Dovetail

OHM Dovetail Private Limited

RISK MANAGEMENT POLICY

Version 1.1

Policy Summary:

Policy Name	**Risk Management Policy**
Issue and Effective Date	08/07/2025
Date of Last Review	---
Periodicity of Review	On any Regulatory change or Annual, whichever is earlier. Notwithstanding the same, in case of conflict between Regulations and this policy, regulation shall prevail.
Responsible Function	Preparer: Compliance Department Reviewer: Risk Management Committee
Approved by	Board of Directors
Version	V1.1

Version Summary

Version	**Updates**	**Review Date**	**Approved by**
V1.1	Adoption of Consolidated Policy for NSE & MCX	08/07/2025	Board of Directors

1. **INTRODUCTION:**

OHM Dovetail Private Limited (ODPL/ Company), a corporate broking cum clearing entity providing Clearing Operations, conducts its business operations based on sound Risk Management Policies to pursue prudent business practices. The function of Risk Management being an ongoing exercise is reviewed periodically, and necessary measures are initiated to enhance its overall effectiveness.

ODPL is a member of NSE and NCL under Cash Market, F&O, Currency Derivatives and Commodity Segments, a member of Multi Commodity Exchange of India Limited (MCX) and Multi Commodity Exchange Clearing Corporation Limited (MCXCCL) and a member of BSE Limited under Cash & Equity Derivatives Segment.

ODPL have a client level risk management system wherein the margins/collaterals of all the clients are uploaded to the back-office software. The clients are allotted exposure based on the margin/collaterals available with us. VaR / Initial margin is collected upfront from all the clients. Margins are collected either by cheque, RTGS, NEFT or other banking channels, by way of securities and other eligible instruments prescribed by SEBI/Exchange.

Different forms of margin/collaterals which may be collected are Funds (money in the Bank account), Bank Guarantee, Fixed Deposits, Securities (including Mutual Fund Units, Government Securities / T-Bills) in dematerialised form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges, with appropriate haircut.

The collaterals given by the clients towards margin are accepted only after haircut called “VaR” which shall be never less than that specified by the Exchange from time to time. An extra VaR may be applied for haircut on collaterals to give extra cushion against volatility and exposure is allowed accordingly. Additional VaR may be calculated taking into consideration many factors such impact cost, Market Capitalization, turnover etc. The clearing for the trades executed by the clients shall be done based on the availability of VaR / Initial margin which is blocked based on the exposure.

2. **NETWORTH REQUIREMENT:**

ODPL shall maintain the minimum net worth requirements as prescribed by the respective Exchanges from time to time.

Various Risk Management Measures implemented by ODPL are detailed below:

3. **CLIENT’S EXPOSURE LIMITS:**

Exposure is permitted based on the funds / securities offered by the client through direct transfers to the designated Client bank account of ODPL or by creation of margin pledged of approved securities after Haircut to the designated Margin pledged account of ODPL. Mark to Market loss if any shall be reduced from the available exposure of the client.

a) FNO Segment:

Clients are required to provide Initial Margin i.e. SPAN Margin and Extreme Loss Margin as prescribed by NSE/BSE and an additional margin can be collected in addition of Initial margin at such percentage as may be decided by Management of ODPL from time to time looking into volatility in the Market. Clients are required to provide the margins as stipulated above for both buy and sell of Future contracts and also for writing / selling option contracts.

b) Commodity Segment:

Clients are required to provide Initial Margin i.e. SPAN Margin and Extreme Loss Margin as prescribed by MCX and an additional margin can be collected in addition of Initial margin at such percentage as may be decided by Management of ODPL from time to time looking in to volatility in the Market. Margins shall be adequate to cover 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be determined on the basis of volatility category of the commodity.

Based on volatility category as specified by MCXCCL based upon the realized volatility, applicable minimum Initial Margin (IM), minimum Margin Period of Risk (MPOR), Short Option Minimum Margin (SOMM) and minimum Volatility Scan Range (VSR) shall be applied as prescribed by MCXCCL.

For seller of the option contract, Extreme Loss Margin shall be levied based on the margins percentage specified by MCXCCL from time to time. For buyer of the option contract, Extreme Loss Margin shall not be levied.

The quantum of tender period margin as appropriate based on the risk characteristics of the particular commodity shall be decided by the MCXCCL from time to time.

MCXCCL may levy special margins over and above the initial margin and the extreme loss margins. Special margins may be levied generally on either long open positions or on short open positions and shall be collected in any form of collateral or in Cash only as may be directed by the SEBI / MCXCCL / Exchange.

