RISK MANAGEMENT POLICY

OF

IIFLWDSL WEALTH DISTRIBUTION SERVICES LTD

(BROKING)

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1. Introduction

This document details the guidelines and procedures to be followed by the Risk management department of IIFLWDSLW DSL 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 – Cash Equity purchases	Exposure to clients on account of purchase positions taken on their behalf, and failure of client to settle pay-in amount	• The stock (for Cash Equity purchases) is received on T+2 and it can be sold to recover the amount • All transactions now require an upfront margin to be kept • 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
Credit Risk - derivative positions	Exposure to clients on account of open derivative positions (Long or short Futures, written options) for stocks and / or commodities or currencies 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). All positions above ₹100 Crs now require a credit approval note.	Operational risk in terms of failure to call up margins from the client in time Clients not paying margins in time, leading to obligation falling on the broker

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 IIFLWDSLW DSL, if the client fails to honour the pay-in 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) Upfront margin of 20% of trade value would also be levied	Auction charges would be levied. Immediate debit would hit IIFLWDSLW's margins maintained with the exchange. The stock would be sold to recover proceeds. If the fall in price exceeds the upfront margin , then it would hit IIFLWDSLW's books
Price / Market Risk ---Margin Management	IIFLWDSLW'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	• Surveillance files are received from the exchange, which are reviewed to assess whether	

	market participants • Possibility of money laundering by layered trades • Insider trading • Front-running	there are any suspicious trades • Rules around employee trading • Mobile phones are not allowed inside the Dealing room and are kept locked with Security • 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 or DP system goes down making it difficult to account for settlement	• 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	• While the last day's positions are captured on Netmagic backup drive, these might take time to recover. • Orders would need to be executed without knowing current limits if Omnesys goes down. •

	obligations and positions • Recorded lines /email servers down, so audit trail of trades not maintained	• DR system for CLASS DP has been setup on Azure. • NSDL DPM has been tested for BCP where in case of link disconnection direct internet access will be provided by NSDL. This has been tested successfully. • In the absence of email, recorded lines would be used. In the absence of recorded lines, mobiles would be used, and a confirmation email should be sent in every case • Email are now on O365, solution with high committed uptime. • For recorded lines, we have 2 PRI lines and 2 EPBAX to serve as fallback to each other. Please refer to detailed IIFL Wealth Group level BCP /	

		DR Policy for more details.	
Operational risk – erroneous execution	Trades devolving to IIFLWDSL Wealth DSL 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 have been built in to check potentially erroneous trades (which are at variance from the current market orders by more than 20% either way) 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 An MIS of trade errors is also circulated monthly by the Broking Risk Team
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	Failure of checker to catch an error or collusion between employees

		formalities (or subsequently). Cancelled cheque copy is required for mapping bank A/c and CML for Demat A/cs	
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	
Market Risk – Margin shortfall	There may be a difference in margin requirements between peak and end of day margins. The deadline for margin allocation (8PM) comes before the EOD file is received, so there might be a shortfall. Margin allocation errors may also show a shortfall leading to levy of penalty by the Exchange	Margin allocation is largely automated, so the probability of errors is reduced. We are keeping a 5% buffer in margin collateral and allocating extra client cash collateral available to the position which requires the maximum margins as per the last peak margin file	There still might be some difference between peak margin and EOD margin file

Operational Risk - lending securities (SLBS)	Caliber does not show lent out positions, so the same securities can get lent out twice leading to a settlement shortfall and close out.	Demat statement needs to be checked before seeking approval for securities lending	This is a manual check. We are activating the SLBS module on Omnesys and making the appropriate changes in Caliber also.

3. Major Parameters of the Risk Management policy

With respect to broking operations, IIFLWDSLW follows a margin based automated Risk Management System (RMS) . Cash and Collateral margins of the clients are uploaded in the Omnesys system for trading purpose every day morning.

Ledger balance is payment made for purchases+Cash+ stock delivered for sales+MTM on open derivative positions+Buy value of long options. Margins are tracked separately as margin required vs margin provided.

SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 had made the collection of upfront margins mandatory in the Cash Equity segment also. SEBI Circular SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 further strengthened the Risk Management framework by putting in place a system of checking peak intra-day margins four times a day apart from EOD margins and gauging shortfall in margin as the greater of the two.

SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020 clarified that as long as 20% upfront margin was collected from clients, no penalty would be payable by clients, though at the broker level, margin obligation would still be calculated as VaR+ELM.

SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/173 dated September 15, 2020 clarifies that:

- If pay-in (both funds and securities) is made by T+2 working days, the other margins would be deemed to have been collected and penalty for short / non collection of other margins shall not arise.
- If Early Pay-In of securities has been made to the Clearing Corporation (CC), then all margins would deemed to have been collected and penalty for short / non-collection of margin including other margins shall not arise.
- If client fails to make pay-in by T+2 working days and TM / CM do not collect other margins from the client by T+2 working days, the same shall also result in levy of penalty as applicable.

SEBI vide Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, has further clarified that simply having a POA will not be construed as having a right over client assets, so upfront margins will need to be provided by clients as collateral in order to enjoy trading limits.

Hence, clients will be given trading limits as per their margin positions, subject to at least 20% upfront margin being available. These could be given in the form of pledged stocks, transferred in cash (Bank transfer / cheque, to be realised within T+5) or fixed deposits placed under lien to IIFLWDSLW DSL or Bank Guarantees from scheduled commercial banks.

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 as per qty freeze file received from exchange or Rs. 10 crore value across clients, whichever is lower.**

As per SEBI Circular SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020, which makes certain changes in margin management by Clearing Corporations (CCs), with effect from 1st December, 2020:

- CCs shall send minimum 4 snapshots of client wise margin requirement to TMs/CMs for them to know the intraday margin requirement per client in each segment.

- The client wise margin file (MG-12/13) provided by the CCs to TMs/CMs shall contain the EOD margin requirements of the client as well as the peak margin requirement of the client, across each of the intra-day snapshots.

- The member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:

  a) EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.

  AND
  b) Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.

- Higher of the shortfall in collection of the margin obligations at (a) and (b) above, shall be considered for levying of penalty as per the extant framework.

This will be implemented in the following phases:

- Phase 1 (for 3 months from the date of implementation)- 25% of peak margin obligation of the client across the snapshots shall be compared with respective client peak margin available with the TM/CM during the day.
- Phase 2 (for subsequent 3 months)- 50% of peak margin obligation
- Phase 3 (for subsequent 3 months)- 75% of peak margin obligation

- Phase 4 (subsequently)- 100% of peak margin obligation of the client across the snapshots shall be compared with respective client peak margin available with the TM/CM during the day

Further, during the aforesaid period of phased adoption, the member should be able to demonstrate that the balance peak margin obligation (i.e., [peak margin obligation of the client across the snapshots] minus [25%/ 50%/ 75%[1] of Peak margin obligation of the client across the snapshots]) has been funded from the member's own funds and not from any other client.

SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 on **Segregation and Monitoring of Collateral** at client level requires that apart from securities, which are automatically used only for the margin requirements of a client through a pledge- repledge mechanism, cash collateral also needs to be segregated and reported at a client / segment level. This was put into effect from May 02, 2022. This automatically meant that cash needed to be provided either by the client or the Trading member up to 50% of the total collateral requirement of the client. This cash needs to be allocated to clients.

Consequently, we moved to self-clearing from 23rd May 2022 after obtaining all requisite approvals.

NSE Clearing Circular No. NCL/CMPT/51657 dated March 17, 2022 on Segregation of Collateral explains the mechanism for allocation of collateral, including Proprietary (Prop) Cash allocation. If a client has adequate securities collateral, then Prop cash allocation is allowed and there is no shortfall penalty. However , this obviously has a cost, so it should be avoided as far as possible and we should insist that clients pay their 50% cash margin, especially for large positions.

NSE Clearing Circular No. NCL/CMPT/53134 dated July 29, 2022 allows for reporting of collateral pledged with other Clearing Corporations by T+4, which is then taken out of short allocation cases. The format for this reporting is prescribed by NSE Clearing Circular No. NCL/CMPT/53167 dated August 02, 2022.

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 any one of the following authorised personnel.

