Sanctum Wealth

Market & Credit Risk

Procedure Document

Version 2020.02

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1. Introduction

A significant risk in our business is that of market & credit risk which we are exposed to while dealing with the clients for day to day operations, mainly arising due to credit defaults. This procedure has been designed to prevent occurrence of losses or minimize the losses of such risks.

This procedure has also been formulated with a view to:

- Define necessary controls required for each category of client considering the risk involved, the market conditions, etc.
- Enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- Implement cost effective measures to reduce risks.

This procedure has been prepared in accordance to the required stated in the SEBI Circular No. MRD/DoP/SE/CIR-07/2005 dated 23rd February 2005 on Comprehensive Risk Management Framework and Sanctum's policy on Market Risk Management.

The procedure is applicable to all clients of Sanctum. All employees are required to ensure adherence to the requirements stated below.

2. Definitions

Credit Risk Management	Credit Risk Management is the identification, management, measurement and oversight of various credit risks and is part of a firm's internal control structure.
Delivery trades	Delivery trades are when the net purchase or sale of scrip in client accounts are settled by way of a delivery on T+2 (i.e. Transaction day + two working days) by beginning of day.
Exposure	The aggregate of the client's obligations arising out of buy + sell trades awaiting settlement in the cash segment and the SPAN + Exposure on client's open positions in the equity derivatives segment, and the profit/loss amounts that are yet to be settled on the closed positions
Extreme Loss Margin (ELM)	ELM covers the expected loss in situations that go beyond those envisaged in the 99% value at risk estimates used in the VaR margin
Exposure Margin (EM)	EM 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.
Impact cost	Impact cost represents the cost of executing a transaction in a given stock, for a specific predefined order size, at any given point of time
Margin	The buffer 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.
Mark to Market loss (M2M)	M2M is the difference between the transaction cost/previous day closing price and the current market price / close price which can result in loss/profit.
Net Buy Premium	Net buy premium is the net premium amount payable by the client and is levied till the completion of pay-in towards the premium settlement.
Pay-in day	Pay-in day is the day when the brokers shall make payment or delivery of securities to the exchange.
Pay-out day	Pay-out is the day when the exchange makes payment or delivery of securities to the broker
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.
Price Bands	Exchanges categorise all scrips in various price bands. These bands specify the range within which the scrips can move on either side on each trading day
Square Off	The termination of client exposures on the market. Whenever the margin value falls below a certain percentage of the exposure on account of market volatility or due to non-payment of dues in time or due to MTM losses 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.
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.
Value at Risk (VaR)	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.

3. Type of Segments and Products

Type of Segments:

1) Cash segment - In a cash segment, clients can purchase or sell securities listed with the Stock exchanges.

2) Equity Derivatives segment - Equity derivatives segment, also referred to as NSE Future & Options (NFO), provides for trading in derivative instruments whose value is at least partly derived from one or more underlying equity securities. The most common Equity derivatives are Futures and Options and these are available basis Indices and Stocks as underlying.

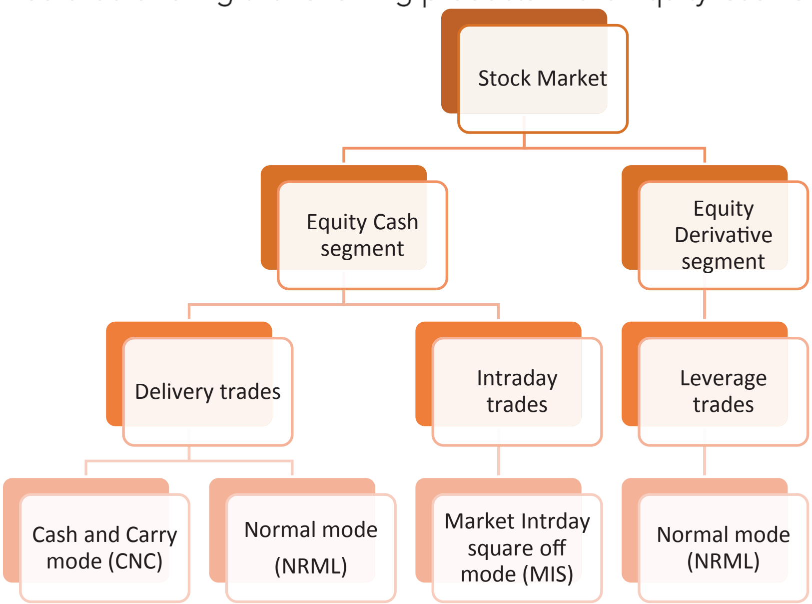
Type of Products:

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.

Sanctum would be offering the following products in the Equity Cash & Derivatives Segment:



4. Client Categorisation, Margin Schemes and Margin Requirements

Client Categorisation

The Wealth Managers should consider factors like annual income of the client; client's experience in the said products; knowledge on risks that may arise during various market conditions; client's trading preferences; trading turnover; his/her credit history, while categorising the client account and attaching appropriate margin schemes.

Margin Schemes

All the clients by default would be classified into Category 1. There would be an option to classify clients in Category 2 based on exception approval, as defined in the Authority Matrix.

Please refer to Annexure-2 for detailed process flow on assignment of client categorisation & margin schemes.

Margin Requirements

In stock markets, there is an uncertainty in the movement of share prices. This uncertainty leads to market or credit risk, which is addressed by the margin management. The Exchanges have suggested certain requirements in the Equities Cash & Derivatives segments, which are as follows:

1) Equity Cash Segment: Value at Risk (VaR) + Extreme Loss Margin (ELM) *

For trades in Cash, the Exchange recommends that members at least have clients provide VaR + ELM as margins. The shares traded on cash market are settled in T+2 days' basis (i.e. Transaction day + 2 working days). Orders in Cash can be placed using Market Intraday Square off mode (MIS), Cash and Carry mode (CNC), or Normal (NRML) mode.

2) Equity Derivatives Segment – Initial Margin + Exposure Margin *

For trades in NFO, the Exchange recommend that members at least have client provide an upfront Initial Margin & Exposure Margins. Initial Margin will constitute the sum of SPAN Margin & Net buy premiums. Mark to Market losses/profits are required to be settled on a T+1 basis (i.e. Transaction day + 1 working day). All orders in NFO shall be placed using Normal (NRML) modes.

