. of Scrips
A	<15%	>25000	>50	25%	73

B	<17.5%	>7500	>25	35%	73
C	<25%	>3500	>5	50%	174
D	<25%	>750	>3	60%	228
E	<25%	>500	>1	75%	219
F	Balance	Balance	Balance	100 %	485

Annex II Format of Trade Register to be Maintained Manually (Deal Blotter)

If Omnesys goes down, the following format would be sent to the back-office. It should be noted that a single client order might result in multiple orders / trades.

Dealer Name	Client CRN	Client Name	Instruction mode (phone / email)	Scrip	Buy / Sell	Qty	Rate filled	Remarks (if any)