

Risk Management Policies of Bonanza Portfolio Ltd.

Preamble :

Risk management is an integral part of the “Bonanza Portfolio Ltd” (herein referred as “Bonanza”) approach to decision-making and accountability. The objective of the Risk Management is to:

- a. manage the risk without adversely impacting the normal business and its growth.
- b. enable sustained business performance
- c. facilitate competitive advantage by being continuously low on debtors
- d. lesser stress on the Company’s finances.
- e. be compliant to the relevant requirements of the Exchanges/ Regulators.

The underlying document outlines various policies and procedures the Bonanza group has framed with respect to its dealing with its clients to ensure transparency and facilitate understanding on various aspects related to operational risk management. In Bonanza, it is believed that effectively managing the risks associated with business is a critical and important responsibility of the management. These policies are also to be continuously updated based on the market scenario, rules & regulations prescribed by SEBI & the exchanges from time to time as well as our own experience of the previous RMS parameters within the objective of keeping the risks managed or under reasonable control..

Background:

Bonanza Portfolio Ltd. is a registered stock broker of The National Stock Exchange of India Ltd. (NSE), Bombay Stock Exchange (BSE) and Multi Commodity Exchange of India Limited (MCX) and National Commodity and Derivatives Exchange Limited (NCDEX). All these exchanges follow online trading systems and have a settlement system of T+1 & T+2 in Capital Market segment and T+1 in derivatives segment for Daily mark to market & Final settlement (including Currency Derivatives). Bonanza is using ODIN software (as provided by Financial Technologies Ltd.) and Symphony for trading in Capital Market and Derivatives segment.

Bonanza’s group companies are licensed broking entities in the Commodities market as well and are also registered/ licensed Depository Participants. Therefore, there is a need to consider the risk management issues on two fronts viz. meeting the requirements of the Regulators / Stock Exchanges on risk containment issues and setting its own operational guidelines with proper parameters to combat various risk related issues like regulatory risks, market risks, client risks, employee risks etc.

Further, the risk management processes are designed to ensure that the senior management periodically/continuously receives relevant information and is also updated on various issues, both regulatory as well as operational, required to understand and mitigate the risks.

It shall be noted that the policies and procedures envisaged in this document are subject to changes from time to time, depending upon our internal risk management framework, market conditions and external environment.

Hierarchy :

In Bonanza, Risk department is located at its Head Office in New Delhi. It employs 6 & 5 senior executives, who are reporting to Head RMS. Head RMS is reporting to Directors. Decisions relating to routine activities are made by RMS executives. Activities which contain high risk and complications are to be put forward to the notice of the Head of Risk / Operations and proper guidance should be taken by the operations personnel before executing any action on such activities.

The Business model for Bonanza consists of owned Branches and Business Associate Offices (Authorized Persons). These branches/ Business Associates (hereinafter referred to as Branches) are, on the basis of their geographical location, attached to Regional Offices of Bonanza which are responsible for various administrative and operational oversight.

The clients of Bonanza are linked or mapped to these branches or Associate Offices, and are engaged in trading from these branches. Apart from the trades executed from the Branches, there are certain clients who participate in trading on various market segments using the internet trading platform of Bonanza. In addition to these, Bonanza has trading helpdesk at Delhi and Mumbai offices to take and place orders from clients and branches.

Controlling and monitoring of all the trades are carried out by the Risk dept. located in the Delhi office.

Applicability:

The following policy is applicable to all categories of clients other than PMS clients, NRE/ NRO clients/ Institutional clients & arbitrageurs.

With regards to PMS clients the segment looked after by Head Wealth Management. The exposure is allowed to the extent of credit balance in client account operated under BPL POA and after closing of trading hours the funds got transferred from client POA account to BPL settlement account on pay-in date.

With regards to NRE / NRO BPL received the confirmation of balances from the bank of clients and the exposure is allowed to the extent of credit balance available with BPL+ bank balance. The trade confirmation is being made through email to client as well as bank informed through digital / physical contract note and bank provide the credit next day to our settlement account. In case of sales bank withdraw the payout money on payout day.

At institutional desk the order are received from the institution where BPL is empanelled. The confirmation of trades are provided to respective institution and all the pay-in payout of funds and delivery is handled by their custodian directly with the respective Exchanges.

Major Functions of RMS:

- Allocating exposure to the clients' trading account as per their funds & securities and enabling the clients to trade seamlessly within their available funds and securities. .
- Monitoring of orders and trades by clients. Checking of order rejections and increasing exposure, whenever required or sought for.
- Continuously monitoring the MTM profit / loss incurred out of non-settled trades, comparing the actual margin requirements of clients and the Total Margin available for clients on a one to one basis and initiating remedial actions, where required
- Decision taking with regard to squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may come across,

Client 'Funds' computation :

Bonanza allocates exposure limits to its Clients against the "Funds" brought in by them and lying in the credit of such Client in the Books of Bonanza.

