SMIFS LIMITED

CIN: U51109WB1993PLC060987
Vaibhav (5F), 4, Lee Road, Kolkata – 700 020 Tel: (91 33) 4011 5401 / 6634 5401
Email ID: rms@smifs.com Website: www.smifs.com

MASTER POLICY OF RISK MANAGEMENT, SURVEILLANCE & COMPLIANCE ETHICS

Policy Jointly Authored By:

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Risk & Surveillance Officer

Policy Approved By:

Shri Ashiwini Tripathi
Managing Director

Shri Rahul Kayan
Chief Executive Officer

Shri Sudipto Datta
Designated Director & Compliance Officer

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1. Introduction

1.1 **SMIFS Limited** (in short "the Company/ SMIFS/ Trading Member") is a Company registered under the provisions of the Companies Act, 1956 with limited liabilities, having its registered office at 4, Stayajit Ray Dharani (formerly Lee Road/ O C Ganguly Sarani) and registered with Securities and Exchange Board of India (in short "SEBI") as a Stock Broker and Depository Participant, thus a Securities Market Intermediary as per the various provisions enshrined in the relevant Acts of SEBI.

1.2 SMIFS is a Trading Member of National Stock Exchange of India Limited (NSE); BSE Limited (BSE); Multi Commodity of Exchange of India Limited (MCX) and Indian Commodity Exchange Limited (ICEX) with SEBI Registration Number: INZ000220635. SMIFS is a Depository Participant of National Securities Depository Limited (NSDL) bearing DP ID – IN301629 and Central Depository Services (India) Limited (CDSL) bearing DP ID – 12016000 with SEBI Registration Number IN-DP-414-2019. SMIFS is also registered as a Portfolio Manager with SEBI Registration Number INP000004623 and Research Analyst with SEBI Registration Number INH300001474. For the sake of brevity NSE, BSE, MCX & ICEX shall be collectively referred to as Stock Exchange(s).

1.3 SMIFS is also registered with Association of Mutual Funds of India (AMFI) with ARN Code 3060 for the distribution of Mutual Fund Units of various reputed Asset Management Companies.

1.4 Stewart & Mackertich Commodities Limited is a subsidiary of SMIFS Limited and a Trading Member of National Commodity and Derivatives Exchange Limited (NCDEX) with SEBI Registration Number INZ000064332.

1.5 Investment in Securities Market, viz. Equity Shares, Derivative Instruments and/or any other instruments traded on the Stock Exchange(s), have varying element of risks involved and is generally not an appropriate avenue for someone of limited resources/limited investment and/or trading experience and low risk tolerance to undertake transactions directly over Stock Exchanges. In considering whether to trade or authorize someone to trade for and on behalf as an authorized representative, a Client should be aware of or must get acquainted with the guidelines and provisions laid in the Risk Disclosure Document for Capital Market Segment, Derivative Market Segments and Commodity Market Segments. Thus, SMIFS strongly advises its clients to consult a Certified Financial Advisor before investing in the Securities Market, especially in Derivative Products.

1.6 SMIFS has put in place a comprehensive risk management system, which is constantly upgraded as per the extant Rules, Regulations and mandated laws of the Securities Exchange Board of India (in short **"SEBI"**) and the Stock Exchange(s) and also as per the prudent practices and requirements for mitigating risks. SMIFS Limited as a Stock Broker would endeavor to elucidate and educate it Clients regarding the inherent Risks involved in dealing in Securities such as Equities, Derivatives and other instruments and broadly takes into consideration the regulatory requirement, Client Profile, Internal Risk Management Policy, Market Conditions etc., while setting up the exposure limits for and on behalf of its Clients. Through this "**Master Policy on Risk Management, Surveillance & Compliance Ethics**" (in short **"RMS Policy"**) document our approach has been to further simplify the understanding of various Risks involved in Securities Market and the Policies formulated are of utmost importance, which the Clients need to understand and adhere to be clear about while dealing in securities market to mitigate risks involved and minimize and avert the losses. This "**RMS Policy**" shall be followed in respect of the securities transactions executed over NCDEX.

1.7 This RMS Policy envisage the Risk Containment Measures, which include Upfront Margin Collection from Clients, Trading Exposure on basis of Margins collected from clients, Online Surveillance of Client Positions, Liquidating Client Positions to the extent of client dues, Squaring Off Client Positions when client margin requirements are breached. It is also pertinent to mention at this juncture, that adhering to this RMS Policy is not an assurance/ guarantee to arrest the losses incurred by the Client, in any circumstances whatsoever. Securities Market is a subject matter of various risks and such risks may arise due to unforeseen circumstances which is beyond the control of the Trading Member. This RMS Policy merely gives a broad outlook for the measures and precautions that are adopted and/or shall be adopted in special circumstances to contain risks, on a best of effort basis. This document contains important information on trading in Equities/Derivatives Segments of the stock exchanges. All prospective constituents should read this document before trading in Equities/Derivatives Segments of the Exchanges. SMIFS does neither expressly nor impliedly guarantee nor make any representation concerning the completeness, the adequacy or accuracy of this RMS Policy nor have Stock exchanges /SEBI endorsed or passed any merits of participating in the trading segments. This brief statement does not disclose all the risks and other significant aspects of trading.

1.8 The RMS Policy envisage collection of upfront margin and other margins, setting for exposures limits for clients, terminals, Owned Branches, Authorized Person & Franchisee level, monitoring client transactions, Mechanism of Pay-In and Pay-Out of Securities to Clients, Payment(s), Electronic Receipt(s) of Funds from Clients, Pay-Out to Clients as Running Settlement Periodicity chosen by Clients, Policy of Square-Off of Open Positions of Clients on Erosion of Available Capital and/or at a time based periodicity, Monitoring of Debit Balances, Periodicity of such monitoring, periodic reconciliation wherein client has expressly accepted the balance confirmation, Steps taken for recovery of old debts, penal interest charged for long outstanding debits.

1.9 The Clients have to be aware of the RMS Policy of SMIFS Limited and how the Policy of SMIFS shall operate to regulate and monitor their transactions of its Clients to mitigate Risks and their responsibilities thereof. SMIFS shall intimate its Clients vide Circulars and updation on the official website of SMIFS Limited (www.smifs.com) regarding any changes/ updation/ modification in the Risk Management and Surveillance Policy of SMIFS Limited. Clients are advised to follow the Circulars and the official Website of SMIFS Limited (i.e. www.smifs.com) and those of Securities & Exchange Board of India (i.e. www.sebi.gov.in), National Stock Exchange of India Limited (i.e. www.nseindia.co.in), BSE Limited (www.bseindia.com), Multi commodity Exchange of India Limited (www. Mcxindia.com), National Securities Depository of India Limited (i.e. www.nsdl.co.in), Central Depository Services (India) Limited (i.e. www.cdslindia.com) and any other websites which has relevance and supervisory control over the Securities Market Transactions for the current updates.

1.10 The client shall invest/ trade in those securities/ contracts/ other instruments admitted to dealings on the Exchanges as defined in the Rules, Byelaws and Regulations of Exchanges/ Securities and Exchange Board of India (SEBI) and circulars/notices issued there under from time to time. SMIFS Limited, its Authorized Person(s) and the client(s) shall be bound by all the Rules, Byelaws and Regulations of the Exchange and circulars/notices issued there under and Rules and Regulations of SEBI and relevant notifications of Government authorities as may be in force from time to time. The client shall satisfy itself of the capacity of SMIFS Limited to deal in securities and/or deal in derivatives contracts and wishes to execute its orders through SMIFS Limited and the client shall from time to time continue to satisfy itself of such capability of SMIFS Limited before executing orders through SMIFS Limited. SMIFS Limited shall continuously satisfy itself about the genuineness and financial soundness of the client and investment objectives relevant to the services to be provided. SMIFS Limited shall take steps to make the client aware of the precise nature of SMIFS Limited's liability for business to be conducted, including any limitations, the liability and the capacity in which the Company acts. The Authorized Person(s) shall provide necessary assistance and co-operate with SMIFS Limited in all its dealings with the client(s).

1.11 The client shall give any order for buy or sell of a security/derivatives contract in writing or in such form or manner, as may be mutually agreed between the client and SMIFS Limited. SMIFS Limited shall ensure to place orders and execute the trades of the client, only in the Unique Client Code assigned to that client. SMIFS Limited shall inform the client and keep him apprised about trading/settlement cycles, delivery/payment schedules, any changes therein from time to time, and it shall be the responsibility in turn of the client to comply with such schedules/procedures of the relevant stock exchange where the trade is executed. SMIFS Limited shall ensure that the money/securities deposited by the client shall be kept in a separate account, distinct from his/its own account or account of any other client and shall not be used by SMIFS Limited for itself or for any other client or for any purpose other than the purposes mentioned in Rules, Regulations, circulars, notices, guidelines of SEBI and/or Rules, Regulations, Bye-laws, circulars and notices of Exchange. Where the Exchange(s) cancels trade(s) suo moto all such trades including the trade/s done on behalf of the client shall ipso facto stand cancelled, SMIFS Limited shall be entitled to cancel the respective contract(s) with client(s). The transactions executed on the Exchange are subject to Rules, Byelaws and Regulations and circulars/notices issued thereunder of the Exchanges where the trade is executed and all parties to such trade shall have submitted to the jurisdiction of such court as may be specified by the Byelaws and Regulations of the Exchanges where the trade is executed for the purpose of giving effect to the provisions of the Rules, Byelaws and Regulations of the Exchanges and the circulars/notices issued thereunder.

1.12 The Client shall pay to SMIFS Limited brokerage and statutory levies as are prevailing from time to time and as they apply to the Client's account, transactions and to the services that stock broker renders to the Client. SMIFS Limited shall not charge brokerage more than the maximum brokerage permissible as per the rules, regulations and bye-laws of the relevant stock exchanges and/or rules and regulations of SEBI

1.13 The Client acknowledge's and accept's that there can be "**no guarantee of profits"** or no exception from losses while executing orders for purchase and/or sale of any Securities Transactions being traded on Stock Exchanges. The client agrees that the Employees and/or Authorized Person(s) and/or Agent(s) has NOT been Authorized to give any advice or recommendation and the Company is neither bound by any loss caused to the client by any such advice. As per the provisions of Section 227 and 238 of The Indian Contact Act, 1872, the Principal, SMIFS Limited, is NOT bound when the agent viz. Employees and/or Authorized Person(s) and/or Agent(s) exceeds his/her/its Authority exceeds his Authority and Limit which has been laid in the Voluntary Rights and Obligations and the Client has agreed and executed the same.

1.14 SMIFS does not provide or purport to provide any advice and shall not be liable to any person who enters into any business relationship with any Authorized Persons and/or any third party based on any information contained in this document. Any information contained in this document must not be construed as business advice. No consideration to trade should be made without thoroughly understanding and reviewing the risks involved in such trading. If the Client is unsure, the Client must seek professional advice on the same.

1.15 The Client agrees and voluntarily accepts the Risk Management Policy of SMIFS Limited and undertakes the responsibility to avail the Securities Trading Facility through SMIFS Limited adhering to the Policies of SMIFS Limited and the Rules, Bye-Lays, Circulars of the Stock Exchanges where SMIFS Limited is a Trading Member, Securities and Exchange Board of India and any other Extant Regulators and that it shall not hold SMIFS, its Directors, Key Managerial Persons, Officers or employees liable for any losses which it may sustain and incur as a consequence for non-adherence in any manner whatsoever.

1.16 The Compliance Officer shall be Responsible for the implementation of the Risk Management Policy. The Compliance Officer shall be assisted by the Associate Compliance Officer and the RMS Officer. The Compliance Officer shall have the discretion to take assistance/help from any professionals and/or software for the better Monitoring of Risk Management Policy, with prior approval of the Board of Directors, without diluting the accountability and responsibility of the Compliance Officer. All the Employees, Branches, Branch Manager, and Authorized Person of the Company needs to understand the risks involved in Securities Trading on the Stock Exchange(s) and follow the policy as it is the integral part of company and it is important for them to communicate the same to the Clients'.

2. Responsibility of Risk Management and Surveillance Team:

2.1 The Designated Director/ Compliance Officer shall be responsible for the day to day supervision, monitoring and implementation of this RMS Policy. The Designated Director/ Compliance Officer shall be assisted by a Team of Risk Management and Surveillance Officers (in short the "RMS Officers"), for the monitoring and implementation of the RMS Policy. The Risk Management and Surveillance Team shall have a Team leader who shall Report to the Designated Director/ Compliance Officer for the fast and optimum decision making process.

2.2 The Risk Management Officers shall be responsible to prepare the available Collateral Deposits of each and every Client at the Beginning of the Day based on the Margin available and check capital adequacy for exposure and requirements of Clients and also monitor Client's Orders, Patterns of Trades, Order Rejections, the MTM Profit/Loss incurred out of trades and benchmark Margin v/s Exposure of Clients. Decisions with regard to debarring a Client for fresh open positions, subjecting client on risk reduction mode, squaring off positions on account of MTM Loss or Margin Shortfalls and Continuous Debits which breach the threshold mandate of debit balances continues beyond the fifth trading day, as reckoned from date of pay-in shall be reported to the Designated Director/ Compliance Officer.

2.3 The Risk Management Officers (RMS Officer) shall assist and report to the Compliance Officer on a daily basis in respect of the Client Codes Modified/Transferred.

2.4 The Compliance Officer shall take all necessary steps to monitor, document, analyze and report the findings to the Board Members as well as the relevant Stock Exchanges and/or regulatory bodies, in a time bound manner, as detailed hereunder and/or as mandated by the Stock Exchanges and/or regulatory bodies and report the same to the Designated Director.

2.5 The Compliance Officer shall exercise his/her independent judgment and take adequate precautions to ensure implementation of an effective monitoring mechanism, based on the day-to-day activities of the clients, general market information and the facts and circumstances and report the same to the Designated Director.

2.6 The Internal Auditor of the Company, shall review the implementation, documentation, effectiveness and review the actions taken during the period of audit and shall record the observations with respect to the same in their Internal Audit Reports.

2.7 The Board of Directors shall peruse, review and provide necessary guidance with regard to the **"Risk Management and Surveillance Policy"**, periodically, for strengthening the processes.

3. Comprehensive Risk Management Framework

Securities & Exchange Board of India by its **Circular No. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005** has laid the Comprehensive Risk Management Framework.

3.1 Overview
The core of the risk management system is the liquid assets deposited by members with the exchange/clearing corporation. These liquid assets shall cover the following four requirements:

A. Base Minimum Capital: Capital required for all risks other than market risk (for example, operational risk and client claims).

B. VaR Margins: Value at risk margins to cover potential losses for 99% of the days.

C. Extreme Loss Margins: Margins to cover the expected loss in situations that lie outside the coverage of the VaR margins.

D. MTM (Mark To Market) Losses: Mark to market losses on outstanding settlement obligations of the member.

At all points of time, the liquid assets of the Trading Member shall be adequate to cover all the above four requirements. There are no other margins in the risk management system. SMIFS Limited being a Trading Member shall abide by the provisions laid by the SEBI Circular No. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005

3.2 Liquid Assets - The acceptable liquid assets and the applicable haircuts are listed below:

Item	Hair Cut (Refer Note A)	Limits
Cash Equivalents		
Cash	0	No Limits
Bank Fixed Deposits	0	No Limits
Bank Guarantees	0	Limit on Exchange's Exposure to a Single Bank (Refer Note B)
Securities of the Central Government	Refer Note H	No Limits
Units of Liquid Funds or Government Securities Mutual Funds	10%	No Limits
Other Liquid Assets 1. Cannot be used for Mark to Market Losses (Refer Note C) 2. Total of Other Liquid Assets cannot exceed cannot exceed total of Cash Equivalent (Refer Note D)		
Liquid (Group I) Equity Shares	Same as Var Margin for the respective shares	Limit on Exchange's Exposure to a Single User (Refer Note E)
Mutual Fund Units other than those Listed under Cash Equivalents	Same as VaR Margin for the Units computed using the Traded Price on Stock Exchange, if available, or else, using the Net Asset Value (NAV) of the unit treating it as a Liquid Security	
Corporate Bonds Refer: SEBI Circular No. CIR/MRD/DRMNP/9/2013 dated March 20, 2013	Fixed percentage based or Var based Haircut. A higher haircut may be considered to cover the expected time frame for liquidation. To begin with the haircut shall be a minimum of 10%	Not to exceed 10% of the Total Liquid Assets of the Clearing Member.

Notes:

A. The valuation of the liquid assets shall be done on a daily basis except for the card value which shall be taken on the basis of the last sale or auction.

B. The exchanges shall lay down exposure limits either in rupee terms or as percentage of the Trade Guarantee Fund (TGF) / Settlement Guarantee Fund (SGF) that can be exposed to a single bank directly or indirectly. The total exposure would include guarantees provided by the bank for itself or for others as well as debt or equity securities of the bank which have been deposited by members towards total liquid assets.

Not more than 5% of the TGF/SGF or 1% of the total liquid assets deposited with the exchange, whichever is lower, shall be exposed to any single bank which has a net worth of less than Rs 500 Crores and is not rated P1 (or P1+) or equivalent, by a RBI recognized credit rating agency or by a reputed foreign credit rating agency, and not more than 50% of the TGF/SGF or 10% of the total liquid assets deposited with the exchanges, whichever is lower, shall be exposed to all such banks put together.

C. Mark to market losses shall be paid by the member in the form of cash or cash equivalents.

D. Cash equivalents shall be at least 50% of liquid assets. This would imply that Other Liquid Assets in excess of the total Cash Equivalents would not be regarded as part of Total Liquid Assets.

E. The exchanges shall lay down exposure limits either in rupee terms or as percentage of the Trade Guarantee Fund (TGF)/Settlement Guarantee Fund (SGF) that can be exposed to a single issuer directly or indirectly and in any case the exposure of the TGF/SGF to any single issuer shall not be more than 15% of the total liquid assets forming part of TGF/SGF of the exchange.

F. As a transitional arrangement pending demutualization of stock exchanges, the value of the membership card in eligible stock exchanges may be included as part of the member's liquid assets only to cover Extreme Loss Margin. To be eligible for this treatment, the exchange shall maintain an amount equivalent to at least 50% of the aggregate card value of all members in the form of cash and liquid assets.

G. Acceptance of Fixed Deposit Receipts (FDRs) by Clearing Corporations as Collaterals (Modified vide **SEBI Circular no. CIR/MRD/DRMNP/65/2016 dated July 15, 2016**)

Clearing corporation shall not accept Fixed Deposit Receipts (FDRs) from trading/clearing members as collateral, which are issued by the trading/ clearing member themselves or banks who are associate of trading/clearing member.

Explanation - for this purpose, 'associate' shall have the same meaning as defined under Regulation 2 (b) of SECC Regulations 2018.

H. Haircut on securities of the Central Government as laid in **SEBI Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2019/33 dated February 21, 2019**

Type and Tenor of Securities	Haircut
Treasury Bills, and Liquid* Government of India Dated Securities having residual maturity of less than 3 years	2%
Liquid* Government of India Dated Securities having residual maturity of more than 3 years	5%
For all other Semi-liquid* and Illiquid* Government of India Dated Securities	10%

3.3 Liquidity Categorization of Securities

The securities shall be classified into three groups based on their liquidity:

Group	Trading Frequency (over the previous six months – Refer Note A)	Impact Cost (over the previous six months – Refer Note A)
Liquid Securities (Group I)	At least 80% of the days	Less than or equal to 1%
Less Liquid Securities (Group II)	At least 80% of the days	More than 1%
Ill-Liquid Securities (Group III)	Less than 80% of the days	N/A

Notes:
A. For securities that have been listed for less than six months, the trading frequency and the impact cost shall be computed using the entire trading history of the scrip

3.4 Computation of VaR Margin

The VaR Margin is a margin intended to cover the largest loss that can be encountered on 99% of the days (99% Value at Risk). For liquid stocks, the margin covers one-day losses while for illiquid stocks, it covers three-day losses so as to allow the clearing corporation to liquidate the position over three days. This leads to a scaling factor of square root of three for illiquid stocks.

For liquid stocks, the VaR margins are based only on the volatility of the stock while for other stocks, the volatility of the market index is also used in the computation. Computation of the VaR margin requires the following definitions:

- Scrip sigma means the volatility of the security computed as at the end of the previous trading day. The computation uses the exponentially weighted moving average method applied to daily returns in the same manner as in the derivatives market.
- Scrip VaR means the higher of 7.5% or 3.5 scrip sigmas.
- Index sigma means the daily volatility of the market index (S&P CNX Nifty or BSE Sensex) computed as at the end of the previous trading day. The computation uses the exponentially weighted moving average method applied to daily returns in the same manner as in the derivatives market.
- Index VaR means the higher of 5% or 3 index sigmas. The higher of the Sensex VaR or Nifty VaR would be used for this purpose.

The VaR Margins are specified as follows for different groups of stocks:

Liquidity Categorization	One-Day Var	Scaling Factor for Illiquidity	VaR Margin
Liquid Securities (Group I)	Scrip VaR	1.00	Scrip VaR
Less Liquid Securities (Group II)	Higher of Scrip VaR and three times Index VaR	1.73 (Square Root of 3)	Higher of 1.73 times Scrip VaR and 5.20 times Index VaR
Ill-Liquid Securities (Group III)	Five times Index VaR	1.73 (Square Root of 3)	8.66 times Index VaR

3.5 Periodicity of Calculation of VaR Margin Rate

With a view to ensure market safety and protect the interest of investors and also to further align the risk management framework across the cash and derivative markets, vide **SEBI Circular no. MRD/DoP/SE/Cir- 6 /2006 dated June 16, 2006** it has been decided that the risk arrays should be updated intra-day in the cash market as has been done in the derivative market. The applicable VaR margin rates shall be updated atleast 5 times in a day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m. and at the end of the trading session.

3.6 Collection of VaR Margin

A. The VaR margin shall be collected on an upfront basis by adjusting against the total liquid assets of the member at the time of trade. Collection on T+1 day is not acceptable.

B. The VaR margin shall be collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including his proprietary position.

C. For this purpose, there would be no netting of positions across different settlements.

D. The VaR margin so collected shall be released along with the pay-in, including early pay-in of securities.

3.7 Extreme Loss Margin

The term Extreme Loss Margin replaces the terms "exposure limits" and "second line of defense" that have been used hitherto. It covers the expected loss in situations that go beyond those envisaged in the 99% value at risk estimates used in the VaR margin.

A. The Extreme Loss Margin for any stock shall be higher of:

- 5%, and
- 1.5 times the standard deviation of daily logarithmic returns of the stock price in the last six months. This computation shall be done at the end of each month by taking the price data on a rolling basis for the past six months and the resulting value shall be applicable for the next month.

B. The Extreme Loss Margin shall be collected/ adjusted against the total liquid assets of the member on a real time basis.

C. The Extreme Loss Margin shall be collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including his proprietary position.

D. For this purpose, there would be no netting of positions across different settlements.

E. The Extreme Loss Margin so collected shall be released along with the pay-in.

3.8 Mark to Market Losses

Mark to Market Losses shall be collected in the following manner:

A. The Stock Exchanges shall collect the mark to market margin (MTM) from the member/broker before the start of the trading of the next day.

B. The MTM margin shall also be collected/adjusted from/against the cash/cash equivalent component of the liquid net worth deposited with the Exchange.

C. The MTM margin shall be collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including his proprietary position. For this purpose, the position of a client would be netted across his various securities and the positions of all the clients of a broker would be grossed. Further, there would be no netting across two different settlements.

D. There would be no netting off the positions and setoff against MTM profits across 2 rolling settlements i.e. T day and T-1 day. However, for computation of MTM profits/losses for the day, netting or setoff against MTM profits would be permitted.

E. The margin so collected shall be released along with the pay-in, including early pay-in of securities.

3.9 Methodology for computation of MTM Margin:

For a Client A, his MTM profit/ loss would be calculated separately for his positions on T-1 and T day (two different rolling settlements). For the same day positions of the client, his losses in some scrips can be set off/netted against profits of some other scrips. Thus, we would arrive at the MTM loss/profit figures of the two different days T and T-1. These two figures cannot be netted. Any loss will have to be collected and same will not be setoff against profit arising out of positions of the other day.

Thus, as stated above MTM profits / losses would be computed for each of the clients Client A, Client B, Client C etc. As regards collection of margin from the broker, the MTM would be grossed across all the clients i.e. no setoff of loss of one client with the profit of another client. In other words, only the losses will be added to give the total MTM loss that the broker has to deposit with the exchange.

Client	Security	Obligation on T -1 Day	Obligation on T Day	Total Profit/ Loss of Client	MTM for Stock Broker
Client A	Security X	800	300		
	Security Y	-500	-1200		
		300	-900	-900	
Client B	Security Z	700	-400		
	Security W	-1000	800		
		-300	400	-300	
Client C	Security X	1000	500		
	Security Z	-1500	-800		
		-500	-300	-800	
Client D	Security Y	700	-200		
	Security R	-300	800		
		400	600	1000	
					-2000

In this example, the broker has to deposit MTM Margin of Rs 2000.

3.10 Calculation of mean Impact Cost

The mean impact cost shall be calculated in the following manner:

A. Impact cost shall be calculated by taking four snapshots in a day from the order book in the past six months. These four snapshots shall be randomly chosen from within four fixed ten-minutes windows spread through the day.

B. The impact cost shall be the percentage price movement caused by an order size of Rs.1 Lakh from the average of the best bid and offer price in the order book snapshot. The impact cost shall be calculated for both, the buy and the sell side in each order book snapshot.

C. The computation of the impact cost adopted by the Exchange shall be disseminated on the website of the exchange.

D. The exchanges shall use a common methodology for carrying out the calculations for mean impact cost. The stock exchanges which are unable to compute the mean impact cost calculations at their exchanges shall use the impact cost calculations of BSE/NSE. Such stock exchanges shall enter into a formal legal agreement with the relevant stock exchanges for liquidating the positions of their members if necessary, on that stock exchange. If a Stock Exchange is unable to compute the mean impact cost of the scrips traded at the Exchange, as well as not been able to enter into a formal arrangement for liquidation of positions, it shall levy margins on the scrips as applicable to Group II or Group III as explained above, as classification between scrips in Group I or Group II would not be possible at that Exchange.

E. The details of calculation methodology and relevant data shall be made available to the public at large through the website of the exchanges. Any change in the methodology for the computation of impact cost shall also be disseminated by the exchange.

3.11 Shortfall of Margins / Pay-in of Funds

A. Margin shortfall - In case of any shortfall in Margin, the terminals of the broker shall be immediately deactivated.

B. Pay-in shortfall

i. In cases where the amount of shortage in a settlement for a trading member is in excess of the base minimum capital (BMC) prescribed, the trading facility of the member shall be withdrawn and the securities pay-out due to the member shall be withheld.

ii. In cases where the amount of shortage exceeds 20% of the BMC but less than the BMC on six occasions within a period of three months, then also the trading facility of the member shall be withdrawn and the securities pay-out due to the member shall be withheld.

iii. Upon recovery of the complete shortages, the member shall be permitted to trade subject to his providing a deposit equivalent to his cumulative funds shortage as the 'funds shortage collateral'. Such deposit shall be kept with the Exchange for a period of ten rolling settlements and shall be released thereafter. Such deposit shall not be available for adjustment against margin liabilities and also not earn any interest. The deposit may be by way of cash, fixed deposit receipts or bank guarantee.

iv. The exchange may levy a penal interest of not less than 0.07% per day on the pay-in shortage of the member.

3.12 Additional Margins

Exchanges/clearing corporations have the right to impose additional risk containment measures over and above the risk containment system mandated by SEBI. However, the Stock Exchanges should keep the following three factors in mind while taking such action:

A. Additional risk management measures (like ad-hoc margins) would normally be required only to deal with circumstances that cannot be anticipated or were not anticipated while designing the risk management system. If ad-hoc margins are imposed with any degree of regularity, exchanges should examine whether the circumstances that give rise to such margins can be reasonably anticipated and can therefore be incorporated into the risk management system mandated by SEBI. Exchanges are encouraged to analyse these situations and bring the matter to the attention of SEBI for further action.

B. Any additional margins that the exchanges may impose shall be based on objective criteria and shall not discriminate between members on the basis of subjective criteria.

C. Transparency is an important regulatory goal and therefore every effort must be made to make the risk management systems fully transparent by disclosing their details to the public.

3.13 Exponential Weighted Moving Average

Exponential Weighted Moving Average method (EWMA) shall be used to obtain the volatility estimate every day. For Index products the price scan range is specified at three standard deviation (3 sigma) and the volatility scan range is specified at 4%. The estimate at the end of day t (σt) is estimated using the previous volatility estimate, i.e., as at the end of t-1 day (t-1), and the return (rt) observed in the futures market during day t. The volatility estimated at the end of the day's trading would be used in calculating the initial margin calls at the end of the same day. The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute what the margin would be for any given closing level of the index. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

3.14 Margins for Calendar Spreads

A calendar spread is a situation in which a position at one maturity is hedged by an offsetting position at a different maturity on the same underlying, e.g., a short position in six months contract hedged by a long position in nine month contract. The margin on calendar spreads shall be at a flat rate of 0.5% per month of spread on the far month contract subject to a minimum margin of 1% and a maximum margin of 3% on the far side of the spread.

3.15 Real Time Computation

The computation of Worst Scenario Loss has two components. The first is the valuation of the portfolio under sixteen scenarios. At the second stage, these Scenario Contract Values are applied to the actual portfolio positions to compute the portfolio values and the initial margin (Worst Scenario Loss). For computational ease, exchanges are permitted to update the Scenario Contract Values only at discrete time points each day and the latest available Scenario Contract Values would is applied to member/client portfolios on a real time basis. However, in order to ensure that the most recent scenario are applied for computation of the portfolio values and the initial margin, the scenario contract values shall be updated at least 5 times in the day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m., and at the end of the trading session.

3.16 Provision of Early Pay-In

SEBI vide **Circular No. MRD/DoP/SE/Cir-10/2008 dated April 17, 2008** laid the provisions of Early Pay-In detailed hereunder:

A. As regards the transactions executed on behalf of institutional clients in the cash market, it shall be permissible to maintain their entire margin in the form of approved securities with appropriate haircuts as specified in the SEBI circular dated February 23, 2005.

B. Necessary systems shall be put in place to enable early pay-in of funds. In cases where early pay-in of funds is made by the members, the outstanding position to that extent of early pay-in shall not be considered for computing the margin obligations.

C. Necessary systems shall be put in place so as to enable adjustment of the pay-in obligations of the members from the cash component of the liquid assets deposited by them.

Exemptions:

A. In cases where early pay-in of securities is made, the outstanding position to the extent of early pay-in shall not be considered for margin purpose.

3.17 Collateral deposited by Clients

The principle of Collateral deposited by Clients with brokers is guided by the **SEBI Circular No. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008**. SMIFS shall maintain proper records of client collateral and to prevent misuse of client collateral, it is shall do the following:-

A. SMIFS shall put into place adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. The Company shall also maintain records to ensure proper audit trail of use of client collateral.

B. SMIFS shall maintain the following records but not limited to:-

i. Receipt of collateral from client and acknowledgement issued to client on receipt of collateral.
ii. Client authorization for deposit of collateral with the exchange / clearing corporation / clearing house towards margin
iii. Record of deposit of collateral with exchange / clearing corporation / clearing house.
iv. Record of return of collateral to client.
v. Credit of corporate action benefits to clients.

C. The records shall be periodically reconciled with the actual collateral deposited with SMIFS.

D. SMIFS shall issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilised and collateral status (available balance / due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities.

3.18 Risk Management Framework in respect of Cross Margining

A. A basket of positions in index constituent stock/stock futures, which is a complete replica of the index in the ratio specified by the Exchange/Clearing Corporation, shall be eligible for cross margining benefit. The positions in the derivatives segment for the stock futures and index futures shall be in the same expiry month to be eligible for cross margining benefit.

B. Cross Margining across Exchange traded Equity (Cash) and Exchange traded Equity Derivatives (Derivatives) Segments: SEBI by its **Circular No. MRD/DoP/SE/Cir-13/2008 dated May 05, 2008** had allowed on the cross margining facility across cash and derivatives segments for institutional trades, only.

C. In order to improve the efficiency of the use of the margin capital by market participants, SEBI by a **Circular No. SEBI/DNPD/Cir- 44/2008 dated December 02, 2008** decided to revise the existing facility of cross margining and to extend it across cash and derivatives segments to all categories of market participants. The features of the revised cross margining facility are detailed below:

D. Positions eligible for Cross Margining Benefit - The positions of clients in both the cash and derivatives segments to the extent they offset each other shall be considered for the purpose of cross margining as per the following priority:

D.1 Index futures position and constituent stock futures position in derivatives segment.

D.2 Index futures position in derivatives segment and constituent stock position in Cash Segment.

D.3 Stock futures position in derivatives segment and the position in the corresponding underlying in cash segment.

D.4 A basket of positions in index constituent stock/stock futures, which is a complete replica of the index in the ratio specified by the Exchange/Clearing Corporation, shall be eligible for cross margining benefit.

D.5 The positions in the derivatives segment for the stock futures and index futures shall be in the same expiry month to be eligible for cross margining benefit.

E. Computation of Cross Margin:

E.1 To begin with, a spread margin of 25% of the total applicable margin on the eligible off-setting positions, as mentioned in para D.1 above, shall be levied in the respective cash and derivative segments.

E.2 Cross Margining Benefit shall be computed at client level on an online real time basis and provided to the trading member / clearing member / custodian, as the case may be, who, in turn, shall pass on the benefit to the client. For institutional investors, however, the cross margining benefit shall be provided after confirmation of trades.

F. Separate Accounts: To avail the facility of cross margining, a client may maintain two accounts with the trading member / clearing member, namely arbitrage account and a non-arbitrage account, to allow converting partially replicated portfolio into a fully replicated portfolio by taking opposite positions in two accounts. However, for the purpose of compliance and reporting requirements, the positions across both accounts shall be taken together and client shall continue to have unique client code.

G. Settlement: To begin with, a client may settle through a trading member / clearing member / custodian, as the case may be, who is clearing in both the segments or through two trading members / clearing members / custodians, one of whom is a trading member / custodian in the cash segment and the other is a clearing member in the derivatives segment. However, in course of time, a client will settle through only one clearing member who is a member in both the segments.

H. Default: In the event of default by a trading member / clearing member / custodian, as the case may be, whose clients have availed cross margining benefit, the Stock Exchange / Clearing Corporation shall have the option to:

H.1 Hold the positions in the cross margin account till expiry in its own name.

H.2 Liquidate the positions / collateral in either segment and use the proceeds to meet the default obligation in the other segment.

I. Agreement: The Exchange / Clearing Corporation shall enter into agreement with client / clearing member / trading member / custodian, as the case may be, clearly laying down the inter-se distribution of liability / responsibility in the event of default.

J. Cross-Margining facility in respect of offsetting positions in ETFs based on equity indices and constituent stocks:

In order to facilitate efficient use of margin capital by market participants, it has been decided by SEBI by a Circular CIR/MRD/DP/26/2012 dated September 26, 2012 to extend cross margining facility to ETFs based on equity index and its constituent stocks for following off-setting positions in cash market segment, as follows:

J.1 ETFs and constituent stocks (in the proportion specified for the ETF) to the extent they offset each other.

J.2 ETFs and constituent stocks futures (in the proportion specified for the ETF) to the extent they offset each other.

J.3 ETFs and constituent stocks futures (in the proportion specified for the ETF) to the extent they offset each other.

J.4 In the event of a suspension on creation / redemption of the ETF units, the cross-margining benefit shall be withdrawn.

K.. In order to facilitate efficient use of collateral by market participants, SEBI vide its **Circular No. SEBI/HO/MRD/DOP1/CIR/P/2019/128 dated November 08, 2019** has extended cross margining facility to off-setting positions in highly co-related equity indices in the following manner:

K.1 Cross margin benefit shall be provided on off-setting positions in futures on equity indices pairs which satisfy the below mentioned conditions:

K.1.1 A positive correlation of more than 0.90 for a period of six months between the values of the equity Indices and

K.1.2 At least 80% of constituents of one of the index is present in the other index and

K.1.3 The constituents of smaller index based on free float market capitalization shall have at least 80% weightage in the larger index based on free float market capitalization

K.2 For cross margining benefit to continue the abovementioned eligibility criteria shall be checked by Clearing Corporations as under:

K.2.1 On a monthly basis on the 15th of every month

K.2.1 On the day of change in the constituents of the equity indices

K.3 If the equity indices pairs fail to fulfill any of the abovementioned eligibility criteria, cross margining benefit shall not be given after the upcoming monthly expiry

K.4 Computation of cross margin:

K.4.1 To begin with, a spread margin of 30% of the total applicable margin on the eligible off-setting positions, shall be levied.

K.4.2 Cross margining benefit shall be computed at client level on an online real time basis and provided to the trading member / clearing member, as the case may be, who, in turn, shall pass on the benefit to the client

K.5 All other conditions as specified in circular SEBI/DNPD/Cir-44/2008 dated December 02, 2008 shall continue to be applicable on off-setting positions in futures on equity indices pairs

3.19 Margins not to exceed the purchase value of a buy transaction

The said principle is guided by the **SEBI Circular No. MRD/DoP/SE/Cir-08/2009 datad July 27, 2009**. In case of a buy transaction in cash market, VaR margins, Extreme loss margins and mark to market losses together shall not exceed the purchase value of the transaction. Further, in case of a sale transaction in cash market, the existing practice shall continue viz., VaR margins and Extreme loss margins together shall not exceed the sale value of the transaction and mark to market losses shall also be levied.

3.20 Margining with respect to Exchange Traded Funds

SEBI vide **Circular No. CIR/MRD/DP/26/2012 dated September 26, 2012** laid the provisions of Margining with respect of Exchange Traded Funds (ETFs) detailed hereunder:

A. Use of VaR Methodology with respect to Exchange Traded Funds

I. Index ETFs are based on a basket of securities. However, for computing margins on ETFs they are treated at par with stocks and margins that are applicable on stocks are being applied for ETFs.

II. In order to bring efficiency in margining of index ETFs, it has been decided that VaR margin computation for ETFs that track an index shall be computed as higher of 5% or three times sigma of the ETF.

III. The revised margin framework is applicable to ETFs that tracks broad based market indices and does not include ETFs which track sectoral indices.

B. Introduction of Cross-Margining facility in respect of offsetting positions in ETFs based on equity indices and constituent stocks.

I. SEBI vide its circular SEBI/DNPD/Cir-44/2008 dated December 02, 2008 allowed cross margining across cash segment and exchange traded derivatives segments.

II. In order to facilitate efficient use of margin capital by market participants, it has been decided to extend cross margining facility to ETFs based on equity index and its constituent stocks for following off-setting positions in cash market segment, as follows:

i. ETFs and constituent stocks (in the proportion specified for the ETF) to the extent they offset each other,

ii. ETFs and constituent stocks futures (in the proportion specified for the ETF) to the extent they offset each other and

iii. ETFs and relevant Index Futures to the extent they offset each other.

iv. In the event of a suspension on creation / redemption of the ETF units, the cross-margining benefit shall be withdrawn.

3.21 Acceptance of Fixed Deposit Receipts (FDRs) by Clearing Corporations

A. SEBI vide **Circular No. CIR/MRD/DRMNP/65/2016 dated July 15, 2016** has laid the provisions of Acceptance of Fixed Deposit Receipts (FDRs) by Clearing Corporations. SEBI as a member of the International Organization of Securities Commissions (IOSCO) has implemented various standards of the Principles for Financial Market Infrastructures (PFMIs). The Risk Management Review Committee of SEBI also considered the PFMI principle 5 on 'Collateral' while deliberating on the issue of 'deposit of collateral' with the Clearing Corporation.

B. Prior to the issuance of the Circular dated 15.07.2016, Fixed Deposit Receipts of banks are accepted by Clearing Corporations as eligible collateral from the participants. It was observed that some banks who are also trading members/ clearing members on the Stock Exchange/Clearing Corporation have placed Fixed Deposit Receipts issued by themselves as Collateral, with the Clearing Corporation.

C. Based on recommendations of the Risk Management Review Committee of SEBI, it has been decided to further align the risk management practices of the securities market with the PFMIs. Therefore, the Clearing Corporations are advised to implement the following –

a. Clearing corporation shall not accept Fixed Deposit Receipts (FDRs) from trading/clearing members as collateral, which are issued by the trading/ clearing member themselves or banks who are associate of trading/ clearing member.

Explanation - for this purpose, 'associate' shall have the same meaning as defined under Regulation 2 (b) of SECC Regulations 2012.

b. Trading/Clearing Members who have deposited their own FDRs or FDRs of associate banks shall replace such collateral, with other eligible collateral as per extant norms, within a period of six months from the date of issuance of the circular dated 15.07.2016.

3.22 Margin provisions for Intra-Day Crystallized Losses

SEBI Circular No. CIR/MRD/DRMNP/008/2018 dated January 08, 2018 lays the provisions of Margin provisions for intra-day crystallized losses. The provisions laid are as follows:

A. The margining system of Clearing Corporations currently levies margin based on net buy value (Buy – Sales value of underlying) of unsettled trades in the cash segment and based on the net open positions (Open Interest) in the derivatives segments. As such, the risk of crystallized obligations (Profit/Loss on trade) incurred due to intra-day trades does not get fully captured in the margining system and consequently in the clearing corporation's risk management system for the purpose of providing further exposure to the clearing member.

B. The issue of risk arising out of accumulation of crystallised obligations incurred on account of intra-day squaring off of positions was discussed in SEBI's Risk Management Review Committee meeting. Based on the recommendation of the Risk Management Review Committee, in order to mitigate such risk, the following has been decided:

i. The intra-day crystallized losses shall be monitored and blocked by Clearing Corporations from the free collateral on a real-time basis only for those transactions which are subject to upfront margining. For this purpose, crystallized losses can be offset against crystallized profits at a client level, if any.

ii. If crystallized losses exceed the free collateral available with the Clearing Corporation, then the entity shall be put into risk reduction mode as specified in Para 7 of SEBI Circular no. CIR/MRD/DP/34/2012 dated December 13, 2012.

iii. Crystallized losses shall be calculated based on weighted average prices of trades executed.

iv. Adjustment of intraday crystallised losses shall not be done from exposure free liquid networth of the clearing member.

3.23 Surveillance measures for Deep Out-of-The-Money (OTM) contracts

NSE vide its Circular No. SURV/42382 dated 11.10.2019 detailed that in the joint surveillance meeting between SEBI, Exchanges and Clearing Corporations, following measures on Out of the Money (OTM) options contracts has been decided.

- Additional margin of 20% on the notional option value shall be levied and collected from the clearing member, in case an entity trades in Equity Derivatives Stock Options contracts and creates fresh Short Open Interest in deep Out of Money strikes (OTM). Deep OTM are those strikes which are 30% away from the underlying price at the time of trade.

  Illustration 1: If the underlying price is say Rs. 100 and an entity trades and creates fresh short positions in Call European (CE) strikes greater than 130 or in Put European (PE) strikes lesser than 70, then an additional margin of 20% on the notional option value shall be levied and collected from the clearing member at the End of day.

- This additional margin shall be levied on the top 10 clients, if they account for more than 30% of the overall fresh short positions created on that trading day (to be computed separately in respect of call and put options).

  Illustration 2: Taking the illustration 1 ahead, Fresh short OI created by all entities in CE strikes greater than 130 shall be clubbed together and in case the top 10 clients account for more than 30% of the fresh short OI than an additional margin of 20% shall be levied and collected from the executing trading members of the top 10 clients. The same method shall be carried out for PE strikes lesser than 70.

The amount shall be collected from the collaterals of the clearing member on an End of day basis.

The above margin levied on the participants / clients shall continue till the contracts are squared off or till expiry of the contract.

Exchanges shall implement the above framework w.e.f. October 18, 2019.

4. Risk Management Framework for Cash Market:

In cash segment, the VaR margin is collected by Clearing Corporation (CC) upfront from trading member/clearing member by adjusting against the available liquid assets of TM/CM at the time of trade. However, the quantum, form and mode of collection of the margin from the client are left to the discretion of TM/CM. In order to align and streamline the risk management framework of both cash and derivatives segments, with respect to collection of margins from the clients and reporting of short-collection/non-collection of margins, SEBI circular **CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019** has issued the following guidelines for Collection of Margins from the clients by TM/CM in Cash Segment:

A. The 'margins' for this purpose shall mean VaR margin, extreme loss margin (ELM), mark to market margin (MTM), delivery margin, special / additional margin or any other margin as prescribed by the Exchange to be collected by TM/CM from their clients.

B. Henceforth, like in derivatives segment, the TMs/CMs in cash segment are also required to mandatorily collect upfront VaR margins and ELM from their clients. The TMs/CMs will have time till 'T+2' working days to collect margins (except VaR margins and ELM) from their clients. (The clients must ensure that the VaR margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by the Stock Exchanges/TMs/CMs. The period of T+2 days has been allowed to TMs/CMs to collect margin from clients taking into account the practical difficulties often faced by them only for the purpose of levy of penalty and it should not be construed that clients have been allowed 2 days to pay margin due from them.)

C. As prescribed in clause 7 of SEBI circular MRD/DoP/SE/Cir-07/2005 dated February 23, 2005, the TM/CM shall be exempted from collecting upfront margins from the institutional investors carrying out business transactions and in cases where early pay-in of securities is made by the clients.

D. If the TM/CM had collected adequate initial margins from the client to cover the potential losses over time till pay-in, he need not collect MTM from the client.

E. As like in derivatives segments, the TMs/CMs shall report to the Stock Exchange on T+5 day the actual short-collection/ non-collection of all margins from clients.

F. For short-collection / non-collection of client margins, the Stock Exchanges shall take the disciplinary action as per the framework specified in SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011.

G. SEBI, vide circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019, issued guidelines with regard to collection of margins from clients and reporting of short-collection / non-collection of margins by Trading Member (TM) / Clearing Member (CM). In view of the representations received from investors, TMs / CMs, stock broker associations, in this regard, SEBI, vide circular no. **SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020** has enshrined that if TM / CM collects minimum 20% upfront margin in lieu of VaR and ELM from the client, then penalty for short-collection / non-collection of margin shall not be applicable. However, the Clearing Corporation shall continue to collect the upfront margin from the TM / CM based on VaR and ELM.

H. SEBI, vide circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 and SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020, issued guidelines with regard to collection of margins from clients and reporting of short-collection / non-collection of margins by Trading Member (TM) / Clearing Member (CM). In view of the representations received with regard to levy of penalty for non-collection of "other margins" (other than VaR and ELM) on or before T+2 days from clients by TM / CM, SEBI, vide Circular No. **SEBI/HO/MIRSD/DOP/CIR/P/2020/173 dated September 15, 2020** has enshrined the following:

i. If pay-in (both funds and securities) is made by T+2 working days, the other margins would deemed to have been collected and penalty for short / non collection of other margins shall not arise.

ii. If Early Pay-In of securities has been made to the Clearing Corporation (CC), then all margins would deemed to have been collected and penalty for short / non-collection of margin including other margins shall not arise.

iii. If client fails to make pay-in by T+2 working days and TM / CM do not collect other margins from the client by T+2 working days, the same shall also result in levy of penalty as applicable.

iv. The Clearing Corporation shall continue to collect the upfront margin from the TM / CM based on VaR and ELM.

5. Review of Risk Management Framework for Derivatives Market:

5.1 SEBI by its **Circular No. IES/DC/CIR-4/99 dated July 28, 1999** laid the provisions of **Risk Containment Measures for the Index Futures Market**

SEBI, while accepting the recommendations of Dr L C Gupta Committee, had appointed a group under Prof. J R Varma to recommend measures for risk containment for derivatives market in India. The Group focused on ways of making operational the broad recommendations of the Dr. L.C. Gupta Committee to maintain the initial margin to cover 99% Value at Risk. The report provides the methodology for determining initial margin to be charged on Index Futures contracts, prescribes liquid networth, exposure limits for clearing members, transparency and disclosure norms for the clearing corporation and position limits etc. A copy of the Prof. J R Varma Group report is enclosed.

The Board in its meeting held on 19th March 1999 accepted the report of the Prof. J R Varma Group and approved the risk containment measures for the stock index futures market recommended by the Group. The risk containment measures for other derivatives contracts would be prescribed from time to time. The following risk containment measures would have to be complied with and implemented by the derivatives exchange / derivatives segment of an exchange and the clearing corporation / clearing house of an exchange for the index futures trading and settlement:

A. Initial Margin Computation: The initial margin would be computed based on 99% Value at Risk (VAR). The exponential moving average method would be used to obtain the volatility estimate every day. The volatility estimated at the end of the day's trading would be used in calculating the initial margin calls at the end of the same day. The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute what the margin would be for any given closing level of the index. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

B. Margins for Calendar Spreads: A calendar spread is a position at one maturity which is hedged by an offsetting position at a different maturity e.g. a short position in six months contract matched by a long position in nine month contract.

i. The margin on calendar spreads shall be at a flat rate of 0.5% per month of spread on the far month contract subject to a minimum margin of 1% and a maximum margin of 3% on the far side of the spread with legs upto 1 year apart.

ii. A calendar spread should be treated as a naked position in the far month contract as the near month contract approaches expiry. This change should be affected in gradual steps over the last few days of trading of the near month contract. Specifically, during the last five days of trading of the near month contract, the following percentages of a calendar spread shall be treated as a naked position in the far month contract:

100% on day of expiry,
80% one day before expiry,
60% two days before expiry,

40% three days before expiry,
20% four days before expiry.

The balance of the spread shall continue to be treated as a spread. This phasing-in will apply both to margining and to the computation of exposure limits.

iii. The derivatives exchange should explore the possibility that the trading system could incorporate the ability to place a single order to buy or sell spreads without placing two separate orders for the two legs.

C. Margin Collection and Enforcement: The mark to market margins need to be collected before start of the next day's trading. If mark to market margins cannot be collected before start of the next days trading, the clearing corporation/house shall collect correspondingly higher initial margin to cover the potential for losses over the time elapsed in the collection of margins. The clearing corporation /clearing house should lay down operational guidelines for collection of margin and standard guidelines for back office accounting at the level of clearing member and trading member to facilitate the detection of non-compliance at each level. The accounting guidelines shall be in conformity with the guidelines, if any, issued by SEBI from time to time.

D. Position Limits:

i. Customer Level: Instead of prescribing position limits at the client level, a self-disclosure requirement similar to that in the take-over regulations is prescribed :

a. Any person or persons acting in concert who together own 15% or more of the open interest shall be required to report this fact to the exchange and failure to do so shall attract a penalty as laid down by the exchange / clearing corporation / SEBI.

b. This requirement may not be monitored by the exchange on a real time basis, but if during any investigation or otherwise, any violation is proved, penalties can be levied.

c. This would not mean a ban on large open positions but only a disclosure requirement.

ii. Trading Member Level: There shall be a position limit on the near month contract at the trading member level of 15% of the open interest or Rs 100 crore whichever is higher. This will be reviewed after six months of index futures trading.

iii. Clearing Member Level: No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified in para 4(ii) above.

iv. Market Level:

a. No limits are prescribed at this stage on the total market wide open interest (as a percentage of the underlying market capitalisation).

b. This will be reviewed at the end of six months of index futures trading to determine whether position limits are required at this level to guard against situations where a very large open interest leads to attempts to manipulate the underlying market.

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5.2 SEBI by its **Circular No. IES/DC/CIR-5/00 dated December 11, 2000** laid the provisions of **Risk Containment Measures for Options on Indices**

This is in continuation of SEBI Circular No. IES/DC/CIR-4/99 dated July 28, 1999 wherein SEBI had laid down the Risk Containment Measures for Exchange traded Index Futures Contracts.

SEBI has setup a ' Technical Group' headed by Prof. J.R Varma to prescribe risk containment measures for new derivative products. The group has recommended the introduction of Exchange traded Options on Indices which is also in conformity with the sequence of introduction of derivative products recommended by Dr. L.C Gupta Committee.

The 'Technical Group' has recommended the risk containment measure for Exchange traded Options on Indices. While SEBI would not mandate any particular risk management product, the framework shall be consistent with the risk management guidelines mandated by the L. C. Gupta Committee. The Exchanges are free to decide whether they want to adopt any of the risk management models available globally or else may like to develop their own models for risk management.

The following are the risk containment measures to be adopted by the derivative exchange/segment and the Clearing House/Corporation for the trading and settlement of both Index Futures and Index Option Contracts:

1. The Index option contracts to be traded on the derivative exchange/segments shall have prior approval of SEBI. The Contract should comply with the disclosure requirements, if any, laid down by SEBI.

2. Initially, the Exchanges shall introduce premium style index options.

3. Initially the Exchanges shall introduce European style Index Options which shall be settled in cash. The risk containment measures described hereunder are only for premium style European option contracts.

4. The Index Option Contract shall have a minimum contract size of Rs. 2 lakhs at the time of its introduction in the market.

5. The Index Option contract shall have maximum maturity of 12 months and shall have a minimum of 3 strikes (in the money, near the money and out of the money)

6. The Initial Margin requirements shall be based on worst case loss of a portfolio of an individual client to cover a 99% VaR over a one day horizon. The Initial Margin requirement shall be netted at level of individual client and it shall be on gross basis at the level of Trading / Clearing Member. The Initial margin requirement for the proprietary position of Trading/Clearing member shall also be on net basis.

7. A portfolio based margining approach shall be adopted which will takes an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in index futures and index options contracts.

The parameters for portfolio based margining approach should include-

A) Worst Scenario Loss

i. The worst case loss of a portfolio would be calculated by valuing the portfolio under several scenarios of changes in the index and changes in the volatility of the index.

ii. The price range is defined to be three standard deviations as calculated for VaR purposes in the index futures market for the near month contract. The volatility range would be taken at 4% for an initial period of six months, after which it shall be reviewed.

iii. While computing the worst scenario loss, it shall be assumed that the prices of futures of all maturities on the same underlying index move up or down by the same amount.

iv. For the purpose of the calculation of option values the exchanges may use any of the following standard Option Pricing Models – Black-Scholes, Binomial, Merton, Adesi-Whaley.

v. The maximum loss under any of the scenario (considering only 35% of the loss in case of scenarios 15 and 16) is referred to in this circular as the Worst Scenario Loss. Subject to the additions and adjustments mentioned below, the Worst Scenario Loss is the margin requirement for the portfolio.

B) Calendar Spread

i. The margin for calendar spread would be the same as specified for the index futures contracts. However, the margin shall be calculated on the basis of delta of the portfolio in each month. Thus, a portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of – 100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month futures and short 100 far month futures. The Calendar Spread Margin would be charged in addition to the Worst Scenario Loss of the portfolio.

ii. As in the index futures market, a calendar spread would be treated as a naked position in the far month contract as the near month contract approaches expiry. Currently, in the index futures market, this is done in gradual steps over five trading days. For the sake of computational ease, it is now decided that when options are introduced, the gradual steps would be eliminated. Therefore, a calendar spread would be treated as a naked position in the far month contract three trading days before the near month contract expires.

C) Short Option Minimum Margin

The Short Option Minimum Margin equal to 3% of the Notional Value of all short index options shall be charged if sum of the Worst Scenario Loss and the Calendar Spread Margin is lower than the Short Option Minimum Margin. In this circular, Notional Value of option positions is calculated by applying the last closing price of the index futures contract.

D) Net Option Value

The Net Option Value shall be calculated as the current market value of the option times the number of options (positive for long options and negative for short options) in the portfolio. This Net Option Value shall be added to the Liquid Net Worth of the clearing member. This means that the current market value of short options will be deducted from the Liquid Net Worth and the market value of long options will be added thereto. Thus market to market gains and losses on option positions will get adjusted against the available Liquid Net Worth. Since the options are premium style, mark to market gains and losses will not be settled in cash for option positions.

E) Cash Settlement of Premium

For option positions, the premium shall be paid in by the buyers in cash and paid out to the sellers in cash on T+1 day.

F) Unpaid Premium

Until the buyer pays in the premium, the premium due shall be deducted from the available Liquid Net Worth on a real time basis.

G) Cash Settlement of Futures Mark to Market

The mark to market gains/losses for index futures position shall continue to be settled in Cash.

H) Position Limits

The existing position limits in the index futures market shall be applicable to index options also on the basis of notional value.

