# Risk Management Policies And Procedures

VNS Finance has endeavored to make a combined policy for all products offered through exchange platforms, including commodity products offered through its subsidiary company, VNS Broking Company Pvt Ltd.

The objective of this document is to explain the various risks involved in the business operations to the existing as well as prospective clients. The Risk Management & Surveillance (RMS) Policy has been devised to make sure that customers are aware of criteria based on which VNS monitors all kinds of risk. It is applicable for all Marketing Associates, Authorised persons and clients.

The need for this review has arisen for the reason of recent directives of SEBI & Exchanges in respect of margin intraday exposure and end of the day position. Henceforth there is no distinction between the intraday margin and end of the day margin levied on clients.

The Policy is subject to change according to risk perception of the market and SEBI/Exchange rules, regulations and circulars issued from time to time.

## Funds Pay-in & Payout:

**Pay-in from clients:** Client can transfer funds into trading account only through banks which are registered with VNS. Any transfer other than registered bank accounts will not be considered and clients may not get credit in client ledger or limit on trading terminal.

- There is a Rs. 8 + GST (Goods & service Tax) transfer fee charged for payments made through netbanking.
- Fund transferred through NEFT/RTGS will be processed/credited as per RBI settlement timings and may take 3-5 hrs.
- Deposits on bank holidays will be processed on the next working day.
- In the case of payment by cheque, the payment will be credited in the account only after the cheque is encashed and credited in our bank account, after the proper authentication.

**Payout to clients:** All payout requests will be accepted through client's back office namely **BOX** and trading terminals offered by VNS. The same is processed electronically and the amount is remitted to the client's primary/default bank account only, irrespective of bank selected by user during payout request. Equity/Commodity payout request placed from BOX back office before 7.00 am on any trading day will be processed on the same day and clients will get funds into their default bank account as per **RBI** settlement timings.

- The clients are requested not to give any Payout request over the phone, chat or email as we avoid manual entries.
- Payout requests placed after Friday 7:00 am to Monday 7:00 am will be processed on Monday morning. Funds will get credited to client's bank account as RBI timing.
- Payments shall not be processed on clearing holiday.

**Margins:**

Trading limits for each client is based on clear credit balance of the client + End of previous day margin carried forward + value of securities pledged by the clients as per revised SEBI/exchange guidelines (SEBI/HO/MIRSD/DOP/CIR/P/2020/143) w.e.f. 1st Sept 2020 (as per exchange approved list) after applicable haircut.

Please note that w.e.f. 1st Sept 2020 the transfer of securities in VNS derivatives beneficiary account as collateral is not allowed and securities can be accepted through pledge and repledge system only. The benefit of such securities is computed as per stipulated % of total margin applicable as decided by the company from time to time.

In this connection the Reference of SEBI and exchange circular are important: SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, read with SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020 and Exchange circular no. NSE/INSP/45191 dated July 31, 2020. These circulars are in respect of securities to be given towards Margin obligations by way of pledge / re-pledge in the Depository system.

**Equity Segment:**

Minimum 20% margin is applicable upfront on the trading day i.e. in advance. Other margins such as Mark-to-market margin (MTM), delivery margin, special/additional Margin or such other margins as may be prescribed from time to time, shall be required to be deposited before exchange payin/ pay out i.e within 'T+1' working days.

Clients can place orders in following products:

**MIS** – (Margin Intraday Square off) and **CO & BO** – (Special intraday orders-Cover/Bracket Order product) for intraday trading, subject to mandatory square off. The margin will be blocked as per 20% of trade value or 100% of applicable VaR and ELM whichever is higher for individual scrips. VNS may allow exposure to the client depending upon the product/ plan chosen as mentioned above. For daily margin benefit view here.

**CNC** – (Delivery-Cash N Carry). For taking delivery, the full upfront amount needs to be kept in the trading account. In the case of a sale transaction, the trading software checks the delivery in VNS DP and only then the sale transaction is allowed in CNC. If a client wants to sell the delivery lying outside DP, he should first transfer the shares in his BO with VNS. Unsettled scrips in case of clearing holiday i.e purchased on T-1 and T-2 can also be sold in CNC. But it attracts the upfront margin to sell unsettled scripts. Thus if scrips bought on T day are sold on T+1 day then upfront margin is required for selling such unsettled scrips.

However in the case of sale of unsettled scrips, if the same is not received in pay-out, the loss due to exchange auction or square off (in case there are no bidders in auction) will be borne by the client.