Head of Credit OR

Head- Risk Management OR

Head of the Broking business OR

MD & CEO

C) Risk Management Procedures

i) Cash Equity / Stock Purchases and Sales

Since upfront Cash Equity margins have become compulsory now vide CIR/ HO/MIRSD/DOP/CIR/2019/137 dated November 19, 2019, and any shortfall in margins will attract a penalty from 1st September 2020 onwards (unless deferred), all clients (including POA clients) need to provide upfront Initial margins @ 20% of purchase / sale value before the trade is executed, from the date this is implemented. A short margin will attract short margin reporting and result in penalty. As per NSE circular NSE/INSP/49929 dated October 12, 2021, **a Member shall not pass on the penalty w.r.t short collection of upfront margins to clients under any circumstances**. In case of failure (requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short reporting of margins other than "upfront margins" such as consolidated crystallized obligation, Delivery margins, other margins (Mark-to-market & additional margins), member may pass on the actual penalty to the client, provided he has evidence to demonstrate the failure on part of the client

Upfront / Initial Margins will not be required to be reported to the exchange, where Early Pay-In (EPI) of cash / securities is done on T day .

Margin pledges may be released by IIFLWDSLW DSL after early pay-in is done.

Vide circular CIR/HO/MIRSD/DOP/CIR/P/2019/137 dated November 19, 2019, SEBI has now made it mandatory to collect margins in cash (cheque) / FD Receipts from Scheduled Commercial banks/ Bank guarantees (from scheduled commercial banks) or securities on lien after appropriate haircuts, if the cash (for purchases) and stock (or sales) is not available upfront even for Cash Equity segment purchases and sales.

Vide Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, SEBI has also clarified that simply having a POA will not be construed as a margin. It has also prohibited transfer of title of securities to the Trading member for the purpose of margins, and hence, the securities will now need to be pledged to the TM, who in turn can repledge them with the Clearing Member (CM) / Exchange as margin. Pledges will require client approval through a One time password (OTP) generated by the Depository.

As per the SEBI Circular, even securities that are not on the approved list of a Clearing Corporation, may be pledged in favour of the TM / CM. Each TM / CM may have their own list of acceptable securities that may be accepted as collateral from client. The list of such securities and the necessary haircuts will be published by the IIFLWDSLWDSL Broking Risk Management team from time to time.

In cases where a client has given a Power of Attorney (the "POA") IIFLWDSL will execute the margin pledge on behalf of such client

For pledging of securities (and off-market transfers of stock), additional confirmation procedures have been prescribed from the Depositories' end, like OTP confirmation by the client.

For Executionary clients, the process of margin pledge needs to be done end to end by the client.

For Purchase Transactions:

As clarified in Q3 of the FAQ issued by NSE in September 2019, where a purchase is done on margin basis, and securities are not paid for within T+2, unpaid client securities can be transferred to the client's Beneficial Owner Demat (BO) A/c from the Member's Pool A/c as per the Member's Risk Management Policy (RMS). Hence, it is being clarified here that such securities will be transferred to the client's BO A/c where client assets are held under POA. If the client fails to pay for the purchase even after 5 days of payout (during which time follow-ups will be made to the Relationship Manager (RM) associated with the client), a decision to liquidate such securities will be taken by the Risk Management team. .

Where the client has an Executionary A/c, unpaid securities will be taken to a **Client Unpaid Securities Demat A/c (CUSA)**. If the client does not pay for the purchase even after 5 days from the Payout date (Settlement date), then these will be sold in the market, after giving final notice to the client through the respective RM. Securities must be sold within 7 days from the Settlement date, since after that, any balance in the Unpaid Securities Demat A/c will attract a penalty. Sales will be made under Unique Client Code (UCC) of the respective (defaulting) client.

If there is a shortfall then margin invocation by IIFLWDSL Wealth DSL may be required.

Where part payment is made, securities which are paid for will be transferred to the Client's BO Demat A/c (proportionately) and the rest will be sold off.

Securities in the Unpaid Securities A/c will not be used for margining.

For Sale Transactions:

Usually, the stock should be there in the client's IIFLWDSLW DSL POA demat A/c. If the stock is not there or there is a shortfall, then upfront margin would be required from 1st September 2020 onwards, and 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 IIFLWDSL PoA A/c, or to an IIFLWDSL 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 and past trading behaviour 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. For this, margin invocation may be required if the client is unable to pay.

ii) Derivative Positions

Derivative positions may consist of Stock Futures, Index Futures, Stock options, Index Options and Futures and Options on Commodities or Currencies.