** Please refer to Section 2 – Definitions for detailed explanation on each of these types of margins. For detailed explanations on the above margin categories you would refer to the following document - https://www.nseindia.com/content/assist/asst_Margins_faq.pdf*

Margin requirements are also determined based on other factors like Exchange deposit utilization, market volatility, available liquidity with the member, etc. Hence,
to further secure ourselves from client default or credit losses, Sanctum proposes to levy additional margins are taken from clients. This would help in dealing with any unanticipated circumstances.

There may be an exception made for a few clients, based on their relationship with Sanctum, however even for these cases, it is recommended that the margins should not be lower than that prescribed by the Exchanges. Such exceptions would need to be approved as per the Authority matrix.

Sanctum has defined the following margin requirements for the two categories along with other conditions which are as follows:

Particulars	Scrip Universe	Category 1	Category 2
Margin Intraday square off (MIS)	NSE Group 1 stocks* /	VAR+ELM+5%	VAR+ELM%

	Other than NSE Group 1 stocks	NA	NA
Cash and carry (CNC) – delivery based trades	-	100%	100%
Normal (NRML) – delivery based trades with leverage	-	Not offered currently	Not offered currently
Index Derivative Contracts	-	SPAN + Exposure Margin + 2.5% (of contract Value)	SPAN + Exposure Margin
Stock Derivative Contracts	Large Cap stocks (only NIFTY)	SPAN + Exposure Margin + 5% (of contract Value)	SPAN + Exposure Margin
	Mid Cap stocks	SPAN + Exposure Margin + 7.5% (of contract Value)	SPAN + Exposure Margin

** Stocks referred in the Scrip Universe would be permissible on both the exchanges (BSE & NSE)*

Important Note:

1) Any trades in Z category stocks (BSE) shall not be permitted. Any exceptions to this would need to be approved by the respective Market Head after necessary assessment on the reasons for such investments being made by the client. All such transactions would be processed as CNC trades only.
2) Initial Margin + Exposure Margin value would be specific to the underlying F&O positions, as determined by the Exchanges. There could be an additional margin requirement levied by Sanctum. The Initial margin (SPAN + Net Buy Premiums) + Exposure Margin + Sanctum margin, if any) would need to be collected in cash.
3) Available Margin would be reduced to the extent of utilization, i.e., VaR + ELM + Sanctum margin (if any) for Cash segments and Initial margin + Exposure + Sanctum margin (if any) in case of F&O Segment.
4) The 'Mark to Market' losses, if any would need to be collected from the client in form of Cash only within the mentioned timelines.
5) The margins would be made available to clients only once realized funds are credited to the relevant Sanctum account.
6) Respective Wealth Manager would be responsible to follow-up with his/her client and ensure the required funds are received within stipulated timelines.
7) No fresh buying exposure shall be given to the client if client's dues remain outstanding beyond T+2 days or till the period of debit in the client account. The stock purchased by the client would be held in Sanctum's margin / collateral account till the debit is cleared.

5. Margin Mechanism

The following methodology would be considered while calculating margins. This process is handled by the Operations team.

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

II. (+) 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)

- Posting of Settlement obligation for the trade shall be done on T+2 basis for Equity cash segment and T+1 basis for Equity Derivatives segment.
- M2M Margin will be collected in Cash (funds) on the next day by 1:30 pm.

Securities & Valuation:

Securities received for Pay-in:
In case of securities received for pay-in from the Client's demat account maintained with Sanctum, the sales proceeds would be considered as included as margin once the Operations team processes it as "early-pay-in".

Securities not received for Pay-in: In case of Pay-in to be received for securities sold by the client and such securities are not available with Sanctum (up to the pay-in time), operations shall manually debit 125% of amount of outstanding sale and thereby reduce the available client margin amount. The amount blocked (125%) shall be reversed on Auction settlement day and actual auction bill shall be passed on Auction settlement day.

Short Pay-in of Securities by the Client:
- In case of Short Pay-in of securities made by the client, on T+2, operations shall manually debit 125% of amount of short pay-in of securities. Margin shall be reduced to the extent of such amount.
- The amount blocked (125%) shall be reversed on Auction settlement day and actual auction bill shall be passed on Auction settlement day.

Funds received for Pay-in / Margin:
- In case of Funds received for Pay-in from the Client before Pay-in day / Margin received, the amount received shall be considered as Margin received from the client if amount is reflected in Sanctum's bank account as a cleared credit.
- In case funds received and cleared during the trading time the necessary changes would be reflected based on Margin deposit process flow followed by the Operations team.

6. Margin Intraday – Eligible Securities & Intraday Square off Process

Eligible Securities for MIS Trades

The Risk team shall prepare a list of scrips eligible for trading in the MIS product. The selection of stocks would be considered based on the following conditions:

a) The stocks should be listed and traded in both the exchanges i.e. NSE and BSE.
b) Such list of stocks will further be classified into those scrips allowed for trading in derivatives and those not allowed.
c) All securities allowed for trading in derivatives shall by default be considered for inclusion in MIS product.
d) Securities not allowed for trading in derivatives are selected only if they satisfy all the below mentioned criteria;
1. Impact cost <1,
2. Price band is greater than or equal to 20 %*
3. Average traded quantity for the month is more than 70000 shares (NSE) and 35000 shares (BSE)
e) ETF's are excluded from the MIS product list.

Note: The mentioned list is subject to change based on prevailing market conditions and other factors. The above list & conditions would be reviewed on a monthly basis (by the 7th of the month).

Margin Intraday Square Off Process

The below process would be followed for all Intra-day trades:

Before normal market close (i) all orders pending execution in the cash segment will be automatically cancelled, and (ii) for all executed orders, the auto square off process shall be triggered for all outstanding positions at market rates. **The square off process shall be triggered at 3.00 pm.** In case a scrip is in the upper/lower circuit and the client position cannot be terminated, then (i) in case of long position, client would have to take delivery and bear associated costs, and (ii) in case if short position, client would have to bear auction and associated costs.

Please refer to Annexure-1 for detailed process flow on handling on intraday trades.

7. Margin Call Management

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 would be triggered.

In cases where an exception has been approved for the debit balance in the client's account to be carried forward beyond T+2, the client is required to maintain at least 30% margin with Sanctum.

Please refer to Annexure-3 for detailed process flow on exception handling.

Detailed process to be followed for margin calls at various thresholds is defined below:

<u>Equity Cash Segment - Margin shortfall of 30% or less than that of the required margins:</u>

Risk Manager →
- Share details of all debits in client account on T day (3.30 pm) with the CRA/Wealth Manager.