I) Real Time Computation

The computation of Worst Scenario Loss has two components. The first is the valuation of each option contract under sixteen scenarios using an appropriate option pricing model. The second is the application of these Scenario Contract Values to the actual positions in a portfolio to compute the portfolio values and the Worst Scenario Loss. For computational ease, exchanges are permitted to update the Scenario Contract Values only at discrete time points each day. However, the latest available Scenario Contract Values would be applied to member/client portfolios on a real time basis.

5.3 SEBI by its **Circular No. SMDRP/DC/CIR-7/01 dated June 20, 2001** laid the provisions of **Risk Containment Measures for Stock Options**

This is in continuation of SEBI Circular No. IES/DC/CIR-4/99 dated July 28, 1999 & Circular No. IES/DC/CIR-5/00 dated December 11, 2000 wherein SEBI had laid down the risk containment measures for Exchange traded Index Futures and Index Option Contracts.

SEBI has setup a 'Technical Group' headed by Prof. J.R Varma to prescribe risk containment measures for new derivative products. The group has recommended the introduction of Exchange traded Options on Stocks, which is also in conformity with the sequence of introduction of derivative products recommended by Dr. L.C Gupta Committee.

The 'Technical Group' has recommended the risk containment measure for Exchange traded Options on Stocks. While SEBI would not mandate any particular risk management product, the framework shall be consistent with the risk management guidelines mandated by the L. C. Gupta Committee. The Exchanges are free to decide whether they want to adopt any of the risk management models available globally or else may like to develop their own models for risk management.

The following are the risk containment measures to be adopted by the derivative exchange/segment and the Clearing House/Corporation for the trading and settlement of Option Contracts on Stocks:

1. The Stock Option Contracts to be traded on the derivative exchange/segments shall have prior approval of SEBI. The Contract should comply with the disclosure requirements, if any, laid down by SEBI.

2. The Exchanges shall introduce Premium Settled American Style Stock Options, which shall be settled in cash at exercise, for an initial period of six months, thereafter, the Stock Options, at exercise, shall be settled by delivery.

3. The Stock Option Contract shall have a minimum contract size of Rs. 2 lakhs at the time of its introduction in the market.

4. The Stock Option contract shall have a maximum maturity of 12 months and shall have a minimum of 3 strikes (in the money, near the money and out of the money)

5. The Initial Margin requirements shall be based on worst case loss of a portfolio of an individual client to cover 99% VaR over a one day horizon. The Initial Margin requirement shall be netted at level of individual client and it shall be on gross basis at the level of Trading / Clearing Member. The Initial margin requirement for the proprietary position of Trading/Clearing member shall also be on net basis.

6. A portfolio based margining approach shall be adopted which will takes an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in Derivative Contracts.

The parameters for portfolio based margining approach should include the following-

A. Worst Scenario Loss

The worst case loss of a portfolio would be calculated by valuing the portfolio under several scenarios (as specified in SEBI Circular No. IES/DC/CIR-5/00 dated December 11, 2000) of changes in the Stock prices and changes in the volatility of the Stock. The price range for generating the scenarios for Stock Option Contracts would be three and a half standard deviation (3.5 Sigma). The sigma value would be calculated using the methodology specified for Index Futures as per the Prof. J.R Varma Committee Report. The volatility range for generating scenarios for Stock Options would be taken at 10% for an initial period of six months, after which it shall be reviewed.

For the purpose of the calculation of option values the exchanges may use any of the following standard Option Pricing Models – Black-Scholes, Binomial, Merton, Adesi-Whaley.

The maximum loss under any of the scenario is referred to in this circular as the Worst Scenario Loss. Subject to the additions and adjustments mentioned hereunder, the Worst Scenario Loss shall be the margin requirement for the portfolio.

B. Short Option Minimum Margin

A Short Option Minimum Margin equal to 7.5 % of the Notional Value based on the previous days closing value of the underlying stock, of all short stock options shall be charged if sum of the Worst Scenario Loss is lower than the Short Option Minimum Margin for the given underlying.

C. Net Option Value

The Net Option Value shall be calculated as the current market value of the option times the number of options (positive for long options and negative for short options) in the portfolio. This Net Option Value shall be added to the Liquid Net Worth of the clearing member. This means that the current market value of short options will be deducted from the Liquid Net Worth and the market value of long options will be added thereto. Thus market to market gains and losses on option positions will get adjusted against the available

Liquid Net Worth. Since the options are premium style, mark to market gains and losses will not be settled in cash for stock option positions as well.

D. Cash Settlement of Premium

For the Stock Option positions, the premium shall be paid in by the buyers in cash and paid out to the sellers in cash on T+1 day.

E. Exercise & Assignment

The Exchanges are free to set exercise limits, if any, for the Stock Option Contracts. The assignment of all exercise shall be done randomly at the client level by the Exchange and its Clearing House.

F. Unpaid Premium

Until the buyer pays in the premium, the premium due shall be deducted from the available Liquid Net Worth on a real time basis.

G. Exposure Limit

The notional value of gross open positions at any point in time for Index Futures and all Short Index Option Contracts shall not exceed 33 1/3 (thirty three one by three) times the liquid networth of a member, and in case of Stock Option Contracts, the notional value of gross short open position at any point in time shall not exceed 20 (twenty) times the liquid networth of a member.

Therefore, the exchanges are required to ensure that 3% of the notional value of gross open position in Index Futures & Short Index Option Contracts, and in the case of Stock Options, 5% of the notional value of gross short open position in stock Option Contracts is collected /adjusted from the liquid networth of a member on a real time basis.

It is further clarified that the notional value of the options contract would be calculated on the basis of the previous days closing value of the underlying.

H. Position Limits

The existing member wise position limits in the Index Futures and Index Options market shall be applicable to Stock Options also on the basis of notional value of the contract. In addition, a market wide limit on the open position on stock option contract is also prescribed. The market wide limit of open positions (in terms of the number of underlying stock) on an option on a particular stock shall be lesser of –

- 20 times the average number of shares traded daily, during the previous calendar month, in the cash segment of the Exchange,

OR

- 10% of the number of shares held by non-promoters i.e. 10% of the free float, in terms of number of shares of a company.

When the total open interest in a contract reaches 80% of the market wide limit in that contract, the exchanges would double the price range and volatility range as specified in Point No. (A) in this circular. The exchanges are required to continuously review the impact of this measure and take further proactive risk containment measures as may be appropriate, including, further increases in the scan ranges and levying additional margins. The cash market segment of the Exchange should be informed of these developments so as to enable the cash segment also to take such risk containment and surveillance measures as may be appropriate.

I. Worst Scenario Loss

The computation of Worst Scenario Loss has two components. The first is the valuation of each option contract under sixteen scenarios using an appropriate option pricing model. The second is the application of these Scenario Contract Values to the actual positions in a portfolio to compute the portfolio values and the Worst Scenario Loss. For computational ease, exchanges are permitted to update the Scenario Contract Values only at discrete time points each day. However, the latest available Scenario Contract Values would be applied to member/client portfolios on a real time basis.

5.4 SEBI by its **Circular No. SMDRP/DC/CIR-10/01 dated November 2, 2001** laid the provisions of **Risk Containment Measures for Single Stock Futures**

This is in continuation of SEBI Circular No. IES/DC/CIR-4/99 dated July 28, 1999, Circular No. IES/DC/CIR-5/00 dated December 11, 2000 and Circular No. SMD/DC/Cir-10/01 dated June 20, 2001 wherein the risk containment measures for Exchange traded Index Futures, Index Option, and Stock Option Contracts were laid down.

SEBI has setup an Advisory Committee on Derivatives headed by Prof. J. R Varma. The Advisory Committee had recommended the introduction of Single Stock Futures in the Indian Securities Market.

SEBI Board in its meeting on September 4, 2001 considered the recommendation of the Advisory Committee on Derivatives and granted in-principle approval for the introduction of futures on 31 stocks, in which options contracts have been permitted by SEBI. Further, the Board desired that the Advisory Committee on Derivatives,

- I devise a detailed scheme for the introduction of this product,
- I specify the risk containment measures which could include cash settlement of Single Stock Futures, and
- I specify the time frame in which futures on Single stocks could be introduced after assessing the preparedness of the exchanges in terms of infrastructure.

On the risk containment measures the Advisory Committee on Derivatives agreed to adopt the existing risk management framework in the derivative market for Single Stock Futures. The committee asked SEBI to set various parameters like volatility estimates, price range, minimum margin level, calendar spread charges etc, in consultation with the exchanges.

The scheme of introduction and the risk containment measures for Single stock futures contracts framed in consultation with the stock exchanges, within the framework specified by the Advisory Committee on Derivatives, and approved by the SEBI Board in its meeting On November 1, 2001, are as follows-

1. The Single Stock Futures Contracts to be traded on the derivative exchange/segments shall have prior approval of SEBI. The Contract should comply with the disclosure requirements, if any, laid down by SEBI.

2. The Exchanges shall initially introduce Single Stock Futures Contract, which shall be settled in cash.

3. In order to maintain symmetry between Futures and Options Contract on the same underlying, the lot size of the option contract and the multiplier for the futures contract shall remain the same for the given underlying.

4. Single Stock Futures contract shall be permitted upto maximum maturity of 12 months. Initially, Single Stock Futures contract shall have maturity of three months and at the time of its introduction, three contracts of maturity of one-month, two-month and three-month would be introduced simultaneously. Therefore, at any point in time atleast three Single Stock Futures contracts on a particular underlying would be available for trading.

5. Any adjustments in contract specifications of Single Stock Futures Contract at the time of corporate actions would be in line with international best practices and the sub-committee on adjustment of corporate actions for Stock Options would decide on any such adjustments.

The Parameters for Risk Containment Measures

A portfolio based margining approach shall be adopted which will takes an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in all Derivative Contracts i.e. Index Futures, Index Option, Stock Options and Single Stock Futures. The parameters for such a model should include the following-

A. Initial Margin or Worst Scenario Loss

The Initial Margin requirements are based on worst scenario loss of a portfolio of an individual client to cover 99% VaR over one day horizon across various scenarios of price changes and volatility shifts. For Index products the price scan range is specified at three standard deviation (3 sigma) and the volatility scan range is specified at 4%. For stock option contracts the price scan range is specified at three and a half standard deviation (3.5 sigma) and the volatility scan range is specified at 10%. There is also a minimum margin requirement. For index futures contracts it is specified that in no case the initial margin shall be less than 5% of the value of the contract. For index options a short option minimum charge of 3% of the notional value of all short index option has been prescribed and in the case of stock option contracts, a short option minimum charge of 7.5% of the notional value of all short stock option contract has been prescribed.

In the case of Single Stock Futures, the initial margin would be computed as the worst scenario loss of a portfolio comprising of all the positions of a client in all the futures and options contracts. For Single Stock Futures the price scan range would be 3.5 Standard Deviation (3.5 sigma) and in no case the initial margin for Single Stock Futures contract shall be less than 7.5% of the value of the Single Stock Futures contract. The SPAN margining system, which has been adopted by both BSE & NSE, does not have the provision to provide for charging a minimum margin of 7.5% for futures contracts. However, in order to achieve the requirement of minimum margin for the Single Stock Futures contract, the price scan range would be adjusted so as to ensure that the initial margin for Single Stock Futures contracts does not fall below 7.5% in any scenario. The standard deviation would be calculated as per the methodology specified in the Prof. J. R Varma Committee Report on the Risk Containment Measures for Index Futures.

The Initial Margin requirement shall continue to be netted at level of individual client and shall be calculated on a gross basis at the level of Trading / Clearing Member. The Initial margin requirement for the proprietary position of Trading/Clearing member shall be calculated on a net basis.

B. Calendar Spread for the Single Stock Futures Contract

On the introduction of option contracts, the margin on calendar spread is calculated on the basis of delta of the portfolio consisting of futures and option contract in each month. Thus, a portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of –100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month futures and short 100 far month futures. The Calendar Spread Margin is charged in addition to the Worst Scenario Loss of the portfolio. A calendar spread would be treated as a naked position in the far month contract as the near month contract approaches expiry. A calendar spread is treated as a naked position in the far month contract three trading days before the near month contract expires. The same provision shall also apply for Calendar Spreads in Single Stock Futures Contracts.

C. Exposure Limits

It has been prescribed that the notional value of gross open positions at any point in time in the case of Index Futures and all Short Index Option Contracts shall not exceed 33 1/3 (thirty three one by three) times the liquid networth of a member, and in the case of Stock Option Contracts, the notional value of gross short open position at any point in time shall not exceed 20 (twenty) times the liquid networth of a member.

In the case of Single Stock Futures Contracts the value of gross open positions at any point in time in all the Single Stock Futures contracts shall not exceed 20 (twenty) times the available liquid networth of a member. Therefore, the exchanges would be required to ensure that 5% of the notional value of gross open position in Single Stock Futures contracts is collected /adjusted from the liquid networth of a member on a real time basis. Exposure limits are in addition to the initial margin requirements.

Exposure limit for calendar spreads in the case of Single Stock Futures contracts: As prescribed in the case of index futures contract, the Calendar Spread shall be regarded as an open position of one third (1/3rd) of the mark to market value of the far month contract. As the near month contract approaches expiry, the spread shall be treated as a naked position in the far month contract three days prior to the expiry of the near month contract. The same provision shall apply to the spread positions in the case of Single Stock Futures contract. If the closing out of one leg of a calendar spread causes the members' liquid net worth to fall below the minimum levels specified, his terminal shall be disabled and the clearing corporation / house shall take steps to liquidate sufficient positions to restore the members' liquid net worth to the levels mandated.

D. Real Time Computation

The computation of Worst Scenario Loss has two components. The first is the valuation of the portfolio under sixteen scenarios. At the second stage, these Scenario Contract Values are applied to the actual portfolio positions to compute the portfolio values and the initial margin (Worst Scenario Loss). For computational ease, exchanges are permitted to update the Scenario Contract Values only at discrete time points each day and the latest available Scenario Contract Values would is applied to member/client portfolios on a real time basis.

However, in order to ensure that the most recent scenario are applied for computation of the portfolio values and the initial margin, on introduction of Single Stock Futures, it shall be prescribed that the scenario contract values shall be updated atleast 5 times in the day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m., and at the end of the trading session.

E. Margin Collection and Enforcement

As prescribed in the case of index futures contract, the mark to market settlement of Single Stock Futures contracts shall also be collected before start of the next day's trading, in cash. If mark to market margins is not collected before start of the next day's trading, the clearing corporation/house shall collect correspondingly higher initial margin to cover the potential for losses over the time elapsed in the collection of margins. The higher initial margin shall be calculated in the same manner as specified in the Prof. J.R Varma committee reports on risk containment measures for index futures.

The daily closing price of Single Stock Futures Contract for Mark to Market settlement would be calculated on the basis of the last half an hour weighted average price of the contract. In the absence of trading in the last half an hour the theoretical price would be taken. The Derivative Exchanges/ Segment shall define the methodology of calculating the 'theoretical price' at the time of making an application for approval of the stock futures contract to SEBI and methodology for calculating the 'theoretical price' would also be disclosed to the market. In addition, the exchange shall also specify the methodology for arriving at the closing price at the time of expiry.

The initial margin (or the worst scenario loss) plus the calendar spread charge shall be adjusted against the available Liquid Networth of the member. The members in turn shall collect the initial margin from their clients.

5.5 SEBI by its **SEBI Circular No. SMDRP/DC/CIR-13/02 dated December 18, 2002** laid the provisions of **Risk Containment Measures for Derivatives**

This is in continuation of SEBI Circular No. IES/DC/CIR-4/99 dated July 28, 1999, Circular No. IES/DC/CIR-5/00 dated December 11, 2000, Circular No. SMD/DC/Cir-7/01 dated June 20, 2001 and SEBI Circular No. SMD/DC/Cir-10/01 dated November 2, 2001 for Exchange traded Index Futures, Index Option, and Stock Option Contracts, and Stock Futures Contract. The aforesaid circulars were addressed to SEBI approved Derivative Exchange / Segment and their Clearing House / Corporation (hereinafter collectively referred to as Exchange).

SEBI had setup an Advisory Committee on Derivatives headed by Prof. J. R Varma to inter alia review the eligibility criteria of stocks on which stock options and single stock futures could be introduced. The Advisory Committee gave its recommendation in its report on "Development and Regulation of Derivative Markets in India". The report of the Advisory Committee was placed on the SEBI website for public comments.

The SEBI Board in its meeting on November 29, 2002 considered the recommendations made in the report and also considered the comments received from the public. Based on the recommendation of the Advisory Committee on Derivatives, the Risk Containment Measures on which stock option and stock futures could be introduced were laid by **SEBI Circular No. SMDRP/DC/CIR-13/02 dated December 18, 2002**, which are as follows:

In light of the broad eligibility criteria, the following changes may be incorporated in the risk containment measures prescribed by SEBI from time to time:-

A. Price Scan Range:

Clause 6(A) of Circular No. SMD/DC/Cir-7/01 dated June 20, 2001 and clause 7(A) of Circular No. SMD/DC/Cir-10/01 dated November 2, 2001 stand modified, in the following manner, by this present circular.

For the purpose of computing worst scenario loss on a portfolio, the price scan range for stock option and single stock future contracts shall henceforth be linked to liquidity, measured in terms of impact cost for an order size of Rs.5 Lakh, calculated on the basis of order book snapshots in the previous six months. Accordingly, if the mean value of impact cost exceeds 1%, the price scanning range would be scaled up by square root of three. This would be in addition to the requirement of scaling up for the look-ahead period i.e. the time in which mark to market margin is collected. The guidance for computation of impact cost for an order size of Rs.5 Lakhs is as under:-

i. Impact cost shall be calculated by taking four snapshots in a day from the order book in the past six months. These four snapshots shall be randomly chosen from within four fixed ten minutes windows spread through the day.

ii. The impact cost shall be the percentage price movement caused by an order size of Rs.5 Lakh from the average of the best bid and offer price in the order book snapshot. The impact cost shall be calculated for both, the buy and the sell side in each order book snapshot.

iii. The mean of the impact cost for both the buy and the sell side in each order book snapshot in the past six months shall be computed to determine the applicable price scan range in the stock.

iv. The Exchanges (at present, BSE & NSE) shall work together and use a common methodology for carrying out the calculations. The details of calculation methodology and relevant data shall be made available to the public at large through the website of the Exchanges.

The mean impact cost shall be calculated at 15 of each month on a rolling basis considering the order book snapshots of the previous six months. If the mean impact cost or a stock moves from less than or equal to 1% to more than 1%, the price scan range in such stock should be scaled up by square root of three and the scaling should be dropped when the impact cost drops to 1% or less. Such changes will be applicable on all existing open position within three days from the 15 of each month

B. Exposure Limits:

Clause 6(G) of Circular No. SMD/DC/Cir-7/01 dated June 20, 2001 and clause 7(C) of Circular No. SMD/DC/Cir-10/01 dated November 2, 2001 stand modified, in the following manner, by this present circular.

i. The exchange shall ensure that the higher of 5% or 1.5 (standard deviation) of the notional value of gross open position in single stock futures and gross short open position in stock option in a particular underlying is collected/adjusted from the liquid networth of a member on a real time basis.

ii. For the purpose of computing 1.5 standard deviations, the standard deviation of daily logarithmic returns of prices in the underlying stock in the cash market in the last six months shall be computed. This value shall be applicable for a month and shall be re-calculated at the end of the month by once again taking the price data on a rolling basis for the past six months.

C. Position Limits:

i. The existing client level position limits and market wide position limits specified in the SEBI Circular No. SMD/DC/Cir-10/01 dated November 2, 2001 shall continue.

ii. The trading member position limits shall however be linked to market wide limit.

iii. For stocks, in which the market wide position limit is less than or equal to Rs.250 Crore, the trading member limit in such stocks shall be 20% of the market wide limit. For stocks, in which the market wide position limit is greater that Rs.250 Crore, the trading member position limit in such stocks shall be Rs.50 Crore.

5.6 The existing eligibility criteria for stocks and indices, the position limits and the risk containment measures in the derivative markets were reviewed by the Advisory Committee on Derivatives and Market Risk Management (Advisory Committee). Based on the recommendations of the Advisory Committee, considered and approved by the SEBI Board, the following Risk Containment Measures are being specified by its **Circular No. SEBI/DNPD/Cir-26/2004/07/16 dated July 16, 2004** in addition to those prescribed by SEBI from time to time.

A. Collection of Mark to Market Margin/Settlement: It had been specified that if mark to market margin / settlements (MTM) for derivative contracts is not collected before the start of the next day's trading, the

Exchange is required to collect correspondingly higher initial margins to cover the potential for losses over the time elapsed in the collection of MTM.

Henceforth, the Exchange may offer a choice to the members to opt for payment of MTM –

i) either before the start of trading the next day i.e. T+0, or

ii) on the next day i.e. T+1.

If the member opts for payment of MTM by T+1, then correspondingly higher initial margin shall be collected, in the manner specified vide SEBI circular Ref. No. IES/DC/CIR-4/99 dated July 28, 1999 and circular Ref. No. SMDRP/DC/CIR- 10/01 dated November 2, 2001, to cover the potential for losses over the time elapsed in the collection of MTM.

B. Impact Cost: It is clarified that for stocks which have a mean value of impact cost greater than 1%, in addition to the price scanning range, the minimum initial margin for single stock futures contracts and the short option minimum charge for stock option contracts shall also be scaled up by square root of three.

5.7 Eligibility Criteria of Stocks for Derivative Trading

A. Eligibility of Stocks for Option Trading – SEBI by its **Circular No. SMDRP/DC/CIR-7/01 dated June 20, 2001** laid that stocks which would be eligible for option trading, should meet the following criterion:

i. The stock should be amongst the of top 200 scrips, on the basis of average market capitalization during the last six months and the average free float market capitalisation should not be less than Rs.750 Crores. The free float market capitalisation means the non-promoter holding in the stock.

ii. The stock should be amongst the top 200 scrips on the basis of average daily volume (in value terms), during the last six months. Further, the average daily volume should not be less than Rs. 5 Crore in the underlying cash market.

iii. The stock should be traded on at least 90% of the trading day in the last six months, with the exception of cases in which a stock is unable to trade due to corporate actions like de-mergers etc.

iv. The non-promoter holding in the company should be at least 30%.

v. The ratio of the daily volatility of the stock vis-à-vis the the daily volatility of the Index (either BSE-30 Sensex or S&P CNX Nifty) should not be more than 4, at any time during the previous six months. For this purpose the volatility would be computed as per the Exponentially Weighted Moving Average formula specified in the Prof. J. R Varma Committee Report on the risk containment measures for Index Futures. It is further clarified that the stock on which option contracts are permitted to be traded on one derivative Exchange/Segment would also be permitted to trade on other Derivative Exchanges/Segments.

The volatility estimates calculated as mentioned in Point No.(v) above shall be calculated on the last one and a half year closing price data in the following manner:

- The standard deviation of logarithmic return (natural log) would be calculated on the first six months data.
- The standard deviation calculated above shall be used as Sigma (t-1) for calculation of Sigma (t) on the first day of the next one year period, by using the formula specified in the Prof. J.R Varma

Committee Report on risk containment measures for index futures. The same formula would also be used to calculate the daily volatility estimates (Sigma {t}) of the entire one year period.

- The above calculation would be done for individual stock and index.

- Sigma (t) calculated above for individual stock and index would be used to compute the ratio of scrip volatility vis-à-vis the index volatility each day during the last six month period.

In the calculation mentioned above the closing prices of stocks should be normalised / adjusted for corporate actions like bonus, stock split, demerger etc.

At the end of six months from the date of introduction of trading in stock options, it should be verified whether the stocks on which options is permitted continues to comply with the aforementioned criterion. The eligibility criterion would be reviewed after a period of six months to examine whether, in light of the experience, the list of eligible stocks could be expanded.

B. This is in continuation of SEBI Circular No. IES/DC/CIR-4/99 dated July 28, 1999, Circular No. IES/DC/CIR-5/00 dated December 11, 2000, Circular No. SMD/DC/Cir-7/01 dated June 20, 2001 and SEBI Circular No. SMD/DC/Cir-10/01 dated November 2, 2001 for Exchange traded Index Futures, Index Option, and Stock Option Contracts, and Stock Futures Contract. The aforesaid circulars were addressed to SEBI approved Derivative Exchange / Segment and their Clearing House / Corporation (hereinafter collectively referred to as Exchange).

SEBI had setup an Advisory Committee on Derivatives headed by Prof. J. R Varma to inter alia review the eligibility criteria of stocks on which stock options and single stock futures could be introduced. The Advisory Committee gave its recommendation in its report on "Development and Regulation of Derivative Markets in India". The report of the Advisory Committee was placed on the SEBI website for public comments.

The SEBI Board in its meeting on November 29, 2002 considered the recommendations made in the report and also considered the comments received from the public. Based on the recommendation of the Advisory Committee on Derivatives, the Eligibility Criteria of Stocks on which stock option and stock futures could be introduced were laid by **SEBI Circular No. SMDRP/DC/CIR-13/02 dated December 18, 2002**, which are as follows:

Clause 7 of Circular No. SMD/DC/Cir-7/01 dated June 20, 2001 and Clause 6 of Circular No. SMD/DC/Cir-10/01 dated November 2, 2001 on eligibility criteria of stocks on which stock option and stock futures could be introduced, stand modified in the following manner by this present circular.

B1. A stock on which stock option and single stock future is proposed to be introduced shall conform with the following broad eligibility criteria:-

i. The stock shall be chosen from amongst the top 500 stock in terms of average daily market capitalisation and average daily traded value in the previous six month on a rolling basis.

ii. The stock's median quarter-sigma order size over the last six months shall be atleast Rs.5 Lakh. For this purpose, a stock's quarter-sigma order size shall mean the order size (in value terms) required to cause a change in the stock price equal to one-quarter of a standard deviation.

B2. The Exchange shall be guided by the following for the purpose of calculating quarter sigma order size in a stock:-

i. Quarter sigma order size shall be calculated by taking four snapshots in a day from the order book of the stock in the past six months. These four snapshots shall be randomly chosen from within four fixed ten-minutes windows spread through the day.

ii. The sigma (standard deviation) or volatility estimate shall be the daily closing volatility estimate which is also used for day end initial margin calculation in derivative contracts on a stock. For stocks on which derivative contracts are not traded, the daily closing volatility estimate shall be computed in the manner specified by Prof. J.R Varma Committee on risk containment measures for Index Futures. The daily closing volatility estimate value shall be applied to the day's order book snapshots to compute quarter sigma order size.

iii. The quarter sigma percentage shall be applied to the average of the best bid and offer price in the order book snapshot to compute the order size to move price of the stock by quarter sigma.

iv. The median order size to cause quarter sigma price movement shall be determined separately for the buy side and the sell side. The average of the median order size for the buy and the sell side shall be taken as the median quarter sigma order size.

v. The Exchanges (at present, The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Ltd (NSE)) shall work together and use a common methodology for carrying out the calculations. The details of calculation methodology and relevant data shall be made available to the public at large on the website of the exchange.

vi. The quarter sigma order size in a stock shall be calculated on the 15 of each month, on a rolling basis, considering the order book snapshots in the previous six months. Similarly, the average daily market capitalisation and the average daily traded value shall also be computed on the 15 of each month, on a rolling basis, to arrive at the list of top 500 stocks.

B3. The number of eligible stocks may vary from month to month depending upon the changes in quarter sigma order sizes, average daily market capitalisation & average daily traded value calculated every month on a rolling basis for the past six month. Consequently, the procedure for introducing and dropping stock on which option and future contracts are traded shall be as follows:-

i. Options and futures may be introduced on new stocks when they meet the eligibility criteria.

ii. If a stock fails to meet the aforesaid eligibility criteria for three months consecutively, then no fresh month contract shall be issued on that stock. However, the existing unexpired contracts may be permitted to trade till expiry and new strikes may also be introduced in the existing contract months.

iii. The Exchange may compulsorily close out all derivative contract positions in a particular underlying when that underlying has ceased to satisfy the eligibility criteria or the exchange is of the view that the continuance of derivative contracts on such underlying is detrimental to the interest of the market keeping in view the market integrity and safety. The decision of such forced closure of derivative contracts shall be taken in consultation with other exchanges where such derivative contracts are also traded and shall be applied uniformly across all exchanges.

B4. For unlisted companies coming out with initial public offering, if the net public offer is Rs.500 Crore or more, then the exchanges may consider introducing stock options and stock futures on such stocks at the time of its listing in the cash market.

B5. Derivative contracts on a new stock index shall be permitted if the stocks contributing 90% weightage in the index are individually eligible for derivative trading as per the eligibility criteria. This requirement shall be applied only at the time of introduction of derivative contract on new indices.

C. The existing eligibility criteria for stocks and indices, the position limits and the risk containment measures in the derivative markets were reviewed by the Advisory Committee on Derivatives and Market Risk Management (Advisory Committee). Based on the recommendations of the Advisory Committee, considered and approved by the SEBI Board, the eligibility criteria, the position limits and the risk containment measures in the derivative markets stand modified in the following manner by its **Circular No. SEBI/DNPD/Cir-26/2004/07/16 dated July 16, 2004**. Clause I(1) and Clause I(5) of Circular No. SMDRP/DC/CIR-13/02 dated December 18, 2002 on the eligibility criteria of stocks and indices stand modified in the following manner:-

C1. A stock on which stock option and single stock future contracts are proposed to be introduced shall conform to the following broad eligibility criteria:-

i. The stock shall be chosen from amongst the top 500 stock in terms of average daily market capitalisation and average daily traded value in the previous six month on a rolling basis.

ii. The stock's median quarter-sigma order size over the last six months shall be not less than Rs.1 Lakh (Rupees One Lakh). For this purpose, a stock's quarter-sigma order size shall mean the order size (in value terms) required to cause a change in the stock price equal to one-quarter of a standard deviation.

iii. The market wide position limit in the stock shall not be less than Rs.50 crores (Rupees Fifty crores). Since market wide position limit for a stock is computed at the end of every month, the Exchange shall ensure that stocks comply with this criterion before introduction of new contracts. Further, the market wide position limit (which is in number of shares) shall be valued taking the closing prices of stocks in the underlying cash market on the date of expiry of contract in the month.

The procedure for introducing and dropping stocks on which option and future contracts are traded shall continue to be in the manner specified in Circular No. SMDRP/DC/CIR-13/02 dated December 18, 2002.

C2. The Exchange may consider introducing derivative contracts on an index if 80% of the index constituents are individually eligible for derivatives trading. However, no single ineligible stock in the index shall have a weightage of more than 5% in the index. The index on which futures and options contracts are permitted shall be required to comply with the eligibility criteria on a continuous basis.

C3. The Exchange shall check whether the index continues to meet the aforesaid eligibility criteria on a monthly basis. If the index fails to meet the eligibility criteria for three months consecutively, then no fresh month contract shall be issued on that index. However, the existing unexpired contracts shall be permitted to trade till expiry and new strikes may also be introduced in the existing contracts.

D. In order to improve market integrity SEBI, in consultation with Stock Exchanges, laid various provisions vide **Circular No. CIR/DNPD/3/2012 July, 2012** to tighten the eligibility and exit criteria for stocks in derivatives segment as given hereunder:

D1. Eligibility criteria for stocks in Derivatives Segment:

i. At present, minimum Median Quarter Sigma Order Size (MQSOS) requirement for a stock to be eligible for introduction in derivatives segment is Rs. 5 Lakh. It has been decided to revise this minimum MQSOS requirement to Rs. 10 Lakh.

ii. Thus, in Para '3.1.2.b' of the master circular, for the letters and figures "Rs. 5 Lakh (Rupees Five Lakh)", the following letters and figures shall be substituted, namely "Rs. 10 Lakh".

iii. At present, minimum MWPL requirement for a stock to be eligible for introduction in derivatives segment is Rs. 100 crore. It has been decided to revise this minimum MWPL requirement to Rs. 300 crore.
iv. Thus, in Para '3.1.2.c' of the master circular, for the letters and figures "Rs. 100 crores (Rupees Hundred Crores)", the following letters and figures shall be substituted, namely "Rs. 300 crore".

D2. Exit criteria for stocks in Derivatives Segment:

i. At present, minimum MWPL requirement for a stock to be retained in derivatives segment is Rs. 60 crore. It has been decided to revise this minimum MWPL requirement to Rs. 200 crore.

ii. At present, minimum MQSOS requirement for a stock to be retained in derivatives segment is Rs. 2 Lakh. It has been decided to revise this minimum MQSOS requirement to Rs. 5 Lakh.

At present, minimum MQSOS requirement for a stock to be retained in derivatives segment is Rs. 2 Lakh. It has been decided to revise this minimum MQSOS requirement to Rs. 5 Lakh.

An additional criterion of 'stock derivatives to have average monthly turnover in derivatives segment for last three months of Rs. 100 crore' has also been decided to be implemented for a stock to be retained in derivatives segment.

E. SEBI vide **Circular no. SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018**, laid Enhanced eligibility criteria for introduction of stocks in Derivatives Segment ('Enhanced criteria'). A stock, on which option and future contracts are proposed to be introduced, shall conform to the following broad eligibility criteria: -

(i) The stock shall be chosen from amongst the top 500 stocks in terms of average daily market capitalization and average daily traded value in the previous six months on a rolling basis',

(ii) The stock's median quarter-sigma order size over the last six months, on a rolling basis, shall not be less than Rs. 25 Lakh,

(iii) The market wide position limit in the stock shall not be less than Rs.500 crore on a rolling basis, and

(iv) Average daily delivery value in the cash market shall not be less than Rs. 10 crore in the previous six months on a rolling basis.

Above criteria are to be met for a continuous period of six months.

F. Derivatives on stocks (new/existing) which meet the enhanced eligibility criteria (given at para 6.10.1 above) shall be cash settled until further notification, however such stocks, if they fail to satisfy any of the enhanced eligibility criteria for a continuous period of three months, shall move from cash settlement to physical settlement. After moving to physical settlement, if such stocks do not meet any of the eligibility criteria (specified vide circular CIR/DNPD/3/2012 dated July 23, 2012) for a continuous period of three months, then they shall exit from derivatives segment.

G. Stocks which are currently in derivatives segment and meet the eligibility criteria (specified vide circular CIR/DNPD/3/2012 dated July 23, 2012) but do not meet the enhanced criteria shall be physically settled. Such stocks, however, shall exit from derivatives segment in case.

(a) They fail to meet any of the eligibility criteria (specified vide circular CIR/DNPD/3/2012 dated July 23, 2012) for a continuous period of three months, or

(b) They fail to meet any of the enhanced eligibility criteria after a period of one year from the date of this circular.

H. After a period of one year from April 11, 2018 (i.e. date of circular no. SEBI/HO/MRD/DP/CIR/P/2018/67), only those stocks which meet the enhanced eligibility criteria shall remain in derivatives segment.

I. The risk management framework, settlement mechanism and other procedures of the cash segment shall be applicable when a stock derivative devolves into physical settlement. Stock which meet the enhanced eligibility criteria shall also move to physical settlement albeit in a phased/calibrated manner. The other provisions regarding single stock derivatives shall remain as specified in SEBI circulars CIR/DNPD/3/2012 dated July 23, 2012 and CIR/DNPD/4/2010 dated July 15, 2010.

5.8 Position Limits - Market Wide Position Limits:

SEBI vide their Circular Nos. IES/DC/CIR-4/99 dated July 28, 1999, IEDS/DC/CIR-5/00 dated December 11, 2000, SMD/DC/Cir-10/01 dated June 20, 2001 and SMDRP/DC/CIR-10/01 dated November 2, 2001 has laid the foundation of Position Limits and Market Wide Position Limits for Exchange Traded Index Futures, Index Option, Stock Option and Stock Futures Contacts, which are as follows:

A. On the introduction of index futures contracts, index options contracts and stock options contracts the trading member level and the market wide position limits were prescribed. However, with the introduction of Single Stock Futures contracts, a customer level position limit is also prescribed to deter and detect concentration of positions and market manipulation. The market wide position in the case of stock specific derivative contract (both stock options and Single Stock Future) shall be applicable on the cumulative open positions in derivative contracts on that that stock at an Exchange. The volumes in the derivative markets are growing steadily and therefore, position limits shall be reviewed by the Advisory Committee on Derivatives from time to time and also the Advisory Committee shall be empowered to weed out any operational issue in implementation of the position limits.

B. Client / Customer level Position Limits:

The gross open position across all derivative contracts on a particular underlying of a customer/client should not exceed the higher of –

- 1% of the free float market capitalisation (in terms of number of shares).

OR

- 5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts).

This position limits would be applicable on the combine position in all derivative contracts on an underlying stock at an exchange. At present the trading system of the exchange requires that client ID should be provided for each trade. However, this client ID is assigned by the trading member is not unique to a client across the market.

At present the exchange monitors the trading member level position limits however, the client wise limit is not monitored by the exchange and is a requirement of disclosure by the client to the trading member and to the Exchange. With the introduction of Single Stock Futures Contracts the exchanges shall develop a system to monitor client level position limits through their computer system not only with respect to one trading member but also across all the trading members through whom the client is trading in the derivative markets. This would be in addition to the disclosure requirement prescribed for clients. This would require setting up of a system and database which would capture all the details of clients of all the trading members. The system then would identify a common client, who may be trading through more than one trading member, on the basis of some key fields. The setting up of such a database and the system would be required to be completed in a time bound manner in various stages as under: -

- In the first stage, the exchange shall immediately commence monitoring client level position using the client ID given by the trading member.

- In the second stage, the exchange shall collect a unique client identification key which could be PAN number, Depository number etc. and on the basis of that key, the position of the client across all trading members in an exchange could be monitored at least once in the life time of a contract. This could take three to four months for the exchanges to implement. In the final stage, exchanges shall collect complete particulars of all the clients from the trading members. The exchange shall develop a system to identify a client trading through more than one trading member and monitor his cumulative positions taken through all the members of the exchange. This would take a longer time and would be implemented simultaneously for both the cash segment and derivative segment, as the database shall be common for both the markets.

C. Trading Member Level:

At the trading member level the position limit in derivative contracts on a particular stock would be at 7.5% of the open interest or Rs 50 crore whichever is higher for derivative contract in a particular underlying at an exchange. The exchanges shall however specify lower Trading Member level limits for generating surveillance alerts. Once a member reaches the position limit in a particular underlying then the member shall be permitted to take only offsetting positions (which result in lowering the open position of the member) in derivative contracts on that underlying. In the event, that the position limit is breached due to the reduction in the overall open interest in the market, the member shall be permitted to take only offsetting positions (which result in lowering the open position of the member) in derivative contract in that underlying and no fresh positions shall be permitted. The position limit at trading member level shall be computed on a gross basis across all clients of the Trading member.

D. Market Wide Limits:

The market wide limit of open positions (in terms of the number of underlying stock) on an option and futures contract on a particular underlying stock would be lower of –

- 30 times the average number of shares traded daily, during the previous calendar month, in the cash segment of the Exchange,

OR

- 10% of the number of shares held by non-promoters i.e. 10% of the free float, in terms of number of shares of a company.

This market wide limit prescribed for stock option contracts has been increased from 20 time the average number of shares traded daily to 30 times as these limits would be applicable for both futures and options contracts on a particular underlying stock. Therefore, all the open position in all futures and option contracts on a particular underlying should not exceed the aforementioned market wide position limit.

When the total open interest in a contract reaches 80% of the market wide limit in that contract, the exchanges would double the price scan range and volatility scan range specified. The exchanges are required to continuously review the impact of this measure and take further proactive risk containment measures as may be appropriate, including, further increases in the scan ranges and levying additional margins. Additionally, the exchanges may also set alerts at lower levels for internal surveillance

E. SEBI vide its **Circular No. SMDRP/DC/CIR-13/02 dated December 18, 2002** modified the provisions of Position Limits, whereby the existing client level position limits and market wide position limits specified in the SEBI Circular No. SMD/DC/Cir-10/01 dated November 2, 2001 shall continue. The trading member position limits shall however be linked to market wide limit. For stocks, in which the market wide position limit is less than or equal to Rs.250 Crore, the trading member limit in such stocks shall be 20% of the market wide limit. For stocks, in which the market wide position limit is greater that Rs.250 Crore, the trading member position limit in such stocks shall be Rs.50 Crore.

F. SEBI vide its **Circular No. DNPD/Cir-26/2004/07/16 dated July 16, 2004** enshrined the following:

F1. Market wide position limits for single stock futures and stock option contracts

Clause 6 H of Circular No-SMDRP/DC/CIR-7/01 dated June 20, 2001 and Clause 7 F of Circular No-SMDRP/DC/CIR-10/01 dated November 02, 2001 on Market wide position limits on Single Stock Derivative Contracts stand modified in the following manner:–

The market wide limit of open position (in terms of the number of underlying stock) on futures and option contracts on a particular underlying stock shall be lower of-

- 30 times the average number of shares traded daily, during the previous calendar month, in the relevant underlying security in the underlying segment,

Or

- 20% of the number of shares held by non-promoters in the relevant underlying security i.e. free-float holding.

This limit would be applicable on all open positions in all futures and option contracts on a particular underlying stock.

The requirement for doubling the price scan range and volatility scan range, when the total open interest in a contract reaches 80% of the market wide limit in that contract, stands revoked.
The Exchange is advised to enforce the market wide limits through administrative measures, in the manner detailed below:

a. At the end of each day the Exchange shall test whether the market wide open interest for any scrip exceeds 95% of the market wide position limit for that scrip. If so, the Exchange shall take note of open position of all client/ TMs as at the end of that day in that scrip, and from next day onwards the members/ client shall trade only to decrease their positions through offsetting positions. While the Exchange will take this action only at end of day, they shall disclose real time information about the market wide open interest as a percentage of the market wide position limits.

b. At the end of each day during which the ban on fresh positions is in force for any scrip, the Exchange shall test whether any member or client has increased his existing positions or has created a new position in that scrip. If so, that client shall be subject to a penalty equal to a specified percentage (or basis points) of the increase in the position (in terms of notional value). The penalty shall be recovered before trading begins next day. The Exchange shall specify the percentage or basis points, which shall be set high enough to deter violations of the ban on increasing positions.

c. The normal trading in the scrip shall be resumed after the open outstanding position comes down to 80% or below of the market wide position limit.

Further, the Exchange shall check on a monthly basis, whether a stock has remained subject to the ban on new position for a significant part of the month consistently for three months. If so, then the Exchange shall phase out derivative contracts on that underlying. The procedure for dropping stocks on which option and future contracts are traded shall be in the manner specified in Clause (3) of Circular No. SMDRP/DC/CIR-13/02 dated December 18, 2002.

F2. Trading member position limits in index derivative contracts Clause

Clause 5 (ii) of Circular No-IES/DC/CIR-4/99 dated July 28, 1999 and Clause 7 H of Circular No-IES/DC/CIR-5/00 dated December 11, 2000 on trading member position limits in equity index derivative contracts stand modified in the following manner–

a. Trading Member Position limits in equity index option contracts:

The trading member position limits in equity index option contracts shall be higher of:

- Rs.250 Crore

OR

- 15% of the total open interest in the market in equity index option contracts.

This limit would be applicable on open positions in all option contracts on a particular underlying index.

b. Trading Member Position limits in equity index futures contracts:

The trading member position limits in equity index futures contracts shall be higher of:

- Rs.250 Crore

OR

- 15% of the total open interest in the market in equity index futures contracts.

This limit would be applicable on open positions in all futures contracts on a particular underlying index.

F3. Trading Member position limits in exchange traded interest rate derivative contracts

Clause II(F) of Circular No-SEBI/SMDRP/DC/Cir-16/2003/04/19 dated April 19, 2003 and clause II of the Circular No-SEBI/SMDRP/DC/Cir-18/2004/01/05 dated January 5, 2004 on position limits in exchange traded interest rate derivative contracts stand modified as under –

Trading member position limit in exchange traded interest rate derivative contracts shall be higher of:

- Rs.500 Crore

OR

- 15 % of the total open interest in the market in exchange traded interest rate derivative contracts.

G. In partial modification to our earlier circular no. NSCC/F&O/C&S/200 dated June 17, 2003 and in accordance with the SEBI circular SEBI/DNPD/Cir-26/2004/07/16 dated July 16, 2004, NSE by its Circular No. NSE/CMPT/5382 dated 26.08.2004, modified the market wide position limit for futures and options on individual securities which is as under:

The market wide limit of open position (in terms of the number of underlying stock) on futures and option contracts on a particular underlying stock shall be lower of-

- 30 times the average number of shares traded daily, during the previous calendar month, in the relevant underlying security in the underlying segment,

Or

- 20% of the number of shares held by non-promoters in the relevant underlying security i.e. free-float in terms of the number of shares of a company.

This limit is applicable on all open positions in all futures and option contracts on a particular underlying stock.

The relevant authority shall specify the market wide position limits on the last trading day of the previous month which shall be reckoned for this purpose during the next month.

The requirement of increase in the price scan range and volatility scan range, when the total open interest in particular underlying stock reaches 80% and 90% of the market wide limit of the underlying stock, stands revoked.

The revised market wide position limits shall be enforced as under:

- At the end of each day the Exchange shall test whether the market wide open interest for any scrip exceeds 95% of the market wide position limit for that scrip. If so, the Exchange shall take note of open position of all client/ TMs as at the end of that day in that scrip, and from next day onwards the client/ TMs shall trade only to decrease their positions through offsetting positions till the normal trading in the scrip is resumed.
- The normal trading in the scrip shall be resumed only after the open outstanding position comes down to 80% or below of the market wide position limit
- The dissemination of market wide position limits shall be given at regular interval or such other duration as may be decided by the relevant authority.
- At the end of each day during which the ban on fresh positions is in force for any scrip, when any member or client has increased his existing positions or has created a new position in that scrip the client/ TMs shall be subject to a penalty 1% of the value of increased position subject to a minimum of Rs.5000 and maximum of Rs.1, 00,000. The positions, for this purpose, will be valued at the underlying close price.

An example for the above is being given as Illustration for computing positions for levy of penalty

In cases where the clients/ TMs have reduced their positions during the period when the ban on fresh positions is in force for any scrip but subsequently increases the position during the ban period, the penalty shall be computed based on the value of increase in positions. The same is illustrated with an example:

	Open Positions		
	Day 1	Day 2	Day 3

% of MWPL	95%	94%	91%
Client A	1000	1100	1080
Client B	900	850	875
Position on which penalty shall be levied on client A	-	100	80
Position on which penalty shall be levied on client B	-	0	25

- The penalty shall be recovered from the clearing member affiliated with such trading members/clients on a T+1 day basis along with pay-in. The amount of penalty shall be informed to the clearing member at the end of the day.
- Further, where a stock has remained subject to the ban on new position for a significant part of the month consistently for three months the security shall be phased out as per SEBI circular no. SMDRP/DC/CIR - 13/02 dated December 18, 2002.

Further, for securities having a mean value of impact cost greater than 1% in addition to the price scanning range , the minimum initial margin for futures on individual securities and the short option minimum charge for option on individual securities contracts shall also be scaled up by square root of three.

This circular shall be effective from September 01, 2004.

5.9 Graded Surveillance Measure (GSM)

In order to enhance market integrity and safeguard interest of investors, Securities and Exchange Board of India (SEBI) and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that there shall be Graded Surveillance Measures (GSM) on securities that witness an abnormal price rise that is not commensurate with financial health and fundamentals of the company which inter-alia includes factors like Earnings, Book value, Fixed assets, Net worth, P/E multiple, etc. The GSM framework monitoring has come into force with effect from 14.03.2017. In coordination with other Exchanges, NSE vide circular no. **NSE/SURV/34262 on 23.02.2017** informed about introduction of GSM framework. Further, the First list of shortlisted securities qualifying for application of GSM has been published by NSE vide circular no. NSE/SURV/34321 dated 03.03.2017. This has reference to the NSE FAQ on Graded Surveillance Measure wherein the below procedures are stated.

A. Various surveillance actions under GSM and their significance:

The underlying principle behind defining various stages under GSM framework is to alert the market participants that they need to be extra cautious and diligent while dealing in such securities as the need has been felt to place them under higher level of surveillance.

At present, there are 6 stages defined under GSM framework viz. From Stage I to Stage VI. Surveillance action has been defined for each stage. Once the security goes into a particular stage, it shall attract the corresponding surveillance action. The security shall be placed in a particular stage by the Exchange based on monitoring of price movement and predefined objective criteria. Stage wise Surveillance actions are listed below:

Stage	Surveillance Actions
I	Transfer to Trade for Trade with price band of 5% or lower as applicable.
II	Trade for Trade with price band of 5% or lower as applicable and Additional Surveillance Deposit (ASD) of 100% of trade value to be collected from Buyer.
III	Trading permitted once a week (Every Monday) and ASD of 100% of trade value to be collected from Buyer.
IV	Trading permitted once a week (Every Monday) with ASD of 200% of trade value to be collected from Buyer.

V	Trading permitted once a month (First Monday of the month) with ASD of 200% of trade value to be collected from Buyer.
VI	Trading permitted once a month (First Monday of the month) with no upward movement in price of the security with ASD of 200% of trade value to be collected from Buyer.

The securities shall move to various stages of GSM in a sequential order from Stage I to Stage VI as and when the criteria for the respective stage is satisfied.

GSM framework shall work in addition to existing actions undertaken by the Exchanges on the company's securities. In case the securities are already attracting any action(s) mentioned in any of the stages of GSM framework, then such action will continue to work in conjunction with appropriate action under GSM framework.

A file containing stage wise GSM details is available on the website of NSE and BSE at the following link:

- https://www.nseindia.com/regulations/graded-surveillance-measure
- https://www.bseindia.com/markets/equity/EQReports/graded_surveil_measure.aspx

B. Time frame of identified securities to remain under GSM:

i. A review process based on pre-defined criteria for moving securities in / out of GSM framework shall be carried out twice a year.

ii. A quarterly review of securities (under Stages II & above of GSM) based on a pre-defined objective criteria shall be carried out to assess relaxation of surveillance action. If qualified, the applicable securities can be moved back from a higher stage to a lower stage in a sequential manner, say from Stage III to Stage II.

C. The securities under GSM Framework shall attract price bands as per existing price band framework of the Exchange.

D. Surveillance actions under GSM framework are without prejudice to the right of Exchanges and SEBI to take any other surveillance measures, in any manner, on case to case basis or holistically depending upon the situation and circumstances as may be warranted.

E. Applicability of Additional Surveillance Deposit (ASD):

Additional Surveillance Deposit is applicable when securities of the company move to Stage II of GSM framework and above. The 'buyer' of the security is liable to pay the ASD for securities shortlisted under Stages II and above under GSM and shall be collected from the 'buying' Trading Member(s). ASD will be debited on a T+1 basis from the primary clearing account for the capital market segment of the aforesaid Trading Member(s). It shall be paid in the form of cash only. ASD shall be over and above existing margins or deposits levied by the Exchanges on transactions in such companies and shall be interest free. ASD shall be applicable on all category of Client(s) and Exchange shall collect the amount from the 'buying' Trading Member(s).

F. Refund of Additional Surveillance Deposit

i. The securities under GSM shall be reviewed on a quarterly basis. If the security satisfies the criteria for moving to a lower stage of GSM then ASD shall be refunded.

Ii. ASD shall not be refunded or adjusted even if the securities purchased is sold off.

G. The Clients' agree to abide by the above Circular regarding Graded Surveillance Measure of the Stock Exchange. The Client further agrees that it shall keep track of the applicable Graded Surveillance Measures by the Stock Exchanges from the official websites of the Stock Exchange(s) and abide by the same. The Client shall be solely responsible for the consequences and no contract can be rescinded on that account. The client further agrees that SMIFS shall NOT be held responsible with the plea that Graded Surveillance Measure enforced by the Stock Exchanges was NOT explained to the Client.

5.10 Exposure Margin of Security under various scenarios of Market Wide Position Limits:

A. In the joint meeting of Exchanges, Clearing Corporations and SEBI, NSE vide its **Circular No. SURV/36815 dated 23.01.2018** decided that markets should be alerted at different levels of Market Wide Position Limits (in short "MWPL") utilization so that investors can take an informed decision on whether to hold or square off their existing positions well before regulatory /surveillance actions sets in.

Combined MWPL utilization at End of Day across Exchanges	Applicable Exposure margin of the security
60%	No additional Margins
70% to less than 75%	To be increased by 50% of the normal applicable Exposure margin from next trading day
75% to less than 80%	To be increased by 100% of the normal applicable Exposure margin from next trading day
80% to less than 85%	To be increased by 150% of the normal applicable Exposure margin from next trading day
85% to less than 90%	To be increased by 200% of the normal applicable Exposure margin from next trading day
90% to less than 95%	To be increased by 300% of the normal applicable Exposure margin from next trading day

B. Alert shall be provided once the open interest in a security exceeds each level of MWPL limit as mentioned above. The change in exposure margin shall be applicable from the next trading day and shall be applicable till the open interest in the security reduces to below 70% of MWPL at end of the day.

C. The Policy laid vide Circular No. SURV/36815 dated 23.01.2018, shall be effective from February 2018, immediately the day after the Expiry of February 2018 Contracts. The Policy shall be reviewed in the Surveillance Meeting on periodic basis.

D. The mechanism enshrined in Circular No. SURV/36815 dated 23.01.2018 was reviewed in a joint meeting on 22.06.2018 between Exchanges/Clearing Corporations and SEBI. NSE by its circular no NSE/SURV/36815 dated January 23, 2018 enshrined the provisions for alerts at different levels of MWPL utilization so that investors can take an informed decision on whether to hold or square off his existing positions well before regulatory /surveillance actions sets in. NSE by its Circular No. SURV/38124 dated 22.06.2018 decided that, in Equity derivatives segment, additional exposure margins shall be levied on those scrip's wherein the top 10 clients are accounting for more than 20% of MWPL. The scrip's shall be identified under this framework based on 3 months rolling data and reviewed on monthly basis. The applicable additional exposure margin on the identified scrip shall be at the rate of 15% over and above the applicable Exposure margin, including those based on MWPL utilization.

E. The Framework laid in Circular No. SURV/38124 dated 22.06.2018 shall be effective from June 29, 2018 immediately the day after the Expiry pf June 2018 contracts.

F. In view of the NSE Circular No. CMPT/38768 dated 01.09.2018, the Exchange by its Circular No. NSE/SURV/38783 dated 01.09.2018 laid that w.e.f September 14, 2018 it would discontinue levying the additional exposure margin on security under MWPL referred to in download ref no NSE/SURV/36815 dated January 23, 2018 and download ref no NSE/SURV/38124 dated June 22, 2018. However, the Exchange/Clearing Corporation shall if required, impose stringent additional surveillance margins, as deemed necessary; in cases where open interest exceeds 70% MWPL utilization or where significant client concentration is observed.

G. The Clients' agree to abide by the above Circular(s) regarding Exposure Margin of Security under MWPL for Derivatives Segment of the Stock Exchange and authorize SMIFS to collect the above mentioned margins from their Clients, as and when applicable. The Client further agrees that it shall keep track of the applicable Margins from the official websites of the Stock Exchange(s) and abide by the same. The Client shall be solely responsible for the consequences and no contract can be rescinded on that account. The client further agrees that SMIFS shall NOT be held responsible with the plea that Exposure Margin of Security under MWPL for Derivatives Segment was NOT explained to the Client.

5.11 Additional Surveillance Measure:

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, have been introducing various enhanced pre-emptive surveillance measures such as reduction in price band, periodic call auction and transfer of securities to Trade to Trade category from time to time.

A. In continuation to various surveillance measures already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, NSE vide its **Circular No. SURV/37253 dated 21.03.2018** framed that along with the aforesaid measures there shall be Additional Surveillance Measures (ASM) on securities with surveillance concerns viz. Price variation, Volatility etc.

Accordingly, review for identification of securities for placing in ASM Framework has been carried out. The surveillance actions applicable for the shortlisted securities is as under:

a) Securities shall be placed in Price Band of 5%
b) Margins shall be levied at the rate of 100%

The shortlisted securities shall be further monitored on a pre-determined objective criteria and would be moved into Trade for Trade segment once the criteria gets satisfied. Market participants may note that ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

Further, it may also be noted that the shortlisting of securities under ASM is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company.

B. Based on queries received from market participants, NSE vide its Circular No. **SURV/37262 dated 22.03.2021** provided further update on ASM as given below:

(1) Shortlisting of securities for placing in ASM is based on objective criteria as jointly decided by SEBI and Exchanges covering following parameters as observed in the recent months -

a. High Low Variation
b. Client Concentration
c. No. of Price Band Hits

(2) The aforementioned criteria is dynamic in nature and subject to change from time to time.