Securities with the BO account of VNS Depository with POA can be sold without giving any margin. Non POA clients will have to execute E-Dis or DDPI mandates for selling holdings kept in BO account. Early pay-in of such securities will be made by VNS and clients can take the benefit of credit balance arising out of such sale in any segment.

In case the client does BTST i.e. buy today and sell tomorrow and the client has made 100% payment for securities bought, then 20% margin for the buy side and similar margin for sale of unsettled securities will be applicable. Assuming the margin is 20% then the total margin will be 40% and balance 60% can be used by the client for any segment (Cash, FNO and Currency). This 40% margin applicable on such BTST will be released on T+2 as the delivery of such scrip is received and the early payin is made by VNS. However if due to delayed payout from exchange/ clearing house the early payin is not made then the margin will not be released.

## Derivative Segment (Equity & Currency)

**Equity Derivatives:**

Initial margin (SPAN margin & Extreme loss margin) will have to be deposited upfront on the trading day i.e. in advance. Delivery Margin (applicable during expiry) and Mark-to-market margin (MTM) and any other margin shall be deposited latest by T+1 day.

**Currency Derivatives:**

Initial margin & Extreme loss margin will have to be deposited upfront on the trading day i.e. in advance. Mark-to-market margin (MTM) and any other margin shall be deposited by T+1 day. In case of currency future contracts, the final settlement amount shall be deposited latest by T+1 day.

The client can place order in any of the following products

1. **MIS (Intraday)** – For intraday trading
2. **NRML** (Overnight or Normal) – client may carry forward the position to the next day

The client will have to pay full margin as applicable whether he wishes to create an intraday position or overnight position in the F & O segment. This is as per exchange circular NCL/CMPT/45087 applicable from 01st September, 2021.

SPAN margin files are uploaded four times on the trading terminal as required by the exchange; the final SPAN margin which is used for billing may vary with intraday span margin. It is a portfolio based margin and may vary depending upon the portfolio structure. In the case of variation of portfolio, end of the day margin may change. The Exchange penalty for short margin will be borne by the client.

For buying options, the total premium amount will be blocked from margin in MIS intraday as well as NRML (Overnight) products. The client should be careful in choosing the product, as intraday position will be squared off as per prescribed time. Since the margin applicable in both the cases is same, the product is more for managing the risk by the client. For selling options, the applicable span and exposure margin is required to be paid by the clients as per the relevant product type. In the case of sale of options, option premium received will not be considered as a deposit for the purpose of exposure. The margin is blocked like in the future approximately. Additionally, whether put or call, in the case of sale the MTM is built in the margin, so the upfront margin may increase substantially during the day or end of the day and shortfall on this account is required to be paid on T day itself.

**Derivative Segment (Commodity)**

Initial margin (SPAN margin & Extreme loss margin) will have to be deposited upfront in full on the trading day i.e. in advance.

Other margins such as Mark-to-market margin (MTM), delivery margin (on expiry), special/additional Margin or such other margins as may be prescribed from time to time, shall be deposited within 'T+1' working days.

The client's ledger balance in MCX is uploaded as a deposit on the trading terminal. Most of the provisions of the equity/currency derivatives are applicable for commodity derivatives also. For daily margin benefit view here. In the case of sale of options in commodities the same principle as given above for equity options is applicable.

**Trading during tender period and staggered delivery period -** During the tender/staggered delivery period, delivery can be marked at the instance of counterparty and such delivery will have to be effected compulsorily. Hence the client is required to square off the position 2 days prior to the start of the tender period or shift the position to the next period. Trading in such products in expiring contracts is blocked to avoid any loss to clients. In case the client does not square off the position, the same may be squared off by VNS without prior notice as clients are advised to close their positions well in advance before the tender period starts.

**Trading in non-deliverable commodities** – in the case of non-deliverable commodities like crude oil, the client is requested to square off the open interest at least 3 days before the expiry or transfer the position to the next period. In case the client does not square off or transfer to next month, he/she will be required to pay 200% **of the value of underlying** as an additional margin for keeping the position till the expiry day. This additional margin will be applicable at the 3 days before the expiry date at end of the day. In case the margin is not paid, the outstanding position may be squared up by VNS.

Additional points relating to commodity derivatives are as under:

- GTD & GTC orders are not available.
- Physical delivery of commodities is not allowed.
- NRML (Overnight) product (carry forward buy/sell) will not be available for trading on expiry day and one day prior to tender period start day.
- For commodities, on the start of delivery intention period, no contracts will be available for trading.
- MIS (Intraday)/ CO/ BO products are not available for MCX options.
- Whether intraday or overnight trades/ positions, 100% of span + exposure margin needs to be paid and maintained.

