

Updated Risk Management Policy for Settlement of Client Accounts

Policy prepared/reviewed by:	Compliance Officer and Head of Operations
Policy approved by:	Board of Directors
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- Objective:** The objective of policy is to appropriately deal with regulatory directives of settlement of client accounts registered for equities, equity derivatives, currency derivatives, commodity derivatives and other segments, for funds and securities /commodities. The treatment of securities/commodities in this policy would have same understanding to meet regulatory directives. This process is elaborated for settlement, operations and risk management so that desired action shall be taken thus being named as “Risk Management policy (herein after named as RMS Policy) for settlement of client accounts” and to be read and understood as part of our RMS policy. This is being implemented for clients registered with VRM Share Broking Private Limited (hereinafter referred to as “VRM”).
- Background:** As per SEBI, vide circular no. MIRSD/SE/Cir-19/2009 dated December 03, 2009 and SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, issued the guideline for settlement of running account of client’s funds / securities.

Vide SEBI circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, settlement of running account for securities **has been discontinued and therefore, SEBI circulars dated December 03, 2009 and September 26, 2016, are now applicable for settlement of running account of client’s “funds” only.**

Further, vide SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, aforementioned SEBI circulars dated December 03, 2009 and September 26, 2016 on settlement of running account were partially modified to ensure uniformity in settlement of running account which was applicable w.e.f. October 01 2022.

3. Periodic settlement is required to be done in the following cases:

SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022, the settlement of running account of funds of the client shall be done after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan-Mar) for all the clients i.e. the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day. For clients, who have opted for Monthly settlement, running account shall be settled on first Friday of each month. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

Further, as per SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, for clients having **credit balance**, who have not done any transaction in the 30 calendar days since the last transaction, credit balance shall be returned to client, within next three working days irrespective of the date when the running account was previously settled. Further, after settlement, if such client returns with fresh funds and no trades are executed during this period, then we may compute the 30 calendar days for the purpose of subsequent settlement from the day we received funds instead of the last transaction date. However, we need to settle running account of client on first Friday of the quarter or month as per as per the preference of the client irrespective of date of his/her last transaction or receipt of funds.

Illustration (For client accounts having credit balance and not traded in last 30 calendar days)

Settlement preference given by client (A)	Last settlement date (B)	Last trade date (C)	Date on which settlement due if client not traded in 30 days from the last trade mentioned in column C (D)	Date of fresh receipt of funds post settlement done on the date mentioned in column D €	Next settlement due date (F)
Quarterly	07-Oct-22	10-Oct-22	09-Nov-22	30-Nov-22	30-Dec-22
Quarterly	06-Jan-23	08-Feb-23	10-Mar-23	24-Mar-23	07-Apr-2023*

If the **client has an open position in the derivatives segment**, then the date of contract expiry or the date on which position is closed may be treated as last transaction date, for the purpose of computing 30 calendar days for returning the credit balance to such clients. However, we need to ensure settlement of running account of funds on first Friday of the Month or Quarter as per the preference of the client.

Illustration (For client accounts having credit balance and open position in derivatives segment) Settlement preference given by client	Last settlement date	Last trade date	Position closure date	Contract Expiry date	Next settlement due date
Quarterly	07-Oct-22	10-Oct-22	18-Oct-22	NA	17-Nov-22
Quarterly	07-Oct-22	10-Oct-22	NA	27-Oct-22	26-Nov-22
Monthly	07-Oct-22	10-Oct-22	18-Oct-22	NA	04-Nov-2022*
Monthly	07-Oct-22	10-Oct-22	NA	27-Oct-22	04-Nov-2022*

If the **client executes a transaction on the Exchange on or before the date on which it is scheduled (within three working days)** to return the credit balance, in such case, we may retain funds as clarified in above and settle the balance amount to client.

In case of **client having any outstanding trade position on first Friday of the Month / Quarter on which settlement of running account of funds is scheduled**, we may retain funds calculated in the manner specified below:

- Entire pay-in obligation of funds outstanding at the end of day on date of settlement, across all segments.
- Member may retain 50% of end of the day (EOD) margin requirement as cash margin, excluding the margin on consolidated crystallized obligation/ MTM.
- Apart from 50% cash margin mentioned in point ii above, member may also retain 225% of EOD margin (which includes additional 125% margin) reduced by 50% cash margin and the value of securities (after applying appropriate haircut) accepted as collateral from the clients by way of 'margin pledge' created in the Depository system for the purpose of margin and value of commodities (after applying appropriate haircut). The margin liability shall include the end of the day margin requirement in all the segments across exchanges excluding the margin on consolidated crystallized obligation/ MTM. The margin liability may also include the margin collected by the Member from their clients as per the risk management policy and informed to the clients.