4. <u>CROSS MARGIN BENEFIT:</u>

Cross margin benefit shall be provided for the positions held in the Index futures and the respective mapped commodities. MCXCCL shall define the Index composition on which Cross margin benefit shall be eligible. Cross margin benefit of 75 % on Initial Margin shall be allowed for eligible offsetting positions of index futures and futures of its underlying constituents or its variants. The Extreme Loss Margin shall continue to be levied. Cross Margin benefit on the eligible positions shall be entirely withdrawn latest by the start of the tender period for the constituent futures of the index or its variants or start of the expiry day, whichever is earlier.

5. **CONCENTRATION MARGIN:**

MCXCCL shall impose adequate concentration margins (only on concentrated positions) to cover the risk of longer period required for liquidation of concentrated positions in any commodity. The threshold value for imposing concentration margin may be determined taking into account factors including open interest, concentration and estimated time to liquidation based on prevailing liquidity and possible reduction in liquidity in times of market stress etc. The quantum of concentration margins imposed may vary based on the level of concentration.

6. **DEVELOPMENT MARGIN BASED ON SENSITIVITY REPORT:**

Based on the outcome of the Sensitivity Report, provided by MCXCCL. it shall levy Devolvement margin. The Devolvement Margin shall be computed at the end of the day, starting from the end of the second day prior to option devolvement date. Of the total Devolvement Margins arrived at based on the methodology specified for computation of margins in Sensitivity Report, MCXCCL shall levy one-fourth of the total Devolvement Margin computed on the day prior to the Option Devolvement Date. The said margin shall be made applicable for the entire next day (i.e. from the beginning of the day till the end of the day).

At the end of the day on the day prior to Option Devolvement Date, Devolvement Margin shall be re-computed considering the revised and updated Sensitivity Report and the Settlement price. On this day, one-half of the computed Devolvement Margin shall be made applicable on the next day.

Devolvement Margin shall be in addition to all other applicable margins. In case of a situation where there is a margin reduction due to devolved position, no benefit would be passed on.

In case of multiple contracts having different expiry dates but a common devolvement margin period, an average rate of the applicable margins numbers shall be applied, subject to a maximum margin rate of 50%.

7. **DELIVERY PERIOD MARGIN:**

'Delivery period margin' means margin levied by MCXCCL on the long and short positions marked for delivery till the pay in is completed by the Company. Once delivery period margin is levied, all other applicable margins may be released. The delivery margin is levied during the period specified in the contract specification and the circulars issued by MCXCCL from time to time. The delivery period margin is calculated at the rate specified for respective commodity multiplied by the net open position held by a client in the expiring contract. If delivery does not happen with respect to certain open position and is finally settled by way of difference as per the Due Date Rate, the delivery period margin is released only after final settlement of difference arising out of such closing out as per the Due Date Rate.

8. MAINTENANCE OF MARGINS /COLLATERALS AND CLOSURE OF CLIENTS' POSITIONS:

Apart from Exchange stipulated instances and technical failures, ODPL shall not confirm client trades and / or square off existing positions whenever there is shortage of margins. This may be either security specific or client specific based on the circumstances.

a) Commodity & FNO Segment:

Client is required to maintain the requisite margin for the open positions / carry forward positions under FNO / CDS / Commodities at all the times. Only free and unencumbered balances of securities available with ODPL for respective TMs/CPs in different segments shall be considered for margin collection and reporting. Accordingly, securities received in pay out shall be considered only after it is actually received from the clearing corporation.

In case of FNO and CDS the client is required to maintain the margins stipulated by ODPL from time to time on continuous basis. Whenever there is shortfall in the margins, client is required to replenish the same. ODPL shall square off the positions of the clients under FNO / CDS with further notice to the client by way of email and telephone when the shortfall is to the extent of additional margin and exposure margin required for the open positions.

ODPL shall collect margins on Consolidated Crystallised Obligation from its respective TMs/CPs only in the form of Cash (and not in the form of FDRs/BGs or any other form of collateral) in the F&O and Currency Segment.

For F&O segment the delivery margin and margin on consolidated crystallized obligation shall be collected from TMs/CPs by T+1 day. In case of Currency Derivatives segment also, it shall be ensured that all upfront margins are collected in advance of trade. Margin on consolidated crystallized obligation shall be collected from TM/CPs by T+1 day. However, in case of currency future contracts, final settlement amount shall be collected by T+2 day.