**General:**

Further, unsettled amounts will not be considered for initial margin requirements (Intraday/ delivery trades). The unsettled amounts may be due to:-

● Realised profits made on intraday trades (Equity derivatives, Currency derivatives and commodity derivatives) or carry forward Futures position
● Net sell premium (The amount released after the Option contract is sold in case of carry forward bought position)
● The Amount received from selling stock (Demat or unsettle scripts)
● Realised profits made on intraday trades in Cash, etc.

Above prescribed amount has to be deposited on a given timeframe to avoid margin shortfall and exchange penalty including Cash segment.

Margin displayed on the margin calculator on our website is based on the previous day's price and volatility. It is indicative only and may vary with actual margin requirements on exchange platforms. Clients should maintain some extra margin in their account to meet margin obligation and MTM losses if any. VNS reserves rights to restrict additional exposure and can place a client's account only on square off mode in the case of margin shortfall.

In the case of NRML or carried forward derivative open position no shortfall is allowed in margin. In the case of margin shortfall or insufficient cash/ cash, non cash equivalent due to upfront margin or MTM or increase in volatility or any other reason, VNS reserves rights to square off or reduce the open positions/pledge shares/trades at any time during the day without prior notice. There will be no margin call before the position is squared off during times of extreme volatility. All resulting charges or debts that might occur from such square offs will have to be borne by the client. The client should check the shortfall and any shortfall should be made good in the morning and whenever the system demands either by providing additional margin or by reducing open position.

**Debit square off**:

In the case of debit in any segment for any reason,delayed payment charges of 0.05% per day (considering pay-in and pay-out days) will be payable by client.

As per SEBI circular on handling of clients' securities, in case of debit balance (at consolidated level) in client ledger account, VNS reserves rights to transfer securities to Client unpaid securities Account (CUSA) from pool account. CUSA account is for a very short period and securities cannot be continued in this account. In case of non-payment of purchases, securities from CUSA can be squared off by VNS.

In the following cases, VNS at its discretion reserves the right to sell any pledged shares of the client, to the extent of the debit balance/Obligations of such client, without giving any prior notice.

·Client fails to pay its Pay-in obligation/MTM loss/Other obligation for any of his position with VNS, within the timeline as prescribed by the Exchange.
·If clients fail to meet any Margin obligations for any of its positions with VNS.
·Due to non-liquidity, unpaid securities couldn't be sold by VNS (under RMS actions).

**Physical Settlement in Equity Derivatives**

With reference to SEBI Circular number.SEBI/HO/MRD/DP/CIR/P/ 2018/67 dated April 11, 2018 Specified securities contracts of futures as well as in the money options are required to be settled by physical settlement instead of cash settlement on expiry. As per the circular, all open contracts of specified securities in futures segment and in option segment, in the money options/close to money options will be compulsorily settled in physical mode on expiry. The physical settlement scrips list specified may be revised from time to time by the exchange. The settlement process will happen in the equity segment and customers have to provide additional funds for buy obligation or securities for delivery obligation as per delivery marking. Additionally, according to the guideline, stocks which do not meet the enhanced eligibility criteria for introduction in the derivative segment shall move from cash settlement to physical settlement and hence will not be available for roll over.

Hence, it is advisable for a client to square off or roll over all positions in futures and options on or before 2 working days before expiry. In case the client wants to take delivery then he should pay additional margin equivalent to 100% value of underlying (after reducing the margin paid for derivative position in that scrip) at least two days before expiry The client should also signify his/her intention to take delivery in writing through email at least two days before expiry. In the event the client does not fulfill the margin obligations on time and does not roll over, the client's positions are liable to be squared off. Any loss arising out of such square off would be the sole responsibility of the client. This policy may be changed at any time at the discretion of the VNS. There will be additional delivery brokerage/charges @0.50% of the value of securities, in case the client opts to take physical delivery instead of square off or roll over.

All positions resulting into giving delivery of shares will require having obligation quantity in the client demat account as free balance with VNS only at least two days before expiry.

Moreover, fresh positions in current month expiry contracts will not be allowed from the 2 working days prior to the expiry for stocks that are to be physically settled. For example, fresh positions in these securities for Aug 26 expiry will be blocked from Aug 24.

In case VNS is unable to square off such positions/trades due to any reason, then such contracts will be physically settled and client will be liable for the obligations resulting from the same.