Computation for arriving at retention of excess client funds based on above points would be as under:

Scenario	Fund Pay in Obligation for T & T-1 day	EOD Margin Requirement	Cash margin to be retained (50% of EOD Margin)	Computation of 225% of margin to be retained		Maximum	Client Funds to		
				225 % of EOD margin minus cash margin as computed in column C	Securities Pledged / Repledged or commodities	225% of EOD margin to be retained from funds if available after adjusting securities pledged/repledged or commodities	Client Funds Balance	Maximum funds that can be retained (i.e. Sum of cash margin to be retained, non-cash 225% EOD margin after securities /commodities adjustment and funds pay in obligation)	Client Funds to be returned (i.e. client fund balance if available after adjusting maximum funds that can be retained)
	A	B	C= 50%* B	D = (225% * B)-C	E	F =MAX((D-E),0)	G	H=A+C+F	I=MAX((G-H),0)
1	110000	10000	50000	175000	200000^	0	300000	160000	140000
2	150000	15000	75000	262500	300000^	0	200000	225000	0
3	100000	10000	50000	175000	125000	50000	210000	200000	10000
4	150000	20000	100000	350000	200000	150000	300000	265000	35000
5	0	25000	12500	43750	200000^	0	10000	12500	0
6	500000	1250000	6250000	21875000	30000000^	0	50000000	11250000	38750000

^ Excess securities need not to be unpledged.

Note:

- a) Client's running account shall be considered settled if member has given instructions to bank for credit to client's bank account, provided that the member has sufficient balance in its account.
- b) While computing the value of securities, the closing rate for the trade date prior to the settlement date (T-1 day) should be considered after appropriate hair-cut viz. VaR margin rate applicable for the security in the Capital Market segment.
- c) In case the member applies haircut more than VaR rate on a regular basis and the actual margin is collected and exposure is provided accordingly, then such higher rate may be considered for determining the amount to be retained, provided the member has intimated the requirement of additional margins to the clients through the policy and procedures document and consistently through the daily margin statements issued to clients.
- d) No inter client adjustment/ passing of Journal Entries can be done/ considered for the purpose of settling client accounts.
- e) Obtaining of authorization from the clients to the effect that no settlement need be done for running accounts is contradictory to the SEBI requirement and hence not permissible.
member has intimated the requirement of additional margins to the clients through the policy and procedures document and consistently through the daily margin statements issued to clients.

4. Periodic settlement is not required to be done in the following cases:

- Clients settling trades through "custodians."
- Margin received in the form of Bank Guarantees and Fixed Deposit Receipts, which are created by clients.
- Clearing members who are clearing trades of custodial participants/ trading members
- Cheques received by the Member from the clients and credited in the respective client ledger but uncleared on settlement date.
- In the case of new client, no settlement would be required on first settlement date (i.e. first Friday of the Month or Quarter as per the preference of client) immediate after registration of client. For example, a client who registered on October 01,2022 and opted quarterly settlement, would not be required to be settled on the first settlement date i.e. October 07,2022 and should be settled on next settlement date i.e. January 06,2023. However, members shall ensure that, if the client is having credit balance, and has not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days.

5. Caution to be taken for periodic settlement :

- Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued.
- The Authorized person is not permitted to accept client's funds and securities. Proprietary trading by Authorized person should be permitted only on his own funds and securities and not using any of the client's fund.
- No inter client/family adjustment can be done for the purpose of settling client accounts.
- For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc. We may issue a physical payment instrument (cheque or demand draft), only in cases where electronic payment instructions have failed or have been rejected by the bank and after keeping adequate record of the same.
- Further, in case of failure of electronic payment instructions due to incorrect bank account details, members shall obtain correct bank details from clients and update their records after keeping adequate audit trail

6. Sending of Communications once we settle running account of funds

- An intimation shall be sent to client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer – transaction number and date; in case of physical payment instruments – instrument number and date).
- Retention statements shall be sent to the respective clients within 5 days from the date of settlement. Members have to send the 'Statement of Accounts' on or before the next four trading days of subsequent week.
- The members shall not be required to send the 'Statement of Accounts' to clients with zero funds, zero securities and zero commodities balances and also has been flagged as 'Inactive' (i.e., if no trades are carried out by the client in the last 12 months across all Exchanges) in the UCC database of the Exchange.

7. Statement should necessarily contain the following details:

- Extract from the client ledger for funds and an extract from the register of securities/commodities displaying all receipts/payments/ deliveries of funds/securities/commodities.
- The statement shall also explain the retention of funds/securities/commodities and the details of the pledge, if any.
- Closing balance of funds / securities/commodities available with the member on the date of settlement.
- A clause stating that clients shall bring any dispute arising from the statement of account or settlement so made to the notice of the broker preferably within 5 working days from the date of statement.
- A clause intimating the client that the client has provided a running account authorization which can be revoked at any time.
- Client shall bring any dispute on the statement of running account, to the notice of TM within 30 working days from the date of the statement.

8. **Applicability:** This would be applicable with immediate effect and updated on our website for clients to be informed and updated of this policy or any amendments thereafter.

9. **Review:** The internal auditors would review the implementation of aforesaid policy while conducting Internal Audit. Also this policy has been placed before Board of Directors for approval and would be subject annual review and/or in case of any major regulator directives.