CRA team →
- Inform respective Wealth Manager

CRA / Wealth Manager
- Inform respective clients of the debit in his/her account and ensure the required funds are transferred by T+1 (5 pm)

Note: In case the required funds are not received within the designated timelines, the Risk Manager would trigger the square off process, till the extend of shortfall, on T+2 day (10:30 am)

<u>Equity Cash Segment - Margin shortfall > 30% < 75% of the required margins:</u>

Risk Manager →
- Share details of such shortfalls in client accounts, as & when the required limits are breache, with the CRA/Wealth Manager

CRA team →
- Inform respective Wealth Manager

CRA / Wealth Manager
- Inform respective clients of the debit in his/her account and ensure the required funds are received from client at the earliest, not later than T+1 (5 pm)

Note: In case the required funds are not received within the designated timelines, the Risk Manager would trigger the square off process, till the extend of shortfall, on T+2 day (10:30 am)

<u>Equity Cash Segment - Margin shortfall > 75% of the required margins:</u>

Risk Manager
- Square off positions till the extend of shortfall immediately
- Inform the CRA/Wealth Manager & Operations team after the square off

CRA team
- Inform respective Wealth Manager

CRA / Wealth Manager
- Inform the respective clients accordingly

Operations team
- Amend the required details in the Contract note before the same is despatched to clients

Refer to Annexure-4 for detailed process flow on margin calls for various scenario in the Cash segment.

<u>Equity Derivative Segment – M2M loss but within SPAN requirements:</u>

Risk Manager → **CRA team** → **CRA / Wealth Manager**

Risk Manager
- Inform CRA/Wealth Manager as & when the threshold is breached

CRA team
- Inform respective Wealth Manager

CRA / Wealth Manager
- Inform respective clients of the M2M loss in his/her account and ensure the required funds are transferred immediately (not later than by T+1 (10 am)

Note: In case the required funds are not received within the designated timelines, the Risk Manager would trigger the square off process, till the extend of shortfall, on T+1 day (10:30 am)

<u>Equity Derivative Segment – M2M loss (SPAN requirements breached):</u>

Risk Manager → **CRA team** → **CRA / Wealth Manager**

Risk Manager
- Inform CRA/Wealth Manager as & when the threshold is breached

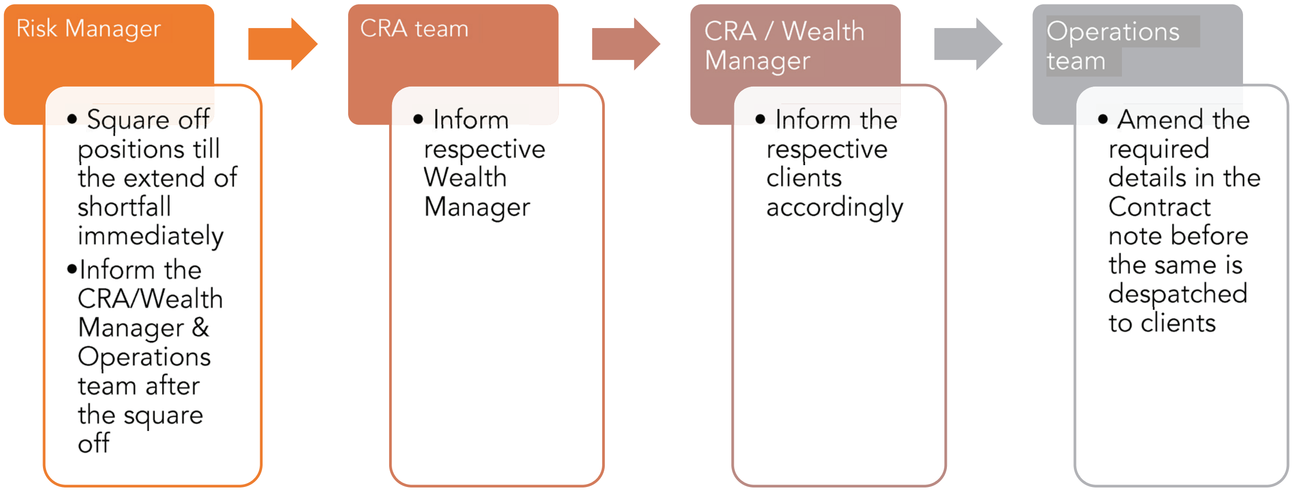
CRA team
- Inform respective Wealth Manager

CRA / Wealth Manager
- Inform respective clients of the M2M loss * in his/her account and ensure the required funds are transferred immediately (not later than by T+0 (5.30 pm)

** The penalty levied by the exchange for SPAN shortfall (if any) would need to be borne by the client.*

Note: In case the required funds are not received within the designated timelines, the Risk Manager would trigger the square off process, till the extend of shortfall, on T+1 day (10:30 am)

Equity Derivative Segment – M2M loss exceeds 75% of required margins:



Please refer to Annexure-5 for the detailed process flow on margin call management in Derivatives segment.

Important Note:

1) Margin Shortfall calls will need to be communicated to clients through e-mail or recorded lines within 2 hours of receipt of information from the Risk team. In order to maintain required records, the Wealth Manager / CRA must ensure that the common email ID *"services@sanctumwealth.com"* is copied on all such emails being sent to clients. In case, the Wealth Manager / CRA have informed the client via a recorded line, the details (client name, date and time the client was called, the phone number called on and the extension from which the call was made) need to be sent to the same common email ID. In case CRA/Wealth Manager is unable to establish contact with the client or the mail is returned undelivered, then the CRA / Wealth Manager should inform the Risk team immediately and the Risk Team to dispatch the Margin Shortfall Letter to the client and ensure it is delivered to him/her on priority. A copy of the letter and the dispatch records should be kept in the client file maintained by Operations for future reference.

2) Even after square off of all the open positions, if still there is a loss in the client's accounts, the collaterals lying in Sanctum account will be liquidated to the extent of the losses.

3) Any loss and financial charges on account of such liquidation/square off shall be charged to and borne by the client. This should be clearly communicated to the clients by the respective Wealth Managers.

4) The Wealth Managers need to inform the clients of the same. In case, the client reacts adversely, the same to be reported as a client complaint and the Investor Grievance policy (internal) to be followed.