All losses consequential to such square off or sale of collaterals shall be borne by the client. In case ODPL is unable to square off or refrain from squaring off the position due to margin shortfall, the client shall not have a right to claim that the position was not squared off and the same has resulted in additional losses. Square off shall be at the discretion of ODPL and all consequential losses and charges shall be borne by the client. Consequent to square off of F & O / Intraday positions, if any amount is due from the client on account of loss/ brokerage/ exchange penalties/ statutory charges, long pending dues of DP account, the same is to be recovered from client by close follow up by way of E Mails, telephonic reminders and letters to the registered address of the client. If the client is not cooperating for payment of dues, then the DP account of the client shall be put on hold and only sale of shares shall be permitted which would help in recovering the amount due to ODPL. In case of continued non-cooperation other recovery measures as deemed fit by the ODPL shall be initiated with prejudice to the available legal remedies.

b) Commodity Segment:

The Company shall maintain the Minimum Liquid Net-worth (MLNW) requirement as per Clause 2 of the Policy. The Minimum Liquid Net-worth Requirement amount shall be blocked from the collaterals placed by the Company with MCXCCL. The Company as a member of MCXCCL is required to pay interest free security deposit as prescribed by MCXCCL at the time of admission, which will be used as margin deposit against exposure of the Clients. The same shall be given minimum 50% in the form of Cash and balance in the form of Fixed Deposit Receipts / Bank Guarantees.

Similarly, if ODPL has paid additional deposit or margin, the system allows him exposure up to such level, up to which the margin requirement on such exposure is equal to or less than total deposit (initial minimum security deposit + additional deposit / margin.). As soon as the Company crosses such allowed exposure limit, the client is put in square off mode for the purpose of trading on MCX. In case a client is put in square off mode immediately, due to crossing such limit, the client can still log in to the system, ODPL can view the market, place square off orders and reduce the open positions. In case the deposits of the Client falls below the ISD requirements, the Company is placed in suspend square off mode on Exchange from the start of the subsequent trading day.

In the event of a ODPL/ client failing to honour pay-in/margin obligations, MCXCCL may employ the below given alternative tools to liquidate the positions and regain a matched book based on the conditions of the market liquidity, volatility, size of the positions to be liquidated etc. Any tool lower in the list prescribed hereunder may be resorted to only in extremely rare occasions when MCXCCL reasonably expects that it may not be able to restore a matched book by choosing the alternatives above it and also records the reasons for the same in writing:

Alternative 1: Liquidation in normal market in orderly manner (with relaxed price limits, if required);

Alternative 2: Auction of the positions within a specified price band;

Alternative 3: Voluntary tear-up at last mark-to-market price along with compensation equal to 10% of last mark-to-market price and penalty equal to 1% of last mark-to- market price (to be credited to SGF);

Alternative 4: Partial tear-up (pro-rata against members/clients having opposite positions) at last mark-to-market price along with compensation equal to 8% of last mark-to-market price and penalty equal to 1% of last mark-to-market price (to be credited to SGF).

In case a Client fails to pay margin obligation payable at beginning of the trading session and such payment is not received even till end of day, such unpaid margin amount will not be carried forward to the subsequent day's obligation, because the margin obligation at end of day will be calculated afresh depending upon the closing price at end of that date. But, in case of pay in obligation, the unpaid amount will be carried forward to the subsequent days, and the system would automatically track all unpaid amounts in this manner member-wise and send an additional debit instruction to the bank on all subsequent days, till either the amount is repaid or the Client is declared a defaulter. Such unpaid amount will also be blocked out of ODPL's available deposits for the purpose of calculation of allowable MTM limits.

Margin Shortfall Block Amount (MSBA):

In the event of ODPL's margin utilization breaching 100% of the margin limits on more than 2 occasions in past 30 days, the following action shall be initiated by the MCXCCL:

i. An amount equivalent to highest amount of margin shortage of the past 30 days shall be blocked as Margin Shortfall Block Amount (MSBA) from the deposits of the clearing member. The margin shortage at the time of violating the trigger point of 100% on each occasion shall be considered.

ii. The amount blocked shall not be available towards any margin benefit.

iii. In case there are more than one instance of margin shortage in a day, the highest amount of margin shortage at the time of violating the trigger point of 100% shall be considered.

iv. The Company shall be given 2 clear working days from the date of intimation to provide the Margin shortfall block amount (MSBA).

v. MCXCCL shall block the MSBA from the available collaterals of the member on T+3 day.

vi. In case, the margin utilisation of the Client after blocking MSBA reaches 85%, then OPDL will be placed in suspend-square off mode till the time Company complies with the MSBA or up to the retention period. For this purpose, Client may provide additional collateral or reduce the outstanding positions to enable blocking of MSBA.

vii. MSBA shall be retained as exposure free deposit for a period of 30 calendar days. It shall be released after 30 calendar days after retaining applicable MSBA requirement, if any.