For purchase of futures, full upfront SPAN margin, Exposure Margin and additional margin as and when imposed by the Exchange, in collateral that is acceptable by the exchange needs to be there. **No exceptions can be allowed, since this is required by regulation.** Margin can be collected in the form of a cheque / bank guarantee / approved securities.

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. Further client level derivative exposure above 100 crore requires joint approval from Head of Credit risk and Karan Bhagat.

Mark-to-market (MTM) would be taken based on market movements. If a client cannot provide MTM margins by end of day, or if Client's margins with the exchange have crossed 85% utilisation, then approval from the authorised personnel will be taken to continue the position . 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. . 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 and Exposure 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 client'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. 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 are relatively illiquid and encounter extreme volatility in prices and margin requirements.

iii) Commodity and Currency Derivatives

Depending on the contract (commodity, type of contract), a Futures position in a commodity may result in a physical delivery using an ENWR (Electronic Negotiable Warehouse Receipt) or it may be cash settled. ENWRs are created using a process of assaying as per rules laid down by the Warehouse Development & Regulatory Authority (WDRA). A Commodity Option would either give rise to a receivable (if it is in the money or at the money for a buyer of the option) or it would lapse. The receivable would, in turn, give rise to a delivery or cash settled position. ENWRs can be held with accounts held either with NERL or CCRL. While currently, Commodities are traded on NCDEX and MCX, they are expected to be traded on NSE and BSE in separate commodities segments in the near future.

The principles enunciated above (for derivative purchases and sales) would apply to any commodities exchange / segment where we take membership and where we execute trades on behalf of our clients. Additionally, intra-day margins would be applicable as called by the exchange. For Commodity Derivatives, as per SEBI Circular SEBI/HO/CDMRD/DRMP/CIR/P/2019/149 dated November 29, 2019, Risk Parameter File (RPF) of 5 PM shall be applicable on End of Day (EOD) portfolio for margin collection from clients.

Currency derivatives are offered on the Interest Rate Derivatives segments of the NSE and the BSE and are cash settled through the exchange settlement mechanism.

Where the client is dealing in Currency and Commodities Derivatives, it would be prudent to ascertain the following first:

- There should be proper authorisation (by the Board or governance mechanism of the client, eg a trustee resolution, or by an executive who has been delegated such powers) to deal in Commodities and / or Currencies
- The client should have an A/c with NERL / CCRL to credit and deliver ENWRs

- The client should have the wherewithal to track positions in commodities / currency futures and options and pay margins quickly as and when required. This is a subjective question, and would be looked into by the person approving the limit

iv) 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). However, margin requirements as given above would apply to such clients also

D) Margin Management on the Exchange

IIFLWDSL '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, the positions would be liquidated to reduce margin requirements. However, to deal with exigencies, a line of Rs. 50 Crores has been taken from ICICI Bank. It should be the endeavour of the front office team that IIFLWDSLWDSL's margin utilisation should not cross 85% at any given time.

In accordance with regulatory norms, client securities can be repledged with the exchange as security from the Client A/c, and it can only be used to pay for the margin of that client. Excess shares can remain in the A/c in case they are required for positions taken in the future, but again, they can be used only for margins relating to that client's positions.

SEBI has issued circular SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021, making further changes in the reporting of margins, which needs to be done at a client level, and changing the frequency of such reporting to daily from weekly wef 1st October, 2021. It has also specified that where a client exceeds 90% of his collateral position (after haircuts), the exchange will start debiting the proprietary margin collateral of the Trading member.

The circular also clarifies that the 50% cash rule need not be enforced on the Trading Member's clients, though the Trading / Clearing member will be compelled to comply with this by the Exchange.

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 IIFLWDSLW 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.
5) All Stocks which are covered under long term and short term list of Additional surveillance measure provided on exchange website on daily basis. ASM stock restriction limit is kept at 5 crore.

Sales will also be subject to approval for these stocks since these stocks may be vulnerable to market manipulation or tax structuring transactions. Approval from Head of Dealing or Head – Risk Management will suffice.