C. Further to Exchange Circular no(s). NSE/SURV/37253 and NSE/SURV/37262 dated March 21, 2018 and March 22, 2018 respectively introducing Additional Surveillance Measure (ASM), NSE vide its **Circular No. SURV/37742 dated 11.05.2018** laid the decisions upon the joint review by SEBI and the Exchanges, regarding ASM which shall be effective from May 14, 2018:

Shortlisting of securities for placing in ASM is based on an objective criteria covering following parameters:

a. High Low Variation
b. Client Concentration
c. No. of Price Band Hits
d. Close to Close Price Variation
e. PE Ratio

The aforementioned criteria is dynamic in nature and subject to change from time to time.

The surveillance actions applicable for the shortlisted securities is as under:

a) Securities shall be placed in Price Band of 5%
b) Margins shall be levied at the rate of 100%

The securities which are placed under the ASM framework would be reviewed on bimonthly basis for the applicability of Additional Surveillance Measure

It may be noted that ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time and as may be applicable.

The shortlisting of securities under ASM is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company/entity.

D. Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, have been introducing various enhanced pre-emptive surveillance measures such as reduction in price band, periodic call auction and transfer of securities to Trade to Trade category from time to time. In continuation to various surveillance measures already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, NSE by a **Circular No. SURV/37979 dated 08.06.2018** laid that there shall be Surveillance Measures for Companies that are undergoing Insolvency Resolution Process (IRP) as per Insolvency and Bankruptcy Code (IBC) w.e.f. June 11, 2018.

Accordingly, the list of securities undergoing IRP as per IBC shall be available on the Exchange's website at the following link:

https://www.nseindia.com/corporates/content/compliance_info.htm

The aforesaid securities shall be monitored on a pre-determined objective criteria and Margin shall be levied at the rate of 100 % once the criteria gets satisfied. These securities shall be further monitored for an objective criteria and shall be shifted to Trade for Trade segment once the criteria gets satisfied.

Market participants may note that the aforesaid Surveillance measures shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

E. NSE vide its **Circular No. SURV/38125 dated 22.06.2018** detailed the ASM parameters along with the thresholds (including the applicable exemptions) decided in the Joint Surveillance meeting of Exchanges and SEBI. In accordance with the same, the detailed criteria for shortlisting & review of securities under ASM framework is given below:

a) The following four criteria shall be made applicable for selection of stocks in the ASM framework.

i. High low price variation (based on corporate action adjusted prices) of 200% or more in the last three months AND Concentration of top 25 clients in the last three months is 30% or more.

OR

ii. High low price variation (based on corporate action adjusted prices) of 200% or more in the last three months AND number of price band hits (upper or lower) in the last three months is 30% or more.

OR

iii. Close to close price variation in the last 30 trading days is 100% or more AND PE negative or more than 30 AND the concentration of top 25 clients in the last one month is 30% or more.

OR

iv. Close to Close Price variation in 365 days greater than 100% AND High - Low Variation in 365 days greater than 200% AND Market Cap above Rs. 500 Crores AND High Low Variation in 90 trading days greater than 50%.

The following securities shall be excluded from the process of shortlisting of securities under ASM:

- Public Sector Enterprises and Public Sector Banks
- Securities already under Graded Surveillance Measure (GSM)
- Securities on which derivative products are available
- Securities already under Trade for Trade

b) The applicable surveillance action on shortlisted scrips based on the above criteria shall be as follows:

Surveillance action after inclusion in ASM:

- 5% Price Band - Applicable w.e.f. date of inclusion of the securities in ASM.
- 100% Margin - Applicable w.e.f. the next trade date after the date of inclusion of securities in ASM.

Surveillance action post 1 month after inclusion in ASM:

- Scrips having PE ratio greater than 100 shall be placed in the Trade for Trade segment.

c) Scrips in the ASM framework shall be reviewed every two months for applicability of ASM Framework.

The review will be on the following lines:

- Scrips having PE Ratio less than 10 (PE ratio is between 0 to 10) shall be moved out of ASM framework and close price shall become the base price for subsequent reviews.

- Scrips having PE ratio less than PE ratio of NSE 500 Index shall be moved out of ASM framework in case such scrips does not meet entry criteria stated above.
- Scrips having PE ratio less than 2 times PE ratio of NSE 500 Index shall be continue to remain in ASM, however such scrips shall be moved out of Trade for Trade segment.

Market participants may note that ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

Further, it may also be noted that the shortlisting of securities under ASM is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company / entity.

F. In furtherance to Exchange circular having download reference no. NSE/SURV/38125 dated June 22, 2018, NSE vide its **Circular No. SURV/38390 dated 20.07.2018** laid additional criteria based on an objective parameter w.e.f. July 23, 2018 decided in a Joint Surveillance meeting of Exchanges and SEBI. In accordance with the same, the updated criteria for shortlisting & review of securities under ASM Framework is as given below:

a) The following five criteria shall be made applicable for selection of stocks in the ASM framework.

i. High low price variation (based on corporate action adjusted prices) of 200% or more in the last three months AND Concentration of top 25 clients in the last three months is 30% or more.

OR

ii. High low price variation (based on corporate action adjusted prices) of 200% or more in the last three months AND number of price band hits (upper or lower) in the last three months is 30% or more.

OR

iii. Close to close price variation (based on corporate action adjusted prices) in the last 30 trading days is 100% or more AND PE negative or more than 30 AND the concentration of top 25 clients in the last one month is 30% or more.

OR

iv. Close to Close Price variation (based on corporate action adjusted prices) in 365 days greater than 100% AND High - Low Variation in 365 days greater than 200% AND Market Cap above Rs. 500 Crores AND High Low Variation in 90 trading days greater than 50%.

OR

v. Close to Close Price variation (based on corporate action adjusted prices) greater than or equal to 50% in last three months AND Concentration of top 25 clients in a quarter in the scrip is greater than or equal to 50% AND 5 or more clients out of the top 25 clients having 50 % or more of their trading activity in a scrip AND Market Cap above Rs. 500 crores.

The following securities shall be excluded from the process of shortlisting of securities under ASM:

- Public Sector Enterprises and Public Sector Banks
- Securities already under Graded Surveillance Measure (GSM)
- Securities on which derivative products are available
- Securities already under Trade for Trade

b) The applicable surveillance action on shortlisted scrips based on the above criteria shall be as follows:

Surveillance action after inclusion in ASM:

- The list of scrips shortlisted for action under ASM shall be disseminated in advance (T day). In this regard, the imposition of 5% price band will be effective from next trading day (T+1 day) and imposition of 100% margin will be effective from T+5 trading days.

For eg. If a security is shortlisted under ASM on July 23, 2018 (T day) after-market hours, inclusion under ASM and imposition of 5% Price band shall be applicable w.e.f. July 24, 2018 (T+1 day) and the 100% margin shall be effective July 30, 2018 (T+5 days).

Surveillance action post 1 month after inclusion in ASM:

- Scrips having PE ratio greater than 100 shall be placed in the Trade for Trade segment.

c) Scrips in the ASM framework shall be reviewed every two months for applicability of ASM Framework.

The review will be on the following lines:

- Scrips having PE Ratio less than 10 (PE ratio is between 0 to 10) shall be moved out of ASM framework and close price shall become the base price for subsequent reviews.
- Scrips having PE ratio less than PE ratio of Nifty 500 Index shall be moved out of ASM framework in case such scrips does not meet entry criteria stated above.
- Scrips having PE ratio less than 2 times PE ratio of Nifty 500 Index shall be continue to remain in ASM, however such scrips shall be moved out of Trade for Trade segment.

Market participants may note that ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

Further, it may also be noted that the shortlisting of securities under ASM is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company / entity.

G. Pursuant to Exchange circular having download reference no. NSE/SURV/38390 dated July 20, 2018 and a Joint Surveillance meeting of Exchanges and SEBI held on 17.08.2018, NSE vide its Circular No. SURV/38636 dated 17.08.2018 informed that there shall be an additional criteria based on an objective parameter w.e.f. August 20, 2018. In accordance with the same, the updated criteria for shortlisting & review of securities under ASM Framework is as given below.

a. The following six criteria shall be made applicable for selection of stocks in the ASM framework.

i. High low price variation (based on corporate action adjusted prices) of 200% or more in the last three months AND Concentration of top 25 clients in the last three months is 30% or more.

OR

ii. High low price variation (based on corporate action adjusted prices) of 200% or more in the last three months AND number of price band hits (upper or lower) in the last three months is 30% or more.

OR

iii. Close to Close price variation (based on corporate action adjusted prices) in the last 30 trading days is 100% or more AND PE negative or more than 30 AND the concentration of top 25 clients in the last one month is 30% or more.

OR

iv. Close to Close Price variation (based on corporate action adjusted prices) in 365 days greater than 100% AND High - Low Variation in 365 days greater than 200% AND Market Cap above Rs. 500 Crores AND High Low Variation in 90 trading days greater than 50%.

OR

v. Close to Close Price variation (based on corporate action adjusted prices) greater than or equal to 50% in last three months AND Concentration of top 25 clients in a quarter in the scrip is greater than or equal to 20% AND 5 or more clients out of the top 25 clients having 50 % or more of their trading activity in a scrip AND Market Cap above Rs. 500 crores.

OR

vi. Monthly volume variation in a stock compared to its average volume variation over a period of last three months is greater than 500% + Percentage monthly average volume variation of constituents of Nifty 500 Index compared to their average volume variation for the same period AND concentration of top 25 clients greater than 25% in a month AND Average Delivery percentage less than 30% AND Market Cap above Rs. 500 crores AND Daily average volume greater than or equal to 10000 & trading at least 50% of the days available in the month

Exemption: Bulk/Block (maximum of buy/sell value), i.e., Average Volume of Bulk or Block Quantity/Average Volume of the Security greater than 50%.

The following securities shall be excluded from the process of shortlisting of securities under ASM:

- Public Sector Enterprises and Public Sector Banks
- Securities already under Graded Surveillance Measure (GSM)
- Securities on which derivative products are available
- Securities already under Trade for Trade

b. The applicable surveillance action on shortlisted scrips based on the above criteria shall be as follows:

Surveillance action after inclusion in ASM:

- The list of scrips shortlisted for action under ASM shall be disseminated in advance (T day). In this regard, the imposition of 5% price band will be effective from next trading day (T+1 day) and imposition of 100% margin will be effective from T+5 trading days.

For eg. If a security is shortlisted under ASM on 3uly 23, 2018 (T day) after- market hours, inclusion under ASM and imposition of 5% Price band shall be applicable w.e.f. 3uly 24, 2018 (T+1 day) and the 100% margin shall be effective July 30, 2018 (T+5 days).

Surveillance action post 1 month after inclusion in AST:

- Scrips having PE ratio greater than 100 shall be placed in the Trade for Trade segment

c. Scrips in the ASM framework shall be reviewed after two months for applicability of ASM Framework.

The review will be on the following lines:

- Scrips having PE Ratio less than 10 (PE ratio is between 0 to 10) AND Top 25 clients (in the preceding two months) contribute to less than 50% of total volume in the scrip shall be moved out of ASM framework (and close price shall become the base price for subsequent reviews.)

- Scrips having PE ratio less than PE ratio of Nifty 500 Index AND Top 25 clients (in the preceding two months) contribute to less than 50% of total volume in the scrip shall be moved out of ASM framework in case such scrips does not meet entry criteria stated above.

Market participants may note that ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

Further, it may also be noted that the shortlisting of securities under ASM is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company / entity.

H. Pursuant to Exchange circular having download reference no. NSE/SURV/38636 dated August 17, 2018 and a Joint Surveillance meeting of Exchanges and SEBI held on 31.08.2018, NSE vide its **Circular No. SURV/38781 dated 01.09.2018** informed that there shall review of criteria for selection of securities under ASM. In accordance with the same, the updated criteria for shortlisting & review of securities under ASM Framework is as given below.

a. The following six criteria shall be made applicable for selection of stocks in the ASM framework.

i. High low price variation (based on corporate action adjusted prices) of 200% or more in the last three months AND Concentration of top 25 clients in the last three months is 30% or more.

OR

ii. High low price variation (based on corporate action adjusted prices) of 200% or more in the last three months AND number of price band hits (upper or lower) in the last three months is 30% or more.

OR

iii. Close to Close price variation (based on corporate action adjusted prices) in the last 30 trading days is 100% or more AND PE negative or more than 30 AND the concentration of top 25 clients in the last one month is 30% or more.

OR

iv. Close to Close Price variation (based on corporate action adjusted prices) in 365 days greater than 100% AND High - Low Variation in 365 days greater than 200% AND Market Cap above Rs. 500 Crores AND High Low Variation in 90 trading days greater than 50%.

OR

v. Close to Close Price variation (based on corporate action adjusted prices) greater than or equal to 50% in last three months AND Concentration of top 25 clients in a quarter in the scrip is greater than or equal to 20% AND 5 or more clients out of the top 25 clients having 50 % or more of their trading activity in a scrip AND Market Cap above Rs. 500 crores.

OR

vi. Monthly volume variation in a stock compared to its average volume variation over a period of last three months is greater than 500% on NSE & BSE + Percentage monthly average volume variation of constituents of Nifty 500 Index compared to their average volume variation for the same period AND concentration of top 25 clients greater than 25% in a month AND Average Delivery percentage less than 30% AND Market Cap above Rs. 500 crores AND Daily average volume greater than or equal to 10000 & trading at least 50% of the days available in the month AND greateer than 50% close to close price variation in last one month.

Exemption: Bulk/Block (maximum of buy/sell value), i.e., Average Volume of Bulk or Block Quantity/Average Volume of the Security greater than 50%.

Upon revision of the criteria for placing of securities under ASM framework, scrips qualified under the earlier criteria shall be reviewed based on the revised criteria. Those scrips not fulfilling the revised criteria shall be moved out from ASM framework with effect from T+5 days.

The following securities shall be excluded from the process of shortlisting of securities under ASM:

- Public Sector Enterprises and Public Sector Banks
- Securities already under Graded Surveillance Measure (GSM)
- Securities on which derivative products are available
- Securities already under Trade for Trade

b. The applicable surveillance action on shortlisted scrips based on the above criteria shall be as follows:

Surveillance action after inclusion in ASM:

- The list of scrips shortlisted for action under ASM shall be disseminated in advance (T day). In this regard, the imposition of 5% price band will be effective from next trading day (T+1 day) and imposition of 100% margin will be effective from T+5 trading days.

For eg. If a security is shortlisted under ASM on 3uly 23, 2018 (T day) after- market hours, inclusion under ASM and imposition of 5% Price band shall be applicable w.e.f. 3uly 24, 2018 (T+1 day) and the 100% margin shall be effective July 30, 2018 (T+5 days).

Surveillance action post 1 month after inclusion in AST:

- Scrips having PE ratio greater than 100 shall be placed in the Trade for Trade segment

c. Scrips in the ASM framework shall be reviewed after two months for applicability of ASM Framework.

The review will be on the following lines:

- Scrips having PE Ratio less than 10 (PE ratio is between 0 to 10) AND Top 25 clients (in the preceding two months) contribute to less than 50% of total volume in the scrip shall be moved out of ASM framework (and close price shall become the base price for subsequent reviews.)

- Scrips having PE ratio less than PE ratio of Nifty 500 Index AND Top 25 clients (in the preceding two months) contribute to less than 50% of total volume in the scrip shall be moved out of ASM framework in case such scrips does not meet entry criteria stated above.

Market participants may note that ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

Further, it may also be noted that the shortlisting of securities under ASM is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company / entity.

I. A Joint Surveillance meeting of the Stock Exchanges and SEBI was held on 26.10.20218 and the current ASM Framework was reviewed. The Update Framework laid by NSE **Circular No. SURV/39265 dated 27.10.2018** is provided below:

Section I : Long-term Additional Surveillance Measure (Long-term ASM)

The following four criteria shall be made applicable for selection of stocks in the Long Term ASM Framework

A. The entry Criteria shall be as follows:

1. High Low Price Variation (based on corporate action adjusted prices) in 3 months ≥ (150% + Beta (β) of the stock * Nifty 50 variation)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days.

2. Close-to-Close Price Variation (based on corporate action adjusted prices) in the last 60 trading days ≥ (100% + Beta (β) of the stock * Nifty 50 variation).

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days.

3. Close to Close Price Variation (based on corporate action adjusted prices) in 365 days greater than ≥ (100% + Beta (β) of the stock * Nifty 50 variation)

AND

High—Low Price Variation (based on corporate action adjusted prices) in 365 days ≥ (200% + Beta (β) of the stock * Nifty 50 variation)

AND

Market Cap > Rs. 500 Crore as on review date

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE+BSE in the stock in last 30 days.

4. Average daily Volume in a month is ≥ 10,000 shares & greater than 500% of Average volumes in preceding 3 months at both Exchanges (NSE and BSE)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE+BSE in the stock in last 30 days.

AND

Average Delivery% is less than 50% in last 3 months

AND

Market Capitalisation is > Rs. 500 Crore as on review date

AND

Close—to—close price variation (based on corporate action adjusted prices) in last one month ≥ (50% + Beta (β) of the stock * Nifty 50 variation)

Exemption: Bulk/Block (maximum of buy/sell value), i.e., Average Volume of Bulk or Block Quantity/Average Volume of the Security greater than 50%.

Note: The Beta (β) factor shall be applicable only in case of positive index variation.

The following securities shall be excluded from the process of shortlisting of securities under AST:

- Public Sector Enterprises and Public Sector Banks
- Securities already under Graded Surveillance Measure (GSM)
- Securities on which derivative products are available
- Securities already under Trade for Trade
- Stocks which are currently in the ASM framework and are satisfying the above mentioned entry criteria shall be moved to Stage I (as explained in para b below) of Long Term ASM with effect from October 31, 2018.

Stocks which are currently under the erstwhile ASM framework and meeting the following conditions as on the review date shall be moved out of long term ASM with effect from October 30, 2018 but shall be subject to Short Term ASM as mentioned in Section II of the circular:

i. Number of shareholders as per shareholding pattern (in any of the last available 4 quarters) is greater than 1,00,000

AND

ii. Stocks that have been subject to Long Term ASM for a continuous period of at least 90 days.

B. The applicable surveillance action on shortlisted scrips based on the above criteria shall be as follows:

Stage wise Surveillance action after inclusion in Long Term ASM:

Stage	Conditions of Entry	Action
I	Identification of Securities based on Entry Criteria	Applicable Margin shall be 80% from T+3 day for all Clients
II	Stocks which are already in Stage I of Long Term ASM, satisfying the following conditions in 5 consecutive trading days: Close-to-Close Price Variation (based on corporate action adjusted prices) ≥ (25% + Beta (β) of the stock * Nifty 50 variation) AND Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE & BSE in the stock in last 30 days	Reduction of price band to next lower level and applicable margin shall be 100% from T+3 days for all Clients.
III	Stocks which are already in Stage II of Long Term ASM, satisfying the following conditions in 5 consecutive trading days: Close-to-Close Price Variation (based on corporate action adjusted prices) ≥ (25% + Beta (β) of the stock * Nifty 50 variation) AND Concentration of Top 25 clients account ≥ 30% of combined trading volume of NSE & BSE in the stock in last 30 days	Further reduction of price band to next lower level and applicable margin shall be 100% from T+3 days for all Clients.
IV	Stocks which are already in Stage III of Long Term ASM, satisfying the following conditions in 5 consecutive trading days: Close-to-Close Price Variation (based on corporate action adjusted prices) ≥ (25% + Beta (β) of the stock * Nifty 50 variation)	Settlement shall be on Gross basis with 100% margin for all clients and 5% price band

	AND Concentration of Top 25 clients account ≥ 30% of combined trading volume of NSE & BSE in the stock in last 30 days	

C. Review Period and Exit

1. Securities completing 60 calendar days in long term ASM Framework would be eligible for exit from the framework subject to stage-wise exit as mentioned below.

2. The stage-wise review of stocks shall be on a weekly basis.

3. Exit for stocks shall be in stages as under:
   - Stocks in stage I shall be eligible for exit from Long-term ASM framework subject to such stocks not meeting the entry criteria of long term ASM
   - Stocks in Stage IV shall move to Stage III if such stocks do not meet the entry criteria for stage IV
   - Stocks in Stage III shall move to Stage II if such stocks do not meet the entry criteria for stage III
   - Stocks in Stage II shall move to Stage I if such stocks do not meet the entry criteria for stage II

4. The Exchanges shall jointly frame operational modalities for the aforesaid phased exit framework.

Securities meeting the revised exit criteria shall be moved out w.e.f. Tuesday October 30, 2018.

Securities which meet the entry criteria shall move in the framework w.e.f. Wednesday October 31, 2018.

Section II: Short-term Additional Surveillance Measure (Short-Term ASM)

A. Stage I

Criteria for Identification of Stocks:

Stocks witnessing Close-to-Close Price Variation ≥ (± 25% + Beta (β) of the stock × Nifty 50 variation) in 5 trading days. AND Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE & BSE in the stock in 5 trading days.	OR	Stocks witnessing Close-to-Close Price Variation ≥ (± 40% + Beta (β) of the stock × Nifty 50 variation) in 15 trading days. AND Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE & BSE in the stock in 15 trading days.

Stocks identified as per the above criteria in any of the Exchanges shall be shortlisted under the framework.

Action on the shortlisted Stocks:

1. On identification of above stocks, clarification shall be sought from the company about any corporate announcement, if any that has not been disseminated to market. The clarification, so received shall be disseminated to the market.

2. A surveillance dashboard shall also be displayed on the Exchange Website mentioning the names of such stocks and other relevant details for the information of the investors.

3. Applicable margin rate for the shortlisted stock shall be 1.5 times the existing margin OR 40%, whichever is higher, subject to maximum rate of margin capped at 100%.

4. Top 10 clients based on gross traded value, subject to their gross traded value being greater that Rs. 10 lakhs, shall be levied 100% margin on their gross traded value at End-of-Day (EoD).

B. Stage II

Criteria for Identification of Stocks:

Stocks witnessing Close-to-Close Price Variation ≥ (± 25% + Beta (β) of the stock × Nifty 50 variation) in any 5 consecutive trading days during the 15 days following the inclusion in Stage I. AND Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE & BSE in the stock during the above mentioned 5 days period.	OR	Stocks witnessing Close-to-Close Price Variation ≥ (± 25% + Beta (β) of the stock × Nifty 50 variation) in any 15 consecutive trading days during the 45 days following the inclusion in Stage I. AND Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE & BSE in the stock during the above mentioned 15 days period.

Action on the shortlisted Stocks:

1. Applicable Margin rate for the shortlisted stock shall be 2.5 times the existing margin OR 80%, whichever is higher, subject to maximum rate of margin capped at 100%.

2. Top 10 clients based on gross traded value, subject to their gross traded value being greater than Rs. 10 lakhs, shall be levied 100% margin on their gross traded value being greater than Rs. 10 lakhs, shall be levied 100% margin on their gross traded value at End-of-Day (EoD).

C. Exit Criteria

1. The stocks shall be retained in each stage as applicable for a minimum period of 5/15 trading days and shall be eligible for review from 6th /16th Trading day onwards.

2. Accordingly, if a stock is not meeting entry criteria on the review date, it would be moved out of Short-term ASM framework.

3. As long as a stock continues to meet the criteria for Short-term ASM without attracting the criteria for

Long-term ASM, the stock will continue to be subjected to the Stage II ASM framework.

4. If the stock moves to Long-term ASM framework, the above mentioned Short- term ASM provisions shall not apply to the stock.

The above short-term ASM measures shall be made effective from Wednesday November 14, 2018.

Exchanges shall also be monitoring the PE ratios of stocks and in case of stocks having relatively/abnormally high valuations compared to sectoral / broad indices, additional surveillance measure in conjunction with Short term / Long term ASM shall be imposed.

Market participants may note that ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

Further, it may also be noted that the shortlisting of securities under ASM is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company / entity.

J. This is with reference to the Exchange Circular no. NSE/SURV/39265 dated October 27, 2018 introducing Short Term ASM framework. As per the joint Surveillance meeting of Exchanges and SEBI held on January 11, 2019, the following additional criteria shall be applicable for inclusion of stocks under the Short Term ASM framework w.e.f. January 21, 2019, as laid by Exchange **Circular no. NSE/SURV/39932 dated January 11, 2019**.

For stocks with a Market Capitalization of more than Rs. 100 Crore and less than or equal to Rs. 500 Crore		For stocks with a Market Capitalization greater than Rs. 500 Crore
High Low Variation on a one month basis greater than 50% AND Average unique PANs trading in the scrip in last one month < 100.		High Low Variation on a one month basis greater than 50% AND Average unique PANs trading in the scrip in last one month < 200.

Market participants may note that the above additional framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

Further, it may also be noted that the shortlisting of securities under aforesaid framework is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company / entity.

K. This is with reference to partial modification to Exchange Circular no. NSE/SURV/39265 dated October 27, 2018 introducing Short Term ASM framework. As per the Joint Surveillance meeting of Exchanges and SEBI held on July 19, 2019, the following revised action shall be applicable on stocks under the Short Term ASM framework, as laid by **Exchange Circular no. NSE/SURV/41665 dated July 19, 2019**:

Short	Existing Action	Revised Action

Term ASM		
Stage I	Applicable margin rate for the shortlisted stock shall be 1.5 times the existing margin OR 40%, whichever is higher, subject to maximum rate of margin capped at 100%.	Applicable Margin rate for the shortlisted stock shall be 40% or existing margin whichever is higher, subject to maximum rate of margin capped at 100%.
Stage II	Applicable margin rate for the shortlisted stock shall be 2.5 times the existing margin OR 80%, whichever is higher, subject to maximum rate of margin capped at 100%.	Applicable Margin rate for the shortlisted stock shall be 80% or existing margin whichever is higher, subject to maximum rate of margin capped at 100%.

The aforesaid Revised Action will be implemented w.e.f. July 29, 2019

L. This is with reference to partial modification to Exchange Circular no. NSE/SURV/39932 dated January 11, 2019 introducing additional criteria for inclusion of stocks under Short Term ASM framework.
As per the joint Surveillance meeting of Exchanges and SEBI held on August 27, 2019, the following revised criteria shall be applicable for inclusion of stocks under the Short Term ASM framework, as laid by **Exchange Circular no. NSE/SURV/41981 dated August 27, 2019**:

For stocks with a Market Capitalization of more than Rs. 100 Crore and less than or equal to Rs. 500 Crore		For stocks with a Market Capitalization greater than Rs. 500 Crore
High Low Variation on a one month basis greater than (75% + Beta (β) of the stock × Nifty 50 variation) AND Average unique PANs trading in the scrip in last one month < 100.		High Low Variation on a one month basis greater than (75% + Beta (β) of the stock × Nifty 50 variation) AND Average unique PANs trading in the scrip in last one month < 200.

The aforesaid revised criteria shall be implemented in the next review scheduled on September 03, 2019

M. In partial modification to Exchange Circular No. NSE/SURV/39265 dated October 27, 2018 regarding Additional Surveillance Measure (ASM) framework, NSE vide its **Circular No. SURV/42633 dated November 08, 2019**, laid the following pursuant to the Joint Surveillance meeting of Exchanges and SEBI held on November 08, 2019 regarding the revised criteria which shall be applicable for shortlisting of stocks under the Long Term ASM framework:

1. High Low Price Variation (based on corporate action adjusted prices) in 3 months > (150% + Beta (β) of the stock * Nifty 50 variation)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

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AND

Market Cap > Rs. 200 Crore as on review date

2. Close to Close Price Variation (based on corporate action adjusted prices) in the last 60 trading days > (100% + Beta (β) of the stock * Nifty 50 variation).

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Market Cap > Rs. 200 Crore as on review date.

3. Close to Close Price Variation (based on corporate action adjusted prices) in 365 days greater than > (100% + Beta (β) of the stock * Nifty 50 variation)

AND

High Low Price Variation (based on corporate action adjusted prices) in 365 days > (200% + Beta (β) of the stock * Nifty 50 variation)

AND

Market Cap > Rs. 500 Crore as on review date

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

4. Average daily Volume in a month is ≥ 10,000 shares and monthly volume variation in a stock is > 500% of Average daily volumes in preceding 3 months at both Exchanges (NSE and BSE)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Average Delivery % is less than 50% in last 3 months

AND

Market Capitalisation > Rs. 500 Crore as on review date

AND

Close to close price variation (based on corporate action adjusted prices) in last one month ≥ (50% + Beta (β) of the stock * Nifty 50 variation)

All other provisions of the aforesaid circular remain unchanged. The revised criteria for shortlisting securities shall be effective from the review scheduled on November 11, 2019 and onwards. Further, moving out of securities which are not qualifying the above revised criteria shall be effective from the review scheduled on November 15, 2019 and onwards

N. In partial modification to Exchange Circular No. NSE/SURV/39265 dated October 27, 2018 and Circular No. SURV/42633 dated November 08, 2019 regarding Additional Surveillance Measure (ASM) framework, NSE vide its **Circular No. SURV/43281 dated January 20, 2020**, laid the following pursuant to the Joint Surveillance meeting of Exchanges and SEBI held on January 20, 2020 regarding the revised criteria which shall be applicable for shortlisting of stocks under the Long Term ASM framework:

1. High Low Price Variation (based on corporate action adjusted prices) in 3 months > (150% + Beta (β) of the stock * Nifty 50 variation)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Market Cap > Rs. 200 Crore as on review date

2. Close to Close Price Variation (based on corporate action adjusted prices) in the last 60 trading days > (100% + Beta (β) of the stock * Nifty 50 variation).

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Market Cap > Rs. 200 Crore as on review date.

3. Close to Close Price Variation (based on corporate action adjusted prices) in 365 days greater than > (100% + Beta (β) of the stock * Nifty 50 variation)

AND

High Low Price Variation (based on corporate action adjusted prices) in 365 days > (200% + Beta (β) of the stock * Nifty 50 variation)

AND

Market Cap > Rs. 500 Crore as on review date

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

4. Average daily Volume in a month is ≥ 10,000 shares and monthly volume variation in a stock is > 500% of Average daily volumes in preceding 3 months at both Exchanges (NSE and BSE)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Average Delivery % is less than 50% in last 3 months

AND

Market Capitalisation > Rs. 500 Crore as on review date

AND

Close to close price variation (based on corporate action adjusted prices) in last one month ≥ (50% + Beta (β) of the stock * Nifty 50 variation)

5. Close to Close price variation > 25% + (Beta * Nifty Variation) in a month

AND

PE negative OR > 2 times of PE of Nifty 50

AND

Market Cap < Rs. 500 Crores as on review date

All other provisions of the aforesaid circular remain unchanged. The revised criteria for shortlisting securities shall be effective from the review scheduled on January 22, 2020 and onwards. Further, moving out of securities which are not qualifying the above revised criteria shall be effective from the review scheduled on January 22, 2020 and onwards

O. In partial modification to Exchange Circular No. NSE/SURV/39265 dated October 27, 2018, Circular No. SURV/42633 dated November 08, 2019 and Circular No. SURV/43281 dated January 20, 2020 regarding Additional Surveillance Measure (ASM) framework, NSE vide its **Circular No. SURV/43565 dated February 14, 2020**, laid the following pursuant to the Joint Surveillance meeting of Exchanges and SEBI held on February 14, 2020 regarding the revised criteria which shall be applicable for shortlisting of stocks under the Long Term ASM framework:

1. High Low Price Variation (based on corporate action adjusted prices) in 3 months > (150% + Beta (β) of the stock * Nifty 50 variation)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Market Cap > Rs. 200 Crore as on review date

2. Close to Close Price Variation (based on corporate action adjusted prices) in the last 60 trading days > (100% + Beta (β) of the stock * Nifty 50 variation).

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Market Cap > Rs. 200 Crore as on review date.

3. Close to Close Price Variation (based on corporate action adjusted prices) in 365 days greater than > (100% + Beta (β) of the stock * Nifty 50 variation)

AND

High Low Price Variation (based on corporate action adjusted prices) in 365 days > (200% + Beta (β) of the stock * Nifty 50 variation)

AND

Market Cap > Rs. 500 Crore as on review date

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

4. Average daily Volume in a month is ≥ 10,000 shares and monthly volume variation in a stock is > 500% of Average daily volumes in preceding 3 months at both Exchanges (NSE and BSE)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Average Delivery % is less than 50% in last 3 months

AND

Market Capitalisation > Rs. 500 Crore as on review date

AND

Close to close price variation (based on corporate action adjusted prices) in last one month ≥ (50% + Beta (β) of the stock * Nifty 50 variation)

5. Close to Close price variation > 25% + (Beta * Nifty Variation) in a month

AND

PE negative OR > 2 times of PE of Nifty 50

AND

Market Cap < Rs. 500 Crores as on review date

6. Close-to-Close price variation of the SME stock ≥ ±25% + (Beta (β) of the stock* NIFTY SME EMERGE Index Variation) in 15 days

OR

Close-to-Close price variation of the SME stock ≥ ±50% + (Beta (β) of the stock * NIFTY SME EMERGE Index Variation) in 30 days

OR

Close-to-Close price variation of the SME stock ≥ ±90% + (Beta (β) of the stock * NIFTY SME EMERGE Index Variation) in 3 months

AND

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PE of the stock is negative OR PE of the stock ≥ 2 times the PE of NIFTY SEE EPIERGE Index.

Note:

For stagewise surveillance action on SME stock after inclusion in Long Term ASM criteria 6:

i. Price variation > (+ 25% + Beta (β) of the SME stock * NIFTY SME EMERGE Index Variation) shall be considered.

ii. Concentration of top 25 clients excluding market makers shall be considered.

All other provisions of the aforesaid circular remain unchanged. The revised criteria for shortlisting securities shall be effective from the review scheduled on February 19, 2020 and onwards. Further, moving out of securities which are not qualifying the above revised criteria shall be effective from the review scheduled on February 19, 2020 and onwards

P. A joint Surveillance meeting of Exchanges and SEBI was held on June 05, 2020 wherein the usage of financial parameters across various surveillance measures / actions was reviewed. As per the amendment in Regulation 33 of SEBI (LODR) Regulations, 2015, effective from April 01, 2019, companies having subsidiary companies are required to submit consolidated financials in addition to submissions of standalone financial results. The review of securities under ASM and TFT framework shall be carried out based on the latest consolidated financial statements wherever applicable for all financial related parameters which currently includes Price to Earnings Ratio. Securities which are currently shortlisted under the aforesaid surveillance frameworks shall be reviewed as per parameters based on consolidated financial statements wherever applicable with effect from the next exit review date of the respective surveillance framework. The aforesaid decision was taken on record by NSE Circular No. SURV/44584 dated June 05, 2020.

Q. In partial modification to Exchange Circular No. NSE/SURV/39265 dated October 27, 2018, Circular No. SURV/42633 dated November 08, 2019, Circular No. SURV/43281 dated January 20, 2020 and Circular No. SURV/43565 dated February 14, 2020 regarding Additional Surveillance Measure (ASM) framework, NSE vide its **Circular No. SURV/45111 dated July 22, 2020**, laid the following pursuant to the Joint Surveillance meeting of Exchanges and SEBI held on July 22, 2020 regarding the revised criteria which shall be applicable for shortlisting of stocks under the Long Term ASM framework:

1. High Low Price Variation (based on corporate action adjusted prices) in 3 months > (150% + Beta (β) of the stock * Nifty 50 variation)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Market Cap > Rs. 200 Crore as on review date

2. Close to Close Price Variation (based on corporate action adjusted prices) in the last 60 trading days > (100% + Beta (β) of the stock * Nifty 50 variation).

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Market Cap > Rs. 200 Crore as on review date.

3. Close to Close Price Variation (based on corporate action adjusted prices) in 365 days greater than > (100% + Beta (β) of the stock * Nifty 50 variation)

AND

High Low Price Variation (based on corporate action adjusted prices) in 365 days > (200% + Beta (β) of the stock * Nifty 50 variation)

AND

Market Cap > Rs. 500 Crore as on review date

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

4. Average daily Volume in a month is ≥ 10,000 shares and monthly volume variation in a stock is > 500% of Average daily volumes in preceding 3 months at both Exchanges (NSE and BSE)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Average Delivery % is less than 50% in last 3 months

AND

Market Capitalisation > Rs. 500 Crore as on review date

AND

Close to close price variation (based on corporate action adjusted prices) in last one month ≥ (50% + Beta (β) of the stock * Nifty 50 variation)

5. Close to Close price variation > 25% + (Beta * Nifty Variation) in a month

AND

PE negative OR > 2 times of PE of Nifty 50

AND

Market Cap < Rs. 500 Crores as on review date

6. Close-to-Close price variation of the SME stock ≥ ±25% + (Beta (β) of the stock* NIFTY SME EMERGE Index Variation) in 15 days

OR

Close-to-Close price variation of the SME stock ≥ ±50% + (Beta (β) of the stock * NIFTY SME EMERGE Index Variation) in 30 days

OR

Close-to-Close price variation of the SME stock ≥ ±90% + (Beta (β) of the stock * NIFTY SME EMERGE Index Variation) in 3 months

AND

PE of the stock is negative OR PE of the stock ≥ 2 times the PE of NIFTY SEE EPIERGE Index.

Note: For stagewise surveillance action on SME stock after inclusion in Long Term ASM criteria 6:

i. Price variation > (+ 25% + Beta (β) of the SME stock * NIFTY SME EMERGE Index Variation) shall be considered.

ii. Concentration of top 25 clients excluding market makers shall be considered.

In addition to the above, the stocks satisfying the below criteria after inclusion / stage - wise movement under the Long Term ASM shall be placed in Stage IV of Long Term ASM and shall be retained in Stage IV till such time the stocks satisfies the criteria:

High–Low Price Variation (based on corporate action adjusted prices) in 6 months ≥ (200% + Beta (β) of the stock * Nifty variation)

AND

Non–Promoter holding in the stock < 10%

All other provisions of the aforesaid circular remain unchanged. The revised criteria for shortlisting securities shall be effective from the review scheduled on July 23, 2020 and onwards. Further, moving out of securities which are not qualifying the above revised criteria shall be effective from the review scheduled on July 23, 2020 and onwards.

R. In partial modification to Exchange Circular No. NSE/SURV/39265 dated October 27, 2018, Circular No. SURV/42633 dated November 08, 2019 and Circular No. SURV/41665 dated July 19, 2019, NSE vide its **Circular No. SURV/46557 dated December 04, 2020**, laid the following pursuant to the Joint Surveillance meeting of Exchanges and SEBI held on December 04, 2020 the surveillance actions applicable on scrips under the Short Term & Long Term ASM framework:

(1) Short Term ASM

Stage	Surveillance Actions (Existing)	Surveillance Actions (Revised)
I	Applicable margin rate for the shortlisted scrip - Higher of (40% OR existing margin), subject to maximum rate of 100%	Applicable margin rate for the shortlisted scrip - Higher of (50% OR existing margin), subject to maximum rate of 100% #
	Top 10 clients based on gross traded value, subject to their gross traded value being greater than Rs.10 lakhs, shall be levied 100% margin on their gross traded value at End-of-Day (EoD)	Discontinued w.e.f. December 07, 2020

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II	Applicable margin rate for the shortlisted scrip - Higher of (80% OR existing margin), subject to maximum rate of 100%	Applicable margin rate for the shortlisted scrip - Higher of (100% OR existing margin), subject to maximum rate of 100% #
	Top 10 clients based on gross traded value, subject to their gross traded value being greater than Rs.10 lakhs, shall be levied 100% margin on their gross traded value at End-of-Day (EoD)	Discontinued w.e.f. December 07, 2020

(2) Short Term ASM

Stage	Surveillance Actions (Existing)	Surveillance Actions (Revised)
I	Applicable margin shall be 80% from T+3 day	Applicable margin shall be 100% from T+3 day #
II	Reduction of price band to next lower level and applicable margin shall be 100% from T+3 day	Reduction of price band to next lower level and applicable margin shall be 100% from T+3 day
III	Further reduction of price band to next lower level and applicable margin shall be 100% from T+3 day	Further reduction of price band to next lower level and applicable margin shall be 100% from T+3 day
IV	Settlement shall be on Gross basis with 100% margin for all clients and 5% price band	Settlement shall be on Gross basis with 100% margin for all clients and 5% price band

The revision in the applicable rate of margin on scrips currently shortlisted shall be w.e.f. December 09, 2020 on all open positions as on December 08, 2020 and new positions created from December 09, 2020.

Market participants may note that ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

Further, it may also be noted that the shortlisting of securities under ASM is purely on account of market surveillance and it should not be construed as an adverse action against the concerned company / entity.

S. In partial modification to Exchange Circular No. NSE/SURV/39265 dated October 27, 2018, Circular No. SURV/42633 dated November 08, 2019, Circular No. SURV/43281 dated January 20, 2020, Circular No. SURV/43565 dated February 14, 2020 and Circular No. SURV/45111 dated July 22, 2020regarding Additional Surveillance Measure (ASM) framework, NSE vide its Circular No. SURV/48506 dated June 04, 2021, laid the following pursuant to the Joint Surveillance meeting of Exchanges and SEBI held on June 04, 2021 regarding the revised criteria which shall be applicable for shortlisting of stocks under the Long Term ASM framework:

1. High Low Price Variation (based on corporate action adjusted prices) in 3 months > (150% + Beta (β) of the stock * Nifty 50 variation)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Market Cap > Rs. 200 Crore as on review date

2. Close to Close Price Variation (based on corporate action adjusted prices) in the last 60 trading days > (100% + Beta (β) of the stock * Nifty 50 variation).

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Market Cap > Rs. 200 Crore as on review date.

3. Close to Close Price Variation (based on corporate action adjusted prices) in 365 days greater than > (100% + Beta (β) of the stock * Nifty 50 variation)

AND

High Low Price Variation (based on corporate action adjusted prices) in 365 days > (200% + Beta (β) of the stock * Nifty 50 variation)

AND

Market Cap > Rs. 500 Crore as on review date

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

4. Average daily Volume in a month is ≥ 10,000 shares and monthly volume variation in a stock is > 500% of Average daily volumes in preceding 3 months at both Exchanges (NSE and BSE)

AND

Concentration of Top 25 clients ≥ 30% of combined trading volume of NSE + BSE in the stock in last 30 days stock in last 30 days.

AND

Average Delivery % is less than 50% in last 3 months

AND

Market Capitalisation > Rs. 500 Crore as on review date

AND

Close to close price variation (based on corporate action adjusted prices) in last one month ≥ (50% + Beta (β) of the stock * Nifty 50 variation)

5. Close to Close price variation > 25% + (Beta * Nifty Variation) in a month

AND

PE negative OR > 2 times of PE of Nifty 50

AND

Market Cap < Rs. 500 Crores as on review date

6. Close-to-Close price variation of the SME stock ≥ ±25% + (Beta (β) of the stock* NIFTY SME EMERGE Index Variation) in 15 days

OR

Close-to-Close price variation of the SME stock ≥ ±50% + (Beta (β) of the stock * NIFTY SME EMERGE Index Variation) in 30 days

OR

Close-to-Close price variation of the SME stock ≥ ±90% + (Beta (β) of the stock * NIFTY SME EMERGE Index Variation) in 3 months

AND

PE of the stock is negative OR PE of the stock ≥ 2 times the PE of NIFTY SEE EPIERGE Index.

Note: For stagewise surveillance action on SME stock after inclusion in Long Term ASM criteria 6:

i. Price variation > (+ 25% + Beta (β) of the SME stock * NIFTY SME EMERGE Index Variation) shall be considered.

ii. Concentration of top 25 clients excluding market makers shall be considered.

7. Scrips with price band of ±10%, ±5%, ±2%

AND

Close-to-Close Price Variation (based on corporate action adjusted prices) in 365 days > (200% + Beta (β) of the stock * Nifty 50 variation)

AND

High-Low Price Variation (based on corporate action adjusted prices) in 365 days > (300% + Beta (β) of the stock* Nifty 50 variation)

AND

Market Capitalisation > Rs. 1000 Crores as on review date

AND

Concentration of Top 25 clients > 25% of combined trading volume of NSE & BSE in the stock in last 30 days

Action on the stocks shortlisted as per Criteria 7:

i. The shortlisted scrips shall be placed directly in Stage IV of Long Term ASM w.e.f. beginning of T+3 days (T day being the day on which scrip was shortlisted).

ii. The shortlisted scrips shall be retained in Stage IV for a minimum period of 90 calendar days.

iii. Post completion of 90 calendar days, such scrips shall be subjected to stage-wise review (that is at present undertaken on weekly basis by the Stock Exchanges).

Securities completing 90 calendar days in Long-term ASM Framework would be eligible for exit from the framework subject to stage-wise exit.

In addition to the above, the stocks satisfying the below criteria after inclusion / stage - wise movement under the Long Term ASM shall be placed in Stage IV of Long Term ASM and shall be retained in Stage IV till such time the stocks satisfy the criteria:

High-Low Price Variation (based on corporate action adjusted prices) in 6 months > (200% + Beta (β) of the stock * Nifty variation)

AND

Non-Promoter holding in the stock < 10%

All other provisions of the aforesaid circular remain unchanged. The revised criteria for shortlisting securities shall be effective from the review scheduled on June 07, 2021 and onwards. Further, moving out of securities which are not qualifying the above revised criteria shall be effective from the review scheduled on June 07, 2021 and onwards.

5.12 Additional Surveillance Margin for Derivatives Segment:

A. NSE by its **Circular No. CMPT/38123 dated 22.06.2018** laid that as an ongoing measure of risk containment and surveillance as decided on 22.06.2018 in the Joint Meeting between SEBI, Exchanges and Clearing Corporations, an Additional Surveillance Margin is currently being levied as under: -

A1. A potential scenario of 20% fall in all index/ securities is considered. Loss due to such fall on the portfolio after considering available margins is collected as additional surveillance margins for clients fulfilling specified criteria.

A2. The said Circular No. CMPT/38123 dated 22.06.2018 also framed that based on a periodic review and in consultation between SEBI, Stock Exchanges and Clearing Corporations, additional surveillance margins for potential market rise scenario shall also be levied as under: - A potential scenario of 17.74% rise in all index/ securities shall be considered. Loss due to such rise on the portfolio after considering available margins and hedged positions, if any basis the holdings provided by depositories, shall be collected as additional surveillance margins for clients fulfilling specified criteria.

A3. Additional Surveillance margins as above shall be blocked from the collaterals of clearing member on T+1day basis. The above framework shall be in conjunction with the prevailing surveillance measures being imposed by Exchange/Clearing Corporation. The day of applicability of additional surveillance margins for potential market rise scenario in respect of 17.74% rise in all index/ securities shall be informed in due course.

B. NSE by its **Circular No. CMPT/38210 dated 02.07.2018** informed that the Additional surveillance margins for the potential scenario of 17.74% rise in all index/ securities shall be applicable from July 06, 2018 (End of day position).

C. NSE by its **Circular No. CMPT/38269 dated 06.07.2018** laid that as an ongoing measure of risk containment and surveillance as decided on 06.07.2018 an Additional Surveillance Margin shall be levied on following clients subject to a Minimum of 50% of cumulative projected loss across all clients is covered:

C.1 For a market fall scenario as specified in Market Fall Scenario, Additional Surveillance Margin shall be levied for clients having loss of around Rs.1 crores after considering available margins.

C.2 For a market rise scenario as specified in Market Fall Scenario, Additional Surveillance Margin shall be levied for clients having loss of around Rs. 5 crores after considering available margins and underlying portfolio.

C.3 In case a client meets both the above criteria for Additional Surveillance Margin, then the maximum amount computed in 6.3.1.1 and 6.3.1.2 above shall be collected as Additional Surveillance Margin.

C.4 Additional Surveillance Margin as above shall be blocked from the collaterals of clearing member on T+1-day basis.

C.5 Additional Surveillance Margin framework shall be in conjunction with the prevailing surveillance measures being imposed by Stock Exchanges/ Clearing Corporation.

D. NSE by its **Circular No. CMPT/38768 dated 01.09.2018** laid that as an ongoing measure of risk containment and surveillance the following has been decided on 01.09.2018 in the joint meeting between SEBI, Exchanges and Clearing Corporations:

D1. That in addition to Initial margin and Exposure margin currently applicable, an Additional Surveillance Margin shall be levied on all gross open positions on futures contracts and on short positions in options contracts which shall be effective from the dates mentioned below:

Effective date of Implementation	Index Options*	Index Futures	Stock Options and Futures
September 14, 2018	1.00%	0.50%	1.25%
September 28, 2018	2.00%	1.00%	2.50%
October 26, 2018	3.00%	1.50%	3.75%
November 30, 2018	4.00%	2.00%	5.00%

*In case of Out-of-the-money index option contracts, the Additional Surveillance Margin shall be restricted to 2% only. For this purpose, Out-of-the-money index options contracts shall be defined as options contracts with strike prices which are out-of-the-money by not less than 5% away from the previous day closing price of the underlying Index.

D2. The above mentioned Additional Surveillance Margin shall be added to the applicable exposure margin of the respective index/stock futures and options contracts.

D3. The additional surveillance margin as levied based on the scenarios of market rise (17.74%) and market fall (20%) as mentioned in 6.2 shall be discontinued with effect from 28.09.2018.

D4. Clearing Corporation shall continue to monitor all client-level positions based on the above mentioned scenarios and, if required, impose additional surveillance margins and/or take other actions as deemed necessary.

D5. Clearing Corporation shall also monitor the open interest in derivatives based on sectoral indices (particularly where top 3 stocks collectively constitute more than 50% of the weightage in the index), and, if required, may impose higher margins as may be deemed necessary.

E. NSE by its **Circular No. CMPT/38879 dated 12.09.2018** laid that as an ongoing measure of risk containment and surveillance the following has been decided on 01.09.2018 in the joint meeting between SEBI, Exchanges and Clearing Corporations, that currently the Initial Margin and Exposure Margin in Index Options cover risk for around 6% change in underlying indices while Initial Margin and Exposure Margin in Index Futures cover risk for around 8% change in underlying indices. Similarly, Initial Margin and Exposure Margin for single stock derivatives cover risk for around 12.50% change in underlying stocks. Instead of adding the Additional Surveillance Margin, as specified in Circular No. CMPT/38768 dated 01.09.2018, to the Exposure Margins, Price Scan Range (PSR) used for computation of Initial Margins shall be amended, in steps, to increase the coverage of risk arising out of change in underlying Index / stocks to cover risk for 10% change in underlying indices and 17.50% change in underlying stocks. The PSR will be amended to reflect the additional change in underlying as per the table and schedule given below:-

Effective date of Implementation	**14-Sep-18***	**28-Sep-18**	**26-Oct-18**	**30-Nov-18**
Additional Price change coverage for Index Options	1.00%	2.00%	3.00%	4.00%
Revised PSR for Index Options	Higher of 3 sigma or 4.00% of underlying value	Higher of 3 sigma or 5.00% of underlying value	Higher of 3 sigma or 6.00% of underlying value	Higher of 3 sigma or 7.00% of underlying value
Additional Price change coverage for Index Futures	0.50%	1.00%	1.50%	2.00%
Revised PSR for Index Futures	Higher of 3 sigma or 5.50% of underlying value	Higher of 3 sigma or 6.00% of underlying value	Higher of 3 sigma or 6.50% of underlying value	Higher of 3 sigma or 7.00% of underlying value
Additional Price change coverage for Stocks Futures and Options	1.25%	2.50%	3.75%	5.00%
Revised PSR for Stocks	Higher of 3.5 sigma or 8.75% of underlying value	Higher of 3.5 sigma or 10.00% of underlying value	Higher of 3.5 sigma or 11.25% of underlying value	Higher of 3.5 sigma or 12.50% of underlying value

F. NSE by its **Circular No. CMPT/39767 dated 26.12.2018** laid the provision of withdrawal of Additional Surveillance Margin in Equity Derivatives Segment by Exchanges and Clearing Corporations which was incorporated in the Price Scan Range vide Circular No. CMPT/38879 dated 12.09.2018 shall with effect from January 21, 2019.

G. In the Joint Surveillance Meeting held on May 23, 2019 between SEBI and Stock Exchanges, certain instances of Order Spoofing were discussed and the decision of Surveillance Measures were laid vide NSE Circular No. SURV/41107 on May 23, 2019, which are as follows:

G1. If any Trading Member places and cancels Order on its Own Account or on behalf of the Client, which is considerable portion of the pending Order Book and at the same time executes trades on the Opposite Side of the Order Book, then the Stock Exchanges shall initiate suitable action which may include levy of Additional Surveillance Margin of 5%.

G2. The Additional Surveillance Margin of 5% when levied shall remain for a period of One Month and shall be applicable on both Equity and Equity Derivative Segment, across all Exchanges.

G3. The above Additional Surveillance Measure is without prejudice to the rights of SEBI and Stock Exchanges to take any other Surveillance Measures, in any manner, on a case to case basis or holistically depending upon the situation and circumstances as may be warranted.

H. The Clients' agree to abide by the above Circular(s) regarding Additional Surveillance Margin for Derivatives Segment of the Stock Exchange and authorize SMIFS to collect the above mentioned margins from their Clients, as and when applicable. The Client further agrees that it shall keep track of the applicable Margins from the official websites of the Stock Exchange(s) and abide by the same. The Client shall be solely responsible for the consequences and no contract can be rescinded on that account. The client further agrees that SMIFS shall NOT be held responsible with the plea that Additional Surveillance Margin was NOT explained to the Client.

5.13 Additional Margins:

A. In view of the volatility observed in the market it is proposed by the Exchanges to levy Additional Margins, NSE by their **Circular No. CMPT/38966 and CMPT/38967 both dated 25.09.2018**, in respect of specified securities of Cash Market Segment & Equity Derivatives Segment.

A1. Additional margins shall be levied in Capital Market Segment on F&O securities where:

A1.1 Intra-day price movement of more than 20%.

A1.2 Close to close price movement is less than 20%.

A1.3 Intra-day price movement shall be computed as change from previous day close to high/low price of day whichever is higher.

A1.4 An additional margin of 50% of the intra-day price movement above 20% shall be levied as additional margin.

A1.5 Additional margin% shall be added to total margin% (VAR +ELM). (Details shall be included in the daily VAR file provided on the website of NSE).

A1.6 Additional margins levied shall be continued for 15 calendar days, provided no further intra-day volatility is observed.

A1.7 Additional margins levied shall be reviewed periodically.

A2. Additional margins shall be levied in Equity Derivatives Segment where:

A2.1 Intra-day price movement of more than 20%.

A2.2 Close to close price movement is less than 20%.

A2.3 Intra-day price movement shall be computed as change from previous day close to high/low price of day whichever is higher.

A2.4 An additional margin of 50% of the intra-day price movement above 20% shall be levied as additional margin.

A2.5 Additional margins shall be specified as a percentage and added to the existing exposure margins of the security. (Details shall be included in the daily exposure file provided on the website of NSE).

A2.6 Additional margins levied shall be continued for 15 calendar days, provided no further intra-day volatility is observed.

A2.7 Additional margins levied shall be reviewed periodically.

A3. Both the Circulars shall be effective from September 27, 2018 based on the data of September 21, 2018

B. Pursuant to the provisions of Additional Surveillance Margin for Derivatives Segment as decided on 01.09.2018, it has been decided by the Stock Exchanges, by their **Circular No. CMPT/39018 dated 28.09.2018**, to levy Additional Margins as under:

B1. Extreme scenario of 20% market fall and 17.74% market rise shall be modeled on all client level portfolios and gross client level losses shall be computed at end of day.

B2. Net client level losses after considering applicable margins and hedged positions, if any based on the holdings provided by depositories, shall be computed.

B3. In respect of clients having net loss of Rs. 25 crores and more, 50% of the loss in excess of Rs. 25 crores shall be levied as Additional Margins.

B4. Additional Margins shall be blocked from the collaterals of clearing member on T+1 day basis.

B5. Clients shall note that the above framework shall be in conjunction with the prevailing Surveillance Measures being imposed by the Stock Exchange/ Clearing Corporation. SMIFS may collect the above-mentioned margins from their Clients.

B6. The above Circular shall be effective from October 01, 2018.

C. Pursuant to the joint meeting between, SEBI, Exchange(s) and Clearing Corporations, NSE by their **Circular No. CMPT/39151 dated 12.10.2018** laid the provisions of levy of Additional Margins in Cash Market Segment as mentioned in in NSE Circular No. CMPT/38966 dated 25.09. 2018 shall be modified as under:

C1 Additional margins shall be levied in respect of securities where derivative contracts are available.

C2. Securities with Intra-day (High-Low) price movement of more than 10% for 3 or more days in last one month shall be identified.