Intraday Crystallised Loss:

Intraday Crystallised loss (i.e. loss made on square-off positions) incurred by ODPL would be added to the Margin Utilization along with SPAN and other margins which would be compared against the Margin Limit (eligible Collaterals). Crystallised losses would be computed for futures products only and shall be calculated based on weighted average prices of trades executed.

The intra-day Crystallised losses shall be monitored and computed on a real-time basis at client level and shall be grossed up to arrive at the crystallized loss of the Client. Crystallized losses shall be offset against crystallized profits at a client level.

If crystallized losses exceed the free collateral available with the Clearing Corporation, then the Company shall be put into risk reduction mode / square-off mode, as the case may be.

Risk Reduction Mode (RRM):

The Company as a trading members/clearing members has put in risk-reduction mode when 90% of the member's Liquid Assets (Total Collateral Less Minimum Liquid Networth) available for adjustment against margins/deposits get utilized for margins/deposits. MCXCCL at its discretion, reserves the rights to put a member into RRM below 90%. When the Company moves in to risk reduction mode:

1. All unexecuted orders shall be cancelled

2. Fresh orders placed by Clients shall be checked for sufficiency of margins and orders that do not satisfy sufficiency of margins will be rejected.

3. Fresh orders can be placed only in Regular Lot (RL) with Immediate or Cancel (IOC) time validation only.

4. Client will be able to trade in normal mode as and when the utilization goes below 85 %.

5. Multi-leg orders (Spread IOC/2L/3L) and stop loss orders would not be allowed.

6. Client would not be allowed to place fresh orders with custodian participant code.

7. Clearing members would not be allowed to approve/reject INST trades.

8. New order in Spread Product would not be allowed, when Client is in Risk Reduction mode.

9. Members (CM/TM) would be allowed to place Trade Modification request, when in Risk Reduction mode.

The various scenarios with respect to pay in / pay out and margin payable as reflected in the End of day report and its impact on the system are as follows:

i. If the Company has payable obligation both towards pay in as well as margin, it will not be able to put his orders next day morning (though he would be able to log in), unless he pays the margin payable amount and the pay in amount.

ii. If a Client has only pay in obligation but no payment required towards margin, it will be allowed to trade at commencement of trading session next day morning, provided that its available deposit would be reduced by the amount of pay in. Thereafter, as soon as the pay-in is complete and confirmation file is received from the bank, its blocked limit is released immediately.

If a Client has obligation to pay margin, he will not be allowed to submit orders, unless he pays fresh margin equivalent to his obligation plus additional margin in order to create fresh position. However, if a the Client pays margin only to the extent of his actual margin obligation, he will be allowed by to square off his position, but as soon as he increases his position, he will again be put in square off mode. Notwithstanding anything stated herein, MCXCCL reserves the right to square off the positions of the Client, in the event, the Client has either margin shortfall or payin shortfall.

In case of any failure in fulfilment of obligations on the part of a Client, ODPL is entitled to forfeit or utilize the margin deposits lying with MCXCCL for meeting such obligations and in such a case, the total margin deposit of that Client shall stand reduced to such extent.

9. <u>RISKS IDENTIFIED:</u>

Following are the basic risks involved in clearing of trades on the Stock Exchanges in Cash Equity / Equity Derivatives / Currency Derivative Segment/ Commodities Derivate Segment which the clients should be aware before commencing the trade / operation of the trading account and clearing through the Company.

a) Risk of Higher Volatility:

Volatility refers to the dynamic changes in price that securities / F&O Contracts / Currency Derivatives Contracts / Commodity Contracts undergo when trading activity continues on the Stock Exchange. Generally, higher the volatility of a security/contract, greater is its price swings. There may be normally greater volatility in thinly traded securities/contracts than in active securities/contracts. As a result of volatility, there may be price movements and margin movements intraday.

b) Risk of Lower Liquidity:

Liquidity refers to the ability of market participants to buy and/or sell securities / contracts expeditiously at a competitive price and with minimal price difference. Generally, it is assumed that more the numbers of orders available in a market, greater is the liquidity. Liquidity is important because with greater liquidity, it is easier for investors to buy and/or sell securities / contracts swiftly and with minimal price difference, and as a result, investors are more likely to pay or receive a competitive price for securities / contracts purchased or sold. There may be a risk of lower liquidity in some securities / contracts as compared to active securities / contracts. Lack of liquidity may lead to client's inability to square off a position on time.

c) Risk of News Announcements:

Issuers make news announcements that may impact the price of the securities / contracts. These announcements may occur during trading, and when combined with lower liquidity and higher volatility, may suddenly cause an unexpected positive or negative movement in the price of the security / contract leading to change in the margins.

d) Risk of Rumours:

Rumours about companies at times float in the market through word of mouth, newspapers, websites or news agencies, etc. The investors should be wary of and should desist from acting on rumours.

e) Systemic Risk:

High volume trading will frequently occur at the market opening and before market close. Such high volumes may also occur at any point in the day. These may cause delays in order execution or confirmation. During periods of volatility, on account of market participants continuously modifying their order quantity or prices or placing fresh orders, there may be delays in order execution and its confirmations. Under certain market conditions, it may be difficult or impossible to liquidate a position in the market at a reasonable price or at all, when there are no outstanding orders either on the buy side or the sell side, or if trading is halted in a security / contract due to any action on account of unusual trading activity or stock hitting circuit filters or for any other reason.

f) System/Network Congestion:

Trading on exchanges is in electronic mode, based on satellite/leased line based communications, combination of technologies and computer systems to place and route orders. Thus, there exists a possibility of communication failure or system problems or slow or delayed response from system or trading halt, or any such other problem/glitch whereby not being able to establish access to the trading system/network, which may be beyond the control of and may result in delay in trade confirmations by ODPL.

As far as Futures and Options segment and Currency Derivatives Segment are concerned, Client shall get acquainted with the following additional features: -

Effect of "Leverage" or "Gearing"

The amount of margin is small in relation to the value of the derivatives contract, so the transactions are 'leveraged' or 'geared'. Derivatives trading, which is conducted with a relatively small amount of margin, provides the possibility of great profit or loss in comparison with the principal investment amount. But transactions in derivatives carry a high degree of risk.

Therefore the client should completely understand the following statements before actually trading in derivatives trading and also trade with caution while taking into account one's circumstances, financial resources, etc. If the prices move adversely to the position of the client, then the client may lose a part of or whole margin equivalent to the principal investment amount in a relatively short period of time. Moreover, the loss may exceed the original margin amount. Futures trading involves daily mark to market settlement of all positions. Every day the open positions are marked to market based on the closing level of the index / F&O Contract / Currency Derivatives Contract. Based on the movement of the index / price of underlying client will be required to deposit the amount of loss (notional) resulting from such movement.

g) Currency specific risks

1. The profit or loss in transactions in foreign currency-denominated contracts. Whether they are traded in own or another jurisdiction, will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

2. Under certain market conditions, Client may find it difficult or impossible to liquidate a position. This can occur, for example when a currency is deregulated of fixed trading bands are widened.

3. Currency prices are highly volatile. Price movements for currencies are influenced by, among other things: Changing supply-demand relationships; trade, fiscal, monetary, exchange control programs and policies of governments; foreign political and economic events and policies; changes in national and international interest rates and inflation; currency devaluation and sentiment of the market place. None of these factors can be controlled by any individual advisor and no assurance can be given that an advisor's advice will result in profitable trades for a participating customer or that a customer will not incur losses from such events.

10. PHYSICAL SETTLEMENT OF SECURITIES:

Derivatives in financial markets typically refer to forwards, futures, options linked for the purpose of contract fulfilment to the value of a specified stock or to an index of securities. Derivatives contract are the most speculative in the financial market. Compared to cash market turnover under derivative market is highest. Under physical settlement, traders will have to compulsorily take delivery of shares on the expiry day against their derivative positions. When such contracts require physical settlement, it forces traders to roll over positions ahead of the expiry, thus averting taking of rollovers at the end of the series, which leads to excessive volatility. Physical delivery could also reduce short selling. To curb the excessive speculation, which creates too much volatility in the market, SEBI has introduced the Physical settlement vide circular SEBI/HO/MRD/DOPCI/CIR/P/2018/161 dated December 31,2018. SEBI has made mandatory for all stock derivatives in a phased manner for physical settlement. Starting from October 2019 expiry, all stock F&O contracts which are presently being cash settled shall move to physical settlement.

Definition of Physical settlement in derivatives:

As per above guidelines issued by Regulator, starting from July 2018 expiry, the procedure of settlement for F&O positions changed from existing "cash settlement mode" to compulsory "physical delivery settlement" in a phased manner. Starting from October 2019 expiry, all stock F&O contracts came under purview of the above guidelines.

Accordingly, if clients hold a position in any Stock F&O contract, at expiry and doesn't square off positions before the close of trading hours on the expiry day, he or she will either have to take delivery (for long futures, long in the money calls, short in the money puts) or give delivery of the underlying stock (short futures, long in the money puts, short "In the money" calls) as per the nature of contract.

Categorisation of the Contract and Obligation:

Obligation of the clients:

All positions that result in receiving delivery of shares will require the clients to have funds equivalent:

- **For Futures: Settlement Price * Lot Size * Number of lots**
- **For Options: Strike Price * Lot Size * Number of lots**

All positions that result in giving delivery of shares will require the clients to have shares in their demat account equal to the deliverable quantity i.e Lot Size * Number of lots.

