Sanctum Wealth

Market & Credit Risk

Policy Document

Version 2020.02

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Objectives, Applicability and Definitions

1. Objectives

The main objective of this Policy is to prevent the occurrence of loss / minimise the losses due to the "Credit Risk" to which company is exposed to while dealing with the clients on day to day operations. It also aims towards the following:

- To integrate risk management into the culture of the organisation.
- To establish an integrated framework for Sanctum's risk management process and to ensure proper implementation
- To implement a pro-active approach in reporting, evaluating and resolving risks associated with the business.
- To define necessary controls required for each category of client considering the risk involved, the market conditions, etc.
- To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- To implement cost effective measures to reduce risks.

This policy has been developed taking into account the SEBI Circular No. MRD/DoP/SE/CIR-07/2005 dated 23rd February' 2005 on Comprehensive Risk Management Framework for the cash market, which advises members to have a prudent system of Risk Management to protect themselves from client default.

2. Applicability

This policy is applicable to all employees of Sanctum. For the purpose of this policy, 'employees' refer to all individuals employed on full time and part time basis by Sanctum including through fixed-term contracts and individuals engaged on contractual basis through third-parties.

All persons are expected to be aware of the Market Risk policy. Managers must also ensure their direct reports act within the bounds of the policy. Non-compliance with the policy may result in disciplinary action.

3. Definitions

'Credit Risk Management' is the identification, management, measurement and oversight of various credit risks and is part of a firm's internal control structure. The elements of a comprehensive risk management system are highly dependent on the nature of the client's business and its structure. Due references can be made to factors such as senior management's involvement and oversight of the process, the internal audit function and other elements of an internal control system.

‘Margin’: The underlying provided by the customer in the form of cash. The value of stock sold in the market would also be available towards margin before settlement subject to availability of such sold stock with Sanctum.

‘Exposure’: The aggregate of the client’s obligations arising out of buy + sell trades awaiting settlement in the cash segment and the SPAN + Exposure + mark-to-market margins underlying the client’s open positions in the equity derivatives segment, and the profit/loss amounts that are yet to be settled on the closed positions.

‘POA Accounts’: Demat accounts with Sanctum where the customers have also executed a Limited Purpose Power of Attorney (POA) in favour of Sanctum to facilitate shifting of securities to the company’s Pool, Margin or Collateral accounts.

‘Square Off’: The termination of client exposures on the market. Whenever the margin value falls below a certain percentage of the exposure in account of market volatility or due to non-payment of dues in time or due to MTM losses (the comfort level of the margin is the sole discretion of Sanctum) or any other such kind of events, the Risk department would square-off the transactions (positions) in the exposure so that the exposure is either fully terminated, or partially terminated in a manner that the margin value rises to acceptable levels. Positions can be terminated on the date of transaction itself or at any time during the debit continues in the client’s account.

“Value at Risk (VaR)” is a measure of the risk of investments. It estimates how much a set of investments might lose, given normal market conditions, in a set time period such as a day. VaR is typically used by firms and regulators in the financial industry to gauge the amount of assets needed to cover possible losses.

“Extreme Loss Margin (ELM)” covers the expected loss in situations that go beyond those envisaged in the 99% value at risk estimates used in the VaR margin

“SPAN margin” : Initial margin is the minimum margin required to be in your account for you to take a position. The initial margin required for the positions is computed using a software called Standard Portfolio Analysis of Risk) and hence is also referred to as SPAN margin.
“Exposure Margin” is the margin charged over and above the SPAN margin. to cover for any potential losses that may occur which not covered by the SPAN margin.

“Mark to Market loss” is the difference between the transaction cost/previous day closing price and the current market price / close price which can result in loss/profit.

Managing Market & Credit Risk

4. Types of transactions

1) Margin Intraday (MIS) - The amounts of purchase (or sale) in a scrip on any trading day that is reversed by the end of the day by making a contra sale (or purchase) thereby nullifying the original position. This may be processed based on full or part margin received from clients.

2) Cash and Carry (CNC) - When the trade is paid for by the client in full at the time of purchase or sale.

3) Normal mode (NRML) - When trade is executed based on a leverage given by us to the client, where he/she is required to provide a specified percentage of margins.

5. Due diligence & Categorisation of clients

A client should be on-boarded only after satisfactory due diligence checks are conducted. Please refer to the PMLA policy for details.

The client must complete the Investment Objective Setting document clearly indicating his/her preferences or restrictions and his/her knowledge of various investment products. This information should be taken into consideration before providing any advice or recommendation to the client.

These factors will help us in determing the client's risk appetite, trading preferences, knowledge of risks during various market scenarious, etc. In addition, the liquity position of the client should be ascertained to ensure that he/she would be able to provide with the required margins as and when requested by Sanctum.

Based on the above, the client may be categorised into different buckets and the margin requirements for him/her would vary accordingly. The Wealth Managers

should periodically review the client categorisation and may choose to reassign the client to a different category incase required.