C3. In respect of securities identified the minimum total margins (VAR, Extreme Loss Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in last one month.

C4. The above mentioned minimum total margins shall be continued till expiry date of derivative contracts which falls after completion of three months from date of levy.

C4. Additional margins levied shall be reviewed periodically.

C5. Circular No. CMPT/39151 dated 12.10.2018 shall be effective from 16.10.2018.

D. Pursuant to the Joint Meeting between, SEBI, Stock Exchange(s) and Clearing Corporations, NSE by their **Circular No. CMPT/39152 dated 12.10.2018** laid the provisions of levy of Additional Margins in Futures and Option Segment as mentioned in NSE Circular No. CMPT/38967 dated 25.09.2018 shall be modified as under:

D1. Securities with Intra-day (High -Low) price movement of more than 10% in the underlying market for 3 or more days in last one month shall be identified.

D2. In respect of securities identified the minimum total margins (SPAN margins, Exposure Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in underlying market in last one month.

D3. The above mentioned minimum total margins shall be continued till expiry date of derivative contracts which falls after completion of three months from date of levy.

D4. Additional margins levied shall be reviewed periodically.

D5. Circular No. CMPT/39152 dated 12.10.2018 shall be effective from 16.10.2018.

E. Pursuant to the joint meeting between, SEBI, Exchange(s) and Clearing Corporations, NSE by their **Circular No. CMPT/39742 dated 21.10.2018** laid the provisions of levy of Additional Margins in Cash Market Segment as mentioned in in NSE Circular No. CMPT/39151 dated 12.10.2018 shall be modified as under:

E1. For securities where derivative contracts are available and have an Intra-day (High-Low) price movement of more than 10% for 10 or more days in last six months; the minimum total margins (VAR, Extreme Loss Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in last six months.

E2. The above mentioned minimum total margins shall be continued till expiry date of derivative contracts which falls after completion of one year from date of levy.

E3. Circular No. CMPT/39742 dated 21.12.2018 shall be effective from 26.12.2018.

F. Pursuant to the joint meeting between, SEBI, Exchange(s) and Clearing Corporations, NSE by their **Circular No. CMPT/39743 dated 21.12.2018** laid the provisions of levy of Additional Margins in Cash Market Segment as mentioned in in NSE Circular No. CMPT/39152 dated 12.10.2018 shall be modified as under:

F1. For securities with Intra-day (High -Low) price movement of more than 10% in the underlying market for 10 or more days in last six months; the minimum total margins (SPAN margins, Exposure Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in underlying market in last six months.

F2. The above mentioned minimum total margins shall be continued till expiry date of derivative contracts which falls after completion of one year from date of levy.

F3. Circular No. CMPT/39743 dated 21.12.2018 shall be effective from 26.12.2018.

G. NSE vide its **Circular No. CMPT/40458 dated 15.03.2019** brought about modification of NSE Circular No. CMPT/39018 dated 28.09.2018 whereby the following revision to the additional margin framework shall be implemented:

G1. In respect of clients having net loss of Rs.25 crores and more, the full amount of loss in excess of Rs.25 crores shall be levied as Additional Margins

G2. Circular No. CMPT/40458 dated 15.03.2019 shall be effective from 18.03.2019.

H. The Clients' agree to abide by the above Circular(s) regarding Additional Margins for Cash Segment and Derivatives Segment of the Stock Exchange and authorize SMIFS to collect the above mentioned margins from their Clients, as and when applicable. The Client further agrees that it shall keep track of the applicable Margins from the official websites of the Stock Exchange(s) and abide by the same. The Client shall be solely responsible for the consequences and no contract can be rescinded on that account. The client further agrees that SMIFS shall NOT be held responsible with the plea that Additional Margin was NOT explained to the Client.

5.14 Initial Margins for BANKNIFTY Contracts

This is with reference to **NSE Circular No. CMPT/38768 dated 01.09.2018**, it was inter-alia informed that "Clearing Corporation shall monitor the open interest in derivatives based on sectoral indices (particularly where top 3 stocks collectively constitute more than 50% of the weightage in the index), and, if required, may impose higher margins as may be deemed necessary".

Accordingly, NSE by its Circular No. CMPT/40549 dated 26.03.2019 the initial margins for futures and options on BANKNIFTY contracts shall be revised, whereby the Price Scan Range applicable for computation of initial margins for futures and options on BANKNIFTY contracts shall be as under:

Effective Date of Implementation	Current	05-Apr-2019	02-Apr-2019	22-Apr-2019
Revised PSR for BANKNIFTY Index Futures and Options	Higher of 3 sigma scaled up by square root of 2 or 5% of underlying value scaled up by square root of 2 (i.e 7.07% of underlying value)	Higher of 3 sigma scaled up by square root of 2 or 5.50% of underlying value scaled up by square root of 2 (i.e 7.78% of underlying value)	Higher of 3 sigma scaled up by square root of 2 or 6% of underlying value scaled up by square root of 2 (i.e 8.49% of underlying value)	Higher of 3 sigma scaled up by square root of 2 or 6.50% of underlying value scaled up by square root of 2 (i.e 9.19% of underlying value)

5.15 Margin Collection and Enforcement

For the Equity Derivatives segment, by a **Circular no. SEBI/HO/MRD/DRMNP/CIR/P/2018/75 dated May 02, 2018 SEBI** has mandated that the client margins which are required to be compulsorily collected and reported to the Exchange/Clearing Corporation, as the case may be, by the Clearing members/ Trading members shall include initial margin, exposure margin/extreme loss margin, calendar spread margin and mark to market settlements. With reference to SEBI circular CIR/DNPD/7/2011 dated August 10, 2011 captioned "Short-collection/Non-collection of client margins (Derivatives segments)", it is clarified that the 'margins', for both Equity Derivatives Segment and Currency Derivatives Segment, shall include margins as specified above, mark to market settlements or any other margin as prescribed by the Exchange/Clearing Corporation to be collected by Clearing Members from their clients (i.e. Custodial Participants and Trading Members -for their proprietary positions) and by Trading Members from their clients.

5.16 Principles for Financial Market Infrastructures

SEBI by a **Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/155 dated December 17, 2018** envisaged that the Principles for Financial Market Infrastructures (PFMI) inter alia prescribe that a central counterparty (CCP) should identify and consider a number of elements, including Margin Period of Risk (MPOR) or close-out period, when constructing an appropriate margin system to address risks that arise from the products cleared. The assumed MPOR or close-out period should incorporate the market depth and characteristics of the products cleared. A CCP should consider multiple MPOR assumptions or seek to ensure that a single MPOR assumption is appropriate for all cleared products in case it clears products with different market characteristics. The PFMI further prescribe that a CCP should adopt a margin system and parameters that are risk-based and generate margin requirements that are sufficient to cover its potential future exposures to participants in the interval between the last margin collection and the close-out of positions following a participant default. A CCP should also consider the potential market liquidation costs that it assumes to incur while liquidating a participant's portfolio. In order to bring MPOR in greater conformity with the PFMI, the Risk Management Review Committee (RMRC) of SEBI recommended that the MPOR may be increased to 2 (two) days as compared to current MPOR of 1 (one) day.

i. The Client understands that based on the aforementioned recommendation made by RMRC and in consultation with the Clearing Corporations, it has been decided that Exchanges/ Clearing Corporations shall estimate the appropriate MPOR, subject to a minimum of 2 days, for each equity derivative product based on liquidity therein and scale up the initial margins and exposure margins accordingly. For initial margins, the revised MPOR shall be given effect by way of scaling up the Price Scan Range (PSR) used for computing the Worst Scenario Loss.

ii. The Client further understands that it has been decided to stipulate PSR for computation of initial margins across index options and index futures contracts as three standard deviations (3σ) or 5% of the underlying value, whichever is higher. The Short Option Minimum Charge (SOMC) for index option contracts also stands revised to 5%.

iii. SEBI by a Circular No. SEBI/DNPD/Cir-26/2004/07/16 dated July 16, 2004 inter alia prescribes that the Stock Exchanges/ Clearing Corporations may offer a choice to the members to opt for payment of mark to market margin (MTM) either before the start of trading on the next day (T+0) or, on the next day (T+1) with scaled up margins to cover the potential for losses over the time elapsed in the collection of MTM. By the instant Circular dated 17.12.2018, SEBI has laid that in order to make risk management framework more robust, the payment of MTM shall now mandatorily be made by all the members on T+0 basis i.e. before start of trading on the next day.

5.17 Review of Adjustment of Corporate Actions for Stock Options

A. SEBI, vide Circular No. SMDRP/DC/CIR- 8/01 dated June 21, 2001, prescribed a framework for adjustment of corporate actions for stock option contracts. Further, SEBI, vide Circular No. SMDRP/DC/CIR-15/02 dated December 18, 2002, set out principles for adjustment in derivative contracts at the time of corporate actions

B. SEBI has been receiving representations from various stakeholders requesting to review the dividend adjustment framework for stock options. The suggestions were examined and placed before the Secondary Market Advisory Committee (SMAC) for deliberations. Based on the recommendations of SMAC, SEBI vide **Circular No. CIR/MRD/DoP-1/P/00108/2018 dated July 5, 2018** decided to review the mechanism of dividend adjustment for stock options.

C. The adjustment in strike price shall be carried out in the following cases of declaration of dividends:

C1. Dividends declared at and above 5% of the market value of the underlying stock ; OR

C2. All cases of dividends, where the listed entity has sought exemption from the timeline prescribed under the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

D. All other conditions stated in Circular No. SMDRP/DC/CIR-8/01 dated June 21, 2001 and Circular No. SMDRP/DC/CIR-15/02 dated December 18, 2002 shall remain unchanged.

H. The Clients' agree to abide by the above Circular regarding Adjustment of Corporate Actions for Stock Options in Derivatives Segment of the Stock Exchange. The Client further agrees that it shall keep track of the applicable Adjustment of Corporate Actions for Stock Options from the official websites of the Stock Exchange(s) and abide by the same. The Client shall be solely responsible for the consequences and no contract can be rescinded on that account. The client further agrees that SMIFS shall NOT be held responsible with the plea that Adjustment of Corporate Actions for Stock Options was NOT explained to the Client.

6. Physical Settlement of Stock Derivatives

A. SEBI Circular No. SMDRP/DC/CIR- 7/01 dated June 20, 2001 and Circular No. SMDRP/DC/CIR- 10/01 dated November 2, 2001 regarding settlement of stock options and stock futures contracts respectively. Based on the recommendations of the Derivatives Market Review Committee and in consultation with Stock Exchanges (BSE and NSEIL), **SEBI by its Circular No. CIR/DNPD/ 4 /2010 dated July 15, 2020** decided to provide flexibility to Stock Exchanges to offer:

a. Cash settlement (settlement by payment of differences) for both stock options and stock futures; or
b. Physical settlement (settlement by delivery of underlying stock) for both stock options and stock futures; or
c. Cash settlement for stock options and physical settlement for stock futures; or
d. Physical settlement for stock options and cash settlement for stock futures.

B. By the Circular No. CIR/DNPD/ 4 /2010 dated July 15, 2020 SEBI empowered the Stock Exchange to introduce physical settlement in a phased manner. On introduction, however, physical settlement for all stock options and/or all stock futures, as the case may be, must be completed within six months. The settlement mechanism shall be decided by the Stock Exchanges in consultation with the Depositories. On expiry / exercise of physically settled stock derivatives, the risk management framework (i.e., margins and default) of the cash segment shall be applicable. Settlements of cash and equity derivative segments shall continue to remain separate.

C. SEBI vide circular(s) CIR/DNPD/4/2010 dated July 15, 2010 and CIR/DNPD/3/2012 dated July 23, 2012 laid the principles of Eligibility Criteria for Stocks in Derivatives Segment and Physical Settlement of Stock Derivatives. With a view to improve market integrity and provide better alignment of cash and derivatives segment, SEBI published discussion papers on July 12, 2017 and September 7, 2017 requesting stakeholders to provide their comments/views thereon. In light of the comments received and assessment thereof, discussion with the stock exchanges and market participants and further discussion in the meeting of Secondary Market Advisory Committee (SMAC) of SEBI held on March 07, 2018, SEBI by its **Circular No. SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018** decided to take the measures in connection with the eligibility criteria, exit criteria and settlement of stock derivatives. In line with the recommendations made by the L.C. Gupta Committee regarding physical settlement of stock derivatives and discussion in SAMC regarding the functioning of the Securities Lending and Borrowing Mechanism (SLBM), Physical Settlement of Stock Derivatives shall be made mandatory in a phased/calibrated manner.

D. In furtherance to Circular No. SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018, SEBI by its **Circular No. SEBI/HO/MRD/DOPI/CIR/P/2018/161 dated December 31, 2018** decided that physical settlement shall be made mandatory for all stock derivatives. Accordingly, stock derivatives which are presently being cash settled shall move to physical settlement in the following manner:

(i) Stocks which are being cash settled shall be ranked in descending order based on daily market capitalization averaged for the month of December 2018.

(ii) Based on the ranking arrived at sub-para (i) above, the bottom 50 stocks shall move to physical settlement from April 2019 expiry onwards, the next 50 stocks from the bottom shall move to physical settlement from July 2019 expiry onwards, and the remaining stocks shall move to physical settlement from October 2019 expiry onwards.

E. Derivatives introduced on new stocks, meeting the enhanced eligibility criteria (specified vide circular SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018) after Circular No. SEBI/HO/MRD/DOPI/CIR/P/2018/161 dated December 31, 2018, shall also be physically settled. All other conditions specified in the SEBI Circular No. SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018 shall continue to remain in force.

F. In furtherance to the SEBI circular SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018 and circular SEBI/HO/MRD/DOPI/CIR/P/2018/161 dated December 31, 2018, **SEBI vide circular no. SEBI/HO/MRD/DOP1/CIR/P/2019/28 dated February 08, 2019** decided, in consultation with Secondary Market Advisory Committee (SMAC) of SEBI, that in addition to the existing schedule of stock derivatives moving to physical settlement, if a stock satisfies any of the following criteria, then derivative on such stock shall be moved to physical settlement from the new expiry cycle

Stocks which witness 10% or more intra-day movement on 10 or more occasions in last 6 months.
Or
Stocks which witness 10% or more intra-day movement on 3 or more occasions in last 1 month.
Or
Stocks which witness 25% or more intra-day movement on 1 or more occasions in last 1 month.
Or
Maximum daily volatility of the stock (as estimated for margining purpose) is more than 10% either in equity or equity derivatives segment in the last 1 month.

G. Stock Exchanges shall review the above conditions on a monthly basis. Existing contracts on the stock, however, shall continue to follow the settlement mode as applicable at the time of contract introduction. All other conditions specified in the SEBI circular SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018 and circular SEBI/HO/MRD/DOPI/CIR/P/2018/161 dated December 31, 2018 shall continue to remain in force.

H. NSE by its Cricular No. CMPT/42241 dated 26.09.2019 laid the provisions of Delivery Margins for Delivery Settlement in Equity Derivatives. The principles enshrine that in view of the physical settlement of Stock Derivatives, Delivery Margins shall be levied on Lower of Potential Deliverable Positions or In-The-Money Long Option Positions four (4) days prior to the expiry of Derivative Contracts which has to be settled through Delivery.

Example - If expiry of derivative contract is on Thursday, the delivery margins on potential in-the-money long option position shall be applicable from previous Friday EOD. Delivery Margins shall be applicable from contracts expiring on October 24, 2019 and accordingly, the below-mentioned revision shall be applicable in delivery margins levied from October 18, 2019.

H1 Client level potential in-the-money long option positions shall be computed on daily basis. In-the-Money options shall be identified based on the closing price of the security in the underlying Capital Market segment on the respective day.

H2 The marginable positions shall be valued at underlying closing price.

H3 Delivery margins at the client level shall be computed as per the margin rate applicable in Capital Market Segment i.e VAR, Extreme Loss Margins) of the respective security.

H4 Delivery margins shall be levied at client level and collected from clearing member in a staggered manner as under:

20% of Delivery margins computed on Expiry – 4 EOD
40% of Delivery margins computed on Expiry – 3 EOD
60% of Delivery margins computed on Expiry – 2 EOD
80% of Delivery margins computed on Expiry – 1 EOD

H5 The delivery margins shall be recomputed only at EOD basis considering the revised position, underlying prices and margin rates.

H6 Members shall be required to collect the delivery margins and shall be included in the client margin reporting for clearing and trading members.

H7 Post expiry, positions which are converted to delivery settlement, margins as applicable in Capital Market segment (i.e VAR, Extreme Loss Margins, Mark to Market margins) shall be applicable and levied as delivery margins.

H8. The Circular shall be applicable from Contracts expiring on October 24, 2019 and accordingly, the above mentioned revisions shall be applicable in Delivery Margins levied from October 18, 2019.

I. Stock Exchanges vide their **Circulars (Ref No: NSE/INSP/47293 dated February 10, 2021)** have mandated that Trading Members are required to make available the mechanism for Physical Settlement of Stock Derivatives to all their clients who wish to avail of the said facility without having any default option of mandatory/automated squaring off the positions. SMIFS has put in place necessary Risk Management Measures to handle the same and the clients are being informed by this Risk Management Policy that they can avail the Security Transaction Facility of Physical Settlement of Stock Derivatives as per the provisions laid herein above including the "Upfront payment of Applicable Margins" by the Client, as laid by the Stock Exchanges. Further, SMIFS shall allow "Only Intra-Day Positions" in the near month expiry on the day of monthly expiry.

J. The Clients' agree to abide by the above Circulars regarding Physical Settlement of Stock Derivatives. The Client further agrees that it shall keep track of the applicable Circulars regarding Physical Settlement of Stock Derivatives from the official websites of the Stock Exchange(s) and abide by the same. The Client shall be solely responsible for the consequences and no contract can be rescinded on that account. The client further agrees that SMIFS shall NOT be held responsible with the plea that the provisions regarding Physical Settlement of Stock Derivatives was NOT explained to the Client including the staggered increase of Margin on the Expiry Week of Physical Settlement of Stock Derivatives.

7. Risk Management Framework for Cash and Derivatives Market:

SEBI has, from time to time, put in place various risk containment measures to address the risks involved in the cash and derivatives market. With a view to keeping up pace with the changing market dynamics and to bring more efficiency in the Risk Management framework, a comprehensive review of the margin framework was done by SEBI in consultation with the Risk Management Review Committee (RMRC) of SEBI for Cash and Derivatives Market. Based on the review, it has been decided by SEBI vide Circular No. **SEBI/HO/MRD2/DCAP/CIR/P/2020/27**

dated February 24, 2020 to effect the following changes to the existing Risk Management Framework for Cash and Derivatives Market:

7.1 Margin framework for Cash Market:

A. VaR Margin Rates - The VaR Margin Rates shall be as follows for different groups of stocks:

Liquidity Categorization	**VaR Margin Rate**
Group I	Based on 6σ, subject to minimum of 9%
Group II	Based on 6σ, subject to minimum of 21.5%
Group III	50% if traded atleast once per week on any stock exchange; 75% otherwise

B. In case of ETFs that track broad based market indices and do not include ETFs which track sectoral indices, the VaR margin rate shall be 6 sigma, subject to minimum of 6%.

C. Extreme Loss Margin - The Extreme Loss Margin shall be 3.5% for any stock and 2% for ETFs that track broad based market indices and do not include ETFs which track sectoral indices.

7.2 Margin framework for Derivatives (Index Derivatives, Single Stock Derivatives, Currency and Interest Rate Derivatives)

A. Volatility Calculation - The value of λ, the parameter which determines how rapidly volatility estimation changes in the Exponential Weighted Moving Average (EWMA) method, shall be fixed at 0.995. The value of λ shall, accordingly, also get changed for volatility calculation in the cash market.

B. Price Scan Range - The Price Scan Range in respect of various products shall be as follows:

Product	**Price Scan Range**
Index derivatives	Based on 6σ, scaled up by √2 subject to at least 9.3% of the underlying price after considering scaling up. In case of index option contracts with residual maturity of more than 9 months, the price scan range shall be based on 6σ, scaled up by √2 subject to at least 17.7% of the underlying price after considering scaling up.
Single Stock Derivatives	Based on 6σ, scaled up by √2 subject to at least 14.2% of the underlying price after considering scaling up. The price scan range thus arrived shall be further scaled up by √3, if the impact cost of the security (as used for categorization of securities for margining in Cash Market) is greater than 1%.
Currency and Interest Rate Derivatives	Based on 6σ, subject to the minimum percentage of underlying price as tabulated below.

SMIFS LIMITED
CIN: U51109WB1993PLC060987
Vaibhav (5F), 4, Lee Road, Kolkata – 700 020 Tel: (91 33) 4011 5401 / 6634 5401
Email ID: rms@smifs.com Website: www.smifs.com

Product	Minimum percentage of underlying Price
USDINR	1.50%
EURINR	2.15%
GBPINR	2.25%
JPYINR	2.65%
EURUSD	2.50%
GBPUSD	2.50%
USDJPY	2.50%
Interest Rate Derivatives	1.75%
91 Day T Bill	0.065%
MIBOR	5.50%

C. Volatility Scan Range - The Volatility Scan Range in respect of various products shall be as follows:

Product	Volatility Scan Range
Index derivatives	25% of annualized EWMA volatility subject to minimum 4%
Single Stock Derivatives	25% of annualized EWMA volatility subject to minimum 10%
Currency and Interest Rate Derivatives	25% of annualized EWMA volatility subject to minimum 3%

D. Calendar Spread Charge - The Calendar Spread Charge in respect of various products shall be as follows:

Product	Calendar Spread Charge
Index derivatives	1.75% of the far month contract
Single Stock Derivatives	2.20% of the far month contract
Currency and Interest Rate Derivatives	Calendar Spread Charge for spreads in months (INR) as tabulated below.

Product	Calendar Spread Charge for spreads in months (INR)			
	1 month	2 months	3 months	4 months
USDINR	500	600	900	1100
EURINR	750	1050	1550	1550
GBPINR	1575	1875	2075	2075
JPYINR	675	1075	1575	1575
EURUSD	1600	1900	2100	2200
GBPUSD	1600	1900	2100	2200
USDJPY	1600	1900	2100	2200
Interest Rate Derivatives	1700	2000	2300	3200
91 Day T Bill	110	160	210	260

SMIFS LIMITED

CIN: U51109WB1993PLC060987
Vaibhav (5F), 4, Lee Road, Kolkata – 700 020 Tel: (91 33) 4011 5401 / 6634 5401
Email ID: rms@smifs.com Website: www.smifs.com

MIBOR	7000	7500	8000	8000

E. Short Option Minimum Charge - There shall be no separate short option minimum charge for index derivatives, single stock derivatives, currency and interest rate derivatives.

F. Extreme Loss Margin - The Extreme Loss Margin rates shall be as under:

Product	Extreme Loss Margin
Index derivatives	2.00% of the notional value
Single Stock Derivatives	3.50% of the notional value
Currency and Interest Rate Derivatives	Extreme Loss Margin for Currency and Interest Rate Derivatives as tabulated below.

Product	Extreme Loss Margin : Futures	Extreme Loss Margin : Options
USDINR	0.50%	0.75%
EURINR	0.15%	0.75%
GBPINR	0.25%	0.75%
JPYINR	0.35%	0.75%
EURUSD	0.50%	0.50%
GBPUSD	0.50%	0.50%
USDJPY	0.50%	0.50%
Interest Rate Derivatives	0.25%	0.25%
91 Day T Bill	0.015%	Nil
MIBOR	0.50%	Nil

F.1 In case of calendar spread positions in futures contracts, extreme loss margin shall be levied on one third of the value of the open position of the far month futures contract.

F.2 In case of index options contracts that are deep out of the money (i.e., strikes out of the money by more than 10% from the previous day closing underlying price), the applicable Extreme Loss Margin shall be 3%.

F.3 In case of index option contracts with residual maturity of more than 9 months, the applicable Extreme Loss Margin shall be 5%.

F.4 In case of single stock options contracts that are deep out of the money (i.e., strikes out of the money by more than 30% from the previous day closing underlying price), the applicable Extreme Loss Margin shall be 5.25%.

G. Margin on Consolidated Crystallized Obligation - The margin on consolidated crystallized obligation in derivatives shall represent:

On Intraday Basis	Payable crystallized obligations based on the closed out futures positions and payable/receivable premium at client level
At end-of-day	Payable obligations at client level considering all futures and options positions

G.1 Intraday Basis - On intraday basis, the net payable/receivable amount at client level shall be calculated using:

1. Premium payable/receivable
2. Futures crystallized profit or loss (calculated based on weighted average prices of trades executed).

If the overall amount at client level is payable, such amount shall be the intraday consolidated crystallized obligation margin for the client.

G.2 End-of-day Basis - At the end of day, the payable/receivable amount at client level shall be calculated using:

1. Futures mark to market profit/loss to be settled
2. Options premium payable/receivable
3. Options exercise/assignment for expired contracts
4. Futures final settlement for expired contracts

G.3 If the overall amount at client level is payable, such amount shall be the end-of-day consolidated crystallized obligation margin for the client.

G.4 The margin on consolidated crystallized obligations shall replace the net buy premium, intraday crystallized losses, assignment margin and futures final settlement margin levied currently.

G.5 The margin on consolidated crystallized obligations shall be released on completion of settlement.

7.3 Additional Margin for Highly Volatile Stocks:

A. For securities with intra-day price movement (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) of more than 10% in the underlying market for 3 or more days in last one month, the minimum total margins shall be equal to the maximum intra-day price movement of the security observed.

B. For securities with intra-day price movement (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) of more than 10% in the underlying market for 10 or more days in last six months, the minimum total margins shall be equal to the maximum intraday price movement of the security observed in the underlying market in last six months. The same shall be continued till monthly expiry date of derivative contracts which falls after completion of one year from date of levy.

8. Risk Management Framework for Commodity Derivatives Segment:

8.1 SEBI vide Circular CIR/CDMRD/DRMP/01/2015 dated October 01, 2015 and SEBI/ HO/ CDMRD/ DRMP/ CIR/ P/ 2016/77 dated September 01, 2016 **prescribed Risk Management Framework for the Commodity Derivatives Segment** (CDS). These circulars, inter alia, stipulated minimum value **for Initial Margin (IM) and Margin Period of Risk (MPOR)**. CPSS-IOSCO Principles for Financial Market Infrastructure (PFMI) inter alia prescribes under Key Considerations for Principle 6 on margin that margining model should to the extent practicable and prudent, limit the need for destabilising, pro-cyclical changes. In light of the above and given the wide variation of liquidity and volatility among different commodity derivatives, it has been decided, in consultation with stakeholders, to categorize commodities as per their realized volatility and to prescribe floor values of IM and IMPOR depending upon their categories. Accordingly, SEBI by its Circular No. **SEBI/HO/CDMRD/DRMP/CIR/P/2020/15 dated January**

27, 2020 have laid the norms regarding Minimum IM and minimum MPOR for Commodity Derivatives segment stands revised as per the framework mentioned below:

A. Clearing Corporations (CCs) shall categorise their commodities into three categories of volatility based upon the realized volatility for last three years as given below: -

Volatility Category of Commodity	Realized Annualized Volatility criteria
Low	0 to 15%
Medium	Above 15 % to 20%
High	Above 20%

B. Realized volatility shall be calculated from series of daily log normal return of main near month future contracts of the respective commodity. The series of daily log normal return shall be rolled over to next month contract on start of staggered delivery period if it is applicable. If staggered delivery is not applicable, then rollover shall be done on the day after the expiry of near month contract.

C. Exchange having maximum average daily turnover across all derivative contracts on the respective commodity based on last six months' period shall be termed as Lead Exchange. The CC of the Lead Exchange shall do the categorization of the respective commodities and same shall be intimated to, and adopted by all other CCs.

D. Based on volatility category, minimum initial margin (IM) and minimum MPOR shall be as under:

Volatility Category of Commodity	Minimum IM		Minimum MPOR	
	Non-Agri	Agri	Non-Agri	Agri
Low	6%	8%	2	3
Medium	8%	10%	2	3
High	10%	12%	3	4

E. It is also clarified that floor values prescribed for IM in table above need not be scaled up by MPOR.

F. CCs shall review the categories of all commodities once in every six months' period based upon past three years' data. Commodity may be moved from higher volatility category to lower category only if it satisfies criteria of the revised category of volatility for two consecutive reviews. However, movement from a lower to higher volatility category shall be done based upon a single review.

G. The categorisation shall be done on 1st March and 1st September of each year on rolling basis and changes if any shall be made applicable from 1st April and 1st October respectively of each year.

H. In case derivatives are launched on any new underlying commodity for the first time for which no reference futures prices are available, it shall be initially categorised based upon prices available in the spot markets subject to a minimum of Medium Category of volatility. Re-categorisation of such commodity from higher to lower category of volatility can only be done after two consecutive reviews.

I. Lean Period in Agri Commodities: In case of Agri commodities, it has been observed that during lean period (i.e. the period before the arrival of new crop) there is often uncertainty about the arrivals of new crop. This may lead to higher volatility in prices of commodities during this period. Therefore, CCs shall levy additional lean period margin of 2% on contracts expiring during lean period. Lead exchanges shall determine the lean period in consultation with their relevant Product Advisory Committee and disclose the same on their websites.

8.2 Alternate Risk Management Framework for Commodity Derivatives Segment

SEBI, vide Circulars CIR/CDMRD/DRMP/01/2015 dated October 01, 2015 and SEBI/ HO/ CDMRD/ DRMP/ CIR/ P/ 2016/77 dated September 01, 2016, has, inter alia, prescribed the Risk Management Framework for the Commodity Derivatives Segment (CDS). In addition to circulars issued in the interregnum, the framework was further strengthened vide circular no. SEBI/HO/CDMRD/ DRMP/CIR/P /2020/15 dated January 27, 2020. In recent times, extreme volatility has been observed in commodity prices globally, particularly in the case of Crude Oil, wherein the prices had unprecedentedly gone down to zero and subsequently, even negative. In such a scenario, margins equivalent to even 100% of the futures price would not have been sufficient to cover the steep upward or downward price variations in the futures market. In order to enable risk management framework to handle such a scenario of 'near zero' and negative prices, SEBI constituted a Task Force of Clearing Corporations (CCs) and market participants to review the risk management framework in such cases. The following has been decided based upon the recommendations of the said Task Force: -

A. Alternate Risk Management Framework (ARMF) shall be applicable in such cases of near zero and negative prices for any underlying commodities/futures. To begin with, the commodities having the following characteristics may be in principle treated as susceptible to the possibility of near zero and negative prices: -

A.1 Commodities that need specialized storage space in physical markets, which, if not followed, may cause environmental hazards or have other external implications AND

A.2 Commodities that can't be disposed of/ destroyed with ease i.e. disposal/destruction of such commodities may cause an environmental hazard or may incur significant cost.

B. In case the Clearing Corporation (CC) foresees the possibility of negative/near zero prices in any commodity, then for such commodity derivatives, it shall activate an ARMF. This framework will be capable of estimating the risk in the event of negative/near zero prices of the underlying/futures.

C. The shift to the ARMF shall be conditional, based on triggers indicating the likelihood of near zero/ negative prices. Some of the conditions/circumstances which are indicative in nature and may warrant the activation of the ARMF are illustrated below: -

C.1 There is a fall in the commodity prices by more than 50% within 20 trading days, while comparing the intra-day highest and lowest prices.

C.2 In case of internationally referenced contracts, the international exchange/ clearing corporation having the benchmark contract decides to introduce such measures for negative prices.

C.3 Options contracts having strike price values of near zero/negative are introduced by the stock exchange for trading.

C.4 Price of the underlying commodity/futures contract comes down to the level equal to or lower than the maximum price movement observed over the MPOR (Margin Period of Risk) in past 12 months.

C.5 Any other conditions as per the discretion of the CC, which might indicate the likelihood of negative prices.

D. In case one or more of the above mentioned conditions or any other additional conditions that may be identified by the CC becomes applicable, the CC in consultation with their respective stock Exchange will conduct a review and take a formal decision on whether there is a need to activate the ARMF. The CC shall subsequently also communicate its decision to the market and other stock Exchanges/CCs. If the Lead CC, as defined in SEBI circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2020/15 dated January 27, 2020, has activated the ARMF, then the other CCs shall also follow the same.

E. The CC shall strive to intimate to the market, well in advance, the threshold price level, below which the ARMF shall be activated.

F. Characteristics of the ARMF: The ARMF shall have the following characteristics: -

F.1 Normal Distribution: In the regular risk management framework, prices are assumed to be log normally distributed and volatility is calculated based on the difference in log prices. This assumption is valid only for positive prices, as logarithm of zero or negative prices is not defined. In a scenario wherein the ARMF gets triggered, the prices shall be assumed to follow normal distribution. Therefore, in such scenario, volatility shall be based on the absolute differences in prices. This volatility shall be determined based on EWMA (Exponentially Weighted Moving Average) as per the parameters of the regular framework.

F.2 Minimum Margin in Absolute terms: In the regular framework, a floor value for initial margin is prescribed in percentage terms. In case the prices turn negative, floor value in percentage terms shall be applied on the absolute value of price levels. Further, floor value shall also be prescribed in absolute INR terms. The higher of the two values shall be the applicable floor for the initial margin. The CC shall determine and notify such floor value based on past price movements and past margin amounts observed in respect of such commodities.

F.3 Spread margin benefit: The correlation between different contracts on the same underlying may not hold in the event of near zero/negative prices. Therefore, margin benefit on spread positions shall be completely withdrawn upon the activation of the ARMF.

F.4 Option Pricing Model: The theoretical price determination of options shall be done using appropriate models like the **"Bachelier Model"**, or any other model which can be applied on negative underlying prices.

*The **Bachelier Model** is the name given by a model of an asset price under Brownian Motion presented by Louis Bachelier on his PhD thesis The Theory of Speculation. It is also called "Normal Model" equivalently.*

On the day of 08-042020, CME Group posted the note CME Clearing Plan to Address the Potential of a Negative Underlying in Certain Energy Options Contracts:
[1] saying that after a threshold on price, it would change energy options model from Geometric Brownian Motion model and Black–Scholes model to Bachelier Model. In the day 20-04-2020, oil futures reached for first time in history negative values,
[2] where Bachelier model took an important role in option pricing and risk management.

F.5 Pre-expiry margins: The appropriate pre-expiry margins shall also be levied by CCs on cash settled contracts, in respect of those commodities in which the ARMF is triggered.

F.6 Extreme Loss Margin (ELM): In case the price of any futures contract goes below a threshold, ELM shall be levied on such threshold price or absolute price of the contract, whichever is higher. The CC shall decide threshold price in respect of each commodity on which ELM under the ARMF shall be made applicable.

F.7 Other margins: CCs may levy other margins such as additional margins, special margins, concentration margins etc. as per their own discretion.

G. Deactivation of ARMF: The following principles shall be taken into account by CCs for deactivation of the ARMF i.e. switching from alternate to regular risk management framework: -

G.1 The de-activation of the ARMF shall be done when the conditions that triggered the activation of the ARMF no longer prevail. The exit from the ARMF shall be done after a reasonable time lag so as to avoid frequent switching between alternate and regular frameworks.

G.2 In case the entry and exit of the ARMF is defined in terms of specific price points, the exit point shall be kept sufficiently above the entry point to avoid frequent switching between alternate and regular frameworks.

G.3 The de-activation of the ARMF and re-activation of regular framework will be done when the margin requirement under the two frameworks sufficiently converges.

H. The observation of a zero or negative prices shall have to be excluded from model under regular margin framework since log return involving zero or negative price is not defined.

9. Risk management framework for Foreign Portfolio Investors (FPI)

9.1 To effect a smooth transition to the FPI regime, SEBI formulated SEBI (Foreign Portfolio Investors) Regulations, 2014 and vide Circular No. CIR/MRD/DP/15/2014 dated May 15, 2014 directed stock exchanges and clearing corporations to take following measures with regard to trading and risk management of FPI trades:

A. Margining of trades undertaken by FPIs in the Cash Market:

i. The trades of FPIs in Category I, II & III shall be margined on a T+1 basis in accordance with SEBI circular MRD/DoP/SE/Cir-18/2008 dated May 22, 2008.

ii. However, the trades of FPIs who are Corporate bodies, Individuals or Family offices shall be margined on an upfront basis as per the extant margining framework for the non-institutional trades.

B. Position limit of an FPI in the Equity Derivatives Segment and for Interest Rate Futures: Category I & II FPIs shall have position limits as presently available to FIIs. Category III FPIs shall have position limits as applicable to the clients.

C. Facility for allocation of trades: In modification to the SEBI circular MRD/DoP/SE/Cir-35/2004 dated October 26, 2004, the following framework shall be implemented to facilitate allocation of trades of a FPI to other FPIs:

i. Entities who trade on behalf of FPIs shall inform the stock brokers of the details of FPIs on whose behalf the trades would be undertaken.

ii. The stock broker, in turn, shall inform the stock exchanges the details of such related FPIs.

iii. Stock exchanges shall put-in place suitable mechanism to ensure that allocation of trade by a FPI is permitted only within such related FPIs.

D. Custodians / DDPs shall provide necessary details related to FPIs, including categorisation of FPIs, to the stock exchanges for the purpose of implementing the aforementioned provisions.

9.2 Securities as collateral for foreign institutional trades in cash market (Refer SEBI Circular No. CIR/MRD/DP/15/2010 dated April 28, 2010)

A. Reserve Bank of India (RBI) vide A. P. (DIR Series) Circular no. 47 dated April 12, 2010 has permitted FIIs to offer domestic Government Securities (acquired by the FIIs in accordance with the provisions of Schedule 5 to Notification No. FEMA 20/2000-RB dated May 3, 2000, as amended from time to time and subject to the overall limits specified by the SEBI from time to time; the current limit being USD 5 billion), and foreign sovereign securities with AAA rating, as collateral to the recognized Stock Exchanges in India, in addition to cash, for their transactions in the cash segment of the market. However, cross-margining of Government Securities (placed as margins by the FIIs for their transactions in the cash segment of the market) shall not be allowed between the cash and the derivative segments of the market.

B. Corporate bonds as collateral in cash market (Refer Circular No. CIR/MRD/DRMNP/9/2013 dated March 20, 2013): Reserve Bank of India vide RBI/2012-13/439 A.P. (DIR Series) Circular No. 90 dated March 14, 2013 has permitted FIIs to use, in addition to already permitted collaterals, their investments in corporate bonds as collateral in the cash segment. FIIs are permitted to offer the following collaterals - government securities, corporate bonds, cash and foreign sovereign securities with AAA ratings, for their transactions in cash segment.

C. Clearing Corporations while enabling the framework for acceptance of corporate bonds as collateral for transactions of any entity in the cash segment shall ensure that:

i. The bonds shall have a rating of AA or above (or with similar rating nomenclature) by recognised credit rating agencies.

ii. The bonds shall be in dematerialized form.

iii. The bonds shall be treated as part of the non-cash component of the liquid assets of the clearing member and shall not exceed 10% of the total liquid assets of the clearing member.

iv. The bonds shall have a fixed percentage based or VaR based haircut. A higher haircut may be considered to cover the expected time frame for liquidation. To begin with the haircut shall be a minimum of 10%.

9.3 Margining of Institutional Trades in Cash Market

Margining of Institutional Trades in Cash Market as per provisions laid in SEBI Circular No. MRD/DoP/SE/Cir- 06 /2008 dated March 19 2008

All Institutional trades in the cash market would be subject to payment of margins as applicable to transactions of other investors. For this purpose institutional investors shall include –

i. Foreign Institutional Investors registered with SEBI.

ii. Mutual Funds registered with SEBI.

iii. Public Financial Institutions as defined under section 4A of the Companies Act, 1956.

iv. Banks, i.e., a banking company as defined under Section 5(1)(c) of the Banking Regulations Act, 1949.

v. Insurance companies registered with IRDA.

vi. Pension Fund regulated by Pension Fund Regulatory and Development Authority (PFRDA) (Included vide SEBI letter dated May 27, 2009 to Stock Exchanges).

All institutional trades in the cash market would be margined on a T+1 basis with the margin being collected from the custodian upon confirmation of trade.

10. Trade Risk Controls:

10.1 SEBI by its **Circular No. SMDRPD/Policy/Cir-37 /2001 dated June 28, 2001** decided to implement with effect from July 02, 2001 an index based market wide circuit breaker system, which will apply at three stages of the index movement either way at 10%, 15% and 20%. These circuit breakers will bring about a coordinated trading halt in all equity and equity derivative markets nationwide.

A. The market wide circuit breakers would be triggered by movement of either BSE Sensex or the NSE S&P CNX Nifty whichever is breached earlier.

A1. In case of a 10% movement of either of these indices, there would be a 1 hour market halt if the movement takes place before 1 pm. In case the movement takes place at or after 1 pm but before 2:30 pm there will be a trading halt for ½ hour. In case the movement takes place at or after 2:30 pm there will be no trading halt at the 10% level and the market will continue trading.

A2. In case of a 15% movement of either index, there will be a 2 hour halt if the movement takes place before 1 pm. If the 15% trigger is reached on or after 1 pm but before 2 pm, there will be a 1 hour halt. If the 15% trigger is reached on or after 2 pm the trading will halt for the remainder of the day.

A3. In case of a 20% movement of the index, the trading will be halted for the remainder of the day.

B. These percentages will be translated into absolute points of index variations on a quarterly basis and at the end of each quarter these absolute points of index variations would be revised and be applicable for the next quarter. The absolute points would be calculated based on the closing level of the index on the last day of trading in a quarter and rounded off to the nearest 25 points in the case of the BSE Sensex and the nearest 10 points in the case of the S&P CNX Nifty.

C. It will be mandatory for BSE/NSE to provide real time Sensex/Nifty data free to all the exchanges. It will also be mandatory for all the stock exchanges to have real time information of Sensex/Nifty data either from the respective exchange or through a vendor.

D. Scrip wise Price Bands: In addition to the market wide index based circuit filters, it has been decided that there would be individual scrip wise price bands of 20% either way, for all scrips in the compulsory rolling settlement except for the scrips on which derivatives products are available or scrips included in indices on which derivatives products are available.

E. While in the rest of the scrips that are not in compulsory rolling settlement, the existing price bands would continue to apply.

10.2 SEBI vide its circular no. SMDRPD/Policy/Cir-37/2001 dated June 28, 2001 has informed the Exchange to implement index based market wide circuit breaker in compulsory rolling settlement with effect from July 02, 2001. The index based market wide circuit breaker system is applicable at three stages of the index movement either way at 10%, 15% and 20%. In this regard, Exchange has issued circular no. NSE/CMO/0015/2001 (Download No. NSE/CMTR/2657) dated June 29, 2001.

Accordingly, NSE by its **Circular No. 112 dated 30.0.2010** laid that the percentages are calculated on the closing index value of the quarter. These percentages are translated into absolute points of index variations (rounded off to the nearest 10 points in case of NIFTY). At the end of each quarter, these absolute points of index variations are revised and made applicable for the next quarter.

On September 30, 2010, the last trading day of the quarter, NIFTY closed at 6029.95 points. The absolute points of NIFTY variation (over the previous day's closing NIFTY) which would trigger market wide circuit breaker for any day in the quarter between October 01, 2010 to December 31, 2010 would be as under:-`

Percentage (+/-)	Equivalent (+/-)
10%	600
15%	900
20%	1210

10.3 Please refer to SEBI circular SMDRPD/Policy/Cir-37/2001 dated June 28, 2001 directing stock exchanges to implement an index based market wide circuit breaker system to affect a coordinated trading halt in all equity and equity derivative markets on index movement either way of 10%, 15% and 20%. Based on the recommendations of Secondary Market Advisory Committee (SMAC), SEBI vide its Circular No. CIR/MRD/DP/25/2013 dated September 03, 2013 partially modified the system of index based market wide circuit breaker as under:

(i) Daily revision of index based market-wide circuit breaker limits: Para 2 of the SEBI circular dated June 28, 2001 shall be modified as under:

The stock exchange on a daily basis shall translate the 10%, 15% and 20% circuit breaker limits of market-wide index variation based on the previous day's closing level of the index.

(ii) Resumption of trading after the halt with a pre-open call auction session

(a) Post-observation of the trading halt, stock exchange shall resume trading in the Cash Market with a fifteen minutes pre-open call auction session.

(b) Such pre-open call auction session shall be governed as per the provisions mandated vide SEBI circulars no. CIR/MRD/DP/21/2010 dated July 15, 2010, CIR/MRD/DP/32/2010 dated September 17, 2010 and CIR/MRD/DP/6/2013 dated February 14, 2013.

(c) In order to accommodate such pre-open call auction session, the extant duration of the market halt prescribed vide SEBI circular June 28, 2001 shall be suitably reduced by fifteen minutes.

(d) With regard to the dynamic price bands mandated in para 6.1 and para 6.2 of the SEBI circular CIR/MRD/DP/34/2012 dated December 13, 2012, the reference price for the dynamic price band in the pre-open session and subsequent trading sessions shall be previous day's closing price.

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iii. All other conditions shall be as per SEBI circular SMDRPD/Policy/Cir-37/2001 dated June 28, 2001.

iv. Stock exchanges are directed to take necessary steps and put in place necessary systems for implementation of the provisions of this circular with effect from October 01, 2013.

10.4 In continuation to Exchange circular 77/2013 (Download No. 24355) dated September 04, 2013, NSE laid the Index based market-wide circuit filter mechanism vide Circular No. CMTR/24709 dated 11.10.2013 with effect from October 14 2013 as under:

- Index based market-wide circuit filter levels at 10%, 15% and 20% shall be based on the closing index value of NIFTY on the previous trading day, rounded off to the nearest tick size.

- All outstanding orders at the time of market halt, due to breach of index based market-wide circuit filter, shall be cancelled.

- The market shall open, after index based market-wide circuit filter breach, with a pre-open call auction session. The extent of duration of the market halt prescribed vide SEBI circular June 28, 2001, shall be reduced by fifteen minutes for pre-open call auction session, as given below:

Trigger Limit	Trigger Time	Halt Duration	Pre-Open Call Auction Session Post Each Halt
10%	Before 1:00 PM	45 Minutes	15 Minutes
	At or After 1:00 PM Upto 2:30 pm	15 Minutes	15 Minutes
	At or After 2:30 pm	No Halt	Not Applicable
15%	Before 1:00 PM	1 Hour 45 Minutes	15 Minutes
	At or After 1:00 PM before 2:00 pm	45 Minutes	15 Minutes
	On or After 2:00 pm	Market Closed for Day	Not Applicable
20%	Any Time of the Day	Market Closed for the Day	Not Applicable

- If the normal market is closed due to Index based market-wide circuit filter breach anytime during the order collection period for a new listing of a security (IPO), relisting of a security, SME securities and illiquid securities periodic call auction session, **the respective sessions shall be closed immediately and all outstanding orders of these sessions shall be cancelled**. A fresh session on the same day shall be conducted for new security (IPO) and relisting of a security. The fresh session shall be for duration of 1 hour out of which 45 minutes is for order collection/modification/cancellation, 10 minutes is for order matching and 5 minutes is buffer period. This session shall close randomly anytime between the 44th and 45th of the order collection period. The periodic call auction sessions for illiquid securities shall be held at the next scheduled time after the start of normal market. Clients shall keep track of the cancelled Orders by themselves and have to place the Cancelled Orders once again subject to the availability of the Margin Collateral which shall be revalued at the prevailing market prices. The Client shall have no right to claim damages for the non-execution of Orders due to the Halt of the Securities Market lead by Index Based Market-Wide Circuit Filter Mechanism. The Orders which shall stand cancelled due to Index Based Market-Wide Circuit Filter Mechanism shall not be automatically placed in the Order Management System by SMIFS Limited and it would be duty of the Client to track the cancel Orders and place fresh instructions to the Dealer of SMIFS Limited and/or by using the Internet Based Trading Facility and/or Mobile Application, once the Market Re-Opens after the Trading Halt as indicated above.

- If the normal market is closed due to Index based market-wide circuit filter breach anytime during the order matching period for a new listing of a security (IPO), relisting of a security, SME securities and illiquid securities period call auction, the matching process shall be completed

10.5 SEBI vide Circular No. SMD/SED/RCG/271/96 dated January 19, 1996, inter-alia, prescribed no price bands for scrips on the first day of trading pursuant to IPO. Further SEBI vide circular no SEBI/Cir/ISD/1/2010 dated September 2, 2010, interalia, prescribed no price bands on the first day of re-commencement of trading for scrips specified under para 1(c) (hereinafter referred to as Re-listed scrips) of the said circular. In light of high volatility and price movement observed on first day of trading, **SEBI vide Circular No. CIR/MRD/DP/ 02/2012 dated January 20, 2012** decided to put in place a framework of trade controls for IPO and Re-listed scrips applicable to the normal trading session in the following manner:

A. Trade Timing: The normal trading session for IPO and Re-listed scrips on their first day of trading shall commence only subsequent to conclusion of the Call Auction session for such scrip on BSE and NSE. The duration of the Call Auction session is prescribed vide SEBI circular no CIR/MRD/DP/01/2012 dated January 20, 2012.

B. Eligible scrip

I. IPO scrips

Price Bands

a. For issue size up to Rs. 250 cr, the applicable price bands for the first day shall be –

i. In case equilibrium price is discovered in the Call Auction, the price band in the normal trading session shall be 5% of the equilibrium price.

ii. In case equilibrium price is not discovered in the Call Auction, the price band in the normal trading session shall be 5% of the issue price.

iii. On Stock exchanges, not eligible to offer Call Auction, the reference price for price bands for the first day shall be –

A. in case equilibrium price is discovered in the Call Auction at BSE/NSE, the price band in the normal trading session shall be 5% discovered equilibrium price. In case of multiple equilibrium prices, the discovered equilibrium price closer to the issue price shall be taken as the reference price for price band on the first day.

B. in case equilibrium price is not discovered in the Call Auction, the price in the normal trading session band shall be 5% of the issue price.

Additionally, the trading shall take place in TFT segment for first 10 days from commencement of trading.

b. For issue size greater than Rs. 250 cr, the applicable price bands for the first day shall be –

i. In case equilibrium price is discovered in the Call Auction, the price band in the normal trading session shall be 20% of the equilibrium price.

ii. In case equilibrium price is not discovered in the Call Auction, the price band in the normal trading session shall be 20% of the issue price.

iii. On Stock exchanges, not eligible to offer Call Auction, the reference price for price bands for the first day shall be –

A. in case equilibrium price is discovered in the Call Auction at BSE/NSE, the price band in the normal trading session shall be 20% discovered equilibrium price. In case of multiple equilibrium prices, the discovered equilibrium price closer to the issue price shall be taken as the reference price for price band on the first day.

B. in case equilibrium price is not discovered in the Call Auction, the price band in the normal trading session shall be 20% of the issue price.

II. Re-listed Scrips

Price Bands: Trading shall take place in the TFT segment for the first 10 days with applicable price bands, wherein for the first day –

i Incase equilibrium price is discovered in the Call Auction, the price band in the normal trading session shall be 5 % of the discovered price.

ii Incase equilibrium price is not discovered in the Call Auction, the scrip shall continue to trade in call auction sessions until price is determined.

C. All other relevant provisions of the circular no. SMD/SED/RCG/271/96 dated January 19, 1996 and Circular No. SEBI/Cir/ISD/1/2010 dated September 2, 2010 as amended from time to time, shall remain applicable.

10.6 Based on recommendations of Technical Advisory Committee (TAC) and Secondary Market Advisory Committee (SMAC), SEBI vide its **Circular No. CIR/MRD/DP/ 09 /2012 dated March 30, 2012** laid the following broad guidelines for **Algorithmic Trading** (Any order that is generated using automated execution logic shall be known as algorithmic trading) in the securities market. SMIFS Limited offers to its Clients Algorithmic Trading Facilities. The Client who agrees to avail such Algorithmic Trading Facilities shall abide by the following guidelines:

A. The stock exchange shall have arrangements, procedures and system capability to manage the load on their systems in such a manner so as to achieve consistent response time to all stock brokers. The stock exchange shall continuously study the performance of its systems and, if necessary, undertake system upgradation, including periodic upgradation of its surveillance system, in order to keep pace with the speed of trade and volume of data that may arise through algorithmic trading.

B. In order to ensure maintenance of orderly trading in the market, stock exchange shall put in place effective economic disincentives with regard to high daily order-to-trade ratio of Algo orders of the stock broker. Further, the stock exchange shall put in place monitoring systems to identify and initiate measures to impede any possible instances of order flooding by Algo(s).

C. The stock exchange shall ensure that all algorithmic orders are necessarily routed through broker servers located in India and the stock exchange has appropriate risk controls mechanism to address the risk emanating from algorithmic orders and trades. The minimum order-level risk controls shall include the following:

i. Price check - The price quoted by the order shall not violate the price bands defined by the exchange for the security. For securities that do not have price bands, dummy filters shall be brought into effective use to serve as an early warning system to detect sudden surge in prices.

ii. Quantity Limit check - The quantity quoted in the order shall not violate the maximum permissible quantity per order as defined by the exchange for the security.

D. In the interest of orderly trading and market integrity, the stock exchange shall put in place a system to identify dysfunctional algos (i.e. algos leading to loop or runaway situation) and take suitable measures, including advising the member, to shut down such algos and remove any outstanding orders in the system that have emanated from such dysfunctional algos. Further, in exigency, the stock exchange should be in a position to shut down the broker's terminal.

E. The stock exchange may seek details of trading strategies used by the algo for such purposes viz. inquiry, surveillance, investigation, etc.

F. The stock exchange shall synchronize its system clock with the atomic clock before the start of market such that its clock has precision of atleast one microsecond and accuracy of atleast +/- one millisecond.

G. The stock broker, desirous of placing orders generated using algos, shall satisfy the stock exchange with regard to the implementation of the following minimum levels of risk controls at its end –

(i) Price check – Algo orders shall not be released in breach of the price bands defined by the exchange for the security.

(ii) Quantity check – Algo orders shall not be released in breach of the quantity limit as defined by the exchange for the security.

(iii) Order Value check - Algo orders shall not be released in breach of the 'value per order' as defined by the stock exchanges.

(iv) Cumulative Open Order Value check – The individual client level cumulative open order value check, may be prescribed by the broker for the clients. Cumulative Open Order Value for a client is the total value of its unexecuted orders released from the stock broker system.

(v) Automated Execution check – An algo shall account for all executed, unexecuted and unconfirmed orders, placed by it before releasing further order(s). Further, the algo system shall have pre-defined parameters for an automatic stoppage in the event of algo execution leading to a loop or a runaway situation.

(vi) All algorithmic orders are tagged with a unique identifier provided by the stock exchange in order to establish audit trail.

H. The other risk management checks already put in place by the exchange shall continue and the exchange may re-evaluate such checks if deemed necessary in view of algo trading.

I. Cumulative limit on value of unexecuted orders of a stock broker:

i. Vide SEBI circular CIR/MRD/DP/09/2012 dated March 30, 2012, stock exchanges have been directed to ensure that the trading algorithms of the stock brokers have a 'client level cumulative open order value check'.

ii. In continuation to the above, stock exchange are directed to ensure that stock brokers put-in place a mechanism to limit the cumulative value of all unexecuted orders placed from their terminals to below a threshold limit set by the stock brokers. Stock exchanges shall ensure that such limits are effective.

SMIFS would restrict the cumulative value of all unexecuted orders placed from the Terminals of the Approved Users.

iii. As per the direction of SEBI, Stock Exchanges have been directed to enhance monitoring of the operating controls of the stock brokers to ensure implementation of the checks mentioned at point (a) and (b) above; and levy deterrent penalty in case any failure is observed at the end of stockbroker in implementing such checks.

J. In continuation to Circular No. CIR/MRD/DP/09/2012 dated March 30, 2012 on 'Broad guidelines on Algorithmic Trading', SEBI by its **Circular No. CIR/MRD/DP/ 16 /2013 dated May 21, 2013**, reviewed the penalty rates specified by the stock exchanges as advised in Circular dated March 30, 2012 and in order to provide sufficient deterrence, directed the stock exchanges to double the existing rates of 'charges to be levied per algo orders' specified in their circulars / notices. SEBI dictate enshrined that In order to discourage repetitive instances of high daily order-to-trade ratio, stock exchanges shall impose an additional penalty in form of suspension of proprietary trading right of the stock broker / trading member for the first trading hour on the next trading day in case a stock broker / trading member is penalized for maintaining high daily order-to-trade ratio, provided penalty was imposed on the stock broker / trading member on more than ten occasions in the previous thirty trading days. The Circular dated May 21, 2013 shall be applicable with effect from May 27, 2013.