Categorization of the Transactions:

The receivable/deliverable Stock F&O contracts are categorized into three groups :-

a. Unexpired Future Contracts
   - Long futures shall result in a buy (security receivable) position
   - Short futures shall result in a sell (security deliverable) position

b. In-the-Money-Call Options:-
   - Long call exercised will result in a buy (security receivable) position
   - Short call assigned will result in a sell (security deliverable) position

c. In-the-Money-Put Options:
   - Long Puts exercised will result in a sell (security deliverable) position
   - Short Puts assigned will result in a buy (security receivable) position

Delivery of Security:

The physical settlement will be settled on Expiry+2 days basis.

Failure to deliver the security:

In the event the clients do not have the required quantity of shares, this settlement would result in a short delivery. The Short delivery position will be covered in “buy-in-auction” for the shares by Clearing Corporation as per auction schedule declared periodically. Currently auctions will be conducted on Expiry+3 days and settled on Expiry+4 days. Appropriate penalties shall be charged on such short deliveries. There is no fixed price for the Auction to happen. The exchange specifies a range within which the auction participants can offer to sell their shares.

11. HANDLING OF CLIENT’S SECURITIES BY CLEARING MEMBERS:

Based on SEBI circular CIR/HO/ MIRSD/ DOP/CIR/P/2019/75 dated June 20,2019, SEBI/HO/ MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019 and National Stock Exchange vide circular no. NSE/INSP/42052 dated September 4, 2019 the Company has devised the procedures to deal with non-receipt of payment from client and excess securities received on behalf of clients and defined the procedure for liquidating the client securities in a time frame manner. As mandated by SEBI, ODPL is maintaining the Client Unpaid Securities Account (CUSA) and Client Securities Margin Pledge Account for settlement purpose. To manage the exposure and other risks the Operations of the Company shall be brought in line with the Operational Mechanism and

Framework for utilisation of client's pledged securities for exposure and margin provided by SEBI and NSE and MCX vide their respective circulars.

SEBI vide Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/595 dated July 16, 2021, has introduced the process of Block Mechanism in demat account of clients undertaking sale transactions on optional basis. When the client intends to make a sale transaction, shares will be blocked in the demat account of the client in favour of Clearing Corporation. If sale transaction is not executed, shares shall continue to remain in the client's demat account and will be unblocked at the end of the T Day. Thus, this mechanism will do away with the movement of shares from client's demat account for early pay-in and back to client's demat account if trade is not executed.

SEBI vide Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/109 dated August 18, 2022, has made the facility of block mechanism mandatory for all Early Pay-In transactions. The same is applicable with effect from November 14, 2022.

It is clarified that the block mechanism shall not be applicable to clients having arrangements with custodians registered with SEBI for clearing and settlement of trades.

SEBI has vide Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 prescribed guidelines regarding Segregation and Monitoring of Collateral at Client Level, in order to further strengthen the mechanism of protection of client collateral from (i) misappropriation/ misuse by TM/ CM and (ii) Default of TM/CM and/or other clients. The Company shall comply with the reporting, collateral deposit and allocation, collateral valuation, blocking of margins, change of allocation, client margin reporting and default management process and procedure of default.

Early Pay-in of funds:

Clearing corporations have provided a facility for early pay-in of funds to avail margin benefit and laid down the procedure for making EPI of funds and allocation of early pay-in of funds at client level or client-security level. In this regard, in cases where clients have made an early pay-in of funds, the Company shall also mandatorily make an early pay-in of funds to the clearing corporation.

In case of compulsory delivery and seller's option contracts, delivery to the extent of open position at the expiry of the contract shall be mandatory after claiming early pay-in facility on the short position. Failure on the Client's part would attract extremely strict penalties including disciplinary actions.

Upstreaming of clients' funds by Stock Brokers (SBs)/Clearing Members (CMs) to Clearing Corporations

SEBI has issued circulars bearing Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023 (Exchange Circular no. NSE/INSP/57041 dated June 09,2023), Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 (Exchange Circular no. NSE/INSP/57382 dated June 30,2023) and Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 (Exchange Circular no. NSE/INSP/59725 dated December 12,2023) and (Exchange Circular no. MCXCCL/C&S/295/2023 dated December 13, 2023), on the subject "Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)".

(1) The Company shall upstream all the clients' clear credit balances to CCs on End of Day (EOD) basis. Such upstreaming shall be done only in the form of either cash, lien on Fixed Deposit Receipts (FDRs) created out of clients' funds, or pledge of units of Mutual Fund Overnight Schemes (MFOS) created out of clients' funds.