5) Any exceptions to be made to the above process would need to be approved as per the Authority matrix. The CRA/Wealth Manager should forward all exception approvals to the Risk team via email only. The email should contain the following details:

a) Client name & code

b) Positions held by the client
c) Amount of shortfall
d) The period / time being approved for the positions to be held

8. Enhancing / Adjusting the Exposure or Available Intra-day Margin for Clients

During the trading hours, exposure or available margin can be enhanced / adjusted for clients based on the following:

- On receipt of realized funds
- On withdrawal of margin (with prior approval from the Risk Manager)

Please refer to Annexure-6 & Annexure-7 for detailed process flow in margin deposits & withdrawals.

9. Importance of Risk Disclosure to Clients

The exchanges and SEBI prescribes that the Member Client Agreement, which includes the Risk Disclosure Document, stipulate various clauses regarding risk and market behaviour and must be read and understood by the client. It is the duty of Wealth Managers who deal with clients to make him/her understand these topics so that they understand the full implications of dealing in the Capital Markets.

Please refer to the Client on-boarding process for further details.

10. Exchange Deposit Limit Management:

(A) Trading Member level margin monitoring (All segments)

The risk team to monitor the exchange deposit limit and ensure a utilization threshold of 80% or below at all points of time. A trigger of 70% to be kept based on which increase in deposit should be initiated. (Refer Annexure 8 for detailed process flow)

(B) Trading Member level margin monitoring (F&O segments)

Market Wide Position Limits (MWPL): Exchange on a daily basis provides a list of scrips which are in ban in derivatives. Nest has a facility of uploading the same and thereby disallowing any new positions in the respective scrip. Only square off of existing positions shall be allowed. No intraday positions shall also be allowed in the banned scrips.

Trading member futures & overall position Limits (TMFPL &TMOPL): Exchange on a monthly basis provide TMFPL & TMOPL limits which shall be uploaded in the Nest and monitored online. We shall also restrict it to 50% of the exchange provided limits. Any increase in the limits shall be subject to approvals from market heads and available funds limits with the exchanges. In case of limits getting hit, only square off positions to be allowed.

Client Position Limits: The gross open position for each client, across all derivative contracts on an underlying should not exceed; 1% of the free float market capitalization (in terms of number of shares) or 5 % of the open interest whichever is higher We shall also restrict it to 50% of the exchange provided limits. Any increase in the limits shall be subject to approvals from market heads and available funds limits with the exchanges. In case of limits getting hit, only square off positions to be allowed.

Please refer to Annexure-9 for detailed process flow on exchange deposit limit management.

11.Other Limit Management in Risk Management System (NEST)

In setting exposure limits in NEST at the Client, Dealer & Broker level, various factors such as exchange deposits, capita management, risk appetite and such other factors or conditions which the company may consider relevant for this purpose shall be considered. Depending on this, Sanctum may vary the trading / exposure limits of the Client from time to time.

12.1. Client Level Limits:

Apart from the Cash margin limit set for clients, other thresholds like Exposure Limits, Gross Exposure Limits, Turnover Limits, Single order quantity & value limit and others that would need to be defined. The limits set for each of these parameters are detailed in the below table.

Particulars	Description	Threshold	Exchange defined limit (if any)
Single Order level – Maximum Order Quantity	Quantity for a single order	50,000	-
Single Order level – Maximum Order Value	Total value of a single order	2 crores	10 crores
Single Order Level - Maximum Lot Size (only F&O)-	Number of lots purchased or sold per order	50,000	-
Total pending order value	Total value of all pending orders per clients	1 crore	-
Margin towards brokerage	Percentage of margin blocked to recover applicable brokerage from clients	1%	-

Margin increase for sell transaction (Only CNC)	Percentage by which margin is increased for all CNC sell transactions	100%	-
Gross Exposure Derivative Limit	Daily maximum limit set for gross turnover for all derivative transactions	10000000	-
Exposure limit	Net open position of a client at any given point of time	10000000	-
Turnover Limit	Gross turnover of a client across all segment	10000000	-
Scrip level – Percentage change	Percentage change in Last Traded price (LTV)	(+/-) 10%	-
Scrip Level – Intrinsic Percentage	Percentage change in money value of option contracts.	(+/-) 10%	-

12.2. Dealer Level Limits:

There are dealer wise limits defined as well to mitigate risks pertaining to human errors and monitoring of Sanctum's gross turnover. Thresholds for turnover limits set across all exchange and segments for each dealer. The limits set for each of these parameters are detailed in the below table.

Particulars	Description	Threshold (INR)	Exchange defined limit (if any)
Turnover limit	Gross turnover of trades placed by a dealer during the day	7 crores	-
Total pending order value	Total value of all pending orders per clients	1 crore	-

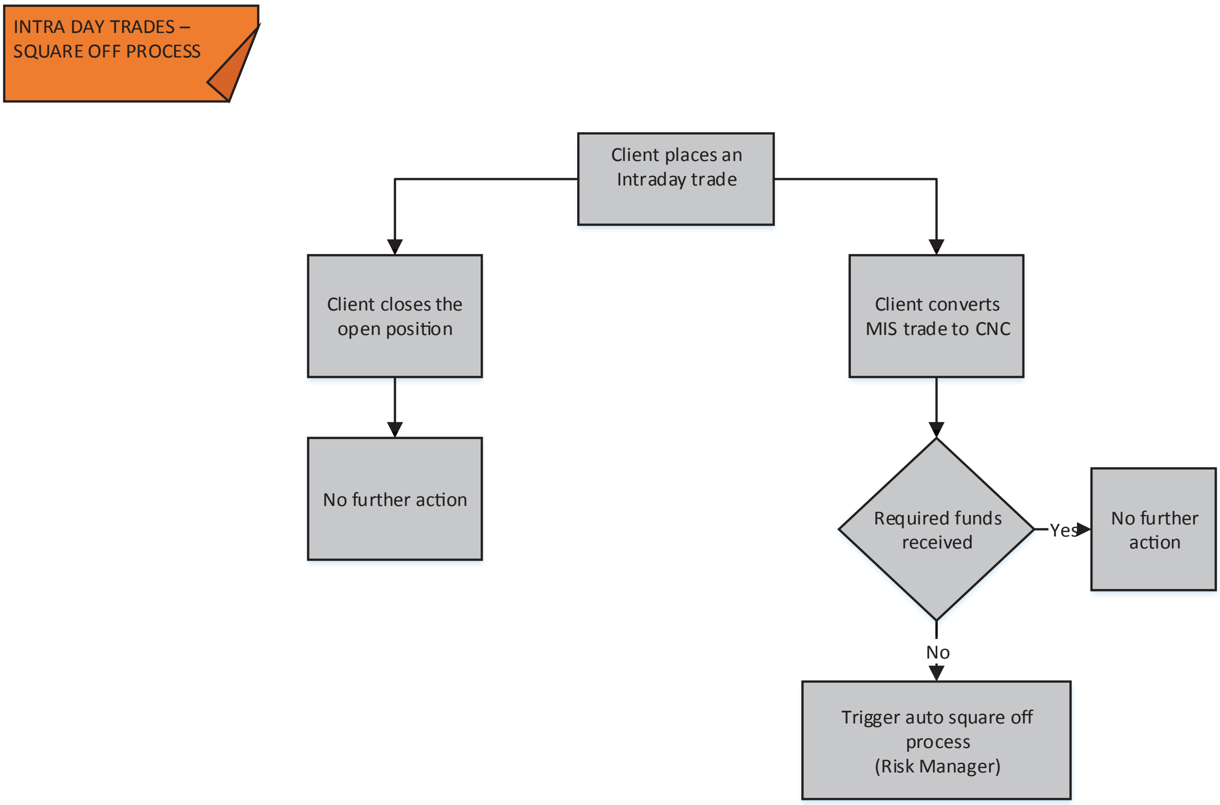
12.3. Broker Level Limits:

There are limits set at the broker level as well, which consolidates certain thresholds like exchange deposits and gross turnover. The limits set for each of these parameters are detailed in the below table.

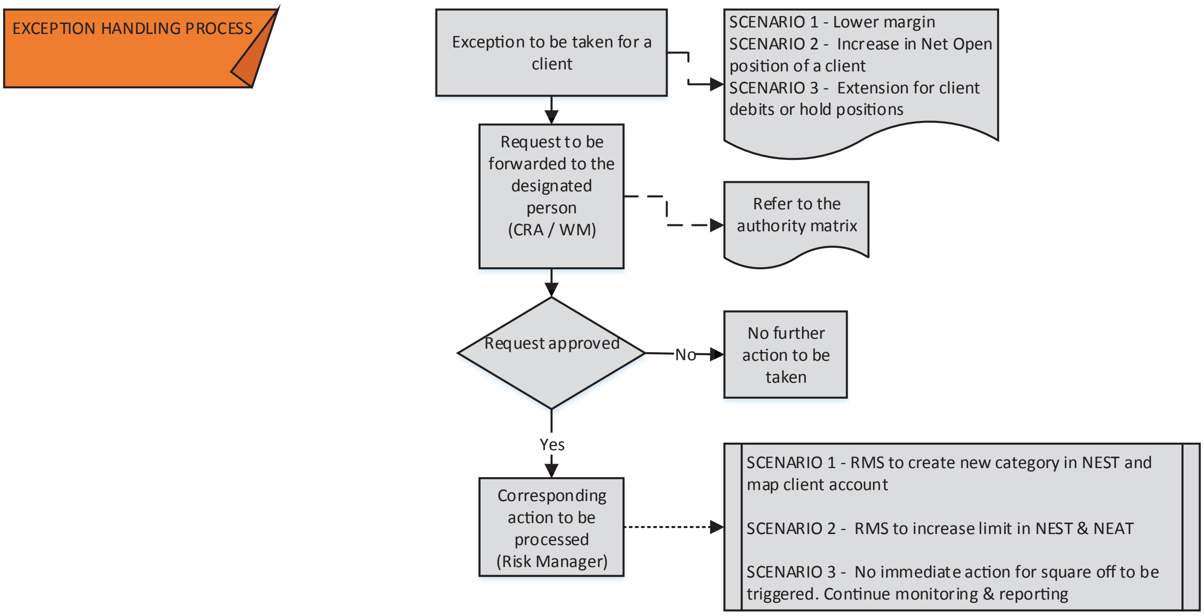
Particulars	Description	Threshold (INR)	Exchange defined limit (if any)
Exchange Deposit limit	Maximum limit set based on the actual deposits with Exchanges.	85%	-
Turnover limit	Gross turnover of all trades placed across all clients & dealers, during the day	10 crores	-

Note:
1) All the above thresholds are subject to change without any prior notice.
2) The limits set in the NEAT / BOLT system would need to consider the above thresholds.
3) Any changes to the above would need to be approved by the Risk team.