K. In order to ensure orderly trading in the market, vide circulars no. CIR/MRD/DP/ 09 /2012 dated March 30, 2012 and Circular No. CIR/MRD/DP/ 16 /2013 dated May 21, 2013, stock exchanges were advised to put in place effective economic disincentives for high daily order-to-trade ratio (OTR) of algo orders placed by trading members. In order to encourage algo traders to place more orders closer to the last traded price (LTP), SEBI vide its **Circular No. SEBI/HO/MRD/DP/CIR/P/2018/62 dated April 09, 2018** the following modification shall be carried out in the existing OTR framework:

i. Instead of orders placed within ±1%, orders placed within ±0.75% of the LTP shall be exempted from the framework for imposing penalty for high OTR.

ii. Orders placed in the cash segment and orders placed under the liquidity enhancement schemes shall also be brought under the OTR framework.

L. On the basis of request received by SEBI from the stock exchange(s) the mechanism has been reviewed and the following modification has been formulated by SEBI vide **Circular No. SEBI/HO/MRD1/DSAP/CIR/P/2020/107 dated June 24, 2020** which shall be carried out in the existing OTR framework:

i. Stock exchanges may be permitted to introduce additional slabs upto OTR of 2000 (from existing OTR of 500), and for OTR more than 2000. Such slabs can be introduced with deterrent incremental penalty, which stock exchanges may decide jointly.

ii. On the third instance of OTR being 2000 or more, in last 30 days (rolling basis), the concerned member shall not be permitted to place any orders for the first 15 minutes on the next trading day as a cooling off action.

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M. Based on the principles enshrined by SEBI by its Circulars dated 30.03.2012, 09.04.2018 and 24.06.2020, NSE by its Circular No. SURV/45016 dated July 14, 2020 prescribed the following charges for Order-to-trade Ratio (OTR) for Algorthmic Trading which shall be applicable to Equity, Equity Derivatives and Currency Derivatives of the Exchange, with effect from July 15, 2020. The said charges shall be computed at Member Level on daily basis and shall be collected on a Monthly Basis, after reckoning all Algo Orders and Algo Trades of the Member:

M1. Penal Charges and Actions:-

Daily Algo Order to Trade Ratio	Existing Charges (per algo order)	Revised Charges (per algo order)
Less than 50	Nil	Nil
50 to less than 250 (Incremental Basis)	2 paise	2 paise
250 to less than 500 (Incremental Basis)	10 paise	10 paise
500 to less than 1000 (Incremental Basis)	10 paise	15 paise
1000 to less than 2000 (Incremental Basis)		20 paise
2000 or more than 2000 (Incremental Basis)		25 paise

M2. The revised penalty structure shall be applicable w.e.f. July 22, 2020.

M3. In addition to the above, in case, if the ratio is 2000 or more on three occasions in the previous thirty trading days (on rolling basis), the concerned member shall not be permitted to place any orders for the first 15 minutes on the next trading day as a cooling off action. In Equity Derivatives and Currency Derivatives segment, the current mechanism of permitting to enter orders in risk reduction mode shall continue. However, in Equity segment member shall be able to place orders only after 15 minutes of the normal market open.

M4. In order to discourage repetitive instances of high daily order-to-trade ratio, there will be an additional penalty in form of suspension of proprietary trading right of the trading member for the first trading hour on the next trading day in case a trading member is penalized for maintaining high daily order to trade ratio, provided penalty was imposed on the trading member on more than ten occasions in the previous thirty trading days (on rolling basis).

M5. Disablement / Suspension shall take place across all Exchanges.

M6. For other important information regarding the details of OTR framework are as follows:

i. Orders placed in the Equity segment and orders placed under the liquidity enhancement schemes shall be under the order to trade framework.

ii. For the purpose of calculation of Daily Order-to-Trade ratio all algo orders, i.e., order entry, order modifications and order cancellations will be considered.

iii. If the orders entered and/ or modified are within 0.75% of the last traded price (LTP) of the respective security/ contract ((Absolute (Limit price – LTP)/LTP) <= 0.75%), such algo orders will not be included in the calculation of the aforesaid Order-to-Trade ratio.

iv. In Equity Segment, securities in SME, ETF and securities with designated market makers shall be excluded for computation of OTR.

v. Orders placed in Odd Lot Market, Auction Market, Block Trading Session, Pre-open session, Post Close Session, Periodic Call Action session and Call auction in Pre-open session for Initial Public Offering (IPO) and other category of Scrip's shall also be excluded for the computation of OTR.

vi. In Equity Segment, cooling off session of 15 mins (for OTR violation of 2000 or more on three occasions in the previous thirty trading days (on rolling basis)) and 1 hour pro-trading (for more than 10 instances out of previous 30 rolling trading days where penalty has been levied), it should cover the following sessions:

i. For 15 mins

a) Pre-open session - 9.00 to 9.15 am
b) Special Pre-open Session - 9.00 to 9.30 am
c) Continuous session - 9.15 to 9.30 am

ii. For 1 hour proprietary trading

a) Pre-open session - 9.00 to 9.15 am
b) Special Pre-open Session - 9.00 to 9.45 am
c) Continuous session - 9.15 to 10.15 am

10.7 SEBI has issued various circulars from time to time to implement risk management in cash market and equity derivatives segments. Stock Exchanges have operationalized these measures by putting in place checks to be carried out at their end and by the stock brokers. SEBI engaged in a consultative process with the market participants, stock exchanges, its Risk Management Review Committee (RMRC) and Technical Advisory Committee (TAC). Global practices in this regard were also studied. Pursuant to the said exercise, **SEBI vide its Circular No. CIR/MRD/DP/34/2012 dated December 13, 2012** prescribed a framework of dynamic trade based price checks to prevent aberrant orders or uncontrolled trades. The Client agrees that it shall abide by the following framework:

A. Order-level Checks: - Minimum pre-trade risk controls for all categories of orders placed on Stocks, Exchange Traded Funds (ETFs), Index Futures and Stock futures shall be as follows:

i. Value/Quantity Limit per order:

(a) Any order with value exceeding Rs. 10 crore per order shall not be accepted by the stock exchange for execution in the normal market.

(b) In addition, stock exchange shall ensure that appropriate checks for value and / or quantity are implemented by the stock brokers based on the respective risk profile of their clients.

SMIFS would restrict the Value of a Single Order based on the said principle depending on the Collateral made available by the Client/ Constituent and the Risk Profile.

ii. Cumulative limit on value of unexecuted orders of a stock broker:

(a) Vide SEBI Circular No. CIR/MRD/DP/09/2012 dated March 30, 2012, stock exchanges have been directed to ensure that the trading algorithms of the stock brokers have a 'client level cumulative open order value check'.

(b) In continuation to the above, stock exchange are directed to ensure that stock brokers put-in place a mechanism to limit the cumulative value of all unexecuted orders placed from their terminals to below a threshold limit set by the stock brokers. Stock exchanges shall ensure that such limits are effective.

iii. Stock exchanges shall enhance monitoring of the operating controls of the stock brokers to ensure implementation of the checks mentioned at point (i) and (ii) above; and levy deterrent penalty in case any failure is observed at the end of stockbroker in implementing such checks.

B. Dynamic Price Bands (earlier called Dummy Filters or Operating Range): SEBI, vide Circular No. SMDRPD/Policy/Cir-37/2001 dated June 28, 2001, advised stock exchanges to implement appropriate individual scrip wise price bands in either direction, for all scrips in the compulsory rolling settlement except for the scrips on which derivatives products are available or scrips included in indices on which derivatives products are available. For scrips excluded from the requirement of price bands, stock exchanges have implemented a mechanism of dynamic price bands (commonly known as dummy filters or operating range) which prevents acceptance of orders for execution that are placed beyond the price limits set by the stock exchanges. Such dynamic price bands are relaxed by the stock exchanges as and when a market-wide trend is observed in either direction.

i. It has been decided to tighten the initial price threshold of the dynamic price bands. Stock exchange shall set the dynamic price bands at 10% of the previous closing price for the following securities:

(a) Stocks on which derivatives products are available,
(b) Stocks included in indices on which derivatives products are available,
(c) Index futures,
(d) Stock futures.

ii. Further, in the event of a market trend in either direction, the dynamic price bands shall be relaxed by the stock exchanges in increments of 5%. Stock exchanges shall frame suitable rules with mutual consultation for such relaxation of dynamic price bands and shall make it known to the market.

C. Risk Reduction Mode: Stock exchanges shall ensure that the stock brokers are mandatorily put in risk-reduction mode when 90% of the stock broker's collateral available for adjustment against margins gets utilized on account of trades that fall under a margin system. Such risk reduction mode shall include the following:

(a) All unexecuted orders shall be cancelled once stock broker breaches 90% collateral utilization level.
(b) Only orders with Immediate or Cancel attribute shall be permitted in this mode.
(c) All new orders shall be checked for sufficiency of margins.
(d) Non-margined orders shall not be accepted from the stock broker in risk reduction mode.
(e) The stock broker shall be moved back to the normal risk management mode as and when the collateral of the stock broker is lower than 90% utilization level.

D. The Client agrees that the Stock Exchanges and SMIFS may prescribe more stringent norms based on their assessment, if desired.

10.8 Section 9 of the Securities Contracts (Regulation) Act, 1956 ("SCRA"), inter alia, empowers stock exchanges to make bye-laws for regulation and control of contracts, subject to the previous approval of SEBI. In terms of the bye-laws framed under this section, stock exchanges are empowered to annul trades, either suomoto or on receipt of requests from stock brokers, if there are sufficient reasons for such annulment. However, to ensure finality of trades executed on trading platforms of the stock exchanges, to the extent possible, annulment of trades should be avoided by the stock exchanges.

In order to bring about uniformity and transparency in the process of trade annulment, a discussion paper was placed on SEBI's website to seek views and suggestions of the public. Taking into consideration inputs received during the discussion process, SEBI vide its **Circular No. CIR/MRD/DP/15/2015 dated July 16, 2015** decided that stock exchanges shall be guided by the following provisions with regard to the mechanism for **Annulment of Trade(s)** (or by whatever named called) resulting from material mistake or erroneous orders:

1. Examination of trade(s) for annulment may be taken up either suomoto by stock exchange or upon receipt of request from a stock broker. Stock exchanges shall define suitable criteria so as to discourage frivolous trade annulment requests from the stock brokers.

2. Stock exchanges shall prescribe the procedure for submission of requests by stock brokers, including mechanism to submit requests in electronic form.

3. Stock brokers shall submit such request to the stock exchange within 30 minutes from execution of trade(s) which is sought to be annulled. However, stock exchange may consider requests received after 30 minutes, but no longer than 60 minutes, only in exceptional cases and after examining and recording reasons for such consideration.

4. Stock exchanges shall suitably and in a time bound manner inform details of such requests to all stock brokers of the stock exchange.

5. Stock exchanges shall expeditiously, not later than start of next trading day, examine and decide upon such requests. While examining such requests, stock exchanges shall consider the potential effect of such annulment on trades of other stock brokers/investors across all segments, including trades that resulted as an outcome of trade(s) under consideration.

6. As an alternate mechanism, stock exchanges may consider resetting the price of trade(s) under consideration to an appropriate price(s), if price reset is deemed to be a less disruptive mechanism as compared to trade annulment.

7. Stock exchanges shall undertake annulment or price reset only in exceptional cases, after recording reasons in writing, in the interest of the investors, market integrity, and maintaining sanctity of price discovery mechanism.

8. In cases, wherein request for annulment of trade(s) has been submitted to more than one stock exchange by a stock broker, in respect of similar trades, stock exchanges shall jointly take a decision on such requests.

9. Stock exchange shall convey its reasoned decision on annulment of trade(s) or price reset to all counterparties to the trade(s) under consideration. Stock exchange shall also publish details of such decision on its website.

10. A mechanism to request a review of the decision taken by the stock exchange shall be provided. To this end, the aggrieved party shall submit such request to the stock exchange before the payout deadline of the trades.

11. In the event such review request is received by the stock exchange, the matter shall be referred to stock exchange's independent oversight committee on 'Trading and Surveillance function', as constituted under regulation 29(1) of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012.The payout relating to the settlement of such trades shall be withheld till such review of stock exchange's decision is completed.

12. The oversight committee shall expeditiously examine the request of stock brokers and provide its recommendations on the matter within 30 days of receipt of request by the stock exchange. Stock exchange shall convey its decision on the review request of the stock brokers within 2 working days of receipt of the recommendations from the committee. Stock exchange shall also publish details of such decision on its website.

13. Stock exchanges shall charge an application fee equal to 5% of the value of trade(s)for accepting annulment request from a stock broker, subject to minimum fee of Rs. 1 lakh and maximum fee of Rs. 10 lakhs. Stock exchanges may suitably increase the upper limit of the application fee as deemed necessary to discourage frequent or frivolous requests for annulment. The amount realised as application fee shall be credited to the "Investor Protection Fund" of the concerned stock exchange.

14. In addition, stock exchanges shall implement a suitable framework to penalize stock brokers who place erroneous orders.

15. With regard to annulment of trade(s) resulting from willful misrepresentation or manipulation or fraud, trade(s) may be annulled as provided in the extant byelaws of the stock exchanges.

16. Stock exchanges may specify additional requirements as they may deem fit in order to ensure orderly trading and market integrity.

10.9 Stock Exchange has a robust risk management framework and continuously reviews and implements various pre-trade risk control measures for ensuring orderly trading, effective risk management and price discovery. In the current state of market maturity / development and to create a conducive environment for all market participants, review and enhancements are required to optimize and strengthen the pre-trade risk control measures for preventing aberrant orders.

Accordingly, in partial modification to Exchange consolidated circular in Futures & Option Segment (Download No. 44482) dated May 27, 2020, NSE by its **Circular No. NSE/FAOP/49118 dated 31.07.2021** have laid the following features of Pre-Trade Risk Control Measures:

A. Quantity freeze for Futures & Options Contracts

1. Quantity Freeze Limits for Indices In case of contracts on indices, all orders entered in the trading system having quantity more than the respective freeze quantity limit specified for the index shall be frozen and automatically rejected by the Exchange. Quantity freeze limit for all contracts on indices shall be as follows:

Index Level		Quantity Freeze
From	To	
0	5750	8500
>5750	8625	5500
>8625	11500	4200
>11500	17250	2800
>17250	27500	1800

>27500	40000	1200
>40000	55000	900
>55000		600

2. Quantity Freeze Limits for Individual Stocks

In case of contracts on individual stocks, all orders entered in the trading system having quantity more than the respective freeze quantity limit specified for the individual stock shall be frozen and automatically rejected by the Exchange.

Orders which may come to the Exchange as a quantity freeze shall be the lesser of the following:

1. 1 % of the market wide position limit*.

Or

2. Notional value of the contract** of around Rs.2.5 Crores.

The quantity freeze limits for individual stocks shall be based on number of contracts arrived at by dividing the above by market lot and rounding off the number of contracts to the nearest 10 contracts on the higher side. The number of contracts thus arrived at would be multiplied by the market lot to arrive at the final freeze quantity.

An example of calculation of Quantity freeze for security ABC Ltd. is given below:

A) Market wide Position limit	57856890
B) Market Lot	600
C) Highest strike price	300
D) Maximum value of an order	Rs. 25000000
E) 1% of market wide position limit (A*0.01)	578568.90
F) Freeze quantity based on Rs. 2.5 Crs Limit (D/C)	83333.34
G) Interim freeze quantity (lesser of E and F)	83333.4
H) Conversion of freeze quantity to no of contracts (G/B)	138.89
I) Rounding off the number of contracts to the nearest 10 contracts on the higher side	140
J) Final Freeze quantity (I*B)	84000

*The Market wide position limit applicable on Futures and Options contracts on individual securities shall be as stipulated by NSE Clearing Corporation Ltd (NCL) in this regard from time to time.

**The notional value for the above will be computed based on the highest available strike price on the security.

The Exchange shall revise the quantity freeze limit on a monthly basis for all underlying derivative securities/indices and on the ex-date for stocks undergoing corporate action, if applicable. Members are informed that details of quantity freeze limits of all stocks and indices are available in qtyfreeze.xls file on NSE website and Extranet (/faoftp/faocommon).

These aforesaid changes shall be effective from trade date August 2, 2021. Members are advised to take the updated contract.gz file available on extranet path faoftp/faocommon before trading on August 2, 2021.

B. Alerts at the time of order entry in Future Contracts through Exchange provided NEAT Plus Frontend (FE).

Exchange shall shortly release a new version of NEAT Plus wherein an alert pop-up shall be generated for the members on frontend in case limit order price is greater than or equal to X% of Reference Price for buy orders and is lesser than or equal to X% of Reference Price for sell orders. Reference price shall be the LTP or Base Price of the contract.

Initially, the X value shall be set as follows:

- 5% for Stock Futures
- 3% for Index Futures

Exchange may review and change the in future, if required.

The aforesaid functionality shall be in addition to the existing Market Price Protection functionality available to members in the NEAT Plus Front End. Members are requested to refer to the mock circulars to be issued in this regard for complete details about the said functionality. They may also refer to the help menu of the latest exe that shall be released shortly. The effective date of the functionalities release shall be communicated separately.

Members/ Participants should refer section 3.1 of Exchange consolidated circular 44482 dated May 27, 2020 and SEBI circular no. CIR/MRD/DP/15/2015 dated July 16, 2015 regarding Trade Annulment. Any request for Trade Annulment shall be processed strictly in adherence to the said circulars. Accordingly, Exchange strongly recommends trading members to develop similar features as mentioned at B above to be made available to their dealers/clients. Members should trade responsibly and cautiously, as trading away from normal prices and misleading or causing any disruptions in normal trading may result in inquiry, investigation, and regulatory actions.

In view of the above implementation of aforesaid enhanced measures and on review of existing controls, members are requested to note that Trade Execution Range (TER) mechanism will not be applicable for all contracts traded in Equity Derivative Segment and accordingly, TER broadcast will also not be available with effect from August 16, 2021 (start of market hours).

10.10 Exchange has a robust risk management framework and continuously reviews and implements various pre-trade risk control measures for ensuring orderly trading, effective risk management and price discovery. In the current state of market maturity / development and to create a conducive environment for all market participants, review and enhancements are required to optimize and strengthen the risk control measures for preventing aberrant orders.

Accordingly, in partial modification to Exchange consolidated circular in Currency Derivatives Segment (Download No. 44483) dated May 27, 2020, NSE by its **Circular No. NSE/CD/49119 dated 31.07.2021** have laid the following features of Pre-Trade Risk Control Measures:

A. Quantity Freeze

Quantity Freeze for Currency Future & Option Contracts shall be 5001 lots or greater i.e. orders having quantity up to 5000 lots shall be allowed.

Aforesaid change shall be effective from trade date August 2, 2021. Members are advised to take the updated cd_contract.gz file available on extranet path cdsftp/cdscommon before trading on August 2, 2021.

B. Alerts at the time of order entry in Future Contracts through Exchange provided NEAT Frontend (FE).

Exchange shall shortly release a new version of NEAT wherein an alert pop-up shall be generated for the members on frontend in case limit order price is greater than or equal to an X% of Reference price for buy orders and is lesser than or equal to X% Reference price for sell orders. Reference price shall be the LTP or Base Price of the contract.

Initially, the X value shall be set as 1%.

Exchange may review and change the "X" value in Future, if required.

The aforesaid functionality shall be in addition to the existing Market Price Protection functionality available to members in the NEAT Front End. Members are requested to refer to the mock circulars to be issued in this regard for complete details about the said functionality. They may also refer to the help menu of the latest exe that shall be released shortly. The effective date of the functionalities release shall be communicated separately.

Members/ Participants should refer section 3.1 of Exchange consolidated circular 44483 dated May 27, 2020 and SEBI circular no. CIR/MRD/DP/15/2015 dated July 16, 2015 regarding Trade Annulment. Any request for Trade Annulment shall be processed strictly in adherence to the said circulars. Accordingly, Exchange strongly recommends trading members to develop similar features as mentioned at B above to be made available to their dealers/clients. Members should trade responsibly and cautiously, as trading away from normal prices and misleading or causing any disruptions in normal trading may result in inquiry, investigation, and regulatory actions.

In view of the above implementation of aforesaid enhanced measures and on review of existing controls, members are requested to note that Trade Execution Range (TER) mechanism will not be applicable for all contracts traded in Currency Derivative Segment and accordingly, TER broadcast will also not be available with effect from August 16, 2021 (start of market hours).

10.11 This is in accordance with circular no. NSE/FAOP/49118 dated July 31, 2021 on Quantity freeze limits on Indices. As per the policy mentioned in the circular, the quantity freeze limits for derivatives contracts on indices shall be applicable as under w.e.f. August 02, 2021, vide NSE **Circular No. NSE/FAOP/49129 dated 31.07.2021**:

Sr. No.	INDEX SYMBOL	QUANTITY FREEZE LIMIT
1	BANKNIFTY	1200
2	NIFTY	2800
3	FINNIFTY	2800

11. Basic Risks in Securities Markets and Derivative Trading:

In the light of the risks involved, the Client Agrees that it should undertake transactions only if it understand's the nature of the relationship into which they are entering and the extent of his/her/their exposure to risk. In considering whether to trade or **"Authorize Someone"** to trade for and/or on behalf of the Client, the Client should be aware of or must get acquainted with the following:-

11.1 BASIC RISKS:

A. Risk of Higher Volatility: Volatility refers to the dynamic changes in price that a security/derivatives contract undergoes when trading activity continues on the Stock Exchanges. Generally, higher the volatility of a security/derivatives contract, greater is its price swings. There may be normally greater volatility in thinly traded securities / derivatives contracts than in active securities /derivatives contracts. As a result of volatility, Client's order may only be partially executed or not executed at all, or the price at which Client's order got executed may be substantially different from the last traded price or change substantially thereafter, resulting in notional or real losses.

B. Risk of Lower Liquidity: Liquidity refers to the ability of market participants to buy and/or sell securities / derivatives 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 / derivatives contracts swiftly and with minimal price difference, and as a result, investors are more likely to pay or receive a competitive price for securities / derivatives contracts purchased or sold. There may be a risk of lower liquidity in some securities / derivatives contracts as compared to active securities / derivatives contracts. As a result, Client's order may only be partially executed, or may be executed with relatively greater price difference or may not be executed at all.

B.1 Buying or Selling of Securities / Derivatives Contracts as part of a day trading strategy may also result into losses, because in such a situation, securities / derivatives contracts may have to be sold / purchased at low / high prices, compared to the expected price levels, so as not to have any open position or obligation to deliver or receive a security / derivatives contract.

C. Risk of Wider Spreads: Spread refers to the difference in best buy price and best sell price. It represents the differential between the price of buying a security / derivatives contract and immediately selling it or vice versa. Lower liquidity and higher volatility may result in wider than normal spreads for less liquid or illiquid securities / derivatives contracts. This in turn will hamper better price formation.

D. Risk-reducing orders: The placing of orders (e.g., "stop loss" orders, or "limit" orders) which are intended to limit losses to certain amounts may not be effective many a time because rapid movement in market conditions may make it impossible to execute such orders.

D.1 A "market" order will be executed promptly, subject to availability of orders on opposite side, without regard to price and that, while the customer may receive a prompt execution of a "market" order, the execution may be at available prices of outstanding orders, which satisfy the order quantity, on price time priority. It may be understood that these prices may be significantly different from the last traded price or the best price in that security / derivatives contract.

D.2 A "limit" order will be executed only at the "limit" price specified for the order or a better price. However, while the customer receives price protection, there is a possibility that the order may not be executed at all.

D.3 A stop loss order is generally placed "away" from the current price of a stock / derivatives contract, and such order gets activated if and when the security / derivatives contract reaches, or trades through, the stop price. Sell stop orders are entered ordinarily below the current price, and buy stop orders are entered ordinarily above the current price. When the security / derivatives contract reaches the pre -determined price, or trades through such price, the stop loss order converts to a market/limit order and is executed at the limit or better. There is no assurance therefore that the limit order will be executable since a security / derivatives contract might penetrate the pre-determined price, in which case, the risk of such order not getting executed arises, just as with a regular limit order.

E. Risk of News Announcements: News announcements that may impact the price of stock / derivatives contract 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.

F. Risk of Rumors: Rumors about companies / currencies 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 rumors.

G. System 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.

G.1 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.

G.2 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 / derivatives contract due to any action on account of unusual trading activity or security / derivatives contract hitting circuit filters or for any other reason.

H 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 control and may result in delay in processing or not processing buy or sell orders either in part or in full. You are cautioned to note that although these problems may be temporary in nature, but when you have outstanding open positions or unexecuted orders, these represent a risk because of your obligations to settle all executed transactions.

11.2 RISKS IN DERIVATIVE TRADING:

A. Effect of "Leverage" or "Gearing": In the derivatives market, the amount of margin is small relative 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 margin amount. But transactions in derivatives carry a high degree of risk. The Client should therefore completely understand the following statements before actually trading in derivatives and also trade with caution while taking into account one's circumstances, financial resources, etc. If the prices move against you, you may lose a part of or whole margin amount in a relatively short period of time. Moreover, the loss may exceed the original margin amount.

A.1 Futures trading involve daily settlement of all positions. Every day the open positions are marked to market based on the closing level of the index / derivatives contract. If the contract has moved against you, you will be required to deposit the amount of loss (notional) resulting from such movement. This amount will have to be paid within a stipulated time frame, generally before commencement of trading on next day.

A.2 If you fail to deposit the additional amount by the deadline or if an outstanding debt occurs in your account, SMIFS Limited may liquidate a part of or the whole position or substitute securities. In this case, you will be liable for any losses incurred due to such close-outs.

A.3 Under certain market conditions, an investor may find it difficult or impossible to execute transactions. For example, this situation can occur due to factors such as illiquidity i.e. when there are insufficient bids or offers or suspension of trading due to price limit or circuit breakers etc.

A.4 In order to maintain market stability, the following steps may be adopted: changes in the margin rate, increases in the cash margin rate or others. These new measures may also be applied to the existing open interests. In such conditions, you will be required to put up additional margins or reduce your positions.

A.5 You must ask your broker to provide the full details of derivatives contracts you plan to trade i.e. the contract specifications and the associated obligations.

B. Currency Specific Risks: The profit or loss in transactions in foreign currency-denominated contracts, whether they are traded in your 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. Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example when a currency is deregulated or fixed trading bands are widened. 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.

C. Risk of Option Holders: An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time. This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to its expiration will necessarily lose his entire investment in the option. If the price of the underlying does not change in the anticipated direction before the option expires, to an extent sufficient to cover the cost of the option, the investor may lose all or a significant part of his investment in the option. The Exchanges may impose exercise restrictions and have absolute authority to restrict the exercise of options at certain times in specified circumstances.

D. Risks of Option Writers: If the price movement of the underlying is not in the anticipated direction, the option writer runs the risks of losing substantial amount. The risk of being an option writer may be reduced by the purchase of other options on the same underlying interest and thereby assuming a spread position or by acquiring other types of hedging positions in the options markets or other markets. However, even where the writer has assumed a spread or other hedging position, the risks may still be significant. A spread position is not necessarily less risky than a simple 'long' or 'short' position. Transactions that involve buying and writing multiple options in combination, or buying or writing options in combination with buying or selling short the underlying interests, present additional risks to investors. Combination transactions, such as option spreads, are more complex than buying or writing a single option. And it should be further noted that, as in any area of investing, a complexity not well understood is, in itself, a risk factor. While this is not to suggest that combination strategies should not be considered, it is advisable, as is the case with all investments in options, to consult with someone who is experienced and knowledgeable with respect to the risks and potential rewards of combination transactions under various market circumstances.

12. Margin Collection from Clients:

A. Risk Management System has been devised to ensure that there shall be no violations in the capital adequacy requirements with the exchanges and thus risks shall be minimized. The Client needs to furnish adequate margin as specified by SMIFS from time to time at its sole and absolute discretion. The margin shall have to be paid by the Client within the time frame stipulated by the Exchanges or SMIFS, generally in case of fresh positions "Upfront", in case of Mark-to-Market and/or any other additional margins before the commencement of trading on next trading day and in case where the exchanges levy and/or increase any margin required during the day, immediately upon levy and/or increase in any such margin. It shall be the responsibility of the Client to ascertain in advance the margin requirement for its order/trades/deals and to ensure that the required margin is made available to SMIFS in such form and manner as may be required by SMIFS. The client shall pay applicable initial margins, withholding margins, special margins or such other margins as are considered necessary by SMIFS Limited or the Exchange or as may be directed by SEBI from time to time as applicable to the segment(s) in which the client trades. SMIFS Limited is permitted in its sole and absolute discretion to collect additional margins (even though not required by the Exchange, Clearing House/Clearing Corporation or SEBI) and the client shall be obliged to pay such margins within the stipulated time. The client understands that payment of margins by the client does not necessarily imply complete satisfaction of all dues. In spite of consistently having paid margins, the client may, on the settlement of its trade, be obliged to pay (or entitled to receive) such further sums as the contract may dictate/require.

B. SMIFS, being a Trading Member is required to maintain adequate upfront margins with the Stock Exchange to avail exposure for Trading. The Stock Exchange has also defined the ratios in which the Cash and Securities are to be deposited and maintained by the Member Broker. Provisions of the Stock Exchange/ Clearing Corporations presently mandates that the Collateral Ratios of Cash : Securities is mandated to be maintained in the Ratio of 50:50. In addition, the Stock Exchange requires the member broker to deposit some of the margins like Mark-To-Market (MTM), cash only.

C. The Client shall have to maintain “upfront margin” in the form of Cash, Approved Securities and Bank Guarantee(s) for availing trading exposures in the Capital Market Segment and in the Derivative - Market Segment(s), where the Company is a Trading Member. Available margin for the purpose of granting exposure is calculated as a sum of free credit balance of the Client in the books of SMIFS Limited, margin in the form of funds, securities pledged by the Clients available with SMIFS. At least 50% of the Effective Deposits shall be in the form of cash. The ratio of Cash margin can be varied at the sole discretion of the Company on a case-to-case basis. SMIFS Limited is entitled to vary the form (i.e. the replacement of the margin/ security in one form with the margin or security in any other form, say, in the form of money instead of shares or vice versa) and/or security required to be deposited/ made available, from time to time. The margin or security deposited by the Client with SMIFS is not eligible for any interest unless specifically agreed. In case the margin / security is varied whereby the security portion is more than 50%, the incremental portion over and above the threshold of 50% shall be subjected to payment of interest by the Client. **SMIFS is authorized by the Client to charge a delayed payment charges upto @ 24% per annum where the Client takes exposure in across all Segment(s) by depositing collaterals in a ratio which is disproportionate to the cash versus collaterals ratio prescribed by the Exchanges.**

D. The statute mandates that Trading Members shall collect the margins from its respective client, in any of the following forms, provided they are free & unencumbered, after taking into account their risk management policy and liquidity aspects Margins collected from the clients shall be of any of these forms:

D.1 Consolidated funds balance across all segments and Exchanges (including Commodities). Free and Unencumbered funds where funds are available in the bank account of client and specifically blocked by member on T day and actually moved to client bank account maintained by the member by T/T+1 day.

D.2 Bank guarantee received towards margin, issued by any approved bank and discharged in favor of the Member Fixed deposit receipts (FDRs) received towards margin issued by any approved bank and lien marked in favor of the Trading Member.

D.3 Securities (including mutual fund, Government securities and Treasury bills) in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges, with appropriate haircut. (List of illiquid securities is declared on a regular basis by the Exchanges).

D.4 Any other such collateral, as may be specified by clearing corporation from time to time.

E. Margins shall be accepted in the form Cash vide Account Payee Cheques (Preferably a Transfer Cheque or Direct Transfer – by way of NEFT/RTGS) from the client from their Bank Accounts declared/ pre-notified at the time of opening their Securities Account. In case the Client makes any payment through a Bank Instrument favouring SMIFS Limited, the Company may allow Exposure, in its sole discretion on a case-to-case basis, against cheques received from Clients towards upfront margin/ margin on consolidated crystallized obligation in derivative segment / MTM losses and have been submitted to the Bank for Clearing**. The client shall be liable to pay delayed payment charges upto @ 24% per annum for the period till the funds are actually credited to the Bank Account of SMIFS Limited.** Various scenarios under which this may be considered by the Company, with due precautions, are as follows:

E.1 Cheques received / recorded in the books of SMIFS Limited on or before T day and deposited by Trading Member by T+1 day (excluding bank holiday, if any), can be considered towards collection/reporting of upfront margins, provided the same is cleared within T+5 working days.

E.2 Cheques received / recorded in the books of SMIFS Limited on or before T+1 day and deposited by member by T+2 day (excluding bank holiday, if any), can be considered towards collection/reporting of margin on consolidated crystallized obligation (in Derivatives Segment), provided the same is cleared within T+5 working days.

E.3 Cheques received / recorded in the books of SMIFS Limited on or before T+2 day and deposited by member by T+3 day (excluding bank holiday, if any), can be considered towards collection/reporting of MTM losses (in Cash and Commodity Segment), provided the same is cleared within T+5 working days.

E.4 Cheques which are under clearance and have not been cleared up to T+5 working days shall not be reported as margin/ margin on consolidated crystallized obligation/ MTM collected.

E.5 If subsequent to the margin/margin on consolidated crystallized obligation/ MTM reporting by SMIFS Limited, the cheque deposited by the Trading Member is dishonored or not cleared within T+5 working days, then revised margin file shall be uploaded after factoring into the effect of such dishonored or non-cleared cheques, with incremental batch number within the above mentioned five days.

E.6 In case of failure (cheque not cleared or margin requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the Trading Member for short reporting of client upfront margins/ margin on consolidated crystallized obligation/ MTM losses, Trading Member shall pass on the actual penalty to the client. Wherever penalty for short reporting of upfront margin/ margin on consolidated crystallized obligation/ MTM losses would be passed on to the client relevant supporting documents for the same shall be provided to the client.

E.7 In case of failure of on part of the Client to arrange Additional Margin levied by the Stock Exchange in any circumstances but not limited to Price Volatility, Surveillance Measures, increase in the rate of SPAN Margin, Physical Delivery of Derivative Stock, etc.

F. SMIFS Limited has appointed/ engaged ICICI Bank Limited as its Professional Clearing Member for Clearing of Transactions in the Derivative Segment(s) of Equity and Currency, where the Company is a Trading Member. Similarly, the Company has engaged Globe Capital Market Limited as its Professional Clearing Member for Clearing of Transactions in the Cash Market Segment of NSE and BSE. Likewise, the Company has engaged Globe Commodities Limited as its Professional Clearing Member for Clearing of Transactions in the Derivative Segment(s) of Commodity Derivative Market Segment, where the Company is a Trading Member.

F.1 The Stock Exchanges Mandates that for the purpose of client Margin collection and reporting, the Trading Member shall compute the value of securities (both cash and non-cash securities) as per the closing rate on T-1 day on the National Stock Exchanges and/or on NDS as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security on that day i.e. T-1 day. However, as the Trading Member avails services from the Professional Clearing Members as detailed herein above, acceptance of Collateral as Securities (including quantity limits) and applicable haircut shall be guided by the policies of the Professional Clearing Member (in short "PCM") and NSE Clearing Limited.

F.2 The choice of the securities to be considered shall be at the sole discretion of SMIFS Limited from time to time and the Client shall abide by the same. The categorization of the stocks and the haircut applicable is reviewed from time to time based on Regulatory Dictats, Policies of PCM, Market Information and Other Factors as deem fit by SMIFS.

F.3 SMIFS, may from a case-to-case basis consider additional quantity of Securities, in dematerialized form, over and above the permissible Limit of the PCM and/or the Clearing Corporations which are actively traded on the National Exchanges. The Company may charge **delayed payment charges upto @ 24% per annum**, separately for considering such securities for reporting margins to the Exchange.

F.4 SMIFS, may from a case-to-case basis consider Liquid securities, in dematerialized form, actively traded on the National Exchanges, which are specifically not declared as illiquid securities by any Exchanges, while reporting margins to the Exchange. The Company may charge **delayed payment charges upto @ 24% per annum**, separately for considering such securities for reporting margins to the Exchange.

F.5 Any specific event, in the opinion of SMIFS Limited, which leads to increase in risks involved related to a particular scrip would also lead to change of category/haircut of such scrip. Also, in extremely volatile market with abnormal price/volume movements, or in case of warnings by Regulators/Exchanges/PCM, scrip may be re-categorized without prior notice and the Clients shall regularize their trades accordingly. However, in respect of transactions in the Equity Derivative Segment, the list of Approved Securities, considered for maintaining margin, shall be similar to that of list decided by the respective Stock Exchanges from time to time and/or as per the list decided by the sole discretion of the Company.

G. Securities which are sold in cash market and available in Trading Member's account i.e. Clearing Member Pool /EPI (Early Pay-In) Account will not be considered as margin collected for any other trade/position. However, in respect of sale of shares by a client for which early pay-in has been accepted by Clearing Corporation (in short "CC"), since settlement of the trade is guaranteed by the Clearing Corporation, member may choose to give credit of the sale value of the shares in the ledger account of the client, which may be considered as margin towards subsequent trade/s of the Client.

H. Securities received in pay-out and available in Client Un-Paid Securities Account (in short "CUSA") account will not be considered for margin collection. However, NSE by its **Circular No. INSP/45850 dated 28.09.2020** clarified that in case client buys a share on T day with upfront payment of applicable margin and If client sells the same shares on T+1 day, client will be required to pay separate applicable margin for sale trades also, as Buy and Sell trades are executed in different settlements. However, SMIFS may choose to pay for the buy position of client (buy value – margin paid by the client) and collect the payout of shares on T+2 day in CUSA. SMIFS may deliver the shares from CUSA on T+3 day towards pay-in for sale trade on T+1 day. SMIFS may also choose to post the buy and sale value of shares to the account of client in ledger on execution of sale transaction, which could be used towards margin for subsequent trades of the client. Further, securities received in pay out and available in CUSA account (reduced by the appropriate haircut subject to minimum 20%) after adjusting any debit balances in client ledger shall be considered for collection and reporting of margin.

I. Clients shall not be required to provide upfront margins, in respect of positions for which early pay-in of securities/funds is made by them to SMIFS on the date of execution of the transaction.

J. For transactions undertaken under Margin Trading Facility (MTF), upfront margin collected in the form of funds & securities for such MTF transactions and recorded in the MTF books can be considered for collection and reporting of Margin executed under Margin Trading Facility. **Excess margin/collateral available in MTF Ledgers cannot be considered towards Margins of Non-MTF Transactions**.

K. Margin available with related entities of the client cannot be considered as margin of the respective client.

L. SMIFS Limited shall send margin related information to their clients. Such margin related information (Daily Margin Statement) should be issued by SMIFS to clients on a daily basis at the end of the trade day (T-Day) itself or by T+1 Day depending on the availability of requisite data from the Clearing Corporation and Professional Clearing Member(s).

M. In case of NRI clients undertaking buy transactions under PIS, funds received from the NRI's PIS bank account before the respective pay-in, will be considered as collection of upfront margin. In case of NRI clients undertaking sell transactions under PIS, securities received before the respective pay-in, shall be considered as collection of upfront margin.

N. SMIFS is entitled to include/appropriate any/all pay-out of funds towards margin without requiring specific authorizations for each pay-out. The Company is entitled to transfer funds towards margin from one segment of the exchange to another segment whenever applicable and found necessary by SMIFS. The Client also agrees and authorizes SMIFS to adjust the margin/security requirements amongst segments as per the requirement of the Client's Open Positions.

O. Based on communication from SEBI, NSE vide its **Circular No. INSP/38945 dated 24.09.2018** clarified that, credit balances & debit balances of a client across different segments/Exchanges should be netted off to arrive at the net debit balance, and any delayed payment charges, as mutually agreed, should be applicable on such netted off debit balance, if any. Thus the Trading Members who are levying delayed payment charges on client's debit balances even though such client has credit balance with the broker in other segment/Exchange should discontinue such practice. The circular further, clarified that, any excess securities/FDRs/BGs etc., held by the member on behalf of a client, are only for the purpose of meeting margin requirements, and the value of such excess securities /FDRs/BGs etc. may not be adjusted for the calculation of the net debit balance (on which delayed payment fee is charged).

P. NSE vide its Circular No. NSE/INSP/20638 dated 26.04.2012 on "Clarification on Funding in connection with / incidental to /consequential upon the securities business". NSE vide its **Circular No. INSP/41842 dated 13.08.2019** clarified that the Annexure I of NSE Circular No. NSE/INSP/20638 dated 26.04.2012, under the head "Collaterals as Margin" stands modified as follows:

> "In Equity Derivative Segment and Currency Derivative Segments Members are allowed to accept approved securities from clients for margin purposes. Where Member has accepted securities with appropriate hair cut for margin purpose, but has to deploy his funds for meeting margin requirements of the client at the Exchange, Members may levy interest or delayed payment charge on debit balance as per the terms consented by the client."

It may kindly be noted that the details of the Annexure I of NSE Circular No. NSE/INSP/20638 dated April 26, 2012 has been dealt in the Heading "**Exposure Limit to Clients",** herein below**.**

Q. Computation of Margin Utilisation in Capital Market Segment (NSE/CMPT/47583 dated 09.03.2021)

NSE Clearing Limited, levies VAR, Extreme Loss margins (ELM), Additional/Adhoc Margins and mark to market margins in the Capital Market segment and are monitored against the effective deposit/limit of the clearing/trading members. The margin utilization percentage is used for the calculation of point of entry/exit in the risk reduction mode

The formula used for computation of margin utilisation shall be revised as under:

For Clearing Members:

$$\text{Margin Utilisation \%} = \frac{\text{(VAR + ELM + Additional/ Adhoc Margin + Mark to Market)}}{\text{Effective Deposit}}$$

For Trading Members:

$$\text{Margin Utilisation \%} = \frac{\text{(VAR + ELM + Additional/ Adhoc Margin + Mark to Market)}}{\text{Applicable Limit}}$$

Cash component (Cash + Cash equivalent) of effective deposit shall be sufficient to cover the mark to market margins

R. Computation of Margin Utilisation in Currency Derivative Segment (NSE/CMPT/47584 dated 09.03.2021)

NSE Clearing Limited, levies Initial margin, Extreme Loss Margin (ELM), Margin on consolidated crystallized obligation (COBG) in the Currency Derivatives segment and are monitored against the effective deposit/limit of the clearing/trading members. The margin utilization percentage is used for the calculation of point of entry/exit in the risk reduction mode.

The formula used for computation of margin utilisation shall be revised as under:

For Clearing Members:

$$\text{Margin Utilisation \%} = \frac{\text{(Initial Margin + ELM + COBG)}}{\text{Effective Deposit- Minimum liquid net worth}}$$

For Trading Members:

$$\text{Margin Utilisation \%} = \frac{\text{(Initial Margin + ELM + COBG)}}{\text{Applicable Limit}}$$

S. Computation of Margin Utilisation in Futures & Options Segment (NSE/CMPT/47585 dated 09.03.2021)

NSE Clearing Limited, levies Initial margin, Extreme Loss Margin (ELM), Margin on consolidated crystallized obligation (COBG) and Delivery margins in the Future and Options segment and are monitored against the effective deposit/limit of the clearing/trading members. The margin utilization percentage is used for the calculation of point of entry/exit in the risk reduction mode.

The formula used for computation of margin utilisation shall be revised as under:

For Clearing Members:

$$\text{Margin Utilisation \%} = \frac{\text{(Initial Margin + ELM + COBG + Delivery Margins)}}{\text{Effective Deposit- Minimum liquid net worth}}$$

For Trading Members:

Margin Utilisation % = (Initial Margin + ELM +COBG + Delivery Margins) / Applicable Limit

13. Risk Management Framework in respect of Margin Pledge

SEBI had extensive consultations with Stock Exchanges, Clearing Corporation and Depositories and industry representatives of Trading Members (the "TM") / Clearing Members (the "CM") / Depository Participants (the "DP"), to devise a framework that mitigates the risk of misappropriation or misuse of client's securities available with the TM / CM / DP. The misappropriation or misuse would include use of one client's securities to meet the exposure, margin or settlement obligations of another client or of the TM / CM. The matter was also discussed in the Secondary Market Advisory Committee meeting. SEBI by a Circular No. **SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020** has laid the following guidelines in respect of **'Margin Pledge'**:

A. Section 12 of the Depositories Act, 1996 read with Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 and the relevant Bye Laws of the Depositories clearly enumerate the manner of creating pledge of the dematerialised securities. Any procedure followed other than as specified under the aforesaid provisions of law for creating pledge of the dematerialised securities is prohibited. It is clarified that an off-market transfer of securities leads to change in ownership and shall not be treated as pledge.

B. Transfer of securities to the demat account of the TM / CM for margin purposes (i.e. title transfer collateral arrangements) shall be prohibited. In case, a client has given a power of attorney in favour of a TM / CM, such holding of power of attorney shall not be considered as equivalent to the collection of margin by the TM / CM in respect of securities held in the demat account of the client.

C. For the purpose of providing collateral in form of securities as margin, a client shall pledge securities with TM, and TM shall re-pledge the same with CM, and CM in turn shall re-pledge the same to Clearing Corporation (CC). The complete trail of such re-pledge shall be reflected in the de-mat account of the pledger.

D. Depositories shall provide a separate pledge type viz. 'Margin Pledge', for pledging client's securities as margin to the TM / CM. The TM / CM shall open a separate demat account for accepting such Margin Pledge, which shall be tagged as 'Client Securities Margin Pledge Account'. The TM shall re-pledge securities to the CM's 'Client Securities Margin Pledge Account' only from the TM's 'Client Securities Margin Pledge Account'. The CM shall create a re-pledge of securities on the approved list to CC only out of 'Client Securities Margin Pledge Account'. In this context, re-pledge would mean endorsement of pledge by TM / CM in favour
of CM/CC, as per procedure laid down by the Depositories.

E. The TM and CM shall ensure that the client's securities re-pledged to the CC shall be available to give exposure limit to that client only. Dispute, if any, between the client, TM / CM with respect to pledge, re-pledge, invocation and release of pledge shall be settled inter-se amongst client and TM / CM through arbitration as per the bye-laws of the Depository. CC and Depositories shall not be held liable for the same.

F. Securities that are not on the approved list of a CC may be pledged in favour of the TM / CM. Each TM / CM may have their own list of acceptable securities that may be accepted as collateral from client.

G. Funded stocks held by the TM / CM under the margin trading facility shall be held by the TM / CM only by way of pledge. For this purpose, the TM / CM shall be required to open a separate demat account tagged 'Client Securities under Margin Funding Account' in which only funded stocks in respect of margin funding shall be kept/ transferred, and no other transactions shall be permitted. The securities lying in 'Client Securities under Margin Funding Account' shall not be available for pledge with any other Bank/ NBFC.

H. For the purpose of providing collateral in form of dematerialised securities as margin, a client shall initiate the Margin Pledge only in favour of the TM / CM's separate client securities margin account tagged as 'Client Securities Margin Pledge Account' through physical instruction or electronic instruction mechanism provided by the Depositories. Such instructions shall have details of client UCC, TM, CM and Default Segment.

I. In cases where a client has given a Power of Attorney (the "POA") to the TM / CM, the TM / CM may be allowed to execute the Margin Pledge on behalf of such client to the demat account of the TM / CM tagged as 'Client Securities Margin Pledge Account'.

J. On receipt of the Margin Pledge instruction either from the client or by TM / CM as per the POA, DP of a client shall initiate a Margin Pledge in the client's account and the status of instruction will remain pending till confirmation is received from client / pledgor. The client will submit acceptance by way of One Time Password (the "OTP") confirmation on mobile number / registered e-mail id of the client or other verifiable mechanism. Such OTP confirmation from client shall also be required, if securities of such client are being re-pledged. In client account, Margin Pledge or re-pledge shall be reflected against each security, if it is pledged / re-pledged and in whose favour i.e. TM / CM / CC.

K. The TM can re-pledge only in favour of CM's demat account tagged as 'Client Securities Margin Pledge Account'. The CM shall create a re-pledge of securities on the approved list only to the CC out of 'Client Securities Margin Pledge Account'. While re-pledging the securities to the CC, CM/TM shall fully disclose the details of the client wise pledge to the CC/CM. CM would need to have visibility of client level position and client collateral so that CM shall allow exposure and / or margin credit in respect of such securities to that client to whom such securities belong.

L. In case of a client creating pledge of the securities in favour of the TM / CM against margin, the TM / CM may release the 'Margin Pledge' after their internal exposure and risk management checks. The request for release of pledge can be made by the client to its DP or to the TM / CM, who shall release the pledge in the Depository system.

M. SMIFS Limited shall accept collateral from clients in the form of securities, only by way of 'Margin Pledge', created in the Depository System from their own declared designated account. The Clients shall be responsible for initiating such Margin Pledge and also to confirm the same through the Online Mechanism provided by the Depositories. Failure in confirming Pledge instructions may lead to short reporting of Margin, thus utmost care should be taken to ensure Margin Pledge before they enter into any Transactions in any Market Segment(s), where the Company is a Trading Member.

N. For release of client securities given to TM/CM as Margin Pledge and which are re-pledged in favour of the CC, the CM shall make a request to the CC. The client through TM, or the TM on his own, may request the CM to make an application to the CC for the release of Margin Pledge. CC shall do margin utilisation check at the CM level before releasing the re-pledge of securities to the CM. The CC will release the re-pledged client securities to CM after blocking other available free collateral of CM. The CM /TM in turn after doing their risk management shall release the securities to TM / client, as the case may be.

O. If any Securities, which is provided by Client as Margin Pledge for their Trading Exposures and found lying unutilized in periodic interval of times, SMIFS shall return such unutilized collateral by way of Un-Pledge in the Demat Account of the Client as free Securities. Rest of Client Securities lying as Margin Pledge with SMIFS shall be settled as per settlement cycle opted by client on monthly / quarterly basis.

P. In case of default by a client of TM where the client's securities are re- pledged with the CM/ CC, the invocation request shall be made by the TM to CM and CM in turn will make request to CC as per the procedure laid down by the Depositories under their bye-laws. In case of default by a client of TM who has pledged securities with TM, The TM shall invoke the pledge.

Q. In case of default by a client of TM whose securities are re-pledged by TM with CM, the invocation request shall be made by TM to the CM. The CM, after doing its internal exposure and risk management, shall release the re-pledged securities to the 'Client Securities Margin Pledge Account' of the TM. The TM in turn will invoke the pledge of client's securities.

R. In the event of default by a client of a TM, whose securities are re-pledged by TM with CM and CM in turn has re-pledged with CC, the TM shall make a request for invocation of pledge with CM and CM in turn shall file a request with CC to release the re-pledged securities for invocation. The CC shall block equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client of TM to CM in "Client Securities Margin Pledge Account" of CM. The CM shall do his own risk assessment of TM and would release re-pledged securities of the defaulting client of TM in "Client Securities Margin Pledge Account" of TM and TM shall invoke the pledge in Demat account of the client.

S. In case of default by a client/ TM of CM whose securities are re-pledged with CC, CM shall file a request with CC for invocation of the pledged/ re-pledged securities of that client/TM. CC shall block the equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client/TM in "Client Securities Margin Pledge Account" of CM and the CM shall invoke the pledge in Demat account of the client/ TM.

T. In case of default by TM or client of TM, CM shall be entitled to invoke pledged/ re-pledged securities of the TM. CM shall also be entitled to invoke directly the re-pledged securities of client of TM having open position with CM to close out such positions.

U. In case of default by the CM, CC shall invoke securities pledged by the CM. After exhausting the CM own collateral, CC may also invoke re-pledge securities of that client who has open position and their re-pledged securities are blocked by CC to close out their open positions. The re-pledge securities of other clients who did not have any open position with CC, their securities shall not be available to CC for invocation to meet settlement default of the CM.

V. In the event of default by a client of TM, the TM shall make good the default to CM. In the event of default by a client or TM on its proprietary position, the CM shall make good the default to CC. However in the event of default by client/s leading to default of TM and also the CM, the following process shall be applied by TM/CM/CC for invocation of pledged and re-pledged securities of client/TM/CM:

a. In case of default by a client of TM/CM or default of TM leading to the default of CM, CC shall:

i. encash the available collateral including cash, cash equivalent collateral, CM's own pledged securities.
ii. After encashing the available collateral of CM, also be entitled to directly invoke the re-pledged securities of client / TM who has any open position so as to close out the open positions of that client.
iii. not be entitled to invoke re-pledged securities of those clients who did not have any open position to meet settlement obligation of the defaulting CM.

b. In case of default by a client of TM or default of TM, CM Shall:

i. be entitled to liquidate available cash, cash equivalent collateral and TM's own pledged /or re-pledged securities with CM/ CC to meet settlement/margin obligations of defaulting TM or client(s) of that TM.
ii. After encashing the available collateral of TM, be entitled to directly invoke re-pledged securities of the client of defaulting TM who has open position through CM so as to close out his position.
iii. not be entitled to invoke re-pledged securities of those clients of defaulting TM who did not have any open position,
iv. ensure that the client securities of TM/ CM re-pledged with the CC are not utilized for meeting the margin requirement/ settlement obligation of a TM's/CM's own proprietary position or margin requirement/ settlement obligation of any other client of TM / CM.

14. Risk Management Framework for Intra-Day Margin and Peak Margin

A. As per **SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019**, upfront margins viz. VaR margins and ELM are required to be collected in advance of trade in case of intra-day transactions (buy & sell) in same scrip. In case of any intra-day transactions in the same scrip on the same day, Margins shall be collected as per the below illustration:

Transaction	Scrip	Quantity	Margin @ 10%
Buy	ABC Ltd.	100	10
Sell	ABC Ltd.	100	Nil (Since the net quantity of the scrip is nil)
Total Upfront Margin collected		**10**	

B. SEBI by its Circular No. **SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020** has enshrined the process for determining the Intra-Day Peak Margin, whereby Clearing Corporations shall send minimum 4 snapshots of client wise margin requirement to the Trading Member for them to know the intraday margin requirement per client in each segment. The number of times snapshots need to be sent in a day may be decided by the respective Clearing Corporation depending on market timings subject to a minimum of 4 snapshots in a day. The snapshots would be randomly taken in pre-defined time windows. Based upon the snapshots SMIFS shall determine the Intra-Day Peak Margin for its Clients.

C. Further, for commodity derivatives segment, SEBI vide Circular SEBI/HO/CDMRD/DRMP/CIR/P/2019/149 dated November 29, 2019 has prescribed that though trading in commodity derivatives is happening till mid-night, Risk Parameter File (RPF) of 5 PM shall be applicable on End of Day (EOD) portfolio for margin collection from clients. Therefore, for the commodity derivatives segment, last snapshot for commodity derivatives shall be generated at 5 PM and EOD margin also shall be determined in accordance with the Circular.

D. The client wise margin file (MG-12/13) provided by the CCs to TMs/CMs shall contain the EOD margin requirements of the client as well as the peak margin requirement of the client, across each of the intra-day snapshots.

E. SMIFS shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:

(A) EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.

AND

(B) Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.

Higher of the shortfall in collection of the margin obligations at (A) and (B) above, shall be considered for levying of penalty as per the extant framework

F. The verification of availability of margins with TM/ CM, as at E(A) and E(B) above, shall be done by exchanges/ clearing corporations on a weekly basis by verification of the balances in the books/ ledgers of the TM/ CM in respect of the client.

G. The peak margin obligation of client across snapshots, as at E(B) above, shall be adopted in a phased manner, as given below:

Phase 1 (for 3 months from the date of implementation)- 25% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.

Phase 2 (for subsequent 3 months)- 50% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.

Phase 3 (for subsequent 3 months)- 75% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.

Phase 4 (subsequently)- 100% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.

Shortfall in collection of margins, as detailed in Para E above, shall be calculated by taking into consideration the aforesaid phased adoption of peak margin obligation of client. Further, during the aforesaid period of phased adoption, the member should be able to demonstrate that the balance peak margin obligation (i.e., [peak margin obligation of the client across the snapshots] minus [25%/ 50%/ 75%1 of Peak margin obligation of the client across the snapshots]) has been funded from the member's own funds and not from any other client.

