

CHAPTER – 10
RISK MANAGEMENT

10 Risk Management

The Exchange shall provide adequate and effective risk management mechanism for creating a proper risk management framework and for enforcing the requirements uniformly, to the extent possible, which may be provided herein, or provided in the relevant Regulations from time to time, to ensure market safety and security and to ensure smooth and orderly completion of settlement of transactions.

10.1 Capital Adequacy

The Exchange shall prescribe appropriate capital adequacy norms for the different trading segments, which shall be in accordance with the requirements, as may be prescribed by SEBI from time to time.

10.1.1 Base Minimum Capital

Every trading member/clearing member shall be required to maintain base minimum capital at all times as provided under the relevant Rule.

10.1.2 Additional Base Capital

A trading member/clearing member, in consideration of his business requirements, may deposit additional base capital at any point of time in such form and in such proportion, as may be prescribed in the relevant Regulations from time to time, and such deposit shall be withheld or released to the trading member / clearing member, as may be decided by the Relevant Authority from time to time.

10.1.3 Value of Securities to be Maintained

If a trading member/clearing member has deposited approved securities with the Exchange or Clearing Agency towards base minimum capital and/or additional base capital or for any other purposes, such securities shall be valued at such rates applying such hair-cut and at each intervals, as may be provided in the relevant Regulations from time to time. In case of any shortfall

arising on account of such valuation, a trading member/clearing member shall be required to make good the shortfall amount by depositing the equivalent amount or other approved collateral of equivalent value within such period, as may be decided by the Relevant Authority from time to time.

10.1.4 Upper Limit

There shall be an upper limit for creating obligations through transactions for every trading member / clearing member, either by himself or otherwise, as may be prescribed in relation to the base minimum capital and additional base capital, as may be decided by the Relevant Authority from time to time.

10.1.5 Online Position Monitoring System

The Exchange or Clearing Agency shall have an online position monitoring system to facilitate displaying alerts upon any trading member/ clearing member, crossing pre-determined levels of net exposure or turnover, either by himself or otherwise, compared to allowable net exposure or turnover, as is applicable. The terminals of the concerned trading members or the terminals of the trading members associated with the concerned clearing members shall automatically be de-activated, whenever an allowable limit of net exposure or turnover, as is applicable, is exceeded. Such monitoring may relate to positions in specific scrips, over all positions, crystallized losses, notional losses, keeping in view the current price level of the securities and such other details required to facilitate effective risk management.

10.1.6 Non-Compliance

Any trading member / clearing member not complying with the requirements specified above and in the Regulations applicable thereto, shall be liable for penal or disciplinary action, as may be provided under the Rules, Bye-laws and Regulations from time to time

10.2 Margin Requirements

Transactions in securities shall be subject to margin requirements and every trading member / clearing member shall deposit or pay such amount of margins and in such form, as may be prescribed by SEBI or the Exchange or Clearing Agency and in turn collect such margins from their clients.

The Exchange / Clearing Agency may provide an automatic mechanism to compute margin liability taking into account the obligations, arising out of the transactions executed in the capital market segment, futures and options segment and any other segment/s that the Exchange may have at any point of time and after providing for such risk containment mechanisms, as may be put in place by the Exchange / Clearing Agency or as may be directed by SEBI from time to time.

10.2.1 Margin on Gross Client Basis

All margins shall be computed and payable by all clients on gross basis, except those exempted by SEBI from time to time, at such rate, form and proportion, as may be decided by SEBI and/or the Exchange or Clearing Agency, and as may be provided in the relevant Regulations from time to time.

10.2.2 Mark to Market Margin

Every trading member / clearing member shall be liable to pay mark to market margin in the form, proportion and at the time, as may be provided in the relevant Regulations on the basis of a report downloaded or provided by the Exchange or Clearing Agency from time to time.

10.2.3 Normal Margin

Every trading member / clearing member shall be liable to pay normal margin, which may be on the basis of value at risk (VaR) or any such other basis approved by the Relevant Authority and keeping in view the volatility and liquidity, in the form, proportion and at the time, as may be provided in the relevant Regulations on the basis of the information or a report downloaded or provided by the Exchange or Clearing Agency from time to time.