Annexure 1: Intraday Trades: Square off Process

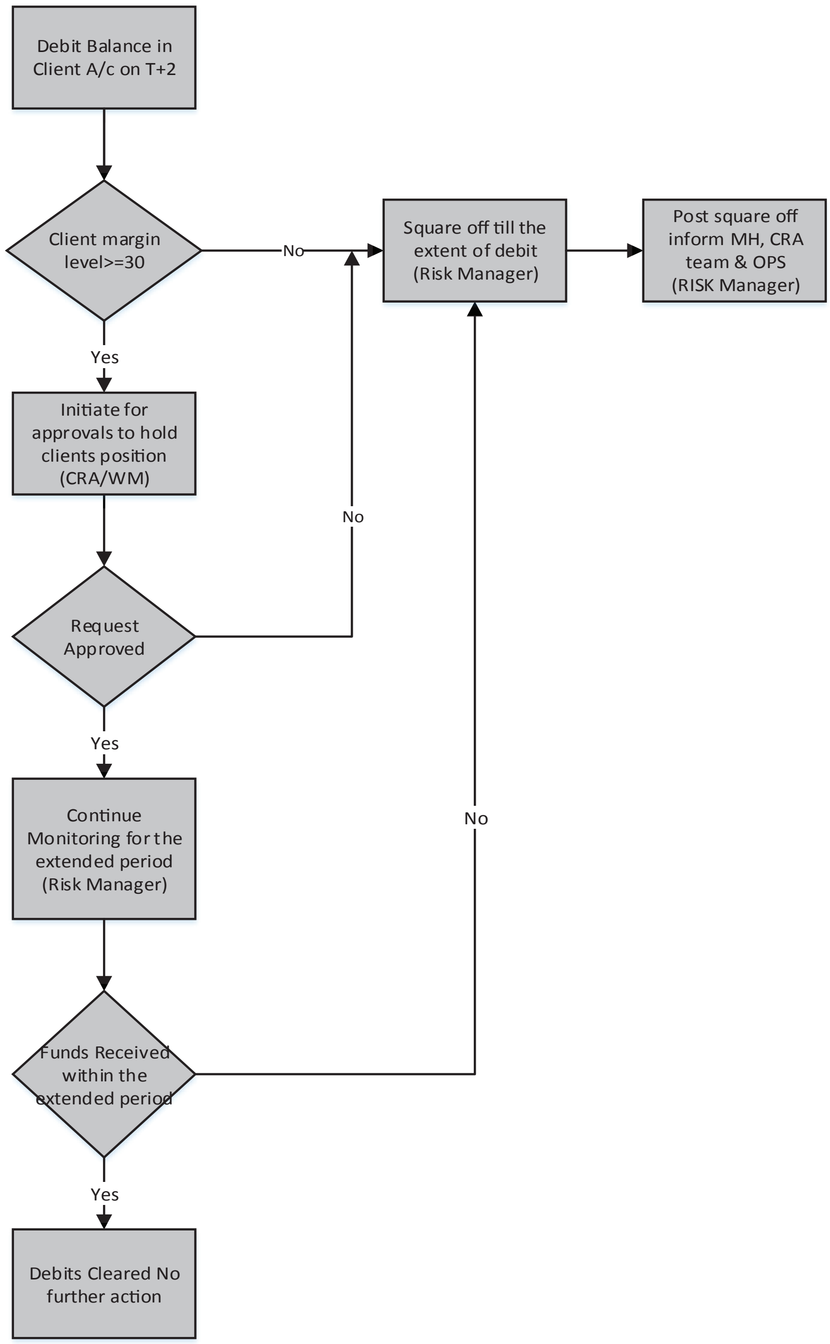


Annexure 2: Exception Handling Process

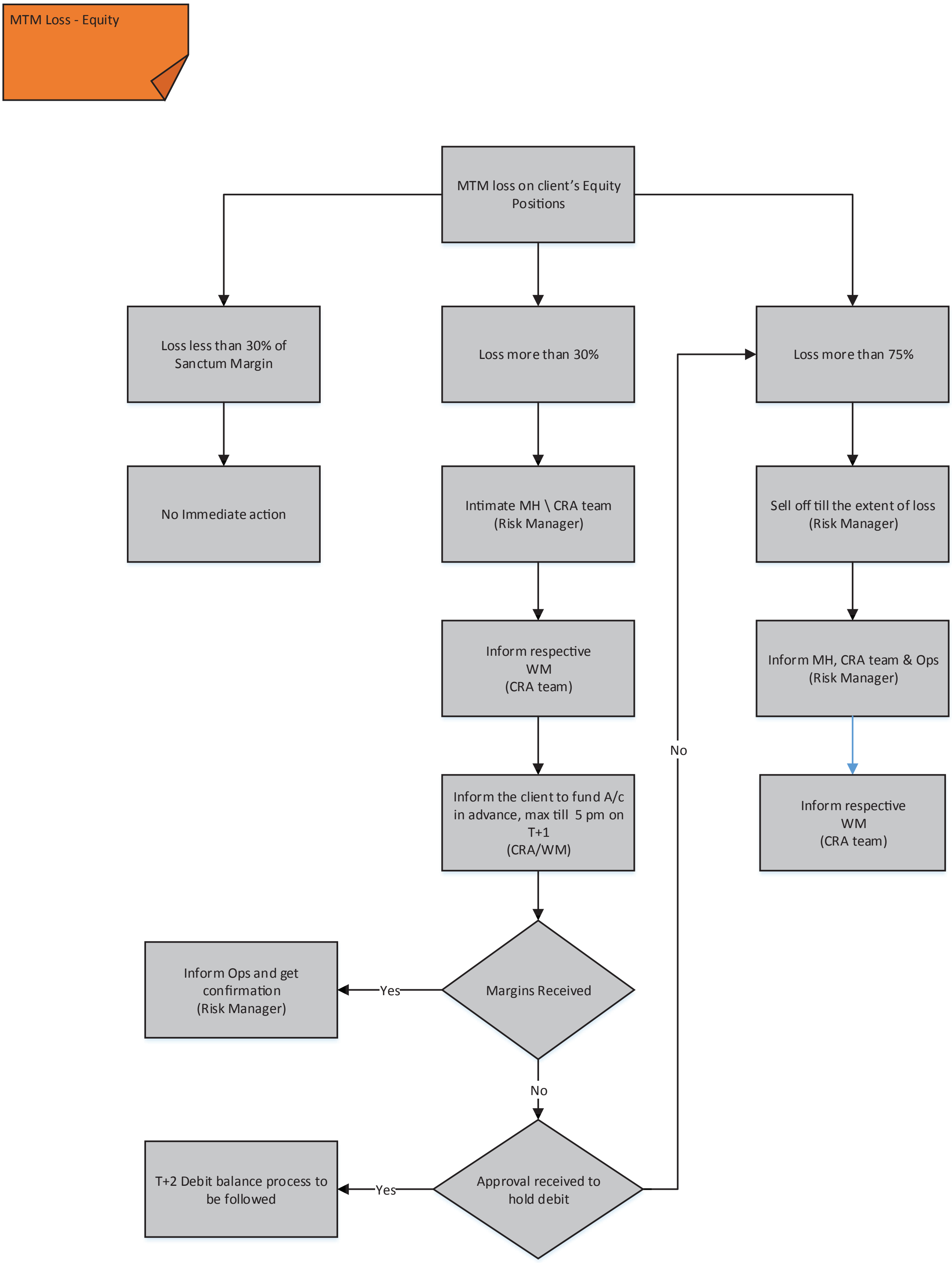