Further to the above conditions:

- All IIFLWDSL Coverage, PSU Companies are default allowed irrespective of Market cap and volumes
- No Restriction for single order up to INR 5 lacs in value for stocks identified under illiquid list and 5crore in value for stocks which are covered under exchange list of short term and long term Additional surveillance measure.• 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 IIFLWDSL , 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 with Security 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 Head -Risk Management to use mobile phones inside the dealing room. Post analysing circumstances Head – Risk Management 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 or whatsapp (which can be used as evidence), since official call recording will not be available.
- Orders may be taken on Whatsapp for Business available on the terminals; these are received on Whatsapp Groups that are created with the official numbers of Dealers.
- **FPI / NRI clients** – foreign portfolio investors / NRIs have limits on positions that they can take in companies. These need to be tracked.

G) Surveillance Policy

To aid in the task of Risk Management, it is essential to have an online mechanism that would alert us of the change in the clients' position, on a real time basis, as transactions take place. The main objective of surveillance function is to help maintain a fair and efficient market for securities. A market can be considered fair if all participants face the same conditions of trading and no entity is in a position to trade on information that is not publicly available. A market can be considered efficient if no single entity or group of entities can influence the price discovery based on available information and / or demand and supply.

Surveillance system is the tool for monitoring real-time trading activities. The Alert system compares the movements of price and trading volume for each security with the parameters based on preset values. If there is an unusual change in terms of price and/or trading volume for any security, the alert system will generate an alert so that online securities monitoring team will be able to promptly investigate for the reason of that unusual change, notice any security with unusual changes in its trading pattern. The main objectives of the system can be summarized below:

- To detect potential abnormal activity – Surveillance System detects on real time basis potential abnormal activity by comparing with historical data. Abnormal activity may be pertaining to abnormality in respect of price, volume etc.

- Capture real time data on surveillance system – Instantaneous updation of price and quantity data is provided.
- To generate alerts in case of aberrations – Surveillance system generates alerts across live data based on predefined parameters.

i. Generation of Alerts / Receipt of Alerts from Exchanges/ Depository

The surveillance system in place should identify abnormal orders/trades and to identify aberrations in the client level trading activity e.g. Trading pattern in comparison with the clients' reported income, related clients trading amongst themselves, new clients getting registered and trading only in select scrips, illiquid or IPOs, etc. While trading in illiquid securities either on own account or on behalf of their clients, we are also required to be cautious.

Some examples of such cases could be:

- Orders placed away from the market price
- Significant concentration of the client to the market quantity
- Trading concentrated only in one scrip or a group of scrips.
- Repeated pattern of losses.
- Client trading indulging in synchronized transactions
- Regular trading in securities classified as illiquid by the Exchanges.
- Possible order book manipulation

The illustrative themes (Broking Operations) based on which alerts to be generated: -

- Client / group of clients as identified, accounting for a significant percentage of the total trading activity in a scrip / contract as compared to the market.

- Client / group of clients with new account or clients dealing after a significant time gap, as identified, accounting for significant value / percentage of total trading activity in a scrip / contract as compared to the market.
- Client / group of clients dealing frequently in small quantities / minimum market lot in a scrip / contract.
- Disproportionate trading activity vs reported income / Net worth.
- Frequent changes in KYC submitted by clients.
- Based on an announcement by a listed company, identify client / group of clients, having possible direct / indirect connection with a listed company, who have undertaken any suspicious trading activity prior to price sensitive announcement by said listed company.
- Client / group of clients having significant selling concentration, in the scrips, forming part of 'For Information list' or 'Current Watch list'.
- Consistency in profit / loss at client / group of clients' levels, rationale for such trading activities.
- Significant trading activity in scrips by client who has pledged the shares of same scrip.
- In case of concerns of trading activity of a client / group of clients in a scrip, monitoring whether the orders are being placed by respective clients or their authorized representatives and monitoring client's address as per KYC vis-a-vis the dealing office address.
- Significant trading activity in scrips where client has pledged shares or has significant holding or has frequent off-market transactions.
- Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location)

The illustrative themes (Depository Operations) based on which alerts to be generated: -