H. Applicable upfront margins are required to be collected from the clients in advance of the trade. In view of the same, free and unencumbered collaterals can be released in case peak margin obligation across all segments is fulfilled. Illustration is mentioned below:

Day	Time	Particulars
T Day	09:00 AM	Margin available Rs. 1,00,000/-
T Day	10:00 AM	Client Opens Position in ABC Limited of Margin of Rs. 1,00,000/-
T Day	03:00 PM	Client Closes Position in ABC Limited of Margin of Rs. 1,00,000/-
T Day	04:00 PM	Trading Member can release the free encumbered Collateral of Rs. 1,00,000/-

15. Penalty on Shortage of Margin Calculation

SEBI vide its Circular No. CIR/DNPD/7/2011 dated August 10, 2011 mandated that Stock Exchanges shall Levy Penalty on Trading Members for short collection/ non-collection of margins from clients in Equity Derivative, and Currency Derivative Segments. Thereafter from time to time, on various dates, have extended the applicability of the Penalty on Cash Market Segment, Interest Rate Derivative, Commodity Derivative and any other Segment. The rate of Penalty and their applicability in various scenarios are enumerated hereunder:

A. Penalty Matrix:

For Each Trading Member	
"a"	Per day Penalty as a % of "a"
(<Rs. 1.00 Lacs) And (<10% of applicable Margin)	0.5
(>Rs. 1.00 Lacs) Or (> 10% of applicable Margin)	1.0

Where "a" = Short-Collection / Non-Collection of Margins per Client per Segment per day

B. If short/non-collection of margins for a client continues for more than 3 consecutive days, then penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond 3rd day of shortfall.

C. If short/non-collection of margins for a client takes place for more than 5 days in a month, then penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.

D. Notwithstanding the above, if short collection of margin from clients is caused due to movement of 3% or more on the Index (close to close value of Nifty/ Sensex for all equity derivatives) and in the underlying currency pair (close to close settlement price of currency futures, in case of all currency derivatives) on a given day, (day T), then, the penalty for short collection shall be imposed only if the shortfall continues to T+2 Day.

E. SMIFS shall pass on the Penalty, as levied by the Stock Exchange as per the Circular dated August 10, 2011 to the Clients who fail to provide adequate the requisite Margins in time.

16. Exposure Limit to Clients:

A. The Client is not entitled to trade without adequate margin/security and that it shall be his/her/its responsibility to ascertain in advance the margin/security requirements for his/her/its orders/trades/deals and to ensure that the required margins/security is made available to SMIFS Limited, in such form and manner as may be required by the Stock Exchanges and also by SMIFS Limited.

B. The exposure limits for a Client shall be set up considering the following parameters:

B.1 In Capital Market Segment, SMIFS being a Trading Member it is required to mandatorily collect VaR margins and Extreme Loss Margin (ELM) from their clients on an upfront basis. Other margins such as Mark-to-Market Margin (MTM), Delivery Margin, Special/Additional Margin or such other margins as may be prescribed from time to time by the Stock Exchanges, shall be collected within 'T+2' working days from the Clients. The statute mandates that it must be ensured that VaR margins and ELM are collected in advance of trade and other margins are Collected / Paid as soon as margin calls are made by the Clearing Corporations. Trading Exposure to Client in Capital Market Segment shall be based on the principle enshrined herein in above.

B.2 In the Equity Derivative Segment (popularly also known as F&O Segment), SMIFS being a Trading Member it is required to mandatorily collect SPAN Margin & Extreme Loss margin from respective clients on an upfront basis. The statute mandates that it must be ensured that all upfront margins are collected in advance of trade. Furthermore, Delivery Margin and Margin on Consolidated Crystallized obligation shall be collected from clients by T+1 day. Trading Exposure to Client in F&O Segment shall be based on the principle enshrined herein in above.

B.3 In case of Currency Derivatives Segment also, SMIFS being a Trading Member it is required to mandatorily collect Initial Margin and Extreme Loss Margins from their client on an upfront basis. The statute mandates that it must be ensured that all upfront margins are collected in advance of Trade. Furthermore, Margin on Consolidated Crystallized Obligation and shall be collected from clients by T+1 day. However, in case of Currency Future Contracts, Final Settlement amount shall be collected by T+2 day. Trading Exposure to Client in Currency Derivate Segment shall be based on the principle enshrined herein in above.

B.4 In case of Commodity Derivatives Segment, SMIFS being a Trading Member it is required to mandatorily collect Initial Margin and extreme loss margins shall be collected from client on an upfront basis. The statute mandates that it must be ensured that all upfront margins are collected in advance of trade. Furthermore, other margins such as Mark-to-market margin (MTM), delivery margin, special/additional Margin or such other margins as may be prescribed form time to time, shall be collected within 'T+2' working days from their clients. Trading Exposure to Client in Commodity Derivate Segment shall be based on the principle enshrined herein in above.

B.5 With a view to ensure market safety and protect the interest of the investors and also to further align the Risk Management Framework across the Cash and Derivative Markets, the Risk Arrays are updated Intra-Day in the Cash market as has been done in the Derivative Market. The applicable VaR Margin/ SPAN Margin rates are Updated at least 5 Times a Day in Cash and Equity Derivative Market, which may be carried out taking the Closing Price of the Previous Day at the Start of Trading and the prices at 11:00 am, 12:30 pm, 2:00 pm and at the end of the Trading Session. Similarly, the applicable Risk Parameter File (RPF) shall be updated based on the prices calculated at before start of market hours, 9:30 am, 11:00 am, 1:00 pm, 3:00 pm, 5:00 pm, 7:00 pm, 8:30 pm, 10:30 pm, and after end of market hours in Commodity Derivative Market.

B.6 Use of VaR Methodology with respect to Exchange Traded Funds (in short "ETF"): Index ETFs are based on a basket of securities. However, for computing margins on ETFs they are treated at par with stocks and margins that are applicable on stocks are being applied for ETFs. In order to bring efficiency in margining of index ETFs, it has been decided that VaR margin computation for ETFs that track an index shall be computed as higher of 5% or three times sigma of the ETF. The margin framework is applicable to ETFs that tracks broad based market indices and does not include ETFs which track sectoral indices.

C. SMIFS, may from time to time impose and vary limits on the orders that the Client can place through trading system of the Company, including exposure limits, turnover limits, limits as to the number, value and/or kind of securities/contracts in respect of which orders can be placed, etc. As a Trading Member, the Company may need to vary or reduce the limits or impose new limits urgently on the basis of the risk perception of the Company and other factors considered relevant by SMIFS, including but not limited to limits on account of Exchange/ Regulatory Directions/ limits (such as Broker Level / Market Level Limits in security/contract specific/volume specific exposures etc.) and the Company may be unable to inform the Client of such variation, reduction or imposition in advance. SMIFS shall not be responsible for such variation, reduction or imposition or the Clients inability to route any order through the Trading System of SMIFS on account of any such variation, reduction or imposition of limits.

D. On a case-to-case basis SMIFS shall have the prerogative to allow differential purchase and sell limits varying from Client to Client, depending upon credit worthiness, integrity and past conduct of each Client. The Company shall have the prerogative to determine and prescribe rules for exposure limits, subject to the Margin Compliance Rules of the Stock Exchange.

E. While granting the exposure, margin in the form of securities, will be valued as per the available closing price on NSE and/or BSE, on the previous trading day, after applying appropriate haircut as may be decided by the Stock

Exchange(s) and/or SMIFS Limited, at its sole discretion. In case a security has not traded over any of the Stock Exchanges where SMIFS is a Trading Member, then such security shall not be considered for the purpose of collateral and transactions in such security shall be at the sole discretion of the Risk Management Department of SMIFS Limited.

F. SMIFS may from time to time depending on market conditions, profile and history of the Client, types and nature of scrip, etc. at its sole discretion charge/change (revise upwards) the rate of haircut applicable on the securities given as margin. Furthermore, the margin requirement at the security level for granting exposure in Cash/Derivative segments may be enhanced in the Sole discretion of the Company as may deem fit and appropriate on a case-to-case basis.

G. The Client shall have to abide by the exposure limit set by SMIFS as crossing the limit may involve either a call for margin or restriction on further position / exposure.

H. All debit balances more than 5 days shall be marked and the limits shall be given only for SELLING to ensure the realization.

I. The Client shall be responsible for all orders, including any orders that may be executed where the Cheque issued by the Client is under Clearing, and/or any claim/loss or damage arising out of the non-availability/shortage of margin or securities required by SMIFS and/or Exchange and/or Regulator.

J. SMIFS shall have the exclusive discretion to alter/change any of Exposure limit, selling parameter defined in this policy on the basis of prevailing market conditions with or without prior intimation and can use their discretion to grant any kind of exemption/permission in case they deem fit on case to case basis to its Clients.

K. At present, the margin requirement is computed in real time at client level by the CC and is aggregated at the level of CMs to arrive at the total margin requirement. The CC maintains and monitor the collateral at the level of CM. The CM is required to provide the collateral in various acceptable forms such as Cash, Bank Guarantee, Govt. Securities, pledge of acceptable shares, etc. The day to day real time risk management with respect to client / TM exposure, and the margin requirement shall continue to be the responsibility of the CM, and CC shall not monitor the client level exposure against the available client level collateral in real time.

L. In order to provide exposure to CM and/or to the clients / TM of a CM, CC shall aggregate margin requirement at CM level that shall be compared against the available collateral in real time as aggregate of;

a. cash and cash equivalent deposited by CM,
b. own securities pledged by CM with CC,
c. CC requires minimum 50% of the collateral to be deposited in cash and cash equivalent, if the total securities pledged by CM with CC exceed the total cash and cash equivalent, the value of securities will be restricted to amount of cash and cash equivalent.
d. The TM's proprietary margin requirement will be treated as a client of CM and aggregated along with other clients.

M. CM shall be allowed to re-pledge acceptable/approved client securities with the CC by furnishing the UCC wise client details. CC shall not allow any exposure to the CM on re-pledged securities of the client / TM. In case of a trade by a client / TM whose securities are re-pledged with CC, the CC shall first block the available collateral provided by CM as mentioned in point 4.12 above. However, at periodical interval (latest by end of day), CC shall release the blocked securities collateral of CM to the extent of re-pledged securities collateral of that client / TM available with the CC.

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N. An illustrated list of circumstances in which SMIFS may not allow the Client to take further positions or may Close/Liquidate a part or whole of the existing position of the Client are as follows:

a) Failure by the Client in providing sufficient/adequate margin(s) and/or insufficient/inadequate free credit balance available in the account of the Client.
b) If the Client fails to deposit the margin/additional margin by the deadline or if an outstanding debit occurs in the account of the Client beyond the stipulated time period.
c) If the Client fails to maintain, the requisite margin, in such form and manner, as may be specified by SMIFS, from time-to-time.
d) Settlement obligations are not paid by the Client within the time frame allowed by the Exchanges or as per the norms specified by SMIFS from time-to-time at its sole and absolute discretion.
e) Securities falling in the category of Penny Stocks/Illiquid Stocks/Contacts/Options as described in Policy (I) above.
f) List of securities marked **("SMS Stocks")** published by the Exchange(s) from time-to-time
g) Trades, which apparently in the sole and absolute discretion of SMIFS seems to be synchronized trades/circular trading/artificial trading/manipulative in nature, etc.
h) In case any Relevant Authority is of the Opinion that a particular underlying no longer meets its requirements for Trading or is not eligible for Trading or if the Relevant Authority decided to discontinue trading in particular market segment for such reasons as it may deem fit and may in such circumstances impose restrictions on transactions that no new open positions can be taken in such underlying and/or contact that have been previously introduced.
i) In case any Relevant Authority may limit the transactions with regard to the total number of securities and/or contracts on an underlying that a single investor and/ or group of investors acting in concert may take up and/or exercise during such time period as may be prescribed by the Relevant Authority from time to time.
j) In case any Relevant Authority may at any time in its absolute discretion prescribe maximum long and/or short open positions for any Client and/or group of Clients with regard to quantity and/or value for any underlying and/or contact(s).
k) Any ban imposed on the Client by the Regulatory Authorities.
l) The Client have been found in the opinion of SMIFS of any misconduct, forgery, suppression of facts and falsification of information provided by the Client at the time of opening of the Trading Account with SMIFS.
m) Where name of the Client apparently resembles with the name appearing in the list of debarred entities published by SEBI/Exchanges [where the information available for the debarred entity (other than name) is not sufficient enough to establish that the Client and such debarred entity are one and the same].
n) In case it is found in the opinion of SMIFS, any terms and conditions, with regard to the Rights and Obligations and/or Policies & Procedures (both Mandatory and Voluntary), signed by the Client at the time of opening the Securities Trading Account has been violated.
o) The Client fails to furnish documents/information as may be called for by SMIFS from time-to-time as per regulatory requirement and/or as per its internal policy.
p) The Client fails to comply with any provisions of the Bye Laws, Rules and Regulations of the Exchange/Clearing Corporation, requirements of the Exchange/Clearing Corporation and any Relevant Statutory & Regulatory Authorities.
q) In the event of death or insolvency or lunacy of the Client otherwise becoming incapable of receiving and paying for or delivering or transferring securities which the Client has ordered to be bought or sold.
r) Depending on the market circumstances if SMIFS is of the view that the positions of the Client are at risk then SMIFS may close the existing position without waiting for the pay-in schedules of the exchanges.

s) In case in the opinion and sole discretion of SMIFS, that such further position would be adverse and detrimental to the Compliance Requirement with regard to any provisions of the Bye Laws, Rules and Regulations of the Exchange/Clearing Corporation, requirements of the Exchange/Clearing Corporation and any Relevant Statutory & Regulatory Authorities.

O. SMIFS may at any time at its sole discretion and without prior notice, prohibit or restrict the Clients ability to place orders or trade in securities/contract through SMIFS, or it may subject any order placed by the Client to a review before its entry into the trading systems and may refuse to execute/allow execution of orders due to but not limited to the reason of lack of margin or contracts which are not in the permitted list of SMIFS/Exchange(s)/any other Regulatory Body or the order being outside the limits set by SMIFS/Exchange and any other reasons which SMIFS may deem appropriate in the circumstances. The Client shall not hold SMIFS/Exchange(s) responsible for losses, if any on account of such refusal or due to delay caused by such review, etc. SMIFS is also entitled to disable/freeze the accounts and/or trading facility/any other service facility, if, in the opinion of SMIFS, the Client has committed a crime/fraud or has acted in contradiction of these Policies and Procedures or/is likely to evade/violate any laws, rules, regulations, directions of a lawful authority whether Indian or Foreign or if SMIFS so apprehends.

P. In case of Huge Debits with Single Scrip Concentration is observed for any client, and the outstanding debit exceeds a certain amount and concentration is in a particular security on account of buying done / collateral provided, SMIFS may restrict the client from further buying or trading in that security. The client shall be allowed to place only sell orders to reduce the debit. SMIFS shall take discretionary decision to allow the client to trade if the Client brings in fresh Funds to clear the Debit or brings in different security as margin collateral other than security which forms the significant concentration. SMIFS shall have the discretion to liquidate Clients Position, under intimation to the Client, to reduce the outstanding debit, if necessary.

Q. NSE by its **Circular no. NSE/MEMB/261 dated May 27, 1997** provided clarification given by SEBI on applicability of Rule 8(1)(f) and 8(3)(f) of Securities Contract (Regulation) Rules, 1957, relating to fund based activities of brokers. The Exchanges and SEBI received various representations and queries on the issue from Trading Members on the captioned subject and pursuant to the same the Exchange in consultation with SEBI has provided clarification on the above vide **Circular No. INSP/20638 dated 26.04.2012** whereby it has been clarified that:

Rule8 (1) (f) and Rule 8(3)(f) of SCRR permits a trading member to fund in connection with or incidental to or consequential upon the securities business. Further, Regulation 3.11 of Part A of the Capital Market Regulations of the Exchange provides that "If a Constituent fails to make payment of consideration to the trading member in respect of any one or more securities purchased by him before the pay- in date notified by the Exchange from time to time, the Trading Member shall be at liberty to sell the securities received in pay-out, in proportion to the amount not received, after taking into account any amount lying to the credit of the Constituent, by selling equivalent securities at any time on the Exchange not later than the fifth trading day reckoned from the date of payin. If the trading member has not sold the securities for any reason whatsoever, such securities shall be deemed to have been closed out at the close out price declared by the Exchange for the fifth trading day. The loss, if any, on account of the close out shall be to the account of the Constituent"

Considering both of the above provisions, the following clarifications are issued on debit balances in Client's account:

a) If debit balance arises out of client's failure to pay such amount for less than fifth trading day reckoned from date of pay-in, such debit balances would not be construed as violation relating to funding.

b) If debit balance arises out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and no further exposure is granted to client from the sixth trading day reckoned from the date of pay-in, such debit balance would not be construed as violation relating to funding.

c) If debit balances arise out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and further exposure is granted to client it would be construed as a funding violation even if fully paid collaterals are available for margins.

d) Delayed Payment Charges or interest charge for the funds deployed by the member may be charged at the rate/s consented by the client.

R. In partial modification to the above mentioned Circular No. INSP/20638 dated 26.04.2012, NSE vide its **Circular No. INSP/29662 dated 08.05.2015** clarified that the Trading Member may grant further exposure to the clients beyond fifth trading day reckoned from pay-in date to the extent of availability of excess of client's fully paid securities over his debit balance, deposited with the Member.

On the date of further exposure, such securities shall be valued at the previous day closing rate as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security on that day (i.e. previous day).

While granting exposure, Members shall ensure that the securities are free and unencumbered in all respects and are not utilized for margin purposes in any segments of Stock Exchange/s. Such Securities should be in dematerialized form actively traded on the National Exchanges and are not declared as illiquid securities by any of the Exchanges.

S. SEBI vide their **Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016** and **Circular No. CIR/HO/ MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017** specified that "stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond **fifth trading day**, as reckoned **from the date of pay-in**, except in accordance with the margin trading facility provided vide SEBI **Circular CIR/MRD/DP/54/2017 dated June 13, 2017** or as may be issued from time to time.

17. Monitoring of Debit Balances, Closing of Open Positions & Liquidation of Collateral Without Client Consent:

A. Trading in Equity Shares, Derivative Contracts (in Equity, Currency, Commodities & Interest) or other instruments traded on the Stock Exchange(s), which have varying element of risk, is generally not an appropriate avenue for someone of limited resources/limited investment and/or trading experience and low risk tolerance. Clients shall therefore carefully consider whether such trading is suitable for them in the light of their financial condition. In case clients trade on Stock Exchanges and suffer adverse consequences or loss, the client shall be solely responsible for the same and Stock Exchanges/its Clearing Corporation/ SEBI and/or SMIFS shall not be responsible, in any manner whatsoever, for the same and it will not be open for the Clients to take a plea that no adequate disclosure regarding the risks involved was made or that the Client were not explained the full risk involved by SMIFS. In case of failure to comply with any provisions of the Bye Laws, Rules and Regulations of the Exchange/Clearing Corporation, requirements of the Exchange/Clearing Corporation including the requirements pertaining to the position limits as imposed by the relevant authority from time to time, the relevant authority may at its discretion, either on its own or on the advice from the Clearing Corporation, without notice close-out open positions to the extent possible or take any such measures or actions, as may be deemed fit from time to time. The Client shall not hold SMIFS/ Exchange(s)/ Regulators responsible for losses, if any, on such measures or actions and no contract can be rescinded on that account.

B. Pursuant to Exchange Bye-Laws, the Member Broker is currently required to compulsorily settle funds and securities within the stipulated time period as notified by the Exchanges for any transactions executed by a Client in any of the respective Stock Exchanges and/or market segments. The Client shall ensure timely availability of funds/securities in designated form and manner at designated time and in designated bank and depository account(s) at designated place, for meeting its pay-in obligations of funds and securities. SMIFS shall not be responsible for any claim/loss/damage arising out of non-availability/short-availability of funds/securities by the Client in the designated account(s) of SMIFS for meeting the pay-in obligation of either funds or securities. The Client shall settle all obligations with regard to Funds and Securities before the pay-in deadline as notified by the Exchanges or earlier as stipulated by SMIFS, for any transactions executed by the Client in any of the respective Stock Exchanges and/or market segments, where the Client shall deal. As per the prevalent rules, pay-in obligations are to be discharged by T+1 day for Derivative Segment or by T+2 day for Capital Market Segment.

C. SMIFS would intimate the Clients, on best effort basis, about their open positions and margin shortfall on their registered e-mail address and the same are also dynamically accessible to the clients though their secured access to Back Office Software. The Clients having open positions agrees that it shall check their MTM and Margin Obligations without failure on a regular basis as Margin and MTM Obligations change dynamically during the course of the day and at the End of the Day to discharge its liabilities promptly without any failure. It is the duty of the Client to make all efforts to ensure timely payments of its obligations to SMIFS irrespective of receipt of the E-Mail Communication. Normally a time limit up to 8.30 a.m on T+1 day. is provided to the Client for the purpose to transfer the required MTM and Margin Obligations of the T Day to ensure Compliance and avoid Penalties for any shortfall and such intraday time limit can be relaxed upon the sole discretion of SMIFS. Clients should proactively inform RMS Desk of transfer of surplus funds from Cash Segment to F&O Segment to augment margin or tender Cheque /securities covering the shortfall amount.

D. SMIFS is entitled to prescribe the date and time by which the margin/security is to be made available and SMIFS may refuse to accept any payments in any form after such deadline for margin/security expires. If the Client fails to maintain or provide the required margin/fund/security or to meet the funds/margins/securities pay-in obligations for the orders/trades/deals of the Client within the prescribed time and form, for any transactions executed by the Client in any of the respective Stock Exchanges and/or market segments SMIFS shall have the right and at liberty to cause without any further notice or communication to the Client to take any one or more following steps and actions:

D.1 Withhold payout of securities in the CUSA Account of SMIFS Limited for the securities purchased by the Client, for which the Client has not settled fund obligations, as per the provisions specified by SEBI, vide its Circular Ref. No.: CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated 20 June, 2019 on Handling of Client's Securities by Trading Member/Clearing Member and the securities shall be moved to the "Client's Unpaid Securities Account" (CUSA).

D.2 Withhold payout of funds in case a part of securities has remained undelivered/ unsettled before pay-in deadline against sale obligations of the Client, till auction pay-in and pay-outs settlement.

D.3 SMIFS shall have the right to Sell/ Liquidate one or more securities of the Client in such manner and at such rate which SMIFS may deem fit in its absolute discretion and/or Close-Out/Liquidate open positions across all Market Segments (partially or fully) of the Client in such manner and at such rate which SMIFS may decide in its absolute discretion, but it shall not be under any obligations to undertake this exercise compulsorily. SMIFS shall therefore not be under any obligation to compensate/or provide reasons of any delay or omission on its part to sell securities of the Client or close open positions of the Client. In the event of such Square-Off/ Close-Out open positions, the Client agrees to bear all the losses (actual or notional), financial charges, damages based on account of such liquidation/sale/closing-out on actual executed prices. The Client shall be solely responsible for the consequences and no contract can be rescinded on that account.

D.4 SMIFS shall have right to sell securities of the Clients, held in the Client's Unpaid Securities Account, Margin Trading Facility (MTF) Funded Securities, both paid securities (Unapproved & Approved Securities) as well as collaterals deposited towards margins, or close-out open positions of the Client, without giving notice to the Client where there is a delay/failure of the Client to meet the pay-in obligations and/or there is a failure of the Client to bring additional margins to cover the increase in risk in the dynamic market conditions due to delay/failure of the Client to meet the pay-in obligations, without giving notice to the Clients, based on the provisions/guidelines mandated in the SEBI Circulars and relevant Circulars issued by the Stock Exchange(s). The unpaid securities lying in CUSA Demat Accounts shall be either transferred to the Demat Account of the respective Client or shall be disposed of by SMIFS within 5 trading days after the pay-out day by liquidating the unpaid securities in the market. In case of non-payment or partial payment, SMIFS in its absolute discretion shall decide on a case to case basis upon client's request to transfer unpaid securities lying in the CUSA in the respective Demat Account of those select Clients. SMIFS may follow the LIFO method for liquidation of securities but it may not be binding on it to follow this method in all cases

D.5 In case the Clients fail to discharge their Obligations the client shall be debarred from taking further exposure as per the provisions laid by SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated 26.09.2016 (paragraph no. 2.6) when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in and SMIFS shall not be held responsible for any consequences for NOT being able to provide further exposure to the clients.

D.6 SMIFS shall NOT charge penal interest to its clients, in principle. However, in case the clients fail to discharge their liabilities in time the client shall be liable to pay Delayed Payment Charges. **SMIFS is authorized by the Client to charge a delayed payment penalty charges upto @ 24% per annum where there is a failure of payment of financial obligations.** The number of days of default would be determined from the pay-in day. While levying delayed payment charges or interest on the debit balance in the running account of the Client, SMIFS shall not consider any credit balance in the other family or group account of the Client. Delayed Payment charges are only a penal measure, as the clients shall not be allowed to keep continuous debit balances. The Client should not construe it as a funding arrangement and shall not demand continuation of service on a permanent basis, citing levy of delayed payment charges.

D.7 SMIFS in exceptional circumstances, in the rarest of the rare cases, may take up legal recourse for the realization of Debits from Clients. In such circumstances, interest may be levied as decided by the Adjudicating Authorities.

D.8 To take any other steps, which in the given circumstances, SMIFS may deem fit.

E. Without prejudice to SMIFS Limited's other rights (including the right to refer a matter to arbitration), the client understands that SMIFS Limited shall be entitled to liquidate/close out all or any of the client's positions for non-payment of margins or other amounts, outstanding debts, etc. and adjust the proceeds of such liquidation/close out, if any, against the client's liabilities/obligations. Any and all losses and financial charges on account of such liquidation/closing-out shall be charged to and borne by the client. It is a settled principle that principle of mitigation does not give any right to a party in breach of contract but it is a concept that has to be borne in mind in assessing damages. SMIFS shall take all reasonable steps to mitigate the losses but in any case if it fails to do so the Company cannot be held responsible for the same. The obligation to mitigate is not strictly as a "duty" to mitigate, but rather a restriction on the damages recoverable, which shall be calculated as if the Company had acted reasonably to minimize the loss of the Client.

F. SMIFS may at its sole discretion close open positions to cover risks in case the client fails to comply with any Margin Requirements as stipulated by the Exchanges as also if **MTM losses breach 60% of the Clear Available Collateral Deposits** maintained by the Client. The Client agrees that the Clear Available Collateral Deposit shall not include the Un-Cleared Cheques and/or the prospective Fund Transfers for the purpose of Peak Margin Compliance. All open positions shall be squared off by Risk Management Team at the prescribed cut-off time on the same day of their acquisition in case of Intra-Day Positions, unless the positions are sooner squared off upon the positions incurring a loss to the extent of the prescribed maximum limit or more as may be determined by

SMIFS from time to time. The Square-Off of open positions shall be on best effort basis and that if for any reason beyond the control of the Client, like force majeure causes, disruptions in the communication network, system failure, slow or delayed response from system, trading halts, or the Exchange applying circuit filters because of which the open positions could not be squared off on T-Day and are carried forward to T+1 Day, the square off such open positions shall be executed on a best effort basis, as soon as may be, and any and all losses, including but not limited to price difference, margin shortfall, surveillance margin, penalty, interest, etc., arising from such events will be to the account of the Client.

G. SMIFS has the right but not the obligation to cancel all pending orders and to sell/close/liquidate all open positions/securities/shares at the pre-defined square-off "Cut-Off Time" and/or when mark-to-market (MTM) percentage reaches or crosses stipulated margin percentage decided by SMIFS. SMIFS will have the sole discretion to decide referred stipulated margin percentage depending upon the market conditions. Such margin percentage will be communicated from time-to-time orally or through e-mails or through its Trade and Order Management Trading Terminals, Sales Officers, Authorized Persons, etc.

H. In the event of extreme volatility, outstanding open positions of Client may result into unusual Mark to Market losses eroding the available collateral of the Client and breaching the margin percentage decided by SMIFS. In such an event, the open positions and/or collateral of the Client may become illiquid and/or unsaleable, thereby forcing SMIFS to liquidate any of the available open positions and/or collateral, without having any scope to intimate the Client during the course of Trading Session, for mitigation of risks as per Contract Act.

I. SMIFS shall have right to close-out any intra-day positions taken by the Client after a defined "Cut-Off Time" time as decided by SMIFS. Such "Cut-Off Time" shall be communicated from time-to-time orally or through e-mails or through its Trading Terminals, Branch representatives etc. The Client shall not hold SMIFS responsible for losses, if any, on such measures or actions and shall be solely responsible for the consequences and no contract can be rescinded on that account.

J. As a matter of routine Risk Management and Compliance Procedures, it would be prudent to limit client's exposure in Derivative Market Segment strictly as par with the Total Margin collected and the client's ability to meet MTM loss quickly as advised by the Clearing Member/ Stock Exchanges, and the same is recovered from clients on T+1 day on the basis of Margin Short Collection Report. On the client's failure to put in additional margin to make good the MTM loss, it is imperative that the relative F&O position is squared off before margin short collection positions are uploaded to the Exchanges. The Client shall not hold SMIFS responsible for losses, if any, on such measures or actions and shall be solely responsible for the consequences and no contract can be rescinded on that account.

K. As per the present Exchange requirements, the Member Broker is required to maintain 50:50 ratios between cash and collateral margin deposited with the Exchange. As explained hereinbefore, SMIFS shall therefore have the prerogative to insist for margin in the similar ratio as mandated by the Exchange from its Clients and may not consider the value of securities over and above the cash component for the purpose of calculating margins shortfall and close the Open positions in Securities Contracts where it finds the deviation. However, sales made in capital market segment are not considered while closing Open positions in Securities Contracts on T and T+1 basis due to margin shortfall.

L. The Client agrees that the losses if any, on account of any one or more steps enumerated herein above been taken by SMIFS, shall be borne exclusively by the Client alone and agrees not to question the reasonableness, requirements, timings, manner, form, pricing, etc., which shall be chosen by SMIFS.

M. In the event of death or insolvency of the client or his/its otherwise becoming incapable of receiving and paying for or delivering or transferring securities which the client has ordered to be bought or sold, SMIFS Limited may close out the transaction of the client and claim losses, if any, against the estate of the client. The client or his nominees, successors, heirs and assignee shall be entitled to any surplus which may result there from. The client shall note that transfer of funds/securities in favor of a Nominee shall be valid discharge by SMIFS Limited against the legal heir.

N. SMIFS Limited shall bring to the notice of the relevant Exchange the information about default in payment/delivery and related aspects by a client. In case where defaulting client is a corporate entity/ partnership/ proprietary firm or any other artificial legal entity, then the name(s) of Director(s)/ Promoter(s)/ Partner(s)/ Proprietor as the case may be, shall also be communicated by SMIFS Limited to the relevant Exchange(s).

18. Imposition of Penalties:

A. The Exchange/Clearing Corporation/SEBI levies penalties on the Member Broker for irregularities observed by them during the course of business. The trading activity of the Client should not be aimed at disturbing market equilibrium or manipulating market prices etc. SMIFS may impose fines/penalties for any orders/trades/deals/actions of the Client which are contrary to any of the rules/regulations/bye-laws of the Exchange or any other law for the time being in force, at such rates and in such form as it may deem fit. Further where SMIFS has to pay any fine or bear any punishment from any authority in connection with/as a consequence of/in relation to any of the orders/trades/deals/actions of the Clients the same shall be borne by the Client. SMIFS shall recover such imposed penalties/levies, if any, by the Exchange/Regulators, from the Client, which arise on account of dealings by such Client. Violations for which penalties may be levied from Clients are as follows:

a) Auction of Securities pursuant to short deliveries/non deliveries against sale by the Client.
b) Short Margin Penalty in the Derivative Market Segment.
c) Penalty on Violation of Market Wide Position Limits for Futures and Options on Individual Securities
d) Penalty on unexecuted trades in respect of High Order to Trade Ratio
e) Withholding of Pay-Outs while dealing in SMS Stocks
f) Any Other Reasons which the Exchanges/Clearing Corporation/SEBI may specify from time to time.

B. Recovery of penalties/levies/fines would be accounted by way of debit in the ledger of the Client and the amounts would be adjusted against the dues.

C. If the Client gives orders/trades in the anticipation of the required securities being available subsequently for pay-in through anticipated pay-out from the exchange or through borrowings or any off-market deliveries or market deliveries and if such anticipated availability does not materialize in actual availability of securities/funds for pay-in for any reason whatsoever including but not limited to any delays/shortages at the exchange or Broker level etc., the losses which may occur to the Client as a consequence of such shortages in any manner, such as on account of auctions/square-off/closing outs etc., shall be solely to the account of the Client and the Client agrees not to hold SMIFS responsible for the same in any form or manner whatsoever. Without prejudice to the foregoing, the Client shall also be solely liable for all and any penalties and charges levied by the exchange(s).

D. In case Open position (i.e. Short/Long) gets converted into delivery due to non-square off because of any reason whatsoever, the Client will provide securities/funds to fulfill the pay-in obligation failing which the Client will have to face auctions/internal close-outs, in addition to this the Client will have to pay penalties and charges levied by exchange in actual and losses if any. Without prejudice to the foregoing, the Client shall also be solely liable for all and any penalties and charges levied by the exchange(s).

19. Periodic Call Auction

A. The issue regarding call auction and its use in various session, including pre-open session was deliberated in Secondary Market Advisory Committee (SMAC). Based on the recommendation of the committee and proposal received from the stock exchanges, **SEBI by its Circular No. CIR/MRD/DP/21/2010 dated July 15, 2010** laid the principles to introduce call auction mechanism in pre-open session. To begin with, pre-open session shall be introduced on a pilot basis by BSE and NSE for the scrips forming part of Sensex and Nifty. In case of any change in the composition of Sensex and Nifty, pre-open session shall be introduced for such incoming scrips. Pre-open session shall also continue for the scips moving out of Sensex and Nifty, though they will not be reckoned for the computation of the index. Details are as follows:

A1. The pre-open session shall be for a duration of 15 minutes i.e. from 9:00 a.m. to 9:15 a.m., out of which 8 minutes shall be allowed for order entry, order modification and order cancellation, 4 minutes for order matching and trade confirmation and the remaining 3 minutes shall be the buffer period to facilitate the transition from pre-open session to the normal market.

A2. The session shall close randomly during last one minute of order entry i.e. anytime between 7th and 8th minute of the order entry. Such random closure shall be system driven.

A3. Limit orders and market orders shall be entered during the pre-open session and both shall be reckoned for computation of equilibrium price. No iceberg order will be allowed i.e. orders shall be disclosed in full quantity.

A4. Price band of 20% shall be applicable on the securities during pre-open session.

A5. In case the index breaches the prescribed threshold limit upon the closure of pre-open session, the procedure as prescribed in SEBI Circular Ref. No. SMDRPD/Policy/Cir-37 /2001 dated June 28, 2001 shall be applicable from the time continuous normal market opens.

A6. The equilibrium price shall be the price at which the maximum volume is executable. In case more than one price meets the said criteria, the equilibrium price shall be the price at which there is minimum order imbalance quantity (unmatched order quantity). The absolute value of the minimum order imbalance quantity shall be taken into consideration. Further, in case more than one price has same minimum order imbalance quantity, the equilibrium price shall be the price closest to the previous day's closing price. In case the previous day's closing price is the mid-value of a pair of prices which are closest to it, then the previous day's closing price itself shall be taken as the equilibrium price. In case of corporate action, previous day's closing price shall be the adjustable closing price or the base price.

Explanation: A scenario may arise, wherein; more than one price may have same minimum imbalance quantity. Example on the same is given hereunder:

Price	Buy (Qty)	Cum. Buy Qty	Sell (Qty)	Cum. Sell Qty	Unmatched Quantity	Volume Tradeable
106		0	3000	8000	-8000	0
103	2000	2000	3000	5000	-3000	2000
96	3000	5000	1000	2000	3000	2000
94	1500	6500	1000	1000	5500	1000
92	2000	8500		0	8500	0
90	1000	9500		0	9500	0

In the said example 103 and 96 are the prices wherein, the volume tradable and unmatched quantity is the same. To derive the equilibrium price, the said prices i.e. 103 and 96 which is closest to the previous day's closing price shall be considered. In case the previous day's closing price is 95, then, 96 may be considered as the equilibrium price. In case the previous day's closing price is 105, then, 103 may be considered as the equilibrium price. In case the previous day's closing price is 99.5 which is the mid-value of 103 and 96, then the equilibrium price shall be the previous day's closing price i.e. 99.5.

A7. Pursuant to the discovery of price in the pre-open session, at the time of order execution, limit orders shall be given priority over market orders. The sequence for executing orders is given below:

a) Eligible Limit orders shall be matched with eligible limit orders.
b) Residual eligible limit orders shall be matched with market orders.
c) Market orders to be matched with market orders.

A8. In case of pending unmatched orders in pre-open session, they shall be shifted to the order book of the normal market following time priority. Unmatched market orders will shift to the normal market order book as limit orders at a price as discovered in the pre-open session.

A9. If the price is not discovered in pre-open session then the orders entered in the pre-open session will be shifted to the order book of the normal market following time priority. The price of the first trade in the normal market shall be the opening price.

A10. The current risk management system for cash market shall be applicable to pre-open session.

A11. The following information shall be disseminated during pre-open session:

a) Indicative equilibrium price of the scrip
b) Indicative cumulative buy and sell quantity of the scrip
c) Indicative Index

B. Further to the SEBI Circular No. CIR/MRD/DP/21/2010 dated July 15, 2010 regarding introduction of Call Auction in Pre-Open Session, SEBI by its **Circular No. CIR/MRD/DP/27/2010 dated August 27, 2010** clarified the provisions of para 11 (i.e. para A(A9) hereinabove) that –

B1. In case the equilibrium price is not discovered in the pe-open session, wherein there were only market orders, the market orders shall be matched at last traded price and all unmatched market orders shall be shifted to the Order Book of the Normal Market at last traded price following time priority. Last Traded Price shall be the Opening Price.

B2. In case the equilibrium price is not discovered in the pre-open session and there are no market Orders to be matched at Last Traded Price, all unmatched orders shall be shifted to the Order Book of the Normal Market following price time priority. The price of the First Trade in the Normal Market shall be the Opening Price.

C. Further to SEBI Circular No. CIR/MRD/DP/21/2010 dated July 15, 2010 and SEBI by its Circular No. CIR/MRD/DP/27/2010 dated August 27, 2010 regarding introduction of Call Auction in Pre-Open Session, SEBI by its **Circular No. CIR/MRD/DP/32/2010 dated September 17, 2010** clarified the provisions of para 11 (i.e. para A(A9) hereinabove) that –

C1. In case the equilibrium price is not discovered in the pe-open session, wherein there were only market orders, the market orders shall be matched at previous day's close price and all unmatched market orders shall be shifted to the Order Book of the Normal Market at the previous day's close price following time priority. Previous day's close price shall be the Opening Price.

C2. In case the equilibrium price is not discovered in the pre-open session and there are no market Orders to be matched, all unmatched market orders (at previous days close price) and limit orders shall be shifted to the Order Book of the normal market following price time priority:

In light of the Circular No. CIR/MRD/DP/32/2010 dated September 17, 2010, the provisions of the SEBI Circular No. CIR/MRD/DP/27/2010 dated August 27, 2010 on "Clarification on Introduction of Call Auction in Pre-Open Session" shall stand superseded.

D. SEBI, vide circular no. CIR/MRD/DP/21/2010 dated July 15, 2010 introduced Call Auction in Pre-open session (hereinafter referred to as "pre-open session") for the scrips forming part of Sensex and Nifty. Further, SEBI, vide circular no. CIR/MRD/DP/32/2010 dated September 17, 2010 and vide letter dated September 17, 2010 provided clarification with regard to order matching and order level risk management. In continuation to the same, SEBI vide its **Circular No. CIR/MRD/DP/ 01/2012 dated January 20, 2012** decided to extend Call Auction mechanism to IPOs and scrips as defined under para 1(c) of SEBI circular no. SEBI/Cir/ISD/1/2010 dated September 2, 2010 (hereinafter referred to as Re-listed Scrips), on the first day of trading/ re-commencement of trading in the manner prescribed as follows –

D1. The session shall be for a duration of 60 minutes i.e. from 9:00 a.m. to 10:00 a.m., out of which 45 minutes shall be allowed for order entry, order modification and order cancellation, 10 minutes for order matching and trade confirmation and the remaining 5 minutes shall be the buffer period to facilitate the transition from preopen session to the normal trading session. The session shall close randomly during last one minute of order entry i.e. anytime between 44th and 45th minute of the order entry. Such random closure shall be system driven.

D2. Eligible Scrips:

I. IPO scrips on the first day of trading

a. Price Bands: - There shall be no price bands in the pre-open session.

b. Market Orders: - Market orders shall not be accepted in pre-open session.

c. Matched Orders: - For matched orders the provisions of SEBI circulars and letter mentioned at para C above shall apply.

d. Un-matched Orders: - All outstanding orders will be moved to the normal trading session at their Limit price.

II. Re-listed Scrips

a. Price Bands: - There shall be no price bands for re-listed scrips during pre-open session.

b. Market Orders: - Market orders shall not be accepted in the pre-open session.

c. Matched Orders: - For matched orders the provisions of SEBI circulars and letter mentioned at para C above shall apply.

d. Un-matched Orders: -

i. In case equilibrium price is discovered, all outstanding orders shall be moved to the normal trading session at their limit price.

ii. In case equilibrium price is not discovered, all orders shall be cancelled and the scrip shall continue to trade in call auction mechanism until price is determined.

D3. Risk Management – For IPO scrips with an issue size greater than ` 250 cr the risk management provisions as prescribed vide SEBI circular dated July 15, 2010 and letter dated September 17, 2010 shall remain applicable for pre-open session. For IPO scrips with issue size upto ` 250 cr and Re-listed scrips it is advised that margins shall be checked and blocked for 100% of the order value at the order level itself before considering the order eligible for inclusion in pre-open session.

D4. All other provisions of the Circular No. CIR/MRD/DP/21/2010 dated July 15, 2010 and Circular No. CIR/MRD/DP/32/2010 dated September 17, 2010 and letter dated September 17, 2010 shall remain applicable.

D5. SEBI vide circular no CIR/MRD/DP/02/2012 dated January 20, 2012 has prescribed the Trade Controls applicable to trading of IPO and Re-listed scrips in the normal trading session which shall be applicable in conjunction with SEBI vide its Circular No. CIR/MRD/DP/ 01/2012 dated January 20, 2012.

E. SEBI vide circular no CIR/MRD/DP/21/2010 dated July 15, 2010 introduced Call Auction in Pre-Open session on pilot basis at NSE and BSE for scrips forming part of Nifty and Sensex. Vide circular CIR/MRD/DP/ 01/2012 dated January 20, 2012, the framework of call auction was extended to IPO scrips and re-listed scrips. The issue of extending call auction mechanism in pre-open session to all scrips was deliberated in Secondary Market Advisory Committee (SMAC). SMAC also made recommendation on introduction of trading through periodic call auction mechanism for illiquid scrips in the equity market. Accordingly, SEBI vide its **Circular No. CIR/MRD/DP/ 6/2013 February 14, 2013** decided to implement following:

E1. Periodic Call Auction for Illiquid Scrips :

a. Trading in illiquid scrips in the equity market shall be conducted only through periodic call auction sessions.

b. Criteria for illiquidity – For the purpose of this circular, a scrip, whether trading in normal market or trade for trade settlement, shall be classified as illiquid on a stock exchange if all the following conditions are met:

i. The average daily trading volume of a scrip in a quarter is less than 10000;

ii. The average daily number of trades is less than 50 in a quarter;

iii. The scrip is classified as illiquid at all exchanges where it is traded.

c. Entry into periodic call auction mechanism – Stock exchanges shall identify illiquid scrips at the beginning of every quarter and move such scrips to periodic call auction mechanism.

d. Exit from periodic call auction mechanism – Stock exchanges shall move scrips from periodic call auction mechanism to normal trading session if the following criteria are met:

i. The scrip has remained in periodic call auction for at least two quarters

ii. It is not classified as illiquid as per para E1(b)

e. Notice to market – For entry and exit of scrips in the call auction mechanism, a notice of two trading days shall be given to the market.

f. Number of auction sessions – Periodic call auction sessions of one hour each shall be conducted throughout the trading hours with the first session starting at 9:30am.

g. Session duration - The call auction session duration shall be one hour, of which 45 minutes shall be allowed for order entry, order modification and order cancellation, 8 minutes shall be for order matching and trade confirmation and remaining 7 minutes shall be a buffer period for closing the current session and facilitating the transition to next session. The session shall close randomly during last one minute of order entry between the 44th & 45th minute. Such random closure shall be system driven.

h. Un-matched orders- All un-matched orders remaining at the end of a call auction session shall be purged.

i. Price band – A maximum price band of 20% shall be applicable on the scrips through the day. Exchanges may reduce the price bands uniformly based on surveillance related concerns.

j. If the Market wide Index Circuit Breaker gets triggered at any time during the periodic call auction session, the session shall be cancelled and all orders shall be purged. The periodic call auction session shall be resumed at the nearest half hour after the normal market resumes.

k. Penalty for certain trades - In the event where maximum of buy price entered by a client (on PAN basis) is equal to or higher than the minimum sell price entered by that client and if the same results into trades, a penalty shall be imposed on such trades. The penalty shall be calculated and charged by the exchange and collected from trading members on a daily basis. Trading members may recover such penalty from clients. The penalty so collected shall be deposited to Investor Protection Fund. Penalty for each such instance per session will be higher of the following:

a. 0.50% of the trade value for sale and 0.50% of trade value for the buy, resulting in 1% penalty for the client on PAN basis.

OR

b. 2500 /- for the buy trade and 2500 /- for the sell trade, resulting in penalty of 5000/- for the client on PAN Basis.

l. All other conditions for trading in periodic call auction sessions shall be as per the circulars CIR/MRD/DP/21/2010 dated July15, 2010, CIR/MRD/DP/27/2010 dated August 27, 2010 and CIR/MRD/DP/32/2010 September 17, 2010.

E2. Pre-Open Call Auction Session:

a. In partial modification of SEBI circular no CIR/MRD/DP/21/2010 dated July 15, 2010, pre-open call auction session shall be applicable to all exchanges with active trading and for all scrips that are not classified as illiquid as per para E1(b) above.

b. Price bands in pre-open session shall be as applicable in the normal market.

c. All orders shall be checked for margin sufficiency at order level for inclusion in pre-open session.

d. All other conditions for pre-open call auction session shall be as per circulars CIR/MRD/DP/21/2010 dated July15, 2010, CIR/MRD/DP/27/2010 dated August 27, 2010 and CIR/MRD/DP/32/2010 September 17, 2010.

E3. The provisions of this circular shall be effective from April 01, 2013.

F. SEBI vide Circular No CIR/MRD/DP/ 6/2013 dated February 14, 2013 issued guidelines for trading in the illiquid scrips through Periodic Call Auction session. After introduction of periodic call auction framework, representations have been received from market participants regarding the aforesaid circular. The issues raised by market participants were examined and deliberated in Secondary Market Advisory Committee (SMAC). Based on recommendations of SMAC and feedback received from market participants and stock exchanges, SEBI vide its **Circular No. CIR/MRD/DP/38/2013 dated December 19, 2013** decided to rationalize the periodic call auction mechanism. Accordingly, following conditions of aforesaid Circular No CIR/MRD/DP/ 6/2013 dated February 14, 2013 are modified as under:

F1. Para E1(b) above, shall be replaced by the following:

a) For the purpose of this circular, a scrip which trades in the normal market and is not shifted to trade for trade settlement, shall be classified as illiquid on a stock exchange if the following conditions are met:

i. Average daily turnover of less than Rs.2 lakhs calculated for previous two quarters and

ii. The scrip is classified as illiquid at all exchanges where it is traded

b) Of the scrips identified as per above criteria, scrips which satisfy any of the following conditions shall be excluded.

i. Scrips with average market capitalization more than Rs.10Cr.

ii. Scrips where company is paying dividend in at least two out of last three years.

iii. Scrips where company is profitable in at least 2 out of last 3 years, and not more than 20% of promoters shareholding is pledged in the latest quarter and book value is 3 times or more than the face value.

F2. Para E1(d)(i) above shall be replaced by the following: "The scrip has remained in periodic call auction for at least one quarter."

F3. Para E1(f) above shall be replaced by following: "Number of auction sessions – Stock Exchange may determine the number of call auction session for illiquid stocks. However in order have minimum trading sessions and uniform closing session, there shall be at least 2 sessions in a trading day with one uniform closing session across the exchanges."

F4. Para E1(h) shall be replaced by following: "Order Placement- The orders may remain valid throughout the trading day and un-matched orders remaining at the end of a call auction session may be moved into next call auction session."

G. All other conditions for trading in periodic call auction sessions contained in the circulars CIR/MRD/DP/21/2010 dated July 15, 2010, CIR/MRD/DP/32/2010 September 17, 2010 and CIR/MRD/DP/6/2013 February 14, 2013 remain unchanged.

20. Trading in Illiquid Securities/ Contracts:

A. Illiquidity for a business refers to a company that does not have the cash flows necessary to make its required debt payments. Real estate, capital assets have great value but are not quickly sold when cash is required. In case of unforeseen circumstances or emergency crisis, a company may need to liquidate these assets to avoid bankruptcy. If this happens quickly, it can dispose of assets at prices far below an orderly fair market price. These assets and securities cannot be readily converted into cash. Another reason why illiquid assets may be hard to sell is that there is a low trading activity or interest in the stock, indicated by a lack of ready and willing investors to purchase the stock. As a result, illiquid securities might have lower trading volume, wider bid-ask spreads, and higher price volatility. Illiquid assets give higher yield but are hard to sell as compares to liquid assets. Even if there is a quick sale, it may not be without a substantial loss in value. Illiquid securities are the ones which have negligible trading and cannot be sold immediately. Illiquid securities are high-risk securities and are challenging to sell because of the expense, lack of interested buyers, and other factors. Examples of illiquid assets include real estate, securities with low trading volume, or collectables. Illiquid assets still have value and, in many cases, very high cost, but are challenging to sell. Investors cannot find ready buyers because of the limited trading of illiquid securities. Illiquid securities have lower trading volumes with limited investors. Generally, they include small securities which cannot be realized quickly.

B. Thus Penny Stocks and/or Illiquid Securities/ Contracts/ Options are risky investments due to thin liquidity; greater volatility facto as well as they are infrequently traded on the stock exchanges. In view of the risks involved in dealing with Penny Stocks and/or Illiquid securities / Contracts/Options, SMIFS shall strongly advise its Clients to desist from trading in them.

C. How to identify Illiquid Securities:

1. If institutional investors show less interest in stock; it is a sign of low performance in terms of return.
2. If the stock does not have enough trading volume daily, the chances are that the stock is going to be illiquid.
3. If the security is hitting lower value regularly, it is an indication of illiquid stock.
4. If there is a massive difference between the bid price and the asking price, the chances are that the stock is illiquid.

D. Stock Exchange by its **Circular No. NSE/INVG/5911 dated March 10, 2005** have informed their observation that some orders / transactions in illiquid securities / contracts have come to the notice of the Exchange where same set of members / clients have executed reversing transactions, both buy and sell, at abnormal price differences in the premium in the case of options, that had no relevance to the movement in prices in underlying securities at that point of time. In the aforesaid, Client/ Members are advised to desist from entering such orders or orders which, prima facie, appear to be non-genuine on their own account and / or on behalf of their clients. Trading Members were advised that non-compliance of the above requirement or any deviation therefrom shall attract strict penal / suitable disciplinary action by the Exchange. SMIFS shall pass on any penalties and/or legal costs to the Clients who shall engage in Securities Transactions of Penny Stocks and/or Illiquid Securities/ Contracts/ Options. SMIFS through its systems and procedures check for Orders/ Transactions on the Trading System and restrict such trades without citing any reason to the Client and withhold the Pay-Out of the Client, if necessary.

D. A Security may be treated as Penny Stocks and/or Illiquid Securities/Contracts/Options if it falls in any one category as mentioned herein below:

i. List of Illiquid Securities issued by the Exchanges periodically.
ii. Trade-to-Trade settlement.
iii. “Z” – Group settled on Trade for Trade basis.
iv. Illiquid Options/Far Month Options/Long Dated Options.
v. Securities s under Graded Surveillance
vi. Securities where Unsolicited Messages are Circulated (“SMS – Stock”)
vii. Scrips traded and settled in Physical mode/ Optional Demat mode
viii. Scrips of Non-compliant companies (Non-compliance with clauses of Listing Agreement) & traded and settled in Physical mode/ Optional Demat mode
v. Any other Securities/Contracts/Options as may be decided by SMIFS, which may be considered by SMIFS in its sole discretion as volatile or have concentration risk at Client level or at the security level or any other reason.

E. SEBI has directed the Exchanges to draw up a list of illiquid securities based on criteria jointly agreed between BSE, NSE and SEBI and make it available to the trading members on a monthly basis and such list shall be reviewed on a monthly basis.

F. As trading members have been advised by the Regulatory Authorities to exercise additional due diligence while trading in Penny Stocks and/or Illiquid Securities/Contracts/ Options, SMIFS shall have exclusive rights and prerogative to refuse and/or to accept such orders with regard to Penny Stocks and/or Illiquid Securities /Contracts/Options, notwithstanding the fact that the Client has adequate credit balance or margin available in his/her/its account and/or the Client had previously purchased or sold such securities through SMIFS.

G. In case of F & O segment, all the far Month Option contracts and third Month Option Contracts may not have buy and sell limit due to its illiquid nature. However, in all above cases if client still wish to trade then the client needs to coordinate with the respective branch and the limit will be set by Head Office after analyzing the requirement.

H. SMIFS may permit restrictive acceptance of orders in Securities which are Penny Stocks and/or Illiquid Securities /Contracts/ Options and settled in Physical mode/ Optional Demat mode in controlled environments in case the clients have bought the shares through SMIFS, viz. advising the Client to place orders at a centralized desk at Head Office instead of allowing trading at Branch Level.

I. SMIFS shall be free to charge upfront margins in way of upfront payments in cash for the purchase transaction as well as pre-pay in of delivery of securities in case of sale transactions.

J. SMIFS may cancel orders in its sole discretion in respect of the Orders placed in securities of the aforementioned categories execution or after partial execution without assigning any reasons thereof.

K. SMIFS shall not be responsible for delay in execution of such orders and consequential opportunity loss or financial loss to the Client under any circumstances whatsoever.

L. SMIFS may take appropriate declarations from the Clients before accepting such orders and for the execution of the same.

M. In case SMIFS suspect’s that there is an abnormal trading pattern, the amount equivalent to the trades in the security shall be blocked and released only after seeking rationale of the Client of the said trades and carrying further scrutiny of KYC documents / source of funds. SMIFS shall intimate their decision to withhold the amount of the Client along with the rationale to the Stock Exchange within 1 Day of Withholding. The intimation shall be sent to invg@nse.co.in for the information of the Stock Exchange and to the registered e-mail address of the client for its knowledge. Any Legal Consequence and Monetary Fine/ Expenses incurred by SMIFS shall be borne by the Client in this regard.

21. Prevention of Abnormal/ Non-Genuine Transactions:

A. Regulatory Authorities and Stock Exchanges have come across instances, where a Client/set of Clients were observed to be executing matched trades in illiquid securities and/or future contracts and/or options contracts reversing transactions with significant variation in prices between first and reversing trades. Such trades were executed at prices, which apparently had no relation to the price of underlying security at that point of time. Precisely the modus operandi taken in such trades wherein one Client/set of Clients trading through a particular trading member would incur a loss and the counter party Client trading through another trading member would earn a profit. In most of the cases, one or both legs of transactions were away from the current market price. Some of the trading members reported that the Clients who suffered losses failed to meet their obligations.

B. Regulatory Authorities and Stock Exchanges have come across instances, where a Client/set of Clients were observed to be executing large transactions in the form of block deals executed in certain scrips in the stock exchanges, which prima-facie, appear to have been negotiated in advance between the parties and then put through the Stock Exchange mechanism in a synchronized manner. Media reports appearing on the subject have also alleged that some of these transactions might have been executed by certain market participants with an ulterior motive to distort the fair price discovery in such scrips. Such market practices do not appear to be in conformity with the extant guidelines/regulations of SEBI/ Stock Exchanges.

C. NSE by its Circular No. NSE/INVG/39647 dated December 13, 2018 have advised the Trading Members to refrain from entering into abnormal/ non-genuine transactions executed by the Market Participants primarily with an objective of transferring profit/ loss between the concerned entities or creation of artificial volume in securities/ contracts. The provisions of this Circular shall be applicable across all segments i.e. Cash Market, Currency Derivatives, Equity Derivatives and Commodity Derivatives.