Annexure 3: Debit Balance in Client Accounts on T+2

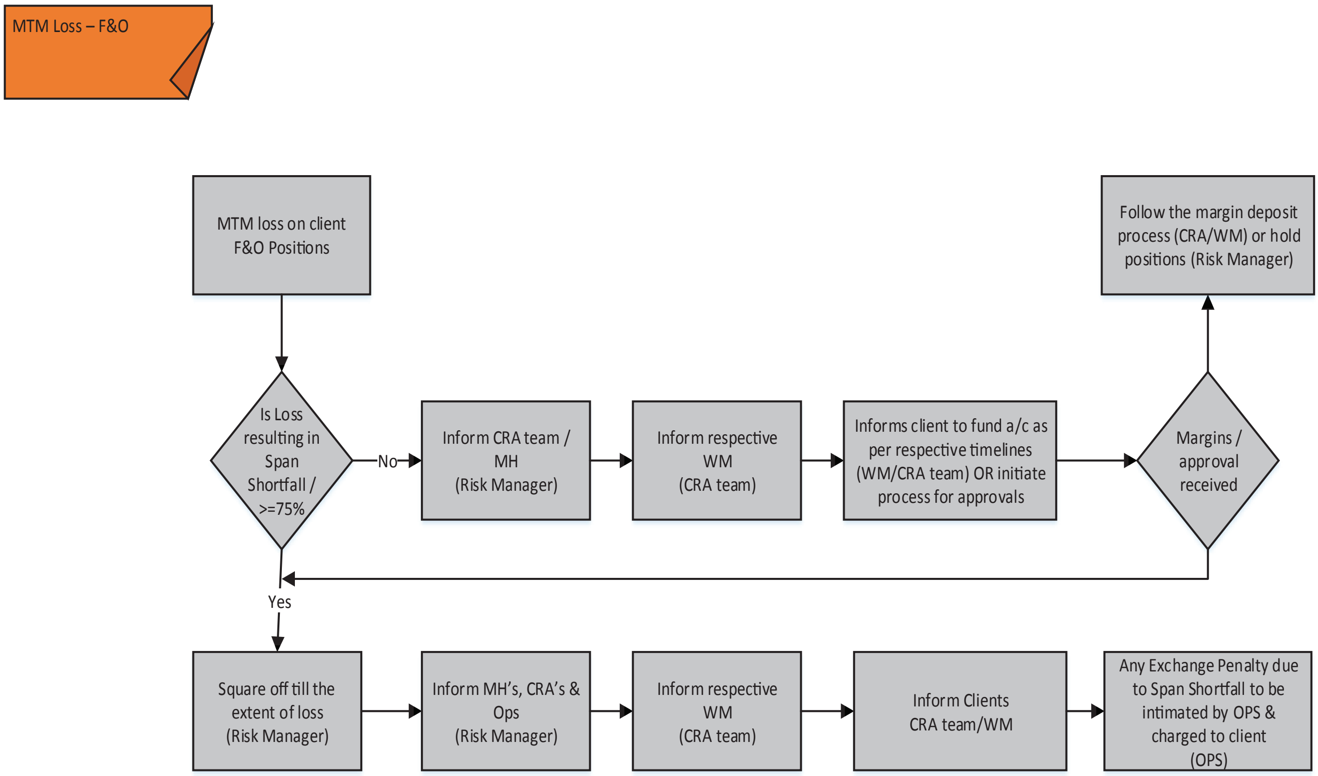
T+2 Debit Balances



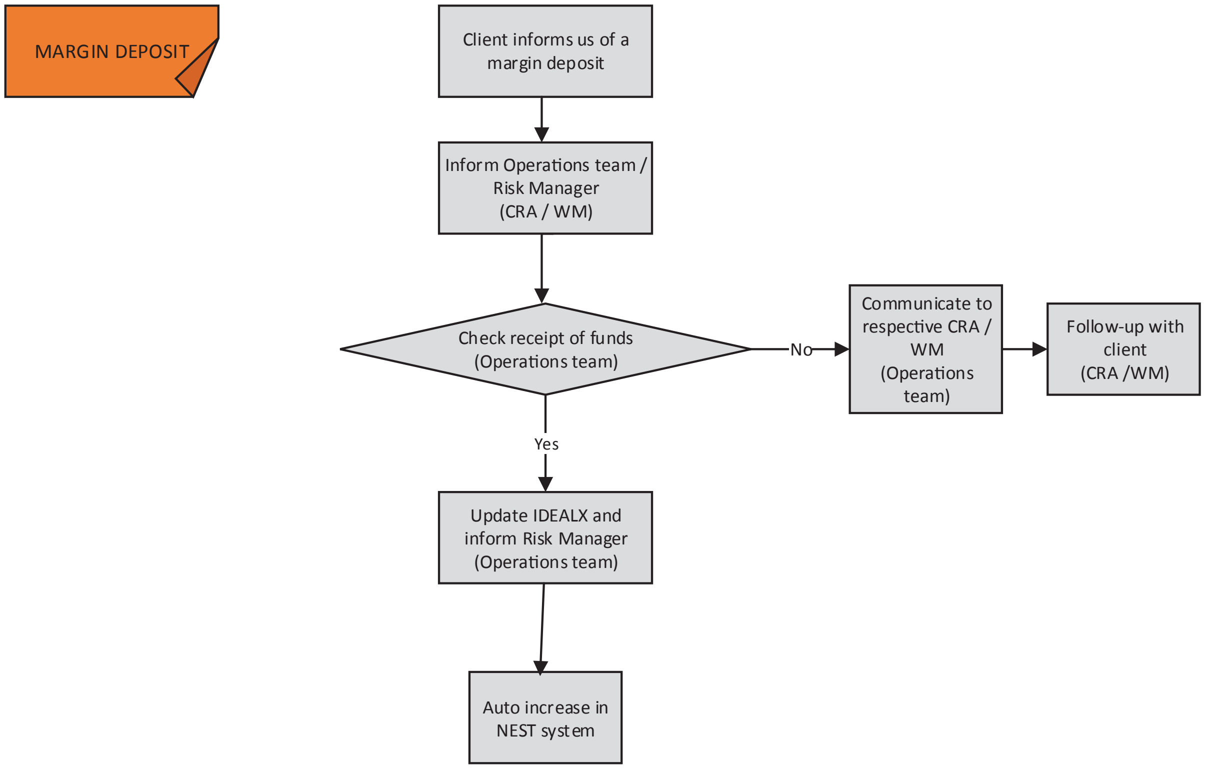
Annexure 4: Handling MTM Loss – Cash Segment