10.2.4 Additional or Special Margin

A trading member / clearing member shall be liable to pay additional margin, as may be decided by the Relevant Authority from time to time, on the basis of concentration of position by the trading member or by the trading members associated with the clearing member, in any one or group of securities, fluctuations in prices, crystallized loss in relation to the closing price, notional loss worked out by applying statistical parameters, unusual pay-in liability in consideration of average pay-in liability, positions in illiquid securities or for any other reason, as may be deemed necessary by the Relevant Authority from time to time. Such margin shall be payable in the form, proportion and at the time, as may be provided in the relevant Regulations from time to time.

10.2.5 Client Liability to Pay Margin Upfront

Any client placing an order for buy or sell of a security shall be required to deposit or pay margin upfront to the concerned trading member / clearing member, through whom such order is being placed, in the form, proportion and at the time, as may be provided in the relevant Regulations from time to time. The client shall be liable to pay all types of margin as are applicable to and levied by the Exchange or Clearing Agency on the trading members / clearing members, as may be provided in the relevant Regulations from time to time.

10.2.6 Deposit or Margin to be Kept in Separate Bank Account

Every trading member / clearing member shall ensure that any amount deposited or paid by any client towards buy or sell of any security shall be kept and maintained in a separate bank account and shall be used only for the purpose of meeting the liability of the concerned client and not for any other purpose unless specifically authorized by the concerned client. If this requirement is not strictly adhered to by any trading member / clearing member, such trading member / clearing member shall render himself liable for penal and / or disciplinary action, as may be provided in the relevant Regulations from time to time.

10.2.7 Exemption From Margin

Any transaction executed on the ATS by a trading member for and on behalf of any of the institutions, as may be specified in the relevant Regulations from time to time, may be exempt from payment of margin.

10.2.8 Withholding Additional Base Capital or Margin

The Clearing Agency may, at its discretion, or shall on the instructions of any stock exchange or the Exchange may, at its discretion, withhold release to a trading member / clearing member additional base capital or margin deposited by that trading member / clearing member with the Clearing Agency or the Exchange for any period, as may be decided by the Clearing Agency or the Exchange. Where a trading member / clearing member has open transactions, he shall continue to pay applicable margin or discharge other obligations without taking into account such additional base capital or margin withheld by the Clearing Agency or the Exchange, notwithstanding that such additional base capital or margin is lying deposited with the Exchange or Clearing Agency.

10.3 Capital, Margin Money and/or Other Money to be Held by the Exchange or Clearing Agency.

The base minimum capital, additional base capital, margin money and/or other money shall be held by the Exchange or Clearing Agency, as may be provided in the relevant Regulations from time to time. In case of bank deposit receipts and approved securities, they shall be held in the form and manner, as may be provided in the relevant Regulations from time to time.

10.4 Lien on Moneys or Securities

The base minimum capital, additional base capital, bank deposit receipts, securities, other moneys and assets deposited by a trading member / clearing member shall be subject to a first and paramount lien for any sum due to the Exchange or Clearing Agency. Subject to this, the amount deposited towards margin shall be available, in preference to all other moneys of the trading member / clearing member, for the due fulfillment of his engagements, obligations and liabilities arising out of or incidental to any trade, transactions

and contracts made on the ATS of the Exchange or anything done in pursuance thereof.

10.5 Early Pay-in of Funds And Securities

The Exchange or Clearing Agency shall make necessary arrangements to facilitate trading members / Clearing members to effect early pay-in of funds and/or securities through electronic mode for themselves and/or for and on behalf of their clients and give corresponding benefit in exposure and/or margin thereagainst, as may be provided in the relevant Regulations from time to time.