The different components of the "Funds" acceptable to Bonanza for this purpose are:

- i. Cash deposit (ie, by way of cheques/NEFT/RTGS etc tendered by the client in favour of Bonanza and cleared by the bank)
- ii. Surplus lying in the Clients account with Bonanza
- iii. Bonanza and tendered as "Funds" for availing trading exposure limits
- iv. Value of Pledge Securities after applicable haircut

Notes:

- The management may in writing allow different security valuation based on the client risk profile.
- Client Categorization: Risk department has identified various parameters based on which clients are categorized in different risk categories. The risk manager shall classify all the clients in A, B and C category based on their risk profile, AUM & turnover.

Percentage of Hair Cut to be applied on the Value of the "Funds" :

Bonanza has prescribed a policy for effecting a margin (generally referred to as the "haircut") on various components of the "Funds" brought in by a Client to avail Exposure limits as well as to meet Exchange or Market determined Margins while trading on the Derivative market segments. However the RMS department will have the powers to impose any changes or modification ,to the said percentages as per market scenario, Volumes of the scrip, market capitalization of the scrip, volatility, and keeping view of SEBI or exchange circulars/ prescriptions. Haircut will be modified from time to time by RMS Deptt. after taking records of the scrip on the parameter mentioned above etc.

Securities Hair Cut Policy

- If exchange haircut is up to 49%, then we take an additional 10%.
- If exchange haircut is 50% to 79%, then we take an additional 15%.
- If exchange haircut is more than 79%, then we take 100%.

Exposure Limits

I. Cash Market segment

Clients can place orders in two products: -

- Margin
- Delivery

Margin Trade:- While the Exchanges extend exposure limits to a registered Trading Member/ brokerage entity upto certain predetermined levels, Bonanza shall, back to back in respective of its Clients, determine such limits on the basis of its experience in dealing with Risks and the profile of the Client.

Generally, as a thumb rule, it has been decided that a client shall be granted an intraday exposure upto 4 times of the net value of the Net Funds after the imposition of the Margins/ Haircut in securities for trading in cash segment across all exchanges for trading in the Cash markets.

Delivery Trade:- A client shall be given exposure 1 times for buying in cash segment across all exchanges of the clear ledger balance in the account of the client.

II. Derivatives market segment (Equity, Currency and Commodities)

Clients can place orders in two products in the Derivatives segment:

- Intraday
- Carry forward

Intraday Trade:- Again, as a thumb rule, After Peak margin exchange rule Bonanza has determined that for intraday trading exposure, a client shall be given exposure only 1times of the Net Funds after the imposition of the Margins/ Haircut in securities for trading in the equity derivative segments across all exchanges .

Carry forward Trade:- Bonanza, Exposure limits for each client is based on the amount of margin money deposited by each client, as per Exchange regulations. Upfront applicable margins is collected by the client. This will require 100% of the applicable span and exposure margin.

Credit For Sale:- 80% of the sold value is allow to be use for margin purpose for purchase the other share/s except the script that he has sold. In other words Re-purchase is not allowed in the sold script.

Further, the RMS department also has the discretion to reduce / change the exposure in any or all of the segments for a particular client, branch or any segment or all segments as a whole, with or without any prior information.

On the Derivative Expiry week Delivery margins shall be levied/Physically marking, No fresh positions in carry forward product will be allowed in the Stock's Future & options current expiry contract, clients will only be allowed to square off their existing positions.

All outstanding trades in margin/Intraday in cash & Derivative segment are squared up by the RMS Team after 3.15 pm. As Currency Derivative segment are squared up after 4.45 pm & Commodity Derivative are squared up after 11.15 pm.

Delivery Vs. Margin orders

	Description	Delivery	Margin
1	Time base square-off in cash	x	√
2	Time base square-off in F&O/COM/CDS	x	√
3	MtM Square-off in Cash	x	√
4	MtM square-off in F&O/COM/CDS	√	√
5	Options purchased today; MtM square-off	x	√
6	b/f options MtM square-off (sell side)	√	√
7	b/f options MtM square-off (buy side)**	√	N.A.
8	b/f options valuation (buy side)	0.01	N.A.
9	b/f options valuation (sell side)	CP	N.A.
10	b/f options (buy side) Position conversion	N.A.	x

Demat Securities in Bonanza's Beneficiary A/cin respect of each Client:

- a. with POA in favour of Bonanza and
- b. without any POA:

The market value of all the Securities belonging to each Client that is maintained by Bonanza in its beneficiary demat account or held with the Bonanza Depository in the name of the Client who has issued a Power of Attorney in favour of Bonanza (to transfer or pledge/re-pledge or to do any other act to facilitate creation of additional "Funds" to facilitate Trading by the client) shall be computed at the end of every business/ trading day and after factoring the appropriate Hair-Cut/ discount factor as prescribed for the respective Securities shall be considered along with the value of all other "Fund" components so as to determine the total value of the "Funds" that are available to a Client towards his Exposure / Margin limits for trading before start of trading. However during trading hours the value of stocks should be on live rate basis so that in case of any downfall in the market RMS can take appropriate action during trading hours

Where the Securities of a particular Client is held by Bonanza either in its Pool account or in the DP account of the Client maintained with the Bonanza as a DP but without the Client having issued a PoA in favour of Bonanza, a similar computation of the value of the Securities will still be made to determine the net value of the Clients "Funds".but excluding Depository stocks However, depending on the relationship that Bonanza maintains with the Client (past experience) the RMS will decide on the allocation of net value for trades that the Client desires to effect.