(2) The nomenclature of existing designated client bank accounts which the Company uses to receive from the clients shall be changed to Upstreaming Client Nodal Bank Account (USCNBA). Similarly, the nomenclature of existing designated client bank accounts from which the Company uses to pay funds to their clients shall be changed to Down streaming Client Nodal Bank Account (DSCNBA). In addition, while clearing trades for other stock brokers, ODPL shall only use designated bank account(s) maintained with the nomenclature "Name of the CM – TM prop account" to receive/pay proprietary funds from/to stock brokers.

The clients may request release of funds to the Company at any time during the day. The processing of such release requests shall be in accordance with the risk management practices of the Company. All payment requests of the client received on a day shall be processed on or before the next settlement day. In cases, where the payment request is not processed on the same day, the Company needs to ensure that the funds of the client are placed with CC in terms of the Upstreaming Guidelines.

SEBI has issued Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023 and Exchange has issued Circular No. NSE/INSP/56489 dated April 25,2023 and Circular No. MCX/INSP/270/2023 dated April 25,2023 wherein creation of BG out of clients' funds has been prohibited as under:

a. Beginning May 01, 2023, no new BGs to be created out of clients' funds by the Company.

b. Existing BGs created out of clients' funds to be wound down by September 30, 2023. In view of the aforesaid circulars, member cannot create BG out of clients' funds and accordingly, value of any BG including BG created out of members' own funds cannot be considered for the computation of availability of client payables effective from October 01,2023.

Since the Company cannot create BG out of clients' funds as per aforesaid circulars, value of any BG including BG created out of members' own funds cannot be considered for the computation of availability of client payables effective from October 01,2023. Further, as per point number 3 of above SEBI Circular, trading members were required to report breakup of BG placed as collateral with clearing members on a periodic basis. In view of the same, for the purpose of reporting of BG details, Exchange vide circular NSE/INSP/56839 dated May 26, 2023 and circular MCX/INSP/343/2023 dated May 26, 2023, clarified following points as under:

a) The Company shall be required to report details of Bank guarantee breakup on weekly basis.

b) Reporting requirement shall be effective from May 27, 2023 and first submission of this data shall be for the week ended May 27, 2023 to be submitted by next trading day of following week i.e. by May 29, 2023 and for every week thereafter. Data shall be reported for Saturday of each week.

12. SURVEILLANCE AND GOVERNANCE:

Apart from monitoring the availability of margins and recovery of Debit balance ODPL shall also identify the incidents which in its opinion, or as per the directions given by the NSE, NCL and SEBI are required to be scrutinized. The following procedures will be followed for the surveillance and effective governance.

Surveillance of Trading Members and Custodial Participants:

ODPL shall on **half yearly basis** or shorter frequency initiate steps to monitor non compliances and serious defaults by TMs/CPs, especially in the areas of Margin shortfall and Mark to Market payment shortfall. ODPL shall also look into the criteria of TMs and CPs registered on regular basis to ascertain any incremental risk from margin perspective. If any of the above defaults arise on repeated occasion ODPL may seek additional data and records to ascertain the cause of such defaults to ensure proper governance. Such monitoring may require seeking data information from TMs/CPs in the event of repeated cases of shortfall in margins / margins on Consolidated Crystallised Obligation or governance issues. ODPL shall obtain data of segregation of the TM proprietary and Client collaterals and ensure the same is the reported to Clearing Corporation. The reporting structure shall entail disaggregated information (segment-wise and asset type wise break-up) of each client collateral in the following manner:

TM shall report disaggregated information on collaterals up to the level of its clients to ODPL.

ODPL shall report disaggregated information on collaterals up to the level of clients of TM and proprietary collaterals of the TMs to the Stock Exchanges (SEs) and CCs in respect of each segment.

Internal escalation matrix with respect to non-compliances / defaults by TMs/CPs shall be having Head of Operations at first level, with same day escalation to Compliance Officer at Second level & thereafter T+1 day escalation to Designated Directors.

Performance of TMs/CPs registered with the ODPL shall be evaluated in terms of Margin maintenance and Collaterals along with additional surveillance checks on annual basis. Inspection of TMs shall be undertaken on annual basis or at such regulatory intervals as may be required from time to time.

Governance mechanism for Margin and Collateral maintenance:

ODPL shall only accept the FDRs and BGs from the NSE Clearing Limited (NCL), or MCXCCL or approved banks. Also, the securities that shall be accepted as collaterals shall be from the NCL or MCXCCL approved list of securities. Clearing Corporation may revise the list of approved securities and, the haircuts from time to time. In cases ODPL has deposited securities which have been discontinued from the list of approved securities, then ODPL shall be required to take due care to replace such securities.