10.6 Additional or Special Risk Containment Measures

Besides the requirements specified hereinabove, the Exchange or Clearing Agency shall have absolute right to initiate additional or special risk containment measures on the market as a whole or on specific trading members / clearing member or specific securities, as may be warranted, depending upon the condition and development taking place in the market and with a view to providing greater safety and security to the settlement system, as may be provided in these Bye-laws and relevant Regulations from time to time, and all transactions in the securities shall be deemed subject to such additional and special risk containment measures. If, in the opinion of the Relevant Authority or SEBI, an exceptional situation exists or has arisen or is likely to occur, which may make free trading in the securities extremely difficult, the Relevant Authority may take such action, as deemed fit, for stabilizing the market. Without in any way limiting or derogating from the generality of this provision, the Relevant Authority may proceed and initiate such measures as hereinafter provided:

10.6.1 Acquiring Control

Whenever the Relevant Authority is of the opinion that an interested person or group of interested persons has indulged in cornering any security or securities whereby delivery on existing transactions cannot be obtained through normal closing out process, the Relevant Authority may prohibit further trading in such security or securities, subject to such restrictions as it may determine, notwithstanding anything to the contrary contained in these Bye-laws and Regulations.

10.6.2 Exceptional Situation

In an exceptional situation of a panic or bear raid or of reckless heavy sales, or where prices are unduly depressed, or where prices are rigged up, or fair or normal market does not or may not exist, the Relevant Authority may, for such period or periods continuously as it may determine from time to time, initiate at any time, the following measures:

10.6.2.1 Restrict or Prohibit Trading

Restrict or prohibit further trading in any security or securities, while permitting closing-out in any security or securities, prohibit short selling or fix minimum prices or restrict or prohibit long purchases or fix maximum prices subject to such conditions and restrictions as the Relevant Authority may from time to time determine, notwithstanding anything to the contrary contained in these Bye-laws and Regulations, that may be in force from time to time.

10.6.2.2 Initiate Various Risk Containment Measures

The Relevant Authority may, pending investigation as may be decided by it at the relevant time, initiate such other risk containment measures on specific trading members / clearing members or specific securities, as deemed fit, taking into account the market conditions prevailing then and to ensure safety and security to the settlement system. These risk containment measures may include differential exposure to different set of securities, imposing specific margin on specific security or securities, requiring closing-out of open positions in any security, specifying limits on outstanding positions and/or on net exposure, shifting securities from normal trading to trade for trade trading, suspension of any security from trading, fixing of maximum price in a security, suspension of buying-in, fixing of minimum price in a security, suspension of selling-out, keeping in abeyance the pay-out in respect of any security or securities, either in full or in part, and such other

measures, which in the opinion of the Relevant Authority are deemed necessary and subject to applying such conditions as deemed necessary at the relevant time.

10.7 Non-Compliance of Capital Adequacy and Margin Requirements

If any trading member / clearing member fails to comply with any one or more of the requirements of capital adequacy and/or margin requirements contained herein above, such trading member and/or trading members associated with the clearing member shall be liable for de-activation of the trading facility forthwith and consequential measures of closing out of positions, selling out of securities withheld, penalty, penalty points or disciplinary action, as may be provided in the relevant Regulations from time to time, shall automatically be initiated and the trading facility shall remain de-activated until all the requirements are fully complied with. The Managing Director or Relevant Authority may, however, order continuation of de-activation of the trading facility of the trading member and/or of the trading members associated with the clearing member for such longer period as may be decided by him after recording the reasons in writing.

10.8 Non-Compliance by Clients

In case of non-payment of up-front margin and/or applicable margin by a client to facilitate the concerned trading member / clearing member to make available such money at the appointed time in making payment to the Exchange / Clearing Agency, the trading member / clearing member shall have a right to close out the outstanding transaction of such client by selling and/or buying the securities, unless the client has an equivalent or more credit in any form available with the trading member / clearing member. The loss, if any, incurred on closing out of such transactions, shall be payable by the client and the trading member / clearing member shall have the right to adjust the said loss amount from any money deposited by the client with the trading member / clearing member or from any money due to the client by the trading member / clearing member. The gain, if any, arising out of such closing out shall be paid to the client by the trading member / clearing member, within two working days of payout.

10.9 Evasion of Margin Requirements Forbidden

No trading member / clearing member shall directly or indirectly enter into any arrangement or adopt any practice for the purpose of evading or assisting in the evasion of the margin requirements.