- Alert for multiple demat accounts opened with same demographic details: Alert for accounts opened with same PAN /mobile number / email id/ bank account no. / address considering the existing demat accounts held with the Participant.
- Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced.
- Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.
- Frequent Off-Market transfers by a client in a specified period
- Off-market transfers not commensurate with the income/Networth of the client.
- Pledge transactions not commensurate with the income/Networth of the client.
- Off-market transfers (High Value) immediately after modification of details in demat account
- Review of reasons of off-market transfers provided by client for off-market transfers visà-vis profile of the client e.g. transfers with reason code Gifts with consideration,

frequent transfers with reason code Gifts/Donation to unrelated parties, frequent transfers with reason code off-market sales

- Alert for newly opened accounts wherein sudden Increase in transactions activities in short span of time and suddenly holding in demat account becomes zero or account becomes dormant after some time.
- Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients

Generation of Alerts

Online Real Time Alerts - These alerts are based on the trade related information during the trading hours. The objective of these alerts is to identify any abnormality as soon as it happens. These alerts include intraday price movement related and abnormal trade quantity or value related alerts.

The surveillance team / Compliance will monitor the online trades as they are executed, and extra ordinary volume in the particular scrip or client is to be immediately investigated by calling up the RMs / Branch and asking for details of clients and as per the details made available, the clients previous purchase or sales transactions are looked into, by scrutinizing the ledgers.

Online Non real Time Alerts - These alerts are based on the traded related information at the end of the day and the available historical information. The objective of these alerts is to analyze the price, volume and value variations over a period.

1. Unusually large volume is to be examined especially if the client has incurred a loss, or unusually high profits.
2. Where volumes are unusually high, they are compared with the total volume in the exchange for the day in that particular scrip, and such reporting is done to the senior management.
3. Price movement over a 3 / 6 months period is also tracked.

4. After due investigation (which normally takes four weeks), Surveillance Team reports to the senior management its finding and thereafter such scrip is disabled for trading for that client / branch and in some cases on the whole network.

Price Variation - It is defined as the variation between the last trade price and the previous close price of a security expressed as a percentage of the previous close price.

High-Low Variation - It is defined as the variation between the high price and the low price of a security expressed as a percentage of the previous close price.

Quantity Variation - It is defined as the percentage variation between the total traded quantity and the average traded quantity expressed as a percentage of the average traded quantity.

Client-wise Surveillance

1. All the clients who have traded in the scrip placed in where there is unusual volume visa-vis average volume are scrutinized for their other scrip dealings.

2. Looking at the general quality of scrips that they are dealing in, Surveillance Manager reports to the senior management for further action on whether we want to continue to deal as a broker for that client or not.

3. <u>Intra-day Scrip Wise Volume</u>:- Our back office software has a module which offline tracks the intra-day loss of all clients. The Surveillance Team prepares & scrutinizes the statement to look at any unnatural volumes happening without delivery.

<u>Receipt of Alerts from Exchange/ Depository</u>

In order to facilitate effective surveillance mechanisms, the Exchanges/ Depository would download the alerts based on the trading activity on the Exchange/ transaction in demat account. In addition to the alerts generated internally, the alerts downloaded by the Exchanges'/ Depository are also taken up for assessment. The list of indicative alerts below transactional alerts are an indicative list.

Sr. No.	Transactional Alerts	Segment
1.	Significantly increase in client activity	Cash
2.	Sudden trading activity in dormant account	Cash
3.	Clients/Group of Client(s), deal in common scrips	Cash
4.	Client(s)/Group of Client(s) is concentrated in a few illiquid scrips	Cash
5.	Client(s)/Group of Client(s) dealing in scrip in minimum lot size	Cash
6.	Client / Group of Client(s) Concentration in a scrip	Cash
7.	Circular Trading	Cash
8.	Pump and Dump	Cash
9.	Wash Sales	Cash & Derivatives
10.	Reversal of Trades	Cash & Derivatives
11.	Front Running Cash	Cash
12.	Concentrated position in the Open Interest / High Turnover concentration Derivatives	Cash
13.	Order book spoofing i.e. large orders away from market	Cash

<u>Commodity Trades</u>

Clients participating in commodity derivatives may be hedgers, or traders. Hedgers will have underlying positions that they are seeking to hedge with the trade(s) and hence, are inherently less risky. Among traders, some clients might be taking exposure to the commodities market purely for investment purposes (as a means of diversification) or they may be value chain participants who have a commodities business and will usually give and take delivery of a commodity. A client's trading pattern must match the individual characteristics of the client, in terms of the size of his business (in case he is a value chain participant), or his trading pattern, income and net worth, if he is a financial investor.