The valuation of the securities shall be in accordance with the norms prescribed by the Clearing Corporation from time to time. equivalent requirement. Pursuant to the Exchange Circular NSE/INSP/66840 dated 24th February, 2025 and MCX/INSP/123/2025 dated 5th March, 2025, the value of the securities shall be computed based on the closing price of the security at the Exchange at T-1 day as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the Security at the beginning of T day to arrive at the collateral value of the securities. Only the value net of applicable haircuts shall be considered as the value of the securities pledged. Valuation of securities shall be done by the custodians at such periodic intervals as may be specified by the Clearing Corporation from time to time.

The haircut percentage for various type of collaterals is given as under:

a) G-Sec/ T-Bills - Haircut as specified by Clearing Corporation from time to time. In case where Clearing Corporations have not specified the haircut for G-Sec/T-bills then haircut of 10%.

b) Dematerialized units of liquid mutual funds - Haircut equivalent to the VAR of T day for listed liquid mutual funds. In case of others (mutual funds not listed), the haircut should be equivalent to 10% of the NAV.

c) Liquid securities, in dematerialized form, actively traded on the National Exchanges - Haircut at a rate not less than the VAR margin rate of the security at the beginning of T Day.

The liquid assets are segregated as cash component and non-cash component. Cash component shall mean cash, bank guarantees, fixed deposit receipts, units of money market mutual fund, Gilt funds, Government of India Securities, Sovereign Gold Bonds and any other form of collateral as may be prescribed from time to time. Non-cash component shall mean all other forms of collateral deposits like deposit of approved list of demat securities, units of the other mutual funds, corporate bonds and any other form of collateral as may be prescribed from time to time.

ODPL Shall maintain at least 50% of the total collateral in the form of cash or cash equivalents. The minimum 50% cash equivalent collateral requirement may not be applied at the client level, the excess cash-equivalent collateral of proprietary account of TM/CM can be considered for clients trading/clearing through them, for the purpose of monitoring minimum 50% cash-equivalent requirement.

When the initial margin liability of a TMs/CPs exceeds the effective deposit less minimum liquid net worth or the margin liability exceeds the margin limit specified by ODPL at any time, including during trading hours it shall be treated as a violation.

ODPL may take following action for breach of threshold limit of margin:

At the threshold of 70% of the collateral of the total limit allowed, ODPL shall send email alerts for maintaining the collateral and in case the same reaches 90% the TMs/CPs shall be insisted to send additional fund or square-off the position. However, in case of breach of 90% threshold the TMs/CPs will not be able to execute fresh positions and will only be allowed to reduce the positions or introduce funds on the same day. Else the position will be requested to be squared off by the TMs/CPs on T-day basis.

ODPL shall report segment wise shortfall amount of Crystallised Settlement Obligation of TMs and CPs to the Clearing Corporation in excess of Rs 5 lakhs, if the shortfall continues beyond 1 day ODPL shall report to Clearing Corporation on T+1 day basis.

“An upper cap is a limit imposed on the quantity or value of a particular security that can be held within a portfolio. This is done to mitigate concentration risk, which arises when a significant quantity in a single security or a small group of securities are placed as Collateral with ODPL & or

Clearing Corporation. The company at its own discretion shall communicate to clients to withdraw the Securities if any single security reached 70% of the total acceptable limit at CC level."

Key Considerations for Upper Caps:

Risk Assessment: The determination of upper caps should be based on a thorough risk assessment of the securities involved, considering factors such as:

- **Market Risk:** Volatility and liquidity of the security.
- **Credit Risk:** The creditworthiness of the issuer.
- **Concentration Risk:** The overall concentration of the security within the CM's portfolio or across the market.

ODPL shall maintain upper caps for the acceptance of securities from individual members and across all members. These caps shall be determined based on factors such as market risk, credit risk, and concentration risk. ODPL shall regularly review and adjust these caps to ensure effective risk management"

ODPL shall report segment wise shortfall amount of Crystallised Settlement Obligation of TMs and CPs to the Clearing Corporation in excess of Rs 5 lakhs, if the shortfall continues beyond 1 day ODPL shall report to Clearing Corporation on T+1 day basis.

13. GENERAL RISK COVERAGE:

Internal Audit of the Company shall be conducted on specified timelines and the reports shall be submitted to exchange in accordance with the provisions of respective circulars issued from time to time. The company's risk policies and measurements and reporting methodologies are subject to review on need basis or when there are significant changes to the products, segments, services, or relevant legislation, rules or regulations that might impact the Company's risk exposure.

Issued under the order of the Board of
OHM Dovetail Private Limited

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