D. The said circular dated December 13, 2018 mandates that the decision whether a trade or trades is/ are Abnormal/ Non-Genuine would be of the Exchange which would be final and binding. The Stock Exchange shall send necessary advice/ caution letter to the Trading Members and initiate appropriate disciplinary actions against the members concerned in case the activity is observed to be abnormal/ non-genuine. The Exchange may also consider taking appropriate disciplinary actions against the member concerned for multiple instances of such Abnormal/ Non-Genuine trades as per the Rules, Bye-laws and Business Rules of the Exchange. The Exchange may also levy penalty of 100% of the traded value/ profit made/ loss incurred as a result of the trades. SMIFS shall pass on any penalties and/or legal costs to the Clients who shall engage in Securities Transactions of Abnormal/ Non-Genuine Securities Transactions.

E. SEBI by its Master Circular No. SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2018/ 104 dated July 04, 2018 (clause 2.6), members are required to monitor transactions of their clients, excerpts of which are as follows:

i. Intermediary to have understanding of their client's activity to identify deviations in transactions by regularly monitoring them.

ii. The intermediary shall pay special attention to all complex unusually large transactions / patterns which appear to have no economic purpose.

iii. The background including all documents/office records /memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing.

F. In this regard, in order to assist trading members in identifying such type of transactions, NSE by its Circular No. INVG/40175 dated February 07, 2019 informed that certain indicative scenarios as listed below shall be provided to the Trading Member which shall need additional attention and examination by the Trading Member:

i. Trading activity of client(s) concentrated in a specific security / contract which is/are not traded very frequently or trading with low volumes with client squaring up its position within a short span of time. Additionally factors such as clients earning significant profit or incurring losses on account of such transactions, their consistent contribution to daily average volumes of security / contract may also be looked at.

ii. Fresh positions are being created in the contracts very close to their respective expiry or on the day of expiry.

iii. Large quantities being traded during last half an hour which account for significant percentage to total traded quantity without change in beneficial ownership.

iv. Securities /contracts where the total traded volume of the client vis a vis the average daily traded volumes in that security is significant.

v. Additional emphasis to be given to Securities / Contracts where surveillance actions such as Additional Surveillance Measure, Graded Surveillance Measure, Periodic Call Auction, Trade for Trade etc. have been initiated. The details available on NSE website under –

https://nseindia.com/invest/content/equities_surv_actions.htm

G. In continuation to NSE Circular No. NSE/INVG/39647 dated December 13, 2018, NSE Circular No. NSE/INVG/40175 dated February 07, 2019 and NSE Circular No. NSE/INVG/43144 dated January 07, 2020, NSE by a Circular No. INVG/43435 dated February 04, 2020 further laid that the Exchange shall levy a penalty of a minimum of 15% upto a maximum of 100% of profit earned / loss incurred on the trading members for both profit and loss making abnormal / non-genuine transactions after following the due process and providing necessary opportunity to the trading member for clarification in the matter. Additionally, the Exchange may also consider taking appropriate disciplinary actions against the member concerned for such Abnormal/ Non-Genuine trades as per the Rules, Bye-laws and Regulations of the Exchange. Further the Stock Exchange clarified that as per NSE circular no NSE/INVG/5911 dated March 10, 2005, members are advised to put in place appropriate internal systems and procedures at their end for checking such orders / transactions before transmitting to the trading system of the Exchange. The Trading Members were also once gain advised to put in place requisite systems to monitor such Abnormal / Non-Genuine transactions. Guidance note for the same has already been issued vide NSE Circular No. NSE/INVG/40175 dated February 07, 2019. The provisions of Circular No. INVG/43435 dated February 04, 2020 was made applicable across all segments i.e. Equity, Currency Derivatives, Equity Derivatives and Commodity Derivatives.

H. NSE by its Circular No. INVG/46662 dated December 16, 2020 reiterated that Trading Members should refrain from entering into Abnormal/ Non-Genuine Transactions executed by the Market Participants primarily with an Objective of Transferring Profit/ Loss between the concerned entities or creation of Artificial Volume in Securities/ Contracts. The Stock Exchange also partially modified its earlier Circulars viz. INVG/39647 dated December 13, 2018, INVG/40175 dated February 07, 2019, INVG/43144 dated January 07, 2020 and INVG/434345 dated February 04, 2020 and prescribed that the Stock Exchange shall send necessary advice/ caution letter to Trading Members and initiate appropriate disciplinary actions against the members concerned in case the activity is observed to be Abnormal/ Non-Genuine. Exchange shall levy a penalty of 100 % of the traded value/ profit made/ loss incurred as a result of the trades on the Trading Members for both profit and loss making Abnormal/ Non-Genuine Transactions after following the due process and providing necessary opportunity to the Trading Member for Clarification in the Matter. The decision whether a trade or trades is / are abnormal / non-genuine would be of the Exchange which would be final and binding. The Exchange may also consider taking appropriate actions against the Trading Member concerned for multiple instances of such Abnormal/ Non-Genuine Transactions as per the Rules, Regulations and Bye Laws of the Stock Exchange. The provisions of this Circular No. INVG/46662 dated December 16, 2020 shall be applicable across all segments i.e. Equity, Currency Derivatives, Equity Derivatives and Commodity Derivatives.

I. SMIFS would have exclusive rights and prerogative to refuse and/or to accept such orders with regard to Abnormal/ Non-Genuine Transactions in respect of which unsolicited message being circulated by the unregistered/unauthorized entities, irrespective of the facts that the clients have credit balance in their securities account.

J. Such types of Abnormal/ Non-Genuine Transactions, mentioned herein above are under the regulatory purview and are hence, being scrutinized by the stock exchanges and SEBI, concurrently. SEBI/Stock Exchanges may take punitive action for any possible violation of the provisions of the extant guidelines/regulations of SEBI/Stock Exchanges against the market participants who indulge in such type of transactions.

K. As trading members SMIFS have been advised by the Regulatory Authorities to exercise additional due diligence while trading in Abnormal/ Non-Genuine Transactions, orders placed in such Abnormal/ Non-Genuine Transactions upon the sole discretion of SMIFS.

L. SMIFS would have exclusive rights and prerogative to refuse and/or to accept such orders with regard to Penny Stocks and/or Illiquid Securities /Contracts/Options and/or order and/or orders which, prima facie appear to be Abnormal/ Non-Genuine Transactions, notwithstanding the fact that the Client has adequate credit balance or margin available in his/her/its account and/or the Client had previously purchased or sold such securities/contracts through SMIFS Limited.

M. In view of the above, the Client(s) would not be allowed to place both buy and sell orders at abnormal prices and/or price differences in the Cash Market Segment, Future Market Segment and in case of option contracts, that might not have any relevance to the movement in prices in underlying securities at that point of time.

N. SMIFS may permit restrictive acceptance of orders in such Penny Stocks and/or Illiquid Securities /Contracts/Options in controlled environments like asking the Client to place orders at a centralized desk at Head Office instead of allowing trading in such Penny Stocks and/or Illiquid Securities/ Contracts/ Options at Branch Level.

O. SMIFS shall not be responsible for delay in execution of such orders and consequential opportunity loss or financial loss to the Client.

P. SMIFS may cancel orders in such Penny Stocks and/or Illiquid Securities/ Contracts/ Options received from Clients before execution or after partial execution without assigning any reasons thereof.

Q. SMIFS may obtain appropriate declarations from the Clients before accepting such orders.

R. In case SMIFS suspect's that there is an abnormal trading pattern, the amount equivalent to the trades in the security shall be blocked and released only after seeking rationale of the Client of the said trades and carrying further scrutiny of KYC documents / source of funds. SMIFS shall intimate their decision to withhold the amount of the Client along with the rationale to the Stock Exchange within 1 Day of Withholding. The intimation shall be sent to invg@nse.co.in for the information of the Stock Exchange and to the registered e-mail address of the client for its knowledge. Any Legal Consequence and Monetary Fine/ Expenses incurred by SMIFS shall be borne by the Client in this regard.

22. Unsolicited Messages (SMS Stocks):

Unsolicited Messages are a serious menace plaguing the stock broking industry and brings significant losses to investors who fall victim, and damages the capital market ecosystem.

It has come to the notice of the Securities and Exchange Board of India (SEBI) & Stock Exchanges that SMS tips are being circulated whereby as a festive bonanza, various stocks are being recommended with higher price targets leading to heightened trading activities in such stocks. Moreover, unsolicited messages are being sent to induce investment or sale of the stock of certain listed companies, indicating target prices by unregistered or unauthorized entities.

SMIFS advises its clients to protect themselves by being cautious while dealing in the securities with respect to tips / rumours circulated via various mediums such as analyst websites, social networks, SMS, emails, WhatsApp, Blogs etc and also request its clients to buy, sell or hold securities and trade only on the basis of informed decision. Clients are further advised not to blindly follow these unfounded rumours, tips etc. and invest after conducting appropriate analysis of respective companies.

Clients are requested to share their knowledge or evidence of systemic wrongdoing, potential frauds or unethical behavior through the anonymous portal facility provided on Exchange website and mail at feedbk_invg@nse.co.in and attentioninvestors@bseindia.com .

List of securities in which unsolicited messages are being circulated ("SMS Stocks") are published from time to time on Exchange websites, inter alia cautioning the market participants against stock recommendations & to do thorough analysis about the company before investing.

A. Action taken by SMIFS for list of stocks published by Exchanges applicable under 'For Information list':

On the list of stocks published by Exchanges in the 'For Information' list, SMIFS shall carry out adequate monitoring, to check the selling concentration / trading pattern of its clients in such Stocks. SMIFS shall also carry out due diligence and shall release the pay–out to its client only after carrying further scrutiny like:

i. Scrutiny of KYC documents to compare income range declared and value of such transaction,
ii. Whether the client is individual or Private Corporate Body,
iii. Whether the client is directly/indirectly connected to the company/ promoters/ directors of the company, etc.
iv. Method of acquisition of shares by client- whether on-market/off-market/IPO/Preferential allotment,
v. Whether source of funds and period of holding is not in line with the client's usual behavior.

SMIFS shall intimate its decision to withhold the pay–out to the client along with the rationale to the Stock Exchanges within three days of withholding of pay–out.

B. Action taken by SMIFS for list of stocks published by Exchanges applicable for 'Current Watch list':

On the list of stocks published by Exchanges in the 'Current Watchlist' the following actions shall be taken by SMIFS:

i. SMIFS shall withhold the sale proceeds of the shortlisted clients having significant selling concentration in the SMS Stocks, on receiving intimation from the Exchanges.

ii. Such withholding of funds shall be applicable for the transactions executed for a period of past 7 calendar days (on retrospective basis) from the date of entry in Current Watchlist. Such 7 calendar days may also be prior to date of entry of stock into the 'For Information list'.
iii. SMIFS shall ensure that the identified clients, do not transact further in the SMS Stocks.
iv. Sales Proceeds of SMS stocks shall be withheld in the form of funds / securities which shall be transferred to separate designated account, irrespective of whether the client continues to trade with the SMIFS or not.
v. SMIFS shall open a designated bank account with any scheduled commercial bank or designated demat account for the aforementioned purpose.
vi. SMIFS shall submit a confirmation to the Exchanges after transferring the requisite funds to the designated account.
vii. SMIFS shall submit duly certified letter from designated bank / depository participant confirming the balance on a monthly basis.
viii. SMIFS shall not withdraw funds/securities out of the designated account until further directions from the Exchanges.
ix. Withholding of sale proceeds may be in form of cash or cash equivalents or in form of securities forming part of S&P BSE 500 or NSE 500 with a hair – cut of 30% or applicable VAR whichever is higher, shall only be considered as collateral in lieu of funds required to be withheld.
x. SMIFS shall promptly replace the securities in case of any change in the composition of S&P BSE 500 or NSE 500.
xi. SMIFS shall ensure that, any fall in value of securities shall have to be compensated by bringing in additional eligible securities from time to time and shall maintain audit trail of such changes.
xii. Compliance officer of SMIFS Limited shall submit a compliance status w.r.t withholding of sales proceeds (i.e., valuation and details of stocks / funds withheld) to the Exchanges on a monthly basis.
xiii. Funds / securities withheld by SMIFS shall be retained for a period of 1 year or till completion of examination whichever is earlier. Post elapse of such period as referred above, upon intimation by the Exchange the withheld funds / securities shall be released by SMIFS after providing necessary undertaking as guided by the Exchanges.
xiv. SMIFS shall make all efforts to bring the funds back from clients else it shall transfer its own funds / securities to the extent of deficit to the designated bank / demat account.

Furthermore, stocks wherein Unsolicited SMSs have been found to be circulated and have resulted in an increased trading activity, an Additional Surveillance Margin of 25% shall be levied to Clients having a substantial trading activity in these stocks. The Additional Margin shall be applicable in Equity and Equity Derivatives Segment

23. Ethics of Transactions Between Clients & Brokers – Segregation and Monitoring of Collateral at Client Level

Segregation of client collateral refers to the procedures that enable identification and protection of client collateral from- (i) misappropriation/ misuse by Trading Member (TM)/ Clearing Member (CM) and (ii) default of TM/CM and/or other clients. In the past, there have been instances of misuse of client collateral by TM/CM. This becomes even more accentuated at the time of default of a TM/CM. In such a scenario, not only confidence of investors in market integrity is shaken, but it also brings disrepute to the entire ecosystem of trading. It is, therefore, desirable to put in place a framework that ensures identification of each client's collateral. This would help ensure utilization of a client's collateral towards the margins of that client only. Also, in case of default by a TM/CM, such readily available collateral information will also help ensure expeditious return of collateral to each non-defaulting clients after adjustment of any dues of the respective clients. The objective of segregation is to effectively protect the collateral of a non-defaulting client from getting used towards the losses due to default by the member or other clients. Effective segregated identification also aids portability, i.e. the transfer of positions and related collateral of non-defaulting clients from a member in default to another solvent member.

23.1 SEBI by its **Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993** took the first step to Regulate the Transactions Between the Clients and Stock Brokers, which are as follows:

By the above circular SEBI made it compulsory for all Member brokers to keep the money of the clients in a separate account and their own money in a separate account. No payment for transactions in which the Member broker is taking a position as a principal will be allowed to be made from the client's account. The above principles and the circumstances under which transfer from client's account to Member broker's account would be allowed are enumerated below:

A. Member Broker to keep Accounts: Every member broker shall keep such books of accounts, as will be necessary, to show and distinguish in connection with his business as a member –

i. Moneys received from or on account of each of his clients and,

ii. the Moneys received and the moneys paid on Member's own account.

B. Obligation to pay money into "clients accounts". Every member broker who holds or receives money on account of a client shall forthwith pay such money to current or deposit account at bank to be kept in the name of the member in the title of which the word "clients" shall appear (hereinafter referred to as "clients account"). Member broker may keep one consolidated clients account for all the clients or accounts in the name of each client, as he thinks fit: Provided that when a Member broker receives a cheque or draft representing in part money belonging to the client and in part money due to the Member, he shall pay the whole of such cheque or draft into the clients account and effect subsequent transfer as laid down below in para D (ii)

C. What moneys to be paid into "clients account". No money shall be paid into clients account other than –

i. money held or received on account of clients;

ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;

iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;

iv. a cheque or draft received by the Member representing in aprt money belonging to the client and in part money due to the Member.

D. What moneys to be withdrawn from "clients account". No money shall be drawn from clients account other than -

i. money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;

ii. such money belonging to the Member as may have been paid into the client account under para 1 C [ii] or 1 C [iv] given above;

iii. money which may by mistake or accident have been paid into such account in contravention of para C above.

E. Right to lien, set-off etc., not affected. Nothing in this para 1 shall deprive a Member broker of any recourse or right, whether by way of lien, set-off, counter-claim charge or otherwise against moneys standing to the credit of clients account.

F. It shall be compulsory for all Member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own securities. Such accounts for client's securities shall, inter-alia provide for the following:-

i. Securities received for sale or kept pending delivery in the marker;

ii. Securities fully paid for, pending delivery to Clients;

iii. Securities received fro Transfer or Sent for Transfer by the Member, in the name of Client or his nominee(s);

iv. Securities that are fully paid for and are held in custody by the Member as security/ margin etc. Proper Authorization from Client for the same shall be obtained by the Member;

v. Fully paid for Client's Securities registered in the name of Member, if any, towards Margin Requirements etc.;

vi. Securities given for Vyaj-Badla. Member shall obtain authorization form Clients for the same.

G. Member Brokers shall make payment to their clients or deliver the securities purchased within two working days of pay-out unless the client has requested otherwise. Stock Exchange shall issue a Press Release immediately after the pay-out.

H. Member Brokers shall buy securities on behalf of client only on receipt of margin of minimum 20 percent on the price of the securities proposed to be purchased, unless the client already has an equivalent credit with the broker. Member may not, if they so desire, collect such a margin from Financial Institutions, Mutual Funds and FII's.

I. Member brokers shall sell securities on behalf of client only on receipt of a minimum margin of 20 percent on the price of securities proposed to be sold, unless the member has received the securities to be sold with valid transfer documents to his satisfaction prior to such sale. Member may not, if they so desire, collect such a margin from Financial Institutions, Mutual Funds and FII's.

J. Member brokers shall issue the contract note for purchase/sale of securities to a client within 24 hours of the execution of the contract.

K. In case of purchases on behalf of clients, Member brokers shall be a liberty to close out the transactions by selling the securities, in case the client fails to make the full payment to the Member Broker for the execution of the contract within two days of contract note having been delivered for cash shares and seven days for specified shares or before pay-in day (as fixed by Stock Exchange for the concerned settlement period), whichever is earlier; unless the client already has an equivalent credit with the Member. The loss incurred in this regard, if any, will be met from the margin money of that client.

L. In case of sales on behalf of clients, Member broker shall be at liberty to close out the contract by effecting purchases if the client fails to deliver the securities sold with valid transfer documents within 48 hours of the contract note having been delivered or before delivery day (as fixed by Stock Exchange authorities for the concerned settlement period), whichever is earlier. Loss on the transaction, if any, will be deductible from the margin money of that client.

23.2 In continuation of earlier circulars and in order to reiterate the need for brokers to maintain proper records of client collateral and to prevent misuse of client collateral, SEBI by its **Circular No. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008** advised that:-

A. Brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Brokers should also maintain records to ensure proper audit trail of use of client collateral.

B. Brokers should further be able to produce the aforesaid records during inspection. The records should include details of :-

a. Receipt of collateral from client and acknowledgement issued to client on receipt of collateral

b. Client authorization for deposit of collateral with the exchange / clearing corporation / clearing house towards margin

c. Record of deposit of collateral with exchange / clearing corporation / clearing house

d. Record of return of collateral to client

e. Credit of corporate action benefits to clients

C. The records should be periodically reconciled with the actual collateral deposited with the broker.

D. Brokers should issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilised and collateral status (available balance / due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities.

E. In case of complaints against brokers related to misuse of collateral deposited by clients, exchanges should look into the allegations, conduct inspection of broker if required and based on its findings take necessary action.

F. In case client collateral is found to be mis-utilised, the broker would attract appropriate deterrent penalty for violation of norms provided under Securities Contract Regulation Act, SEBI Act, SEBI Regulations and circulars, Exchange Byelaws, Rules, Regulations and circulars.

23.3 SEBI constituted a committee on "Enhanced Supervision of Stock Brokers", which included representatives from Stock Exchanges, Depositories and Brokers. With a view to implement the recommendations, the guidelines for Monitoring of Clients' Funds lying with the Stock Broker by the Stock Exchanges, through a sophisticated alerting and reconciliation mechanism, to detect any mis-utilisation of clients fund was laid by SEBI vide its **Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016** and **Circular No. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017.** Details are as follows:

ES1. Stock Broker shall not use client funds and securities for proprietary purposes including settlement of proprietary obligations.

ES2. Transfer of funds between "Name of Stock Broker - Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker - Client Account" to "Name of Stock Broker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred

ES3. Transfer of securities between "Name of the Stock Broker - Client Account " and individual client's BO account, "Name of the Stock Broker – Pool Account" and "Name of the Stock Broker – Collateral Account" is permitted. Transfer of securities between "Name of the Stock Broker - Client Account" to "Name of the Stock Broker - Proprietary Account" is permitted only for legitimate purposes such as, implementation of any Government/Regulatory directions or orders, in case of erroneous transfers pertaining to client's securities, for meeting legitimate dues of the stock broker, etc. For such transfer of securities, stock broker shall maintain a stock transfer register clearly indicating the day-wise details of securities transferred.

ES4. Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except in accordance with the Margin Trading Facility provided vide SEBI Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to time.

ES5. Stock Exchanges shall put in place a mechanism for monitoring clients' funds lying with the stock broker to generate alerts on any misuse of clients' funds by stock brokers

ES6. Stock brokers shall submit the following data as on last trading day of every week to the Stock Exchanges on or before the next trading day:

A- Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges

B- Aggregate value of collateral deposited with clearing corporations and/or clearing member (in cases where the trades are settled through clearing member) in form of Cash and Cash Equivalents (Fixed deposit (FD), Bank guarantee (BG), etc.) (across Stock Exchanges). Only funded portion of the BG, i. e. the amount deposited by stock broker with the bank to obtain the BG, shall be considered as part of B.

C- Aggregate value of Credit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)

D- Aggregate value of Debit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients, uncleared cheques issued to clients and the margin obligations)

E- Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the clearing corporations and/or clearing member (across Stock Exchanges)

F- Aggregate value of Non-funded part of the BG across Stock Exchanges

P - Aggregate value of Proprietary Margin Obligation across Stock Exchanges

MC - Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges

MF- Aggregate value of Unutilized collateral lying with the clearing corporations and/or clearing member across Stock Exchanges

ES7. Based on the aforesaid information submitted by the stock broker, Stock Exchanges shall put in place a mechanism for monitoring of clients' funds lying with the stock brokers on the principles enumerated below:

P1. Funds of credit balance clients used for settlement obligation of debit clients or for own purpose:

Principle:

The total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member (A + B) should always be equal to or greater than Clients' funds as per ledger balance (C)

Stock Exchanges shall calculate the difference i.e. G as follows –

$$G = (A+B) - C$$

If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate utilization of clients' funds for other purposes i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes. The negative value of G acts as an alert to the Stock Exchanges.

Thereafter, the absolute value of G shall be compared with debit balance of all clients as per client ledger D as follows:

If the absolute value of (G) is lesser than |D|, then the stock broker has possibly utilised funds of credit balance clients towards settlement obligations of debit balance clients to the extent of value of G.

If the absolute value of (G) is greater than |D|, then the stock broker has possibly utilised a part of funds of credit balance clients towards settlement obligations of debit balance clients and remaining part for his own purposes. In such cases the amount of client funds used for own purpose is calculated as follows:

$$H = |G| - |D|$$

P2. Funds of clients used for Margin obligation of proprietary trading:

Stock Exchanges shall thereafter, verify whether the proprietary margin obligations (across Stock Exchanges) is less than the own funds and securities lying with the Stock Exchanges as collateral deposit, as follows:

Principle:

The sum of Proprietary funds and securities i.e. (G + E + F) lying with the clearing corporation/clearing member should be greater than or equal to Proprietary margin obligations (P)

If value of G is positive (i.e. A+B > C), then proprietary funds are lying with the clearing corporation/clearing member and/or client bank accounts along with the clients funds to the extent of positive value of G.

The sum of the proprietary funds (positive value of G), the value of proprietary securities (E) and the non-funded portion of bank guarantee (F) available in the Stock Exchanges is compared with the Proprietary margin obligations (P).

If P > (G+E+F), then Stock Exchange shall calculate the difference I, which is the amount of proprietary margin obligation funded from clients assets.

$$I = P - (G+E+F)$$

If G is negative, then, value of G is considered as 0, as there is no proprietary funds lying with the stock exchange.

The value of I indicates the extent of funds and securities of clients which is possibly utilised towards proprietary margin obligations. This value of I acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' assets towards proprietary margin obligations.

P3. Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:

Stock Exchanges shall thereafter, verify whether the clients funds lying with the clearing corporation/clearing member are utilised towards margin obligations of debit balance clients and proprietary margin obligations.

Principle:

The clients' funds lying with the clearing corporation/clearing member should be less than or equal to sum of credit clients' margin obligations (MC) and free collateral deposits available with the clearing corporation/clearing member (MF)

If value of G is negative (i.e. $A+B < C$), then fund lying with the clearing corporation/ clearing member (B) is entirely clients' fund. In such cases, B is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/ clearing member. The value of J is calculated as under:

$$J = B - (MC + MF)$$

If value of G is positive (i.e. $A+B > C$), then fund lying with the clearing corporation/clearing member (B) may contain proprietary and clients' fund. Hence, the value of clients funds lying with the clearing corporation/ clearing member i.e. (C-A) shall be considered in the place of B.

In such cases, (C-A) is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/clearing member. The value of J, which is clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations, is calculated as under:

$$J = (C - A) - (MC + MF)$$

The value of J, if positive, indicates the extent of clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations. This value of J acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' funds towards margin obligations of debit balance clients and proprietary margin obligations.

ES8. Based on the alerts generated, Stock Exchange shall, inter-alia, seek clarifications, carry out inspections and initiate appropriate actions to protect the clients' funds from being misused. Stock Exchanges shall also maintain records of such clarifications sought and details of such inspections.

23.4 In order to protect Clients Funds and Securities, The Securities Contracts (Regulation) Act, 1956 and Securities and Exchange Board of India (Stock Brokers) Regulations 1992 specifies that the Stock Broker shall segregate securities and moneys of the Client or Clients or shall not use the securities or monies of client or clients for self or for any other client. To strengthen the process SEBI vide its **Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019** laid the following:

A. The securities received on pay-out against which payment has been made by clients, shall be transferred to the demat account of the respective clients within one working day of the pay-out. Such securities shall be transferred directly from the Pool Account of the TM/CM to the Demat Account of the respective client.

B. With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – "Client Unpaid Securities Account - CUSA" shall be opened by the TM/CM. Unpaid securities shall be transferred to such "client unpaid securities account" from the pool account of the concerned TM/CM.

C. The securities kept in the "Client Unpaid Securities Account - CUSA" shall either be transferred to the demat account of the respective client upon fulfillment of client's fund obligation or shall be disposed off in the market by TM/CM within five trading days after the pay-out. The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/ Loss on the sale transaction of the unpaid securities, if any, shall be transferred to/ adjusted from the respective client account.

D. In case the clients' securities are kept in the "Client Unpaid Securities Account - CUSA" beyond seven trading days after the pay-out, the depositories shall under their bye-laws levy appropriate penalties upon such TM/CM which shall not be permitted to be recovered from the client.

E. SEBI Circular on Comprehensive Review of Margin Trading Facility dated June 13, 2017 specifies that TM/CM shall maintain separate client wise ledger for funds and securities of clients availing Margin Trading Facility. Accordingly, the securities that are bought under Margin Trading Facility, shall be kept in a separate Account titles as – "Client Margin Trading Securities Account".

F. Further the SEBI Circular on Comprehensive Review of Margin Trading Facility dated June 13, 2017 specifies that:

i. For the purpose of providing Margin Trading Facility, a Stock Broker may use Own Funds or Borrow Funds from Scheduled Commercial Banks and/or NBFCs regulated by RBI. A Stock Broker shall not be permitted to borrow funds from any other source.

ii. The Stock Broker shall not use the Funds of any Client for providing the Margin Trading Facility to another Client, even if the same is Authorized by the First Client.

G. SEBI vide Circular No. MRD/DOP/SE/Cir–11/2008 dated April 17, 2008 had specified that Client Collateral/ Securities shall not be used for the purposes other than meeting client's margin requirement/ pay-in. Referencing the provisions of the said circular dated April 17, 2008 SEBI has observed that TMs/CMs are pledging collateral/ securities of the clients with the Bank/NBFCs to borrow funds to meet the Margin requirements of the Clients/ proprietory obligation which is not contemplated in the provisions of the aforesaid SEBI Circular dated April 17, 2008. In this regard SEBI has strictly mandated that the Client securities recived as collateral shall be used only for meeting the respective client's margin requirement by way of depositing the same with Stock Exchange/ Clearing Corporation/ Clearing House.

H. With effect from September 01, 2019 clients' securities lying with the TM/CM in "Client Collateral Account", "Client Margin trading Securities Account" and "Client Un-Paid Securities Account" CANNOT be pledged to the Banks/ NBFCs for raising funds even with Authorization BY Client as the same would amount to Fund Based Activity by TM/CM which is in contravention of Rule 8(1)(f) & (8)(3)(f) of Securities Contracts (Regulation) Rules, 1957.

I. Provisions with regard to Running Account Settlement of Clients' Fund and Securities specified in SEBI Circulars MIRSD/SE/Cir-19/2009 dated December 03, 2009 and SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 shall stand modified to the extent as stated hereinabove and the said circulars shall be applicable only as guidelines for Running Account Settlement of Client "Funds" Only.

23.5 Pursuant to SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019**,** NSE by its **Circular No. INSP/42052 dated 04.09.2019** and **Circular No. INSP/42229 dated 27.09.2019** strengthened the provisions of Handling of Client Securities in the following manner:

A. There will be primarily 5 types of DEMAT accounts that shall be maintained by Members post October 1, 2019:

1. Pool account (Stock Broker - Pool account)
2. Own Beneficiary Account (Stock Broker-Proprietary Account)
3. Client Unpaid Securities Account - CUSA
4. Client Margin Trading Securities account (In case of Margin trading)
5. Early Pay-in Account (In case of CDSL)

B. Member may transfer the unpaid client securities from pool/unpaid securities demat account to client's demat account in accordance with its Risk Management (RMS) Policy.

Such policy shall be duly approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be and informed to the clients.

In case the RMS policy does not permit transfer of securities to clients in the event of non-payment, then such securities shall be disposed-off within 5 trading days from the date of pay-out., in proportion to the amount not received and after taking into account any amount lying to the credit of the client. The balance securities shall be transferred to the respective client's demat account.

Policy of SMIFS Limited for securities lying in Client Unpaid Securities Account - CUSA has been detailed in the section "**Monitoring of Debit Balances, Closing of Open Positions & Liquidation of Collateral without Client Consent**", herein above.

C. In case of partial payment, a Member can retain full value of securities till the 5th day from the pay-out date. Member shall however, within such 5 days and based in its RMS policy, transfer the unpaid client securities to client's demat account or dispose-off the securities in proportion to the amount not received.

In case the RMS policy does not permit transfer of securities to clients in the event of non-payment, Member shall, on a demand made by the client, be required to release the securities to the client to the extent of the amount received.

D. In case any security is lying in the "Client Unpaid Securities Account - CUSA" beyond 7 days after the pay out, Depositories shall be levying the penalty as per the SEBI circular.

In case the securities cannot be transferred out of the Client unpaid securities account for reason that the ISIN is suspended or the unpaid securities account is frozen due to a court or regulatory order, the penalty imposed may be reversed till such restriction continues upon an application being made to the Depository. The penalty imposed cannot be reversed for any other reason.

E. As the SEBI circular mandates liquidation of securities in case of non-payment within 5 days from the pay-out date, no pre-order confirmation is required.

However, as a best practice, Members are advised to issue margin calls and reminders to clients for making payments within 5 days. Such margin calls / reminders should also inform the clients about the disposal of the securities in case of non-payment.

F. Securities kept in “Client Unpaid Securities Account - CUSA” cannot be considered towards client’s margin obligation.

G. In F&O segment under physical settlement criteria, securities shall be transferred by the CM to the pool account of the TM for onward transfer to the respective client. In case of non-receipt of payment, the securities shall be transferred to the “Client unpaid Securities Account”.

H. Depositories exclude settlement holidays for computation of CISA penalty/Pool account penalty, as the case may be, levied as per SEBI circular no. SEBI/MRD/Policy/AT/Cir- 19/2004 dated April 21, 2004. The same logic shall be applied for calculation of penalties on unpaid securities remaining unsold beyond 7 trading days after the pay-out. However, it may be noted that in case of a settlement holiday, transfers from the “Client unpaid securities account” to the pool account will be possible.

I. In case of non-payment, securities lying in “Client unpaid securities account” shall be disposed-off within 5 days from the Pay-out date or returned to the client as per the Member’s RMS. However, sale of securities lying in collateral account, based on client’s instruction, can be considered towards such unpaid securities provided clear funds are received within such 5 trading days.

J. The Member should have a predefined policy of liquating the client securities and the policy should be communicated to the clients in an appropriate manner. In absence of such a policy, the FIFO (First in & First Out) policy should be followed. However, in any case, securities shall not be kept in the “Client unpaid securities account” beyond the deadlines prescribed by the Circular.

K. The TM should not allow the client to initiate the buy trade as further exposure is disallowed if the old debit is not realized in full by way of receipt of clear funds in the bank account of the Trading Member or by way of realized pay out as a result of liquidation by the Trading Member.

L. In case of securities (where inter-depository transfer is not available) held in a particular Depository (i.e. SGB, G-secs) and the client does not have an account in the said Depository, the client will have to open an account in the relevant Depository. In case the client does not open the required account, the member may transfer the relevant securities to the “Client Collateral Account”, after keeping adequate audit trail. It should however be ensured that they are utilised for meeting the respective client’s obligation only.

M. As securities are not fully paid by the client in MTF, the same, not being free & unencumbered, cannot be used as margin for that client in any other segment.

N. Only free and unencumbered securities that have fully paid by the client can be pledged with the CC or transferred to CMs.

O. Securities can be transferred from CC to the client’s demat account directly under the “Direct Pay-out” facility. However, the Member may, based on their RMS policy, not use the said facility in case of non-payment and transfer the security to the “Client Unpaid securities Account”.

24. Settlement of Running Account of Client’s Funds:

A. 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. As specified by SEBI, the actual settlement of funds and securities shall be done by the member depending on the mandate of the client and there must be a gap of maximum 90 / 30 days (as per the choice of client viz. Quarterly / Monthly) between two settlements of running account.

B. 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.

C. Further, SEBI, vide circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, discontinued title transfer of securities to the demat account of TM for margin purposes and TM shall accept collateral from the clients in the form of securities only by way of 'margin pledge' created in the Depository system.

D. SEBI had extensive consultations with Stock Exchanges and industry representatives, to devise a framework to mitigate the risk of misuse of client's funds. The proposal was also discussed in the meeting of Secondary Market Advisory Committee.

E. In partial modification of the aforementioned circulars dated December 03, 2009 and September 26, 2016 on settlement of running account, following has been decided by SEBI, vide **Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021**. The Client agrees to abide by the following:

E.1 The settlement of running account of funds of the client shall be done by SMIFS Limited after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges, at least once within a gap of 30 / 90 days between two settlements of running account as per the preference of the client.

E.2 In case of client having any outstanding trade position on the day on which settlement of running account of funds is scheduled, SMIFS may retain funds calculated in the manner specified below:

E.2.1 Entire pay-in obligation of funds outstanding at the end of the day on settlement of running account, of T day & T-1 day.

E.2.2 Margin liability as on the date of settlement of running account, in all segments and additional margins (maximum upto 125% of total margin liability on the day of settlement). The margin liability shall include the end of the day margin requirement excluding the MTM and pay-in obligation, therefore, SMIFS may retain 225% of the total margin liability in all the segments across exchanges. Computation for arriving at retention of excess client funds based on above points would be as under:

Scenario	Fund pay in obligation of T day & T-1 day	EOD/peak margin requirement	225% of the margin	Securities pledged/ repledged	Client fund balance	Excess client funds retained
	A	B	C=225%*B	D	E	F=E-[(C-D)+A]
1	110000	100000	225000	200000	300000	165000
2	50000	20000	45000	15000	50000	0
3	150000	100000	225000	280000 ^	180000	30000

^ Excess securities of Rs. 55,000 (i.e. 280000-225000) is not required to be unpledged.

E.2.3 SMIFS shall first adjust 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) respectively and thereafter SMIFS shall adjust the client funds.

E.2.4 It is clarified that the excess securities (in the form of margin pledge) or any cash equivalent collateral identifiable with the client and deposited with CC, after adjustment of the 225% of margin liability need not be unpledged.

E.3 Client's running account shall be considered settled only by making actual payment into client's bank account and not by making any journal entries. Journal entries in client account shall be permitted only for levy / reversal of charges in client's account.

E.4 In cases where physical payment instrument (cheque or demand draft) is issued by the SMIFS towards the settlement of running account due to failure of electronic payment instructions, the date of realization of physical instrument into client's bank account shall be considered as settlement date and not the date of issue of physical instrument.

E.5 Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued.

F. For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by SMIFS, within next three working days irrespective of the date when the running account was previously settled.

G. The Authorized person is not permitted to accept client's funds and securities. SMIFS shall keep a proper check. Proprietary trading by Authorized person shall be permitted only on his own funds and securities and not using any of the client's fund.

H. Once SMIFS settles the running account of funds of a client, an intimation shall be sent to the client by SMS on mobile number and also by email. The intimation shall 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). SMIFS shall send the retention statement along with the statement of running accounts to the clients as per the existing provisions within 5 working days.

I. 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.

25. SMS and E-Mail Alerts to Investors by Stock Exchanges

A. SEBI receives complaints from investors against stock brokers which include alleged unauthorized trading in their accounts. SEBI has taken steps in the past to address this issue.

B. As an additional measure, SEBI upon consultation with the major stock exchanges and market participants vide its **Circular No. CIR/MIRSD/15/2011 dated August 02, 2011** laid the guidelines that the stock exchanges shall send details of the transactions to the investors, by the end of trading day, through SMS and E-mail alerts. Details are as follows:

B1. Applicability: These guidelines are applicable to equity - cash and derivative – segments of the stock exchanges.

B2. Stock exchanges shall provide a platform to stock brokers to upload the details of their clients, preferably, in sync with the UCC updation module.

B3. Stock brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.

B4. Stock brokers shall ensure that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.

B5. Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.

B6. The stock exchanges shall commence sending the transaction details generated based on investors' Permanent Account Number, directly to the Investor Client(s) by way of sending SMS and E-mail directly to the investors at the numbers/E-mail address uploaded by the stock brokers and also by way of sending letters to the address of the investors uploaded by the stock brokers.

C. Pursuant to the dictat of the Market Regulator, Stock Exchanges have made it mandatory to update Client Database with the Correct E-Mail Id and Mobile Number for conducting Securities Transactions in a Compliant Manner. SMIFS Limited has made it mandatory for all its Clients to register their KYC Records with a Valid E-Mail Address and a Mobile Number and all Clients are under the Obligations to remain Compliant with such directions of the Stock Exchange Mandate. The Company shall use the registered E-Mail Id and Mobile Number for all official communication and the same shall hold as "satis obsequio" for all practical purposes as per the Extant Laws. It is advisable that there shall be NO sharing of E-Mail Id and Mobile Number amongst Clients on the pretext of "dependent children" who have attained the age of being a major and also "dependent parents" who are financially independent. As per the Depository Laws a Mobile Number and E-Mail Id. cannot be shared more than 5 Persons.

26. Prevention of Un-Authorized Trades

A. SEBI has taken several steps to tackle the issue of "Unauthorized Trades" by implementing Periodic Running Account Settlement, Post transactions SMS/email by exchanges/Depositories, Ticker on broker/DP websites etc. However, it was observed, by SEBI, that in spite of measures taken, a considerable proportion of investor complaints is of the nature of "Unauthorized Trades".

B. To further strengthen regulatory provisions against un-authorized trades and also to harmonize the requirements across markets, SEBI by its **Circular No. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018**, mandated that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, which could be, inter alia, in the form of:

a. Physical record written & signed by client,
b. Telephone recording,
c. Email from authorized email id,
d. Log for internet transactions,
e. Record of messages through mobile phones,
f. Any other legally verifiable record.

C. When a dispute arises, the broker shall produce the above mentioned records for the disputed trades. However, for exceptional cases such as technical failure etc. where broker fails to produce order placing evidences, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidences like post trade confirmation by client, receipt/payment of funds/ securities by client in respect of disputed trade, etc. shall also be considered.

D. Further, wherever the order instructions are received from clients through the telephone, SMIFS Limited shall use telephone recording system to record the instructions and maintain telephone recordings as part of its records.

E. Clients who deal with SMIFS shall abide by the above stipulations whereby SMIFS shall record the evidence of placement of Orders by the Client in any one or more methodologies mentioned hereinabove. The Client shall be provided real-time Alerts on their registered e-mail ids and the Client agrees that such alerts shall act as evidence of placement of Orders and shall be recognized to be a verifiable record as the proof of placement of Orders, in case of any dispute resolution. The client agrees that it shall be the legal duty and obligation to follow all the alerts received by the Client on the registered e-mail id and mobile number on a real time basis and also at the end of the day received from SMIFS Limited and also the Stock Exchange(s) as detailed in the SEBI Circular No. CIR/MIRSD/15/2011 dated August 02, 2011.

F. In case the Client trade's on Stock Exchanges and suffer adverse consequences or loss, the shall be solely responsible for the same and Stock exchanges/its Clearing Corporation and/or SEBI shall not be responsible, in any manner whatsoever, for the same and it will not be open for the Client to take a plea that no adequate disclosure regarding the Transaction Related Alerts over E-Mail and Mobile were not explained by the concerned Stock Broker. The Client shall be solely responsible for the consequences and no contract can be rescinded on that account. The client further agrees that SMIFS shall NOT be held responsible with the plea that the alerts/messages were not followed by the Client on any pretext in any manner whatsoever.

27. Mode of payment and delivery and Cash Transactions

A. SEBI by its Circular No. SEBI/MRD/SE/Cir- 33/2003/27/08 dated August 27, 2003 have strictly mandated that brokers and sub-brokers should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash against sale of securities to the clients. All payments shall be received / made by the brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through EFT, or any other mode allowed by RBI. The brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. However, in exceptional circumstances the broker or sub-broker may receive the amount in cash, to the extent not in violation of the Income Tax requirement as may be in force from time to time. Similarly, in the case of securities also giving / taking delivery of securities in "demat mode" should be directly to / from the "beneficiary accounts" of the clients except delivery of securities to a recognized entity under the approved scheme of the stock exchange and / or SEBI.

B. Government of India has promoted various means for transfer / receipt of funds through digital mode for encouraging a cashless economy. Financial institutions/ Banks have introduced various modes of electronic payment facility including mobile banking, Unified Payment Interface (UPI) etc. In view of the various modes of payment through electronic means available today, SEBI vide its Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2018/13 dated July 12, 2018 has directed that Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of stock broker. Accordingly, paragraph 3 of the SEBI circular dated August 27, 2003 is modified as under:

> *All payments shall be received / made by the stock brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through electronic fund transfer, or any other mode permitted by the Reserve Bank of India. The stock brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of stock broker*

SMIFS shall not shall not accept cash from their clients either directly or by way of cash deposit to the bank account. The Client accepts that in case a Client deposits cash in any of the Bank Accounts of SMIFS Limited the shall NOT be credited to the Ledger Account of the Client and the same shall be kept in abeyance in a separate bank account and the same may be refunded back to the Client at the sole discretion of SMIFS Limited after proper scrutiny and/or by an Order of a Competent Court having jurisdiction to pass Orders in such matters.

28. Pre- funded instruments / Electronic fund transfers

A. SEBI by its Circular No. SEBI/MRD/SE/Cir- 33/2003/27/08 dated August 27, 2003 have strictly mandated that brokers and sub-brokers should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash against sale of securities to the clients. All payments shall be received / made by the brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through EFT, or any other mode allowed by RBI. The brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions.

B. While receiving funds from the clients through pre-funded instruments, such as, Pay Order, Demand Draft, Banker's cheque, etc., it is observed that the stock brokers are unable to maintain an audit trail of the funds so received, as the details of the name of the client and bank account-number are not mentioned on such instruments. This may result in flow of third party funds / unidentified money, which is not in accordance with the provisions of the aforesaid circular and also affects the integrity of the securities market. With a view to address the aforesaid concerns, SEBI in consultation with the major stock exchanges and associations of stock brokers, by a Circular No. CIR/MIRSD/03/2011 dated June 09, 2011 has mandated as under:

a. If the aggregate value of pre-funded instruments is ` 50,000/- or more, per day per client, SMIFS Limited may accept the instruments only if the same are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:

i. Certificate from the issuing bank on its letterhead or on a plain paper with the seal of the issuing bank.
ii. Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.
iii. Certified copy of the passbook/bank statement for the account debited to issue the instrument.
iv. Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.

b. Maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only.

29. Surveillance Policy Measures:

Surveillance is the process of collecting and analyzing information concerning markets in order to detect unfair transactions that may violate securities laws, rules and regulations. SMIFS have different types of business models and offers different types and combination of services to different types of clients including retail, institutional, HNI through various modes like Call and Trade, Mobile based trading, Internet based trading, Portfolio Management Services (PSIS), in addition to proprietary trading (including Algorithmic trading).

A. Stock Exchanges have put in place a mechanism that will generate automated alerts for Trading Members whenever suspicious transactions are detected in their clients' accounts and have derived the following transactional alerts that would be downloaded to the Trading Members. List of Transactional Alerts provided by Exchanges:

Sr. No.	Transactional Alerts
1	Significantly increase in client activity
2	Sudden trading activity in dormant account
3	Clients/Group of Client(s), deal in common scrips
4	Clients/Group of Client(s), deal in common scrips
5	Client(s)/Group of Client(s) dealing in scrip in minimum lot size
6	Client / Group of Client(s) Concentration in a scrip
7	Circular Trading
8	Pump and Dump
9	Wash Sales
10	Reversal of Trades
11	Front Running
12	Concentrated position in the Open Interest / High Turnover concentration
13	Order book spoofing i.e. large orders away from market

B. SMIFS, in order to facilitate effective surveillance mechanisms to monitor the transactions where the Company is registered as a Trading Member, tracks the Transaction Alerts provided by the Stock Exchanges and internally generates alerts by the Back Office Software which are downloaded by the "Risk Management Team" on a regular basis.

C. SMIFS have formulated its own internal alerts to analyze patterns and trends with respect to different themes, which are listed below:

i. Client / group of clients, as identified by SMIFS, accounting for a significant percentage of the total trading activity in a scrip / contract as compared to the market.
ii. Client / group of clients with new account or clients dealing after a significant time gap, as identified by SMIFS, accounting for significant value / percentage of total trading activity in a scrip / contract as compared to the market.
iii. Client / group of clients dealing frequently in small quantities/minimum market lot in a scrip / contract.
iv. Disproportionate trading activity vs reported income / Net worth.
v. Frequent changes in KYC submitted by clients.
vi. SMIFS identifies Client / group of clients, based on an announcement by a listed company, having possible direct / indirect connection with the said listed company, who have undertaken any suspicious trading activity prior to price sensitive announcement by said listed company.
vii. Client / group of clients having significant selling concentration, in the scrips, forming part of 'For Information list' or 'Current Watch list'.
viii. Consistency in profit / loss at client / group of clients' levels, rationale for such trading activities.
ix. Significant trading activity in scrips by client who has pledged the shares of same scrip.
x. In case of concerns of trading activity of a client or a group of clients in a scrip, SMIFS monitors whether the orders are being placed by respective clients or their authorized representatives and also monitors client's address as per KYC vis a vis the dealing office address.
xi. Significant trading activity in scrips where client has pledged shares or has significant holding or has frequent off-market transactions.
xii. Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location)

D. Analysis: SMIFS in order to analyze the trading activity of the Client(s)/Group of Client(s) or scrips identified based on the Transaction Alerts, does the following:

i. Seeks explanation from such identified Client(s)/Group of Client(s) for entering into such transactions.
ii. Seeks documentary evidence such as Bank Statement/Demat Transaction Statement or any other documents to satisfy itself.
iii. In case of Funds, Bank Statements of the Client(s)/Group of Client(s) from which Funds pay-in have been met, to be sought.
iv. In case of Securities, Demat Account Statements of the Client(s)/Group of Client(s) from which Securities pay-in have been met, to be sought.
v. The period of such statements mentioned in point (iii) & (iv) may be at least +/- 15 days from the date of transactions to verify whether the funds/ securities for the settlement of such trades actually belongs to the client to whom the trades were transacted.

E. Obligation of SMIFS with respect to Client Due Diligence:

i. At SMIFS, Due Diligence of its client(s) are carried out on a continuous basis.
ii. SMIFS ensures that key KYC parameters are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in UCC database of the Exchange.
iii. Based on the above information SMIFS establishes groups / association amongst clients to identify multiple accounts / common account / group of clients.

F. Obligation of SMIFS with respect to Processing of Alerts:

i. SMIFS obtains trading rationale and necessary documentation including bank statements, demat statements for analysing / processing the alerts.
ii. SMIFS records its observations for such identified transactions of its Client / Group of Clients.
iii. With respect to the transactional alerts downloaded by the Exchange, SMIFS ensures that all alerts are analyzed and status thereof including action taken is updated within 45 days.
iv. SMIFS shall report instances with adverse observation, along with details of action taken, to the Exchanges within 45 days of the internal alert generation.
v. SMIFS may include suspension of the trading activity of the suspected client, or any other action as may be deemed appropriate.

G. Obligation of Compliance officer, Designated Directors and Internal Auditor of SMIFS Limited:

i. The surveillance activities of SMIFS are conducted under overall supervision of Compliance Officer.
ii. A quarterly MIS is put up to the Designated Directors on the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure. The Designated Directors is also apprised of any exception noticed during the disposition of alerts.
iii. Designated Directors would be responsible for all surveillance activities carried out.
Iv. Internal Auditor of SMIFS shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in his report.

H. Obligation of Quarterly reporting of Internal Status of the alerts generated by SMIFS:

i. SMIFS shall provide duly approved status of the alerts on a quarterly basis, in the Exchange prescribed format to the Exchange within 15 days from end of the quarter.
ii. SMIFS shall submit 'NIL Report', in case it does not have anything to report, within 15 days from end of the quarter.

I. Time Frame for Disposition of Alerts: The monitoring of the aforementioned alerts and disposal procedure shall be done within 45 days of the alert generation. In case the matter prolongs beyond 45 days the same should be reported to the Compliance Officer and Designated Directors citing reasons for such delay. The Compliance Officer may seek extension of the time period from the Exchange, whenever required, under intimation to the Designated Directors.

J. Record Maintenance: All documents / clarifications sought pertaining to such transactional alerts shall be examined carefully & findings shall be recorded in writing. Documents & records shall be made available to Internal Auditor & SEBI /Stock Exchanges / FIUIND etc.

30. Margin Trading Facility

SEBI vide circular SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004 had prescribed framework for permitting stock brokers to provide margin trading facility to their clients. The said framework was revised vide circular SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004 and circular MRD/DoP/SE/Cir-08/2005 dated March 04, 2005.

Representations have been received from market participants requesting review of margin trading framework to enable greater participation. The suggestions received from market participants were examined and deliberated in the Secondary Market Advisory Committee ("SMAC"). Based on the deliberations, the revised framework for Margin Trading Facility as enshrined under **SEBI Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017** are stated as under:

A. Equity Shares that are classified as 'Group I security' as per SEBI Master Circular No. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016, shall be eligible for margin trading facility.

B. In order to avail margin trading facility, initial margin required shall be as under:

Category of Stock	Applicable margin
Group I stocks available for trading in the F & O Segment	VaR + 3 times of applicable ELM*
Group I stocks other than F&O stocks	VaR + 5 times of applicable ELM*

*For aforesaid purpose the applicable VaR and ELM shall be as in the cash segment for a particular stock.

Collateral in the form of securities under the margin trading facility shall be held by way of pledge only in terms of SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020

SMIFS shall ensure that the initial margin is maintained for all the open funded positions as per the aforementioned prescribed rate at all times. SMIFS need to collect the upfront margin as per the Margin Trading facility guidelines issued by SEBI/Exchange from time to time even if the upfront margin amount in such case is more than the margin requirement in cash market segment of clearing corporation i.e. 20% of the transaction value.

C. The initial margin payable by the client to SMIFS shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in SEBI Master circular no. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016.

D. SMIFS shall be required to comply with the following conditions:

i. The stocks deposited as collateral with SMIFS for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded stocks) shall be identifiable separately and no comingling shall be permitted for the purpose of computing funding amount;

ii. Collateral and Funded stocks shall be marked to market on a daily basis;

iii. In case of increase in the value of Collaterals, stock brokers may have the option of granting further exposure to their clients subject to applicable haircuts;

iv. However, no such exposure shall be permitted on the increased value of Funded stocks.

E. SMIFS shall ensure maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, SMIFS shall make necessary margin calls.

F. The Stock Exchange/SMIFS, based on the risk assessment, shall have the discretion to impose/collect higher margin than the margin specified in para-D above.

G. SMIFS shall list out situations/conditions in which the securities may be liquidated and such situations/conditions shall be included in the "Rights and Obligations Document". SMIFS shall liquidate the securities, 5 working days from the day of margin call, if the client fails to meet the margin call to comply with the conditions as mentioned in SEBI Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017 or specified in the "Rights and Obligations Document" specified by exchange. However, SMIFS shall not liquidate or use in any manner the securities of the client in any situation other than the conditions stipulated in this paragraph.

H. SMIFS shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client.

I. The stock exchanges shall frame a Rights and Obligations document laying down the rights and obligations of stock brokers and clients for the purpose of margin trading facility. The Rights and Obligations document shall be mandatory and binding on SMIFS and the clients for executing trade in the Margin Trading framework.

J. SMIFS/ Stock Exchange may modify the Rights and Obligations document only for stipulating any additional or more stringent conditions, provided that no such modification shall have the effect of diluting any of the conditions laid down in the circular or in the Rights and Obligations document.

K. SMIFS shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility. SMIFS shall maintain a separate record of details of the funds used and sources of funds for the purpose of margin trading.

L. SMIFS shall obtain client consent in writing in his own hand or any irrefutable electronic method before allowing the Client to avail Margin Trading Facility. Rights & obligations and the Terms and conditions regarding Margin Trading Facility shall also be communicated to the client.

M. All clients shall have only one unique client code (UCC) per Member which shall be reported to the Exchange. Clients availing Margin trading facility (MTF) should be segregated at back office with the Trading Member, namely MTF account & Non-MTF account, which shall be mapped to the said unique client code (UCC).

N. Excess margin/collateral available in MTF ledgers cannot be considered towards Margins of non-MTF transactions. However, in exceptional scenarios, transfers from non-MTF ledgers to MTF ledgers can be considered towards a margin position in MTF, provided they belong to the same clients and there are sufficient & free balances available in the non-MTF ledgers. Any transfer of balances from non-MTF ledgers to MTF ledgers undertaken with a view to avoid the actual settlement requirements will not be permitted. Further, any transfer of balances from non-MTF ledger to MTF ledger for MTF trades post confirmation of client will not be considered for computation of clear ledger balance till the settlement of trades.

O. Any excess collateral, in the form of cash & cash equivalent, lying in the MTF account of the client shall be mandatorily settled on a monthly / quarterly basis, as per the client preference, after ensuring a gap of maximum 30/90 days (as per the client mandate) between two running account settlements. SMIFS shall settle both MTF and Non MTF accounts on same day for a particular client.

P. The funded stock shall be unpledged by SMIFS, to the extent of the payment made by the client, within one working day of the receipt of the payment. In case of multiple funded stocks, the stocks to be unpledged as per the instruction of the client.

Q. The stocks pledged as collateral with the Member for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded stocks) shall be identifiable separately and there shall not be any comingling for the purpose of computing funding amount.

R. Any disputes arising between the client and SMIFS Limited in connection with the margin trading facility shall have the same treatment as normal trades and should be covered under the investor grievance redressal mechanism, arbitration mechanism of the stock exchange. SGF and IPF shall be available for transactions done on the exchange, whether through normal or margin trading facility. However, any losses suffered in connection with the margin trading facility availed by the client from SMIFS Limited shall not be covered under IPF.

31. Treatment of Inactive Trading Account

In order to ensure safety & security of the Investors and prevent any "Error" and/or "Fraud", SEBI and Stock Exchanges directed all the Stock Brokers to frame a policy to deal with the inactive accounts. In this regard reference is drawn to to the NSE Circulars Nos. NSE/INSP/13606 dated Dec 03, 2009 and NSE/INSP/14048 dated Feb 03, 2010 regarding Dealings between trading members and their clients wherein members were required to frame policy of treatment of inactive accounts and implement the same.

A. In order to provide guidelines regarding treatment of inactive account and ensure uniformity across all the members, the following guidelines, framed in joint consultation with other Exchanges, are being issued vide **NSE Circular No. INSP/43488 dated 10.02.2020**:

A1. Procedure to handle Inactive Accounts at SMIFS Limited:

i. Inactive account refers to such account wherein no trades have been carried out since last 12 (Twelve) months across all Exchanges.