Commodities trades can be of 4 types:

- Base metals (Iron, Copper, Zinc)
- Precious metals (Gold, Silver)
- Agricultural Commodities (broken up into Food grains and pulses; oilseeds; and horticultural crops like fruits and vegetables)
- Energy (oil, coal, electricity)

The ticket sizes and contracts available for each of these categories is different because of difference in unit value and length of the contracts. The size and nature of exposures should be differently calibrated for each category of commodities, though total value can be aggregated irrespective of the nature of the contract.

ii. Time frame for disposition of alerts

- **Analysis of alerts:-**

  IIFLWDSL will carry out the Due Diligence of the client(s) on an on-going basis to ensure that, key KYC parameters of the clients are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in UCC database of the Exchange. Based on available information, IIFLWDSL shall establish groups / association amongst clients, inter-alia, to identify multiple accounts / common account / group of clients. IIFLWDSL is to maintain profile of the clients participating in commodity derivatives, which may include Commodity wise client category (for e.g. VCP, Trader, Hedger, etc.) as well.

  IIFLWDSL will review these alerts based on facts and verification of relevant documents including income/networth as provided by Client. Further, IIFLWDSL will exercise independent judgment and take appropriate action in order to detect any abnormal or suspicious transactions. As per the circular on Surveillance Obligations issued by Exchanges'/ Depository, in order to analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified based on above alerts, the IIFLWDSL is required to:-

  a. Seek trading rational/ explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.

  b. Seek documentary evidence such as bank statement / demat transaction statement or any other documents to satisfy itself for analysing / processing of alerts.

  1. In case of funds, Bank statements of the Client(s) / Group of Client(s) from which funds pay-in have been met, to be sought. In case of securities, demat account statements of the Client(s) / Group of Client(s) from which securities pay-in has been met, to be sought. In case of commodities with compulsory delivery, documentary evidence including warehouse receipt of the client(s)/ Group of client(s) for which commodities pay-in have been met, to be sought.

2. The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the funds / securities for the settlement of such trades actually belongs to the client for whom the trades were transacted.

c. Additionally, following aspects need to be considered in the analysis: -

i. Conduct periodic analysis of trading behaviour of clients who appear repeatedly in the transactional alerts and/or have been repeatedly found to be breaching the norms prescribed by SEBI/Exchange;

ii. Monitor any sudden trading activity in dormant account and to inform such abnormality to the Exchange;

- **The steps to be followed in respect of transactional alerts:-**

Alerts Received

IIFLWDSL to review the alerts based on a. Type of alert downloaded by the Exchange/ Depository b. Financial details of the client c. Past Trading pattern of the clients/ client group d. Bank / Demat transaction details (The period for such statements may be at least +/- 15 days from the date of transactions) e. Other connected clients in IIFLWDSL's UCC (common email/ mobile number/ address, other linkages, etc.) f. Other publicly available information
If any concern seen post inquiry/ receipt of explanation from client, IIFLWDSL to forward the alerts to the Exchange/ Depository with his comments and any documents deemed relevant.

- **Broad Timelines: -**

Activity	Timelines
Analysis of alerts	Within 10 days from the generation / receipt
Seeking explanation / documentary evidence	Within 10 days from the analysis of alerts

from clients	
Further analysis of submission made by clients	Within 5 days from the receipt of submission
Final disposition of alerts / conclusion	Within 5 days from the receipt of submission
Overall disposition of alerts	Within 30-45 days from the generation / receipt of alerts

iii. Identification and Monitoring Suspicious / Manipulative activity

Any sudden change in the trading pattern of the client which is not in line with the profile of client may be monitored. Also, IIFLWDSL needs to keep a watch on the trading behaviour of the clients and monitor the same in view of their financial soundness/income/net-worth and business background. Considering the submission made by the clients, the alerts generated will be further analyzed to find out any pattern at individual client and aggregate level. In case any pattern is observed which indicates manipulative intention of the client, the detailed scrutiny will be carried out for a longer time period, which will include looking out for other associate /family/ group of clients who may be involved.