**Securities contracts in banned period**

Fresh position is not allowed in Securities/ contracts under a banned period depending upon market wide position limit (MWPL). Exchange from time to time releases such a list and if a fresh position whether future or option is taken or existing position is carried forward to new expiry, it is considered a violation of breaching the MWPL limit and penalty is levied which will be to the account of the client.

**Derivatives Expiries**

**ITM (In the Money)**

On the day of Expiry, option traders will end up paying much lesser tax for derivative ITM options when it is exercised by the exchange. STT @ 0.125% will be levied on the difference between the strike price and the settlement price. Please click here to know more.

## CTM (Close to the Money)

Three strike prices above and below the settlement price are called as CTM contracts. CTM contracts will have the facility to specify DNE (Do not Exercise) instruction on Expiry day for physical settlement contracts. To eliminate physical delivery risk, VNS will mark all open CTM contracts as DNE at the end of the trading day.

## OTM (Out of the Money)

All OTM options will expire worthless. There will be no cash/delivery obligations arising out of this.

## Trading in illiquid securities and unusual trading pattern

The clients are advised to not trade in illiquid securities/contracts. The Exchanges specifies a list of Illiquid securities where higher due diligence is to be exercised by the Brokers. The unusual trading pattern in such scrips by our clients is monitored. In case of high volume in any scrip compared to Exchange volume, the client is asked to submit written clarification. VNS blocks illiquid futures contracts, and option strike prices which are too far from LTP of underlying on a daily basis.

## Trade for trade:-

Trade for Trade orders in BT/BZ/BE/T/Z/XT/MT/ZP/ST or any other falls under trade for trade series can be placed only in CNC. Intraday square off results in delivery purchase as well as delivery sales simultaneously, therefore to avoid mistake VNS has blocked intraday sell square off in mentioned series to avoid short delivery and loss to client due to auction/square off.

**Position Conversion:-**

If a client wants to convert his position from MIS (Intraday) to CNC/ NRML (Delivery/Carry forward) then for converting position he/she will be required to have 100% credit balance in his account along with the margin used and MTM up to the time of conversion. Conversion of MIS (Intraday) to CNC (Delivery)/NRML (Overnight) are applicable before auto square off timings.

**Cover /bracket order cannot be converted to CNC/NRML or MIS and vice versa.**

**Intraday products (MIS/CO/BO) auto square off timings**

| Product type | Equity/ Cash | NSE Futures & options | NSE Currency Futures & options/Cross Currency | Commodity |
|---|---|---|---|---|
| Intraday products MIS/CO/BO | 3:15 pm onwards | 3:15 pm onwards | 4:45 pm onwards/ 7:15 pm onwards | 30 minutes before market closing |

- Call N trade charges @ 20+18% GST per executed order will be applicable for all orders/positions squared off by RMS desk, including auto square off.
- Intraday products auto square off timings can be changed based on instruction from the risk management department.
- If any intraday position/trade (MIS/CO/BO) is not square off on the same day due to any system failure or any other reason, it will be carry forward as positional or delivery trade NRML/CNC to the next trading day. In such a situation the onus of squaring of positions will be on client. RMS dept. shall square off any such position without requirement of margin call, if sufficient cash

balance is not available in client's account. The client will also be liable for penalty for short margin.

**General**

- Client can sell their holdings (to the extent in Demat account with VNS) in CNC.
- Filter is applied on maximum quantity / maximum value for all individual segments.
- The company, from time to time may fix/ revise the limit for value and/or quantity to be traded,based on the respective risk profile which is determined by a comprehensive evaluation of factors such as income range and other relevant considerations. The company may also put restrictions of the total number of orders and/ or value of all orders to be placed in a day irrespective of securities/ contract. In case the aggregate of orders exceed such limitthen further order may be rejected after the limit is breached. Such limit can be relaxed on case to case basis.
- Exchanges, from time to time fix the quantitative limit in derivative contracts and the orders to be placed within those limits to avoid rejection.
- Depending upon the market perception, forthcoming events, volatility etc., VNS may reduce the exposure in intraday as well as delivery products.
- CO and BO are not allowed in pre-open for Equities.
- Cash and DD payments are not accepted.
- Illiquid contracts are blocked in derivatives and options.
- Client is solely responsible for losses incurred from order cancellation by exchange which in its view are resultant of self-

trade or price being out of current execution range or for any other reason.

- Intraday products in MIS are not allowed in currency options.
- In case of short delivery, an additional 0.5% penalty shall be levied towards auction penalty.

Please click here to view our ASM-GSM policies.

**For VNS Finance & Capital Services Limited / VNS Broking Private Limited (formerly known as VNS Commodities Private Limited)**

**Sd/-**