6. Criteria of selection and Securities eligible for Trading

In order to exercise additional due diligence while trading in securities in client account, Sanctum may not allow any trades or transactions in respect of certain securities or segments or orders/requests which may be below/above certain value/quantity. The list of such restricted securities or the applicable criterias would be shared by the the Risk Team from time to time.

7. Margin mechanism

As per SEBI and Exchange rules and regulations, margins are collected upfront from the clients. Clients can maintain margins in the form of cash, fixed deposits and Exchange approved securities. Appropriate haircuts are applied to the securities accepted as collateral. MTM, premium and assignment amount is collected in the form of cash.

Currently, Sanctum shall consider and collect the following as margin from the clients :

- Actual Margin Received from the client (as appears in client's ledger separately)

- (+)Ledger balance of Cash & F&O Segment of the client (NSE & BSE) (i.e. of T+2 day for Cash and T+1 day for F&O as on EOD)

Margin requirements for each of the category that is being created should be determined based on factors like Exchange deposit utilisation, market volatility, etc. The assignment of these categories to clients would be done as per the approved Authority matrix.

It is recommended that all margin requirements should not be lower that the minimum margin requirements recommended by the Exchanges. In certain cases, we may also levy additional margin requirements, which would help deal with unanticipated circumstances. Any exception to this would need to be specifically approved by the Chief Executive Officer.

The margin requirements for cash and F&O segments would be as follows:

Cash Segment: VaR + ELM + Additional Sanctum margin (if any)

F&O Segment: SPAN + Exposure + Additional Sanctum margin (if any)

At any point of time the client is required to maintain the defined margin requirements. If the actual margin is less than such prescribed margin requirements, the margin call process maybe triggered.

8. Margin calls

A margin call is a demand made by Sanctum to the client, to increase the amount of equity in his/her account. This can be done by depositing cash or marginable securities into the account or by liquidating existing positions to generate cash.

Mark to Market loss (MTM) is a calculated on a real time basis on all open positions. The margin requirements would be constantly monitored by the Risk team. Any shortfall to the minimum margins required may result in a margin call being made to the client. It is expected that the client would provide the required margin within the defined timelines. In an event, that the client is unable to provide the required margins, Sanctum reserves the right to liquidate the client's position to the extend of loss or shortfall. That said, all efforts should be made to inform clients and give them an opportunity to fund the margin accounts to the desired limit incase they would like to continue to hold the open positions in their accounts.

Sanctum will preserve its right to protect its interest during volatile market conditions by setting up levels of market losses beyond which it could liquidate client positions.

9. Disclosure to clients

Transparency is an important regulatory goal and therefore every effort must be made to inform clients of our requirements to clients in advance. This responsibility lies with the respective Wealth Managers or Advisors.

10. Limit management

In setting exposure limits in the Risk Management system at the Client, Dealer & Broker level, various factors such as exchange deposits, capital management, risk appetite and such other factors or conditions should be considered. Depending on this, Sanctum will reserve the right to vary the trading / exposure limits of the clients from time to time.

Changes in Policy during High Market Volatility

Market is usually considered as volatile when either of the following events occurs:

- Market Price movement by 5% in a day in any direction for index & 10 % for stocks.
- Above price movement in a day and regaining either the full or part during the day
- Any other exceptional circumstances.

During high market volatility (generally a downward trend in the market), Sanctum reserves the right to change the risk management policy as deemed fit to safeguard the interest and prevent any unforeseen events.

Changes that can be made during such period are:

- Change in exposure multiplier
- Exposure margin waiver to be removed
- No ad-hoc/intraday limits to be allowed
- Withdrawal of default limits given, etc
- Disallow trading in illiquid scrips/ T2T scrips
- Disallow trading in scrips where there is bad news
- Pay-out to be released on discretionary basis
- Withdrawal of any other special benefits given to all category of clients

The changed parameters would be retained if the downward trend continues or until the market is back on track. A proper review will be carried out to reset the parameters at normal levels.

Monitoring Exchange Deposit Limits

All trading members are required to maintain deposits with the exchanges against which client positions are taken. The liquid assets deposited by Sanctum with the Exchanges should be sufficient, at all points of time, to cover upfront VaR margins, Extreme Loss Margin, SPAN margins, Exposure margins and Mark to Market Losses (MTM).

To ensure the overall exchange deposit limit is maintained at a predefined limit, the risk team is responsible to monitor the exchange deposit limit and ensure that the utilisation doesnot cross the defined threshold. In an event that the trigger threshold is breached, the process for increasing the deposits should be initiated by the Risk team.

Policy Compliance & Review

11. Policy Compliance

- Compliance with the policy will be audited periodically as part of Sanctum's internal audit plan
- All cases received during the month would be reported to the Management team via the compliance dashboard

12. Policy Review

The policy shall be reviewed and amended is and when new directives are issued by Regulators or annually at a minimum.

Employee Training

Sanctum will conduct training on its Risk Management policy & procedure for all relevant employees during the induction of all new employees or if material changes are made to the policy.