The observations shall be recorded for such identified transactions or clients / Group of Clients. Based on the observations the clients will be cautioned for trading in future, further as deterrent measure client may be disallowed for trading in future.

If there is sufficient evidence to indicate a manipulation, the matter is referred to the Senior Management for further course of actions, if required. In case adverse observations are recorded, all such instances shall be reported to the Exchange within 45 days and to Depository within 30 days of the alert generation. The extension of time period may be sought from the Exchange, wherever required.

Based on the type of transaction alert (as given in the section above) vis-à-vis the characteristics of the client and his trading pattern, the Compliance officer / Head – Wealth Compliance will take a call on whether a particular alert should be simply closed or reported as a part of the Suspicious Transaction Reporting (STR) to FIU-IND.

iv. Record Maintenance

i) IIFLWDSL needs to maintain register (may be electronic/physical) for recording of all alerts generated. MIS in respect of all alerts generated internally and received from Exchanges'/Depository are to be maintained and tracked upto the stage of disposition. The details of record inter-alia following is to be maintained: -

- Date of receipt of alerts
- Type of alert
- Details of analysis carried out
- Date of request asking explanation from clients
- Details of submission desired from clients
- Date of disposition of alerts
- Details of conclusion & observation/ rationale for the same
- Reason for delay in disposition

iv. Reporting Requirements

A) Reporting to Designated Director

The surveillance activities shall be conducted under overall supervision of its Compliance Officer and Designated Director. A quarterly MIS shall be put up to the Designated Director/ Audit Committee / Board, on the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure. Also, the Designated Director shall be apprised of any exception noticed during the disposition of alerts.

The above analysis, reporting and monitoring will be done by Risk & Surveillance Department and DP Operations Department with the guidance from Compliance Team.

B) Reporting to Exchange(s)/ Depository

- With respect to the transactional alerts downloaded by the Exchange/ Depository, IIFLWDSL shall ensure that all alerts are analyzed and status thereof (Verified & Closed / Verified & Sent to Exchange/ Depository) including action taken is updated within 45 days, in Exchange/ Depository Portal.
- With respect to the alerts generated internally, IIFLWDSL shall report instances with adverse observation, along with details of action taken, to the Exchange within 45 days and to the Depository within 30 days of the alert generation. For the alerts generated

internally, IIFLWDSL shall report instances with adverse observation, along with details of action taken, to the Depository within 7 days of the date of identification of adverse observation.

- IIFLWDSL to provide duly approved status of the alerts on a quarterly basis, in the following format to the Exchange/ Depository within 15 days from end of the quarter. In case there is no information to report, 'NIL Report' to be submitted within 15 days from end of quarter.

A. Status of Alerts generated by IIFLWDSL:

Name of Alert	No. of alerts under process at the beginning of quarter	No. of new alerts generated in the quarter	No. of alerts verified & closed in the quarter	No. of alerts referred to Exchange (*)	No. of alerts pending / under process at the end of quarter

B. (*) Details of alerts referred to the Exchange:

Sr. No.	Date of Alert	Type of Alert	Brief observation and details of action taken	Date referred to Exchange

C. Details of any major surveillance action taken (other than alerts referred to Exchange/ Depository), if any, during the quarter:

Sr. No.	Brief action taken during the quarter

H) IPO / New Listing trading policy:

<u>Trading in any new listing scrips will be permitted basis below criteria:</u>

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 IIFLWDSL 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.

I) Error Trades:

A record of error trades will be kept separately and authorisation will be taken from the Head of Trading / Head of Broking / authorised personnel to unwind positions as soon as possible. Error trades will invariably devolve on IIFLWDSL Wealth DSL 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).

A monthly MIS of error trades would be sent by the Broking Risk team to the Head of Broking, the Head of Dealing and the Head – Risk Management of IIFLWDSLW.

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)	Haircut
A	<15%	>25000	>50	25%
B	<17.5%	>7500	>25	35%
C	<25%	>3500	>5	50%
D	<25%	>750	>3	60%

E	<25%	>500	>1	75%
F	Balance	Balance	Balance	100%

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)