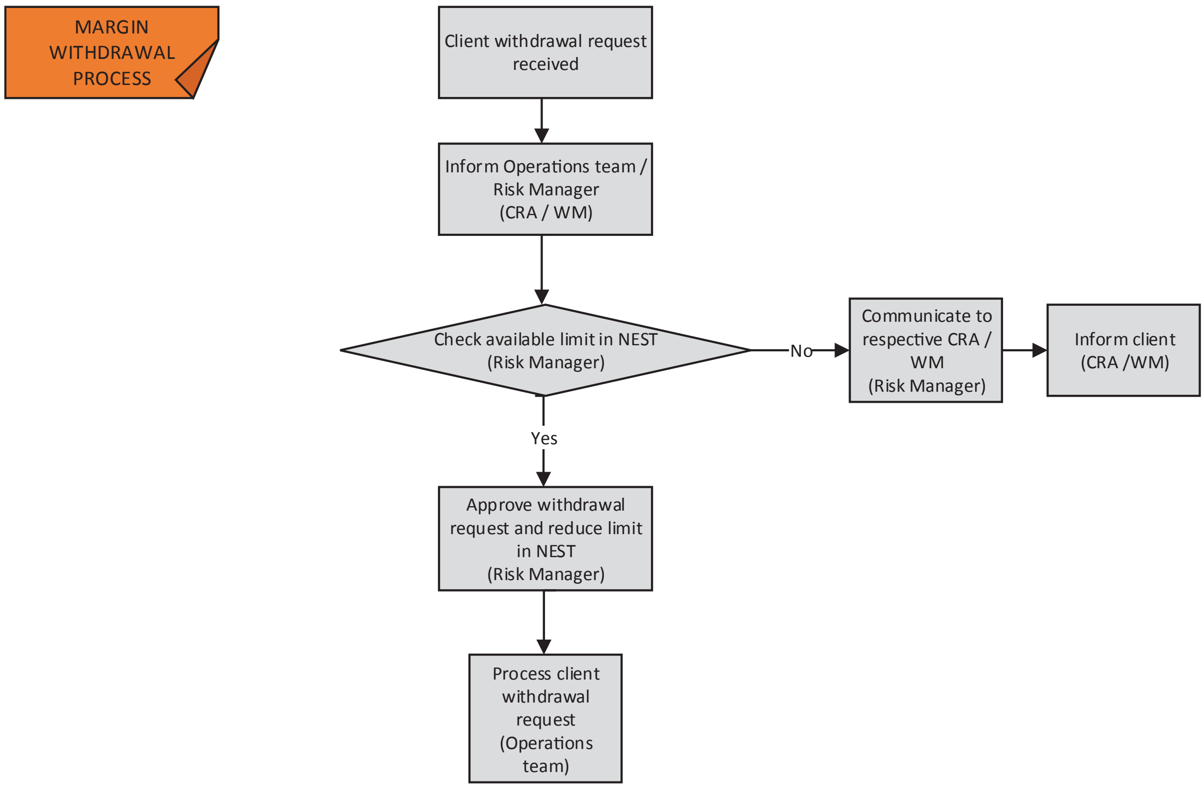
Annexure 5: Handling MTM loss – F&O Segment



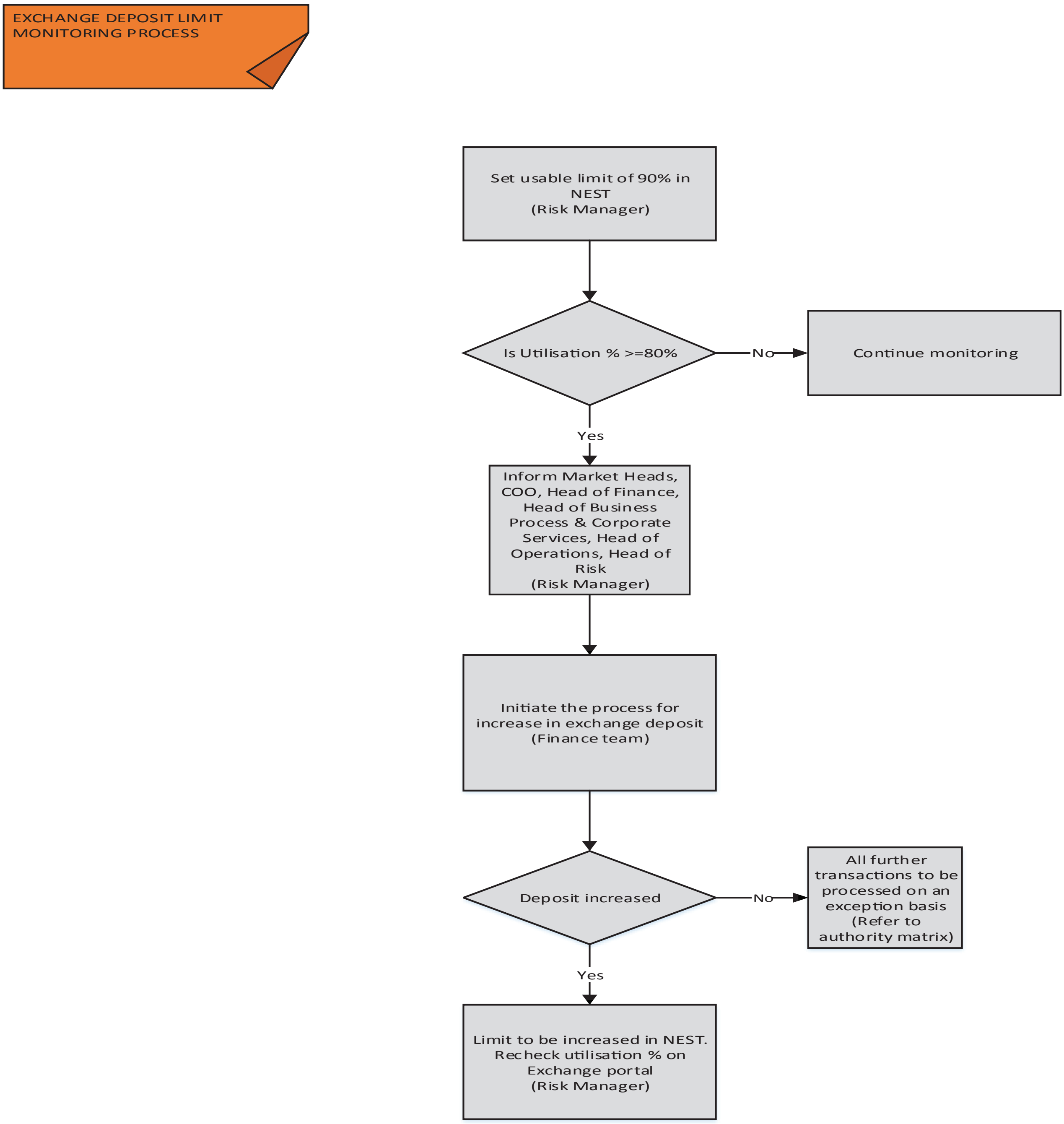
Annexure 6: Margin Deposit



Annexure 7: Margin Withdrawals



Annexure 8: Exchange Deposit Limit Monitoring Process



Annexure 9: Exchange F&O Limit Monitoring Process