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Further, where the Client is engaging in a Sell Transaction and the relevant Securities are not with Bonanza (Pool or DPaccount), the - the gross value with respect of such Security will be computed and deducted from the value of the net Funds available to the Client and against the resultant amount of the Funds value, the exposure limits will be extended.

- EXISTING CLIENTS The manner of computing the net value of the “Funds” will be the same in respect of the existing Clients and the RMS will be in a better position to determine any additional limits based on the past experience with the said Client.

Mark to Market loss:

As per the standard practice followed by Bonanza all clients are placed in **Square Off Mode** when M2M loss reaches threshold limit. Currently this threshold limit is 80% of the net “Fund” value of a Client for initiation of the trigger.

For the purpose of calculating M2M loss, the threshold limit is on the basis of net Funds available at the start of the trading day+ any additions and or payments during the day.

On M2M loss reaching 85% of the net available Funds, the client’s outstanding intraday trades in the Cash segment & all positions in Derivative segments will be squared off by RMS dept.

Exceptional Cases:

If due to business requirements, a particular client is not put to M2M loss based automatic disablement mode, such exceptional cases with reasons shall have prior approved by any one Director –

Alert / Warning Messages: System generated alert messages shall be sent to clients on their mark to market loss reaching 70% & 80% of the available funds. Messages are sent on the registered mobile number of the clients. subject to available of connectivity of the vendor Further, any position being squared off by RMS dept., appropriate information shall be sent to the clients.

Refusal of Order in less liquid scrips / contracts:

Bonanza restrict clients from trading in less liquid scrips like ASM/GSM/IRP (list of which is released by the exchanges also Bonanza can restricted trading of those scrips also where it deems fit that trading in these shares will lead to price manipulation or creating artificial volumes. Further, Bonanza does not encourage clients to trade in far month Futures& options contracts in respect of such scrips.

For the risk mitigation purpose, RMS dept. shall on regular basis, identify the securities which is further allowed for trading or restrict trading in any scrip / contract. The list is decided after considering

the market scenario, Volume, Open positions, market capitalization, (what are the features that determine these matters) Exchange or SEBI circular etc.

Trading on the Newly Listed securities:

Trading in newly listed shares are subject to the high market risks and rate fluctuations , the chances of higher volatility are more. The dealing in newly listed shares will be allowed with 100% full margin.

Value of collateral v/s. Debit Balance

As per Bonanza's existing policy, debit balance of all clients are maintained at 70% of the value of the collateral provided to Bonanza. However, on reaching 70% or above, the Authorized Person / client are required to clear the debit balance or infuse more collateral / Funds. If at any moment the collateral reaches 80% of the debit balance, the RMS Department may liquidate the collateral. (Refer table below for power of official)

As a control mechanism, the client wise daily DSR (debit balance v/s collateral value report) is being sent to the respective Regional offices and/or branches before the next trading day.

As per the Exposure policy of Bonanza, it is decided that clients shall not be allow to carry debit balances more than 7 (5+2)days. If the debit balance continues for T+7 days, the clients' collateral to the extent of debit balance may be liquidated by the RMS Department. However, after this period of 7 days, company may not allowed Client to take up any fresh positions. There may be exceptions to this due to business call.

This policy is followed to ensure that the clients do not carry the debit balances (covered by the Pledge with Bonanza) on regular basis.

Client Intimation / Alert Process:

Clients will be pre-intimated about their ageing debit balance and that their collateral can be liquidating against ageing debit balances through short message service on their registered mobile number.

Client collateral liquidation initiated by RMS Department will be intimated to concerned Regional/Branches via Odin message terminal and online chat, or any other available channel as well, subject to no congestion in System / Network.

List of securities to be accepted,

Circulars are available on Exchanges site normally in last week of month containing list of securities to be accepted by the Exchanges towards Collaterals / Margin. Bonanza will accept these securities from all of the clients. Apart from that and to mitigate the risk Bonanza may or may not accept securities other than the above list. Bonanza will consider value of only those securities for margin purpose which are approved and accepted by the exchange.

Upper cap for accepting securities,

As mentioned above exchanges during last week of month issued circular mentioning the list of approved securities which exchange will accept towards pledged for margin. There is upper cap on quantity of each security to be accepted by the clearing corporation. Bonanza may or may not accept the shares from the clients towards margin beyond the upper cap.

Components of cash non-cash collateral,

While placing the order there is margin applicable for each and every trade whether the same is in Cash Segment or in Derivative Segment. As per exchange rules the margin can be deposited as per exchange list like Gilts, approved shares, mutual funds etc. after applying the appropriate haircut. The requirement of Margin is required 50% in the form of Cash and 50% in the form of Gilts, approved shares, mutual funds etc. If the cash component is not deposited by any constituent the same will be deducted from the own funds deposited with the Clearing Corporation. If own funds are utilized by any clients the cost of funds will be debited to those clients, to the extent of utilization, on whose behalf the clearing corporation utilized cash from own account.