A2. Transaction in Inactive Trading accounts:

i. The inactive accounts identified, based on the above criteria, shall be flagged as 'Inactive' by SMIFS in UCC database of all the respective Exchanges.
ii. SMIFS shall ensure that any further trading by such client will be allowed only after undertaking sufficient due diligence (including IPV) and obtaining the updated information related to KYC from the concerned Client.
ii. SMIFS shall upload correct status of the client code in the UCC database of the Exchanges prior to the execution of the trades.

A3. Return of Clients assets: SMIFS shall ensure that all Client accounts are settled on monthly or quarterly basis (as per the Client preferences) in the manner prescribed from time to time. In case it is unable to settle the client accounts due to non-availability of client's bank account and demat account details and non-traceability of client, SMIFS shall make all efforts to trace the clients to settle their funds and securities lying with them and maintain an audit trail for such efforts made for tracing such clients and settling funds and securities of such clients.

A4. Further in cases where it is unable to trace such clients in spite of all efforts taken, SMIFS shall take the following steps:

i. Open one separate Client Bank/Client collateral Demat account and immediately set aside the funds and securities of these clients in such account.
ii. Maintain audit trail of UCC wise client funds transferred to/from such bank account and UCC wise / BO ID wise securities transferred to/from such demat account (as the case may be).
iii. Submit UCC wise/BO ID wise and fund/securities information of such account to the Exchanges on quarterly basis.
iv. In case of receipt of any claims from such clients, SMIFS shall settle the accounts immediately and ensure that the payment/delivery is made to the respective clients only.

A5. Reporting of client Funds & Securities: Henceforth, Members will not be required to upload the details of such inactive clients having NIL balances in their weekly submission of securities holding to the Exchange as prescribed in NSE Circular NSE/INSP/40743 dated April 12, 2019 and NSE/INSP/41711 dated July 25, 2019 and monthly upload of client funds and securities balances to Exchange under Enhanced Supervision prescribed in NSE Circular NSE/INSP/33276 dated September 27, 2016, NSE/ISC/2017/35268 dated July 3, 2017 and NSE/ISC/36817 dated January 24, 2018.

A6. However, details of clients having funds or securities balances shall be reported even if their UCC has been flagged as 'Inactive'.

A7. Trading Member's attention is drawn to SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019 on "Handling of Client Securities" wherein it was stipulated that all the existing client securities accounts other than Pool account, Client Margin Trading Securities account and Client collateral account shall be wound up on or before September 30, 2019. Exchange had also issued clarifications on the same, vide its circular NSE/INSP/42229 dated September 27, 2019.

A8. NSE by their **Circular No. INSP/43180 dated 10.01.2020** advised the Trading Members to return the securities to the respective clients or dispose all the securities as directed under the aforesaid circulars. It has, however, come to the notice of the Exchange that some of the Members have neither closed their client securities accounts as required by aforesaid SEBI circulars nor marked them for closure/disabled the standing instructions for credits.

A9. In view of the above, all the members are directed to close the client securities accounts latest by January 16, 2020, failing which the Exchange will issue suitable directions to freeze such accounts for both debits & credits (except for corporate actions). It may also be noted that as provided in Exchange circular dated September 27, 2019 (Ref no. NSE/INSP/42229), the securities shall not be transferred directly from the Client Securities Account to Client Collateral/ Collateral account.

B. This has reference to Exchange circular NSE/INSP/43488 dated February 10, 2020 with respect to Treatment of Inactive trading account. Based on representations received from Members' and in consultation with other Stock Exchanges NSE vide **Circular No. INSP/46506 dated 01.12.2020** issued the following clarifications:

B1. The requirement for flagging the client as inactive in the UCC database of the Exchanges and the exemption for reporting (weekly submission of securities holding and monthly upload of client funds and securities balances) shall continue to be applicable if no trades are carried out by the client in the last 12 (Twelve) months across all Exchanges

B2. Resumption of Trading for Inactive Account:

i. SMIFS shall undertake the fresh documentation, due diligence and IPV where a client is coming for reactivation after a period of 1 year of being flagged as Inactive.
ii. However, in case a client has undertaken transaction through SMIFS, with respect to IPO/Mutual Fund subscription and DP operations during this period, the same will be considered and the requirement for fresh documentation, due diligence, and IPV may not be required.

B3. Further, in the below mentioned conditions, as stipulated in SEBI circular dated April 24, 2020 bearing reference number SEBI/HO/MIRSD/DOP/CIR/P/2020/73, the requirement for undertaking an IPV shall not be required:-

i. Where the KYC of the investor is completed using the Aadhaar authentication / verification of UIDAI.
ii. When the KYC form has been submitted online, documents have been provided through Digi locker or any other source which could be verified online.

B4. SMIFS shall, while reactivating the client, who seeks re-activation before a period of 1 year of being flagged as Inactive, ensure that the basic details of such client like Address, Mobile number, Email ID, Bank/DP account are updated in its records as well in the UCC records of the Exchange.

B5. Members shall also ensure that appropriate due diligence of the client is conducted on an ongoing basis in compliance with the provisions of the PLMA guidelines issued from time to time and in accordance with their respective KYC policies.

32. Execution of Power of Attorney by the Client in favour of SMIFS Limited - Stock Broker & Depository Participant:

A. SEBI, vide circular no. CIR/MRD/DMS/13/2010 dated April 23, 2010, issued Guidelines for execution of Power of Attorney (PoA) by the client favouring Stock Broker / Stock Broker and Depository Participant (hereinafter referred to as "Guidelines") The Guidelines are as follows:

A1. A Power of Attorney (PoA) is executed by the client in favour of the stock broker /stock broker and depository participant to authorize the broker to operate the client's demat account and bank account to facilitate the delivery of shares and pay – in/ pay – out of funds.

A2. Generally, the PoA is taken from the clients who want to avail internet based trading services. For offering internet based trading services, a Stock Broker requires necessary authorizations for seamless trading, collection of margins as well as settlement of funds and securities. Further, some of the Stock Brokers also obtain authorizations from their clients to offer non-internet based services.

A3. It has come to SEBI's notice that the clients are compelled to give irrevocable power of attorney to manage client's demat account and bank account so that the client is able to pay funds or deliver shares to its broker on time. In some cases, the PoA even allows a broker to open and close accounts on behalf of the client and to trade on client's account without the consent of the client.

A4. In order to standardize the norms to be followed by stock brokers/ stock broker and depository participants while obtaining PoA from the clients guidelines have been finalized based on discussions in Secondary Market Advisory Committee of SEBI (SMAC) and feedback from market participants, investor associations, major stock exchanges and depositories on discussion paper on the captioned subject put on SEBI website. It has been decided that the guidelines as set out in the annexure shall be made applicable to stock brokers/ stock broker and depository participants.

A5. Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of shares and pay-in/pay-out of funds etc. No stock broker or depository participant shall deny services to the client if the client refuses to execute a PoA in their favour.

A6. The Stock Brokers shall take necessary steps to implement this circular latest by May 31, 2010 for the new clients and ensure to take necessary steps latest by September 01, 2010 to revoke those authorizations given by the existing clients to the stock brokers/ stock broker and depository participants through PoA that are inconsistent with the present guidelines.

B. Pursuant to the Guidelines laid vide circular dated April 23, 2010, SEBI has received representation from Market Participants seeking guidance and clarifications on process to be followed for implementation of the provisions of the circular. Based on the examination of the issues highlighted in the representations and so as to facilitate the implementation of the provisions of the aforesaid Circular, clarifications were issued vide circular no. CIR/MRD/DMS/28/2010 dated August 31, 2010 which are detailed below:

Sr. No.	Clauses/ Provisions of the PoA Circular dated April 23, 2010	Clarifications
1.	Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of shares and pay-in/pay-out of funds etc. No stock broker or depository participant shall deny services to the client if the client refuses to execute a PoA in their favour.	Only internet based trading exempted.
2.	The Stock Brokers shall take necessary steps to implement this circular latest by May 31, 2010 for the new clients and ensure to take necessary steps latest by September 01, 2010 to revoke those authorizations given by the existing clients to the stock brokers/ stock broker and depository participants through PoA that are inconsistent with the present guidelines.	Stock Broker/ DP may revoke those authorizations that are inconsistent with the present guidelines by communicating the inconsistent clauses to the existing clients. In the event, the deleted clauses are not accepted by the client, Stock Broker/ DP may be required to either obtain fresh PoA or close the account. In case of any addition to the existing PoA, Stock Broker / DP shall be required to obtain a new PoA from clients.
3.	PoA executed in favour of a Stock Broker by the client should be limited to the following:	Margin / Delivery obligations shall also include settlement obligations, if any.

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	"(i) Transfer of securities held in the beneficial owner account(s) of the client(s) towards stock exchange related margin / delivery obligations arising out of trades executed by the Client(s) on the stock exchange through the same Stock Broker."	
4.	PoA executed in favour of a Stock Broker by the client should be limited to the following: "(iii) To apply for various products like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering shares in open offers etc. pursuant to the instructions of the Client(s). However, a proper audit trail should be maintained by the Stock Broker to prove that the necessary application/act was made /done pursuant to receipt of instruction from Client."	Redemptions are also included in PoA pursuant to client's instructions.
5.	PoA executed in favour of a Stock Broker and Depository Participant by the client should provide the list of clients' & brokers' Bank accounts & demat accounts where funds and securities can be moved. Such bank & demat accounts should be accounts of related party only.	The list of clients' & brokers' Bank accounts & demat accounts may be updated / amended by proper communication without executing a new PoA every time. Copies of such communications may be preserved as annexure to the PoA.
6.	PoA executed in favour of a Stock Broker and Depository Participant by the client should be revocable at any time, without notice.	PoA executed in favour of a Stock Broker / Stock Broker and Depository Participant by the client should be revocable at any time. However, such revocation shall not be applicable for any outstanding settlement obligation arising out of the trades carried out prior to receiving request for revocation of PoA. Further, the PoA revocation requests should be dated and time stamped by the brokers for ensuring proper audit trail.
7.	The POA shall not facilitate the stock broker to do the following: "12. Transfer of securities for off market trades"	The PoA shall not facilitate off-market trades between parties other than the related parties as mentioned in the PoA.

C. Paragraph 5 of the circular dated April 23, 2010, specifies the following:

"Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of shares and pay-

in/pay-out of funds etc. No stock broker or depository participant shall deny services to the client if the client refuses to execute a PoA in their favour."

D. Further, the Guidelines in SEBI circular dated April 23, 2010, also specifies that the PoA shall NOT facilitate the stock broker to do the following:

i. Transfer of securities for off market trades.

ii. Transfer of funds from the bank account(s) of the Clients for trades executed by the clients through another stock broker.

iii. Open a broking / trading facility with any stock broker or for opening a Beneficial Owner account with any Depository Participant.

iv. Execute trades in the name of the client(s) without the client(s) consent.

v. Prohibit issue of Delivery Instruction Slips (DIS) to beneficial owner (client).

vi. Prohibit client(s) from operating the account.

vii. Merging of balances (dues) under various accounts to nullify debit in any other account.

viii. Open an email ID / email account on behalf of the client(s) for receiving statement of transactions, bills, contract notes etc. from stock broker / depository participant.

ix. Renounce liability for any loss or claim that may arise due to any blocking of funds that may be erroneously instructed by the stock broker to the designated bank.

E. However, it has been observed that PoA is invariably obtained from the investors as part of the KYC and account opening process. Such PoA executed by clients has further found to have been misused by the stock brokers by taking authorization even for activities as specified in paragraph D above.

In this regard, SEBI by its Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/158 dated August 27, 2020 reiterated that:

E1. PoA is optional and should not be insisted upon by the stock broker / stock broker depository participant for opening of the client account.

E2. PoA executed in favour of stock broker / stock broker depository participant by the client shall be utilized

E2.1. For transfer of securities held in the beneficial owner accounts of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by clients on the Stock Exchange through the same stock broker.

E2.2. For pledging / re-pledging of securities in favour of trading member (TM) / clearing member (CM) for the purpose of meeting margin requirements of the clients in connection with the trades executed by the clients on the Stock Exchange.

E3. It has also been decided that all off-market transfer of securities shall be permitted by the Depositories only by execution of Physical Delivery Instruction Slip (DIS) duly signed by the client himself or by way of electronic DIS. The Depositories shall also put in place a system of obtaining client's consent through One Time Password (OTP) for such off market transfer of securities from client's demat account.

F. SMIFS Limited would strongly advise its clients to refrain from availing the Power of Attorney Route for either Banking Operations and/or Securities Delivery Transactions. However, in case the same is unavoidable, the may avail the same as a Voluntary Revocable Tool for limited purposes for Securities Delivery Transactions as mentioned in E2.1 and E2.2 and Not for any Banking Operations. Clients are strongly advised to track their Transaction Statements on a regular basis and bring to the notice of SMIFS Limited for discrepancies, if any.

G. The Clients' agree to abide by the above Circulars regarding the Guidelines on Execution of Power of Attorney. The Client further agrees that it shall keep track of the applicable Circulars regarding Execution of Power of Attorney from the official websites of the Stock Exchange(s) and abide by the same. The Client shall be solely responsible for the consequences and no contract can be rescinded on that account. The client further agrees that SMIFS shall NOT be held responsible with the plea that the provisions regarding Execution of Power of Attorney were NOT explained to the Client.

33. Investor Grievance Redressal Mechanism

SEBI has been mandated, inter-alia, under the SEBI Act, 1992 to protect the interests of investors in the Indian securities market. To this end, several investor protection measures and regulatory reforms have been initiated by SEBI from time to time for the benefit of investors and to make the Indian securities market a more transparent and safer place for their investments.

In the aforesaid, SMIFS Limited shall provide the client with the relevant contact details of the concerned Exchanges and SEBI. The Company shall co-operate in redressing grievances of the client in respect of all transactions routed through it and in removing objections for bad delivery of shares, rectification of bad delivery, etc. The client and SMIFS Limited shall refer any claims and/or disputes with respect to deposits, margin money, etc., to arbitration as per the Rules, Byelaws and Regulations of the Exchanges where the trade is executed and circulars/notices issued thereunder as may be in force from time to time. SMIFS Limited shall ensure faster settlement of any arbitration proceedings arising out of the transactions entered into between him vis-à-vis the client and he shall be liable to implement the arbitration awards made in such proceedings. The client understands that the instructions issued by an Authorized Representative for dispute resolution, if any, of the client/ SMIFS Limited shall be binding on the client/ the Company in accordance with the letter authorizing the said representative to deal on behalf of the said client/ SMIFS Limited.

33.1 SEBI had constituted a Committee in November/December 1997, to look into the sources & utilisation of the Investor Protection Fund/Investor Services Fund. The purpose of the Committee is to bring about uniformity in sources, utilisation & streamline the management of Investor Protection Fund/ Investor Services Fund. Based on the discussions of the Committee, SEBI by its **Circular No. SMD/POLICY/CIR-32/97 dated December 03, 1997**, directed that all the Stock Exchanges will open/maintain atleast one service center for the benefit of the public/Investors. However, the major Stock Exchanges are free to open as many investor centers as required. These investor centers will provide the following basic minimum facilities to the investors:

i. The Center will provide 4 financial newspapers with atleast one in the regional language.

ii. The Investor Services Center will install computer software(marketed by some vendors) which provide information about Corporates including annual reports, general, financial & other important information. The information will be made available through computers with one master terminal and some dummy terminals through which investors could access this information. Other facilities like copying will be made available to the investors at minimum cost.

iii. The Center will provide facilities for receiving/recording investor complaints. Special Staff recruited/deployed by the Exchange for this purpose will register the complaints and provide counselling service to the investors. Status of complaints will be maintained and updated in the computer system of the Center.

iv. The Center will provide for other infrastructure facilities such as telephone, photocopier, furniture, sitting space etc.

v. The Investor Service Center will provide published material of the Stock Exchange for the benefit of the investors. It should also provide the prospectus and application forms for the forthcoming public issues.

vi. The Center will provide for dummy terminals to display the prices of the scrips listed on the Exchange on realtime basis, to enable investors watch the price movements of the stocks.

vii. The Center will maintain a library on relevant laws, financial analysis, market trend analysis etc. for the education of the investors.

A. It was advised that opening/maintaining of service center(s) must be implemented expeditiously to enable the investors have a forum for recording and counseling of their grievances as well as access financial & other information of Companies, on Government Policies, Rules & Regulations, etc. It is further advised that the major Stock Exchanges should open atleast 5 Investor centers, while other Stock Exchanges will open atleast 3 Investor centers. A list of places where such centers are proposed to be opened be submitted to SEBI immediately. Progress of implementation should be reported to SEBI in the monthly D.O. letters or by way of special letters.

33.2 SEBI has been receiving representations from various investors requesting for a direct and quicker forum for enabling them to register their complaints expeditiously with the intermediaries/listed companies/stock exchanges. It has been observed by SEBI that in several cases that pursuant to registering a complaint, the investors do not have any mode for a follow-up or monitoring the processing of their complaints. In order to address the aforesaid representations, it is felt desirable to designate an exclusive e-mail ID of the grievance redressel division / compliance officer in which the investors would be able to register their complaints and also take necessary follow-up actions as necessary. Such a process would not only expedite the redressal of the complaints of the investors but also enable several investors across the country to register their complaints through a single, centralized, exclusive e-mail ID that is designated for the purpose.

A. Accordingly, SEBI by its **Circular No. MRD/DoP/Dep/SE/Cir-22/06 dated December 18, 2006** directed/ advised all the Stock Exchanges/ Registered Stock Brokers/ Registered Sub- brokers/ Listed Companies/ Depositories/ Registered Depository Participants to designate an e-mail ID of the Grievance Redressal Division/ Compliance Officer exclusively for the purpose of registering complaints by investors. The above entities are also advised to display the email ID and other relevant details prominently on their websites and in the various materials/pamphlets/advertisement campaigns initiated by them for creating investor awareness. The above theme was strengthened by **NSE Circular No. NSE/MEMB/8352 dated 09.01.2007.**

B. SMIFS Limited in compliance to the above Circular dated December 18, 2006 has assigned an exclusive e-mail ID, viz. investors@smifs.com that is designated for the purpose of registering complaints by investors. The clients who are introduced by Authorized Persons/ Sub-Brokers can also register their grievances on the said e-mail id for faster and prompt resolution of their grievances. The said process shall help the investors would be able to register their complaints and also take necessary follow-up actions as necessary. The designated e-mail id is displayed along with other relevant details prominently on the official website of SMIFS Limited, i.e. www.smifs.com and is provided on all official communication such as Contract Notes, Bills, Margin Statements, etc. for creating investor awareness.

33.3 SEBI by its **Circular No. CIR/MIRSD/18/2011dated August 25, 2011** laid the foundation of processing of investor grievances in a centralized web-based complaints redressal system, viz. SEBI Complaints Redress System 'SCORES'.

A. The salient features of this system are:

- Centralized database of all complaints;
- Online movement of complaints to the concerned entities;
- Online upload of Action Taken Reports (ATRs) by the concerned entities; and
- Online tracking of status of complaints by investors.

B. The investor grievances received by SEBI against stock brokers and sub-brokers will be taken up electronically with the concerned stock exchange(s) through SCORES (https://scores.gov.in/Admin). The stock exchange(s) shall, in turn, take up the matter with the concerned stock brokers/sub-brokers.

C. It was mandated that the Stock Brokers and Sub-Brokers shall take adequate steps for redressal of grievances within one month from the date of receipt of the complaint and keep the investor/ Stock Exchange(s) duly informed of the action taken thereon. Failure to comply with the said requirement will render the Stock Broker liable for penal action.

D. The circular empowered the Stock Exchanges shall:

a) to put in place a suitable mechanism to follow up with the stock brokers and sub-brokers, wherever necessary;

b) devise a system to levy penalty on its members for any noncompliance with the requirements specified herein above;

c) update the status of the complaints in SCORES, at every stage, along with supporting documents; and

d) ensure that the status of investor complaints disclosed on their websites is in conformity with the status updated in SCORES.

33.4 SEBI, vide circular Ref. No. SMD/POLICY/CIR-32/97 dated December 03, 1997 had mandated all stock exchanges to open/maintain at least one investor service centre for the benefit of the public/Investors. Such centres are required to inter alia provide counseling service to the investors. It is also noted that some stock exchanges have constituted Investor Grievance Redressal Committees (IGRC) for redressal of Investor Grievances

A. In light of the concerns expressed by investors and to facilitate early redressal of investor grievances, SEBI by its **Circular No. CIR/MRD/DSA/03/2012 dated January 20, 2012** mandated that stock exchanges having nationwide terminals (such as NSE, BSE, MCX-SX and USEIL), functional stock exchanges having trading volumes, stock exchanges entering into MOUs with other exchanges and stock exchanges intending to recommence trading operations shall constitute IGRC at every investor service centre.

B. The composition of the IGRC shall be as follows:-

a. The IGRC shall comprise of a single person for claims upto Rs. 25 Lakh, whereas, for claims above Rs. 25 Lakh, the IGRC shall comprise of three persons.

b. The IGRC shall comprise of independent persons with qualifications in the area of law, finance, accounts, economics, management or administration and experience in financial services, including securities market.

c. Further, the three member Committee shall comprise of atleast one technical expert for handling complaints related to technology issues (such as internet based trading, algorithmic trading, etc).

d. The members of IGRC shall not be associated with a trading member in any manner.

e. The disclosures and code of conduct prescribed under para 3.4 and 4 of SEBI circular Ref. No CIR/MRD/DSA/24/2010 dated August 11, 2010, shall be applicable, as far as may be, to members of IGRC also.

C. It is, further, advised that apart from the investor services centres that are currently operating in four metro cities (viz., New Delhi, Mumbai, Chennai and Kolkata), stock exchanges having nationwide terminals shall open investor services centres in other large cities in a time bound manner.

33.5 With a view to streamline and make more effective the investor grievance redressal mechanism at Stock Exchanges, and consequent to discussions with Stock Exchanges and Depositories, SEBI vide its **Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013** decided to shorten the time taken for the proceedings as well as to give monetary relief to the investors, during the course of pendency of proceedings. In this regard, Stock Exchanges are advised as under:

a) Stock Exchanges shall ensure that all complaints are resolved at their end within 15 days as mentioned in the circular no. CIR/MRD/ICC/16/2012 dated June 15, 2012. The correspondence with the Member & investor (who is client of a Member) may be done on email if the email id of the investor is available in the UCC database. The Member (Stock Broker, Trading Member and Clearing Member) shall provide a dedicated email id to the stock exchange for this purpose.

b) In case the matter does not get resolved, conciliation process of the exchange would start immediately after the time lines stated in sub-para (a) above.

c) Investor Grievance Redressal Committee (IGRC) shall be allowed a time of 15 days to amicably resolve the investor complaint.

d) IGRC shall adopt a two-fold approach i.e. for proceedings leading to direction to the Member to render required service in case of service related complaints and proceedings leading to an order concluding admissibility of the complaint or otherwise in case of trade related complaints.

e) In case the matter is not resolved through the conciliation process, IGRC would ascertain the claim value admissible to the investor.

f) Upon conclusion of the proceedings of IGRC, i.e. in case claim is admissible to the investor, Stock Exchanges shall block the admissible claim value from the deposit of the Member.

g) The Stock Exchange shall give a time of 7 days to the Member from the date of signing of IGRC directions as mentioned under sub-para (d) above to inform the Stock Exchange whether the Member intends to pursue the next level of resolution ie. Arbitration.

h) In case, the Member does not opt for arbitration, the Stock Exchange shall, release the blocked amount to the investor after the aforementioned 7 days.

i) In case, the Member opts for arbitration and the claim value admissible to the investor is not more than Rs. 10 lac, the following shall be undertaken by the Stock Exchange

i. 50% of the admissible claim value or Rs. 0.75 lac, whichever is less, shall be released to the investor from IPF of the Stock Exchange.

CIN: U51109WB1993PLC060987
Vaibhav (5F), 4, Lee Road, Kolkata – 700 020 Tel: (91 33) 4011 5401 / 6634 5401
Email ID: rms@smifs.com Website: www.smifs.com

ii. In case the arbitration award is in favour of the investor and the Member opts for appellate arbitration then a positive difference of, 50% of the amount mentioned in the arbitration award or Rs. 1.5 lac, whichever is less and the amount already released to the investor at clause (i) above, shall be released to the investor from IPF of the Stock Exchange.

iii. In case the appellate arbitration award is in favour of the investor and the Member opts for making an application under section 34 of the Arbitration and Conciliation Act, 1996 to set aside the appellate arbitration award, then a positive difference of 75% of the amount determined in the appellate arbitration award or Rs. 2 lac, whichever is less and the amount already released to the investor at clause (i) and (ii) above, shall be released to the investor from IPF of the Stock Exchange.

iv. Before release of the said amounts from the IPF to the investor, the Stock Exchange shall obtain appropriate undertaking/ indemnity from the investor against the release of the amount from IPF, to ensure return of the amount so released to the investor, in case the proceedings are decided against the investor.

v. If it is observed that there is an attempt by investor/client either individually or through collusion with Member(s) or with any other stakeholders, to misuse the provision of this Circular, then without prejudice to the powers of the Board to take action, appropriate action in this regard shall be taken against any such person, by the Stock Exchange, including disqualification of the person so involved from henceforth accessing the benefits of this Circular.

vi. In case the complaint is decided in favour of the investor after conclusion of the proceedings, then amount released to the investor shall be returned to IPF from the blocked amount of the Member by the Stock Exchange and the rest shall be paid to the investor.

vii. Total amount released to the investor through the facility of monetary relief from IPF in terms of this Circular shall not exceed Rs. 5 lac in one financial year.

viii. Stock Exchanges may devise a detailed procedure with regard to release of funds from IPF and recovery thereof and necessary formats of documentation.

ix. In case the investor loses at any stage of the proceedings and decides not to pursue further, then the investor shall refund the amount released from IPF, back to the IPF. In case the investor fails to make good the amount released out of IPF then investor (based on PAN of the investor) shall not be allowed to trade on any of the Stock Exchanges till such time the investor refunds the amount to IPF. Further, the securities lying in the demat account(s) of the investor shall be frozen till such time as the investor refunds the amount to the IPF.

x. The Stock Exchanges may also resort to displaying the names of such investors on their websites if considered necessary.

33.6 With a view to rationalise the timelines involved in the arbitration mechanism, SEBI vide its **Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013** advised the Stock Exchanges as under:

a) As per clause 6.2 of circular no. CIR/MRD/DSA/24/2010 dated August 11, 2010 the Members are required to file application for appellate arbitration within one month of the date of receipt of arbitral award. Further as per section 34 (3) of the Arbitration and Conciliation Act, 1996 the Members have three months to make an application to set aside an arbitral award. In this regard, the Members shall convey their intention to Stock Exchanges within 7 days of receipt of the award, as regards whether such Members desire to challenge the arbitration award/appellate arbitration award in Court or not.

b) If the Members do not express their intent to challenge the arbitration award/appellate arbitration award then it would be presumed that Members does not intend to challenge the award and the Stock Exchange shall take further steps accordingly.

33.7 With a view to address complaints regarding **'Unauthorised Trades'** SEBI vide its **Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013** advised the Stock Exchanges to direct the Members to put in place the following:

a) In case the Member has made margin calls to the client and the client has failed to comply with these margin calls, then the contract note issued by Member for transactions owing to non-compliance of such margin calls would bear a remark specifying the same.

b) The Member shall maintain a verifiable record of having made such margin calls and that the clients have not complied with the same.

33.8 With a view to assist investors engaged in dispute resolution process, SEBI vide its **Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013** advised the Stock Exchanges to set up facilitation desks at all investor service centres as specified by SEBI from time to time. These facilitation desks would interalia also assist investors in obtaining documents/details from Stock Exchanges wherever so required for making application to IGRC and filing arbitration.

33.9 SEBI has been taking various measures to create awareness among investors about grievance mechanisms available to them through workshops as well as through print and electronic media. As an additional measure and for information of all investors who deal/ invest/ transact in the market, **SEBI vide its Circular No. CIR/MIRSD/3/2014 dated August 28, 2014** directed that offices of all Stock Brokers (its registered Sub-Broker(s) and Authorized Person(s)) and Depository Participants shall prominently display basic information, as provided in Annexure-A, about the grievance redressal mechanism available to investors.

SMIFS Limited in compliance of the Circular dated August 28, 2014 have displayed the basic information, as tabulated below, at all the Office Premises including its Sub-Broker(s) and Authorized Person(s)

Dear Investor, In case of any grievance / complaint against the Stock Broker / Depository Participant:			
Please contact Shri Sudipto Datta, Compliance Officer of SMIFS Limited smifs.compliance@smifs.com and Phone No. : +91 33 66345401 .			
You may also approach Mr. Ashiwini Tripathi, Managing Director of SMIFS Limited at aswin.traipathi@smifs.com and Phone No.: +91 33 66345404			
If not satisfied with the response of SMIFS Limited, you may contact the concerned Stock Exchange / Depository at the following –			
Stock Exchange	**Web Address**	**Contact No**	**Email-id**
BSE	www.bseindia.com	022-43550218/ 43550217	is@bseindia.com
NSE	www.nseindia.com	18002660058	ignse@nse.co.in
MCX-SX	www.mcx-sx.com	022-6731 8888/ 9441/ 9177	grievance@mcxindia.com

Depository	Web Address	Contact No	Email-id
CDSL	www.cdslindia.com	1800-200-5533	complaints@cdslindia.com
NSDL	www.nsdl.co.in	18001020990/ 1800224430	relations@nsdl.co.in
You can also lodge your grievances with SEBI at http://scores.gov.in. For any queries, feedback or assistance, please contact SEBI Office on Toll Free Helpline at 1800 22 7575 / 1800 266 7575.			

33.10 In order to further strengthen the Investor Grievance Redressal Mechanism, based on feedback received from market participants and Working Group constituted for the purpose, the following Guidelines was issued by SEBI vide its **Circular No. SEBI/HO/MIRSD/DOC/CIR/P/2020/226 dated November 06, 2020** and further clarification was provided by NSE by its **Circular No. ISC/46858 dated December 31, 2020**.

A. Time Line

A1. Stock Exchange shall ensure that the investor complaints shall be resolved within 15 working days from the date of receipt of the complaint. Additional information, if any, required from the complainant, shall be sought within 7 working days from the date of receipt of the complaint. The period of 15 working days shall be counted from the date of receipt of additional information sought.

A2. Stock Exchange shall maintain a record of all the complaints addressed/redressed within 15 working days from the date of receipt of the complaint/additional information. If complaint is not resolved within stipulated time frame, then the reason for non redressal in given time frame shall also be recorded.

B. Service related complaints

Stock Exchange shall resolve service related complaints at its end. However, in case the complainant is not satisfied with the resolution, the same may be referred to the Investor Grievance Redressal Committee ("IGRC"), after recording the reasons in writing by the Chief Regulatory Officer of the Stock Exchange or any other officer of the Stock Exchange authorized in this behalf by the Managing Director. Service related complaints shall include non-receipt/ delay of Account statement, non-receipt/ delay of bills, closure of account/ branch, technological issues, shifting/closure of branch without intimation, improper service by staff, freezing of account, alleged debit in trading account, contact person not available in Trading member's office, demat account transferred without permission etc.

The following shall be considered as service-related complaints:

· Non-receipt/ delay of Account statement,
· Non-receipt/ delay of bills,
· Closure of account/ branch,
· Technological issues,
· Shifting/closure of branch without intimation,
· Improper service by staff,
· Freezing of account,
· Alleged debit in trading account,
· Contact person not available in Trading member's office,
· Demat account transferred without permission

C. Complaints to be referred to IGRC

C1. For Complaints related to trade, settlement and 'deficiency in services', resulting into any financial loss, the stock exchange shall resolve the complaint on its own as per the time lines prescribed. However, if complaint is not resolved amicably, the same shall be referred to the IGRC, after recording the reasons in writing by the Chief Regulatory Officer of the Stock Exchange or any other officer of the Stock Exchange authorized in this behalf by the Managing Director.

C2. It shall be the responsibility of the Stock Exchange to provide documents/ necessary information after collecting the same from the member and/ or the complainant and provide necessary assistance to IGRC to ensure resolution of complaints in a timely manner.

D. Handling of complaints by IGRC

D1. IGRC shall have a time of 15 working days to amicably resolve the investor complaint through conciliation process. If IGRC needs additional information, then IGRC may request the Stock Exchange to provide the same before the initiation of the conciliation process. In such case, where additional information is sought, the timeline for resolution of the complaint by IGRC shall not exceed 30 working days.

D2. IGRC shall not dispose the complaint citing "Lack of Information and complexity of the case". The IGRC shall give its recommendation to Stock Exchange.

D3. IGRC shall decide claim value admissible to the complainant, upon conclusion of the proceedings of IGRC. In case claim is admissible to the complainant, Stock Exchanges shall block the admissible claim value from the deposit of the member as specified in this regard.

D4. Expenses of IGRC shall be borne by the respective Stock Exchange and no fees shall be charged to the complainant/member.

D5. GRC shall decide claim value admissible to the complainant, upon conclusion of the proceedings of GRC. Upon receipt of the GRC directions, for cases where the GRC has decided admissible claim in favour of the investor, the Exchange shall debit / block 100% of the amount decided as admissible by the GRC out of the deposit of the Member available with the Exchange or in case where the member authorizes the Exchange to utilize the deposit available with the clearing corporation, the deposits available with the clearing corporations shall be utilized. If on account of such debiting/blocking, the deposits of the Member falls below the requirement, the Members' ability to trade may get impacted. Intimation of debiting/blocking will be given to Member.

D6. The Member has to inform the Exchange through a letter / e-mail id of the compliance officer / dedicated e-mail Id, whether it intends to pursue the next level of resolution i.e. Arbitration within 7 days from the date of receipt of the Grievance Redressal Committee ("GRC") direction.

D7. If no intimation is received within the aforesaid 7 days, the amount decided as admissible by the GRC shall be released to the investor out of the amount debited / blocked from the Member's deposits available with the Exchange / Clearing Corporation. Intimation of release will be given to Member. If confirmation of settlement of claim is received from the Investor before the release of funds to the Investor by the Exchange, the amount debited / blocked shall be refunded / unblocked to the Member.

D8. In cases where the member, upon providing its intention to pursue Arbitration, does not file an arbitration application within six months from the date of GRC direction, the Exchange shall release the blocked/debited amount to the investor. In such cases the Exchange shall not be liable to refund or recover the amount paid to the investor(s) towards the implementation of the GRC Order.

E. Arbitration

E1. For any dispute between the member and the client relating to or arising out of the transactions in Stock Exchange, which is of civil nature, the complainant/ member shall first refer the complaint to the IGRC and/ or to arbitration mechanism provided by the Stock Exchange before resorting to other remedies available under any other law. For the removal of doubts, it is clarified that the sole arbitrator or the panel of arbitrators, as the case may be, appointed under the Stock Exchange arbitration mechanism shall always be deemed to have the competence to rule on its jurisdiction.

E2. A complainant/member, who is not satisfied with the recommendation of the IGRC, shall avail the arbitration mechanism of the Stock Exchange for settlement of complaints within six months from the date of IGRC recommendation.

F. Applicability of Circular

The provisions of this circular shall be applicable to the complaints received and GRC orders passed on or after January 01, 2021.

34. Arbitration Mechanism in Stock Exchanges

34.1 In consultation with the stock exchanges, SEBI vide its **Circular No. CIR/MRD/DSA/24/2010 dated August 11, 2010** decided to streamline the arbitration mechanism available at stock exchanges for arbitration of disputes (claims, complaints, differences, etc.) arising between a client and a member (Stock Broker, Trading Member and Clearing Member) across various market segments. A stock exchange shall provide an arbitration mechanism for settlement of disputes between a client and a member through arbitration proceedings in accordance with the provisions of this Circular read with Section 2(4) of the Arbitration and Conciliation, Act, 1996.

A. Maintenance of a Panel of Arbitrators

A.1 A stock exchange shall maintain a panel of arbitrators. The number of arbitrators in the panel shall be commensurate to the number of disputes so that an arbitrator handles a reasonable number of references simultaneously and all arbitration references are disposed of within the prescribed time.

A.2 The stock exchange shall have a set of fair and transparent criteria for inclusion of names in the panel of arbitrators.

A.3 While deciding to include a particular person in the panel of arbitrators, the stock exchange shall take into account the following factors:

i. age,
ii. qualification in the area of law, finance, accounts, economics, management, or administration, and
iii. experience in financial services, including securities market.

A.4 The name of a person shall be included in the panel after obtaining:
i. a declaration that he has not been involved in any act of fraud, dishonesty or moral turpitude, or found guilty of any economic offence,
ii. disclosure of the nature of his association with securities market,
iii. disclosure of the names of his dependents associated with the securities market as member, sub-broker or authorized person, and
iv. an undertaking that he shall abide by the code of conduct prescribed in this circular.

A.5 The stock exchange shall provide at least seven days of continuing education to every arbitrator each year.

A.6 The stock exchange shall have a mechanism to appraise the performance of arbitrators and reconstitute the panel based on such appraisal atleast once a year.

B. Code of Conduct for Arbitrators

An arbitrator shall –

i. Act in a fair, unbiased, independent and objective manner;

ii. Maintain the highest standards of personal integrity, truthfulness, honesty and fortitude in discharge of his duties;

iii. Disclose his interest or conflict in a particular case, i.e., whether any party to the proceeding had any dealings with or is related to the arbitrator;

iv. Not engage in acts discreditable to his responsibilities;

v. Avoid any interest or activity which is in conflict with the conduct of his duties as an arbitrator;

vi. Avoid any activity that may impair, or may appear to impair, his independence or objectivity;

vii. Conduct arbitration proceedings in compliance with the principles of natural justice and the relevant provisions of the Arbitration and Conciliation Act, 1996, the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1956 and the Rules, Regulations and Bye-laws framed thereunder and the circulars, directions issued by the Government / SEBI;

viii. Endeavour to pass arbitral award expeditiously and in any case not later than the time prescribed in this circular; and

ix. Pass reasoned and speaking arbitral awards.

C. Arbitration

C.1 The limitation period for filing an arbitration reference shall be governed by the law of limitation, i.e., The Limitation Act, 1963.

C.2 An arbitration reference for a claim / counter claim up to Rs.25 lakh shall be dealt with by a sole arbitrator while that above Rs.25 lakh shall be dealt with by a panel of three arbitrators.

C.3 The stock exchange shall ensure that the process of appointment of arbitrator(s) is completed within 30 days from the date of receipt of application from the applicant.

C.4 The arbitration reference shall be concluded by way of issue of an arbitral award within four months from the date of appointment of arbitrator(s).

C.5 The Managing Director/ Executive Director of the stock exchange may for sufficient cause extend the time for issue of arbitral award by not more than two months on a case to case basis after recording the reasons for the same.

D. Appellate Arbitration

D.1 A party aggrieved by an arbitral award may appeal to the appellate panel of arbitrators of the stock exchange against such award.

D.2 An appeal before the appellate panel of arbitrators may be filed within one month from the date of receipt of arbitral award.

D.3 The appellate panel shall consist of three arbitrators who shall be different from the ones who passed the arbitral award appealed against.

D.4 The stock exchange shall ensure that the process of appointment of appellate panel of arbitrators is completed within 30 days from the date of receipt of application for appellate arbitration.

D.5 The appeal shall be disposed of within three months from the date of appointment of appellate panel of such appeal by way of issue of an appellate arbitral award.

D.6 The Managing Director/ Executive Director of the stock exchange may for sufficient cause extend the time for issue of appellate arbitral award by not more than two months on a case to case basis after recording the reasons for the same.

D.7 A party aggrieved by the appellate arbitral award may file an application to the Court of competent jurisdiction in accordance with Section 34 of the Arbitration and Conciliation Act, 1996.

E. Arbitration Fees

E.1 Each of the parties to arbitration [as mentioned under item (5) above], shall deposit an amount, as may be prescribed by the stock exchange, at the time of making arbitration reference. The deposits (exclusive of statutory dues – stamp duty, service tax, etc.) shall not exceed the amount as indicated under:

Amount of Claim / Counter Claim, whichever is higher (Rs.)	If claim is filed within six months	If claim is filed after six months
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000
> 10,00,000 - ≤ 25,00,000	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh
> 25,00,000	Rs. 17,500 plus 0.2 % amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs. 90,000

Note: six months shall be computed from the end of the quarter during which the disputed transaction(s) were executed/ settled, whichever is relevant for the dispute.

E.2 A client, who is a party to the arbitration for a claim/counter claim upto Rs. 10 lakh, shall be exempt from the deposit provided the arbitration reference for the same is filed within six months from the end of the quarter during which the disputed transaction(s) were executed/ settled.

E.3 On issue of the arbitral award, the stock exchange shall refund the deposit, if any, to the party in whose favor the award has been passed and appropriate the deposit, if any, made by the party, against whom the award has been passed, towards arbitration fees.

E.4 A party filing an appeal before the appellate panel [as mentioned under item 6 above] shall pay a fee not exceeding Rs. 30,000,as may be prescribed by the stock exchange, in addition to statutory dues (stamp duty, service tax, etc) along with the appeal.

F. Place of Arbitration

F.1 The Stock Exchanges having nationwide terminals, such as National Stock Exchange of India Ltd., Bombay Stock Exchange Ltd., MCX Stock Exchange Ltd., and United Stock Exchange of India Ltd., shall provide arbitration facility (arbitration as well as appellate arbitration) at all four regional centres (Delhi, Mumbai, Kolkata and Chennai). The arbitration and appellate arbitration shall be conducted at the regional centre nearest to the client. The application under Section 34 of the Arbitration and Conciliation Act, 1996, if any, against the decision of the appellate panel shall be filed in the competent Court nearest to such regional centre.

F.2 Other stock exchanges shall provide the arbitration facility, including appellate arbitration, at the place where it is located.

G. Implementation of Arbitral Award in favour of Clients

G.1 In case the arbitral / appellate arbitral award is in favour of the client, the stock exchange shall, on receipt of the same, debit the amount of the award from the security deposit or any other monies of the member (against whom an award has been passed) and keep it in a separate escrow account.

G.2 The stock exchange shall implement the arbitral award, by making payment to the client, along with interest earned on the amount that has been set aside, as soon as the time for preferring an appeal before the appellate panel of arbitrators has expired and no appeal has been preferred.

G.3 The stock exchange shall implement the appellate arbitral award, by making payment to the client, along with interest earned on the amount that has been set aside, as soon as

a. the time for making an application to a Court to set aside such appellate arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996 has expired, and no application has been made, or

b. when an application to a Court to set aside such appellate arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996, having been made, it has been refused by such Court, or

c. an application to a Court to set aside such appellate arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996, having been made, but where no stay has been granted by such Court within a period of three months from the date on which the party making that application had received the appellate arbitral award.

H. This SEBI Circular supersedes the following SEBI Circulars:-

a. SMDRP/POLICY /CIR - 22 /99 dated July 09, 1999

b. SMD/Policy/Cir-06/2002 dated March 27, 2002

c. MRD/ Policy/Cir-18/2002 dated August 28, 2002

d. MRD/ Policy/Cir-26/2002 dated October 30, 2002

e SEBI/SMD/SE/13 /2003/10/04 dated April 10, 2003

f. MRD/DSA/Arb/4623/2004 dated March 05, 2004

g. MRD/DSA/SE/CIR-18/2009 dated December 2, 2009

I. This SEBI Circular modifies provisions relevant to arbitration, contained in the following SEBI Circulars:-

a. SMD/POLICY/CIRCULAR/3-97, dated March 31, 1997

b. MRD/DoP/SE/Cir-10/2009 dated September 3, 2009

c. SEBI/MRD/DSA-OIAE/Cir-09/2010 dated April 1, 2010

v. CIR/MRD/DSA/10/2010 dated April 6, 2010

34.2 SEBI, vide circular No. CIR/MRD/DSA/24/2010 dated August 11, 2010, has streamlined the arbitration mechanism available at stock exchanges for arbitration of disputes (claims, complaints, differences, etc.) arising between a client and a member (Stock Broker, Trading Member and Clearing Member) across various market segments. Based on feedback from investors, SEBI vide its **Circular No. CIR/MRD/DSA/29/2010 dated August 31, 2010** been decided to replace Para 7 (Para E hereinabove) of the SEBI Circular Ref. No. CIR/MRD/DSA/24/2010 dated August 11, 2010 by the following:-

"7. Arbitration Fees (Para E of 34.1 hereinabove)

7.1 Each of the parties to arbitration (other than a client with a claim / counter claim upto Rs. 10 lakh and filing the arbitration reference for the same within six months) shall deposit an amount, as may be prescribed by the stock exchange, at the time of making arbitration reference. The deposits (exclusive of statutory dues - stamp duty, service tax, etc.) shall not exceed the amount as indicated under:

Amount of Claim / Counter Claim, whichever is higher (Rs.)	If claim is filed within six months	If claim is filed after six months
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000
> 10,00,000 - ≤ 25,00,000	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh
> 25,00,000	Rs. 17,500 plus 0.2 % amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs. 90,000

7.2 A client, who has a claim / counter claim upto Rs. 10 lakh and files arbitration reference for the same within six months, shall be exempt from the deposit.

7.3 In all cases, on issue of the arbitral award the stock exchange shall refund the deposit to the party in whose favour the award has been passed. In cases where claim was filed within six months period, the full deposit made by the party against whom the award has been passed, shall be appropriated towards arbitration fees. In cases where claim was filed after six months, one-third of the deposit collected from the party against whom the award has been passed, shall be appropriated towards arbitration fees and balance two-third amount shall be credited to the Investor Protection Fund of the respective stock exchange.

Note: Six months (as referred to in paras 7.1, 7.2 and 7.3 above) shall be computed from the end of the quarter during which the disputed transaction(s) were executed/ settled, whichever is relevant for the dispute, and after excluding:-

a. the time taken by the Investors Grievances Redressal Committee of the Stock Exchange (the time taken from the date of receipt of dispute till the decision by the committee) to resolve the dispute under its Rules, Bye-laws & Regulations, and

b. the time taken by the member to attempt the resolution of the dispute (the time from the date of receipt of dispute by the member to the date of receipt of the member's last communication by the client) or one month from the date of receipt of the dispute by the member, whichever is earlier.

7.4 A party filing an appeal before the appellate panel [as mentioned under item 6 above] shall pay a fee not exceeding Rs. 30,000, as may be prescribed by the stock exchange, in addition to statutory dues (stamp duty, service tax, etc) along with the appeal."

34.3 This is in continuation of circular ref. No. CIR/MRD/DSA/24/2010 dated August 11, 2010, which inter alia prescribed that the limitation period for filing an arbitration reference shall be governed by the provisions of the Limitation Act, 1963. In this regard upon consideration of various representations received by SEBI and pursuant to the discussions held with the representatives of stock exchanges, SEBI vide its **Circular No. CIR/MRD/DSA/2/2011 dated February 09, 2011** decided that the limitation period, as modified to three years in terms of Limitation Act, 1963, shall be applicable to cover inter alia the following cases:-

i. where three years have not yet elapsed and the parties have not filed for arbitration with the stock exchange, or

ii. where the arbitration application was filed but was rejected solely on the ground of delay in filing within the earlier limitation period of six months; and three years have not yet elapsed;

The cost for arbitration in such cases would be as under:-

i. Cases which were not filed earlier will be subject to the fee amount in terms of SEBI circulars dated August 11, 2010 and August 31, 2010.

ii. For cases filed earlier and rejected on the ground of bar of limitation as per the earlier limitation period of six months, the amount of fee already paid would be deducted from the amount computed in terms of SEBI circulars dated August 11, 2010 and August 31, 2010. The balance shall be borne by the parties to the arbitration in the manner specified vide SEBI circulars dated August 11, 2010 and August 31, 2010.

34.4 SEBI, vide its various communications has mandated all stock exchanges that not be more than twenty percent of the members of the arbitration committee shall be trading members. SEBI vide its **Circular No. CIR/MRD/DSA/04/2012 dated January 20, 2012** decided to do away with the representation of trading members on arbitration committee/panel of all stock exchanges. It is, henceforth, stipulated that the arbitration committee/panel shall not comprise of any trading members.

34.5 Reference may be made to circular no. CIR/MRD/DSA/29/2010 dated August 31,2010. In this regard, SEBI has received inputs regarding amount to be deposited by the investors at the time of making arbitration reference. Accordingly, para 7.2 (Para E hereinabove) of the circular no. CIR/MRD/DSA/29/2010 dated August 31,2010 is being modified. SEBI vide its **Circular No. CIR/MRD/ICC/ 29 /2012 dated November 07, 2012** decided that the para 7.2 of aforementioned circular dated August 31, 2010 shall now read as under:

> "7.2 A client, who has claim / counter claim upto Rs. 10 lakh and files arbitration reference, shall be exempt from the deposit. Expenses thus arising with regard to such applications shall be borne by the Stock Exchanges."

34.6 SEBI has received inputs from investors regarding functioning of the arbitration mechanism at the Stock Exchanges. In light of which, SEBI vide its **Circular No. CIR/MRD/ICC/ 8 /2013 dated March 18, 2013** advised to carry out the following changes in the arbitration mechanism.

1. List of Arbitrators on the panel of all stock exchanges having nation-wide trading terminals shall be pooled and will be called a 'Common Pool'. This list shall be made publicly available including by way of display on websites of the stock exchanges.

2. 'Common pool' of Arbitrators will consist of Arbitrators listed on the panels of all stock exchanges having nation-wide trading terminals. The pooling of arbitrators will be done centre-wise. To illustrate, the list of arbitrators on the panel of all stock exchanges for the region covered by the Delhi centre will be pooled. This would enable an applicant from the region to choose any arbitrator from the 'Common Pool' for Delhi.

   If the client and member (stock broker, trading member or clearing member) fail to choose the Arbitrator(s) from the Common Pool, the Arbitrator(s) will be chosen by an 'Automatic Process' wherein neither the parties to arbitration (i.e. client or member) nor the concerned Stock Exchanges will be directly involved.

3. The 'Automatic Process' will entail a randomized, computer generated selection of Arbitrator, from the list of Arbitrators in the 'Common Pool'. The selection process shall be in chronological order of the receipt of arbitration reference i.e. only after selecting an arbitrator for the former arbitration reference received, selection for the latter shall be taken up.

4. The 'Automatic Process' will send a system generated, real time alert (sms, email etc.) to all entities involved in the particular case. Further, the communication for the appointment of the Arbitrator will be sent immediately and in any case not later than the next working day from the day of picking of the Arbitrator. This communication will be sent by the stock exchange on which the dispute had taken place, to all concerned entities including clients, arbitrators, members, stock exchanges etc.

5. The selection of Arbitrators by Stock Exchanges as done currently, shall henceforth be replaced by the 'Automatic Process'.

6. In case of any probable conflict of interest in an arbitration reference being assigned to any Arbitrator the Arbitrator will have to upfront decline the arbitration reference. After the said arbitrator declines, the 'automatic process' will pick the name of another Arbitrator. This will continue till the time there is no conflict of interest, by the selected arbitrator. In this regard, the timelines mentioned at clause 5.3 in

CIR/MRD/DSA/24/2010 dated August 11, 2010 of 30 days might get extended. However, SEs shall put on record the reasons of such extension.

7. In case of conflict of interest by the arbitrator, the information for the same may reach the stock exchange on which the dispute has taken place within 15 days of receipt of communication from the SE above. The said information may be sent by any method which ensures proof of delivery.

8. Fees of arbitrator shall be dealt in line with existing provisions, by the stock exchange on which the dispute had taken place.

9. This circular is being issued in partial modification of SEBI Circular No. CIR/MRD/DSA/24/2010 dated August 11, 2010 and will come into effect from 1st April 2013.

34.7 Reference may be made to circular no. CIR/MRD/DSA/24/2010 dated August 11,2010. Para 8 (Para F hereinabove) of the said circular no. CIR/MRD/DSA/24/2010 dated August 11,2010 is being modified. The para 8 (Para F hereinabove) of aforementioned circular dated August 11, 2010 shall now read as under as **SEBI Circular No. CIR/MRD/ICC/20/2013 dated July 05, 2013**:

"8. Place of Arbitration (Para F hereinabove)

8.1 The Stock Exchanges (SEs) having nationwide terminals, shall provide arbitration facility (i.e arbitration as well as appellate arbitration) atleast at all centres specified by SEBI from time to time. However, the SEs having nationwide terminals may provide arbitration facility at additional centres, if SEs so desire. The arbitration and appellate arbitration shall be conducted at the centre nearest to the address provided by Client in the KYC form.

8.2 Other stock exchanges shall provide the arbitration facility, including appellate arbitration, at the place where it is located.

8.3 The application under section 34 of the Arbitration and Conciliation Act, 1996, if any, against the decision of the appellate panel shall be filed in the competent Court nearest to the address provided by Client in the KYC form."

34.8 Reference may be made to circulars no. CIR/MRD/DSA/24/2010 dated August 31,2010, CIR/MRD/SA/03/2012 dated January 20, 2012 and CIR/MIRSD/2/2012 dated February 15, 2012 regarding investor service centres providing inter alia arbitration facility (arbitration as well as appellate arbitration). Presently, these facilities are being provided at 8 centres viz. Delhi, Mumbai, Kolkata, Chennai, Ahmedabad, Hyderabad, Kanpur and Indore.

With a view to extend these facilities, it has been decided to increase the number of investor service centres providing inter alia arbitration facility (arbitration as well as appellate arbitration). Increasing the number of centres shall reduce the travelling and other incidental costs to investors in case they choose to avail these facilities. **SEBI Circular No. CIR/MRD/ICC/21/2013 dated July 05, 2013** decided:

a. Stock Exchanges with nation-wide terminals shall set up investor service centres at Bangalore, Pune, Jaipur, Gaziabad, Lucknow, Gurgaon, Patna and Vadodara. These centres shall provide investor grievances redressal mechanism and arbitration facility (arbitration as well as appellate arbitration).

b. The investor service centres at Bangalore, Pune, Jaipur and Gaziabad shall be established before December 31, 2013.

c. The investor service centres at Lucknow, Gurgaon, Patna and Vadodara shall be made functional by June 30, 2014.

d. Accordingly, all Stock Exchanges with nation-wide terminals would have to set-up these facilities at all 16 places mentioned above by June 30, 2014.

34.9 Reference may be made to circular no. CIR/MRD/DSA/29/2010 dated August 31,2010 and MRD/DoP/SE/Cir-38/2004 dated October 28, 2004. **SEBI Circular No. CIR/MRD/ICC/29/2013 dated September 26, 2013 modified** Para 7.4 (Refer Para E hereinabove) of the said circular no. CIR/MRD/DSA/29/2010 dated August 31,2010 as follows:

A. The para 7.4 of aforementioned circular no. CIR/MRD/DSA/29/2010 dated August 31, 2010 currently reads as follows:

" 7.4 A party filing an appeal before the appellate panel [as mentioned under item 6 above] shall pay a fee not exceeding Rs. 30,000, as may be prescribed by the stock exchange, in addition to statutory dues (stamp duty, service tax, etc) along with the appeal."

B. With a view to unburden the investors from the cost of arbitration mechanism aforementioned para is being revised. Para 7.4 of the aforementioned circular shall now read as under:

" 7.4 A party filing an appeal before the appellate panel [as mentioned under item 6 above] shall pay a fee not exceeding Rs. 30,000, as may be prescribed by the stock exchange, in addition to statutory dues (stamp duty, service tax, etc.) along with the appeal. In case the party filing the appeal is a client having claim/counterclaim of upto Rs. 10 lakh, then the party shall pay a fee not exceeding Rs. 10,000/-.

Further expenses thus arising shall be borne by the Stock Exchanges and the Investor Protection Fund of Stock Exchanges equally.

34.10 Pursuant to Section 131 of the Finance Act, 2015 and Central Government notification F.No. 1/9/SM/2015 dated August 28, 2015, all recognized associations under the Forward Contracts (Regulation) Act, 1952 are deemed to be recognized stock exchanges under the Securities Contracts (Regulation) Act, 1956 with effect from September 28, 2015.

With an objective to streamline and strengthen the framework of investor redressal and arbitration mechanism at commodity derivatives exchanges in line with the securities market, **SEBI vide Circular No. CIR/ CDMRD/ DIECE/ 02/2015 dated November 16, 2015** formulated various provisions applicable to the National Commodity Derivatives Exchanges as defined in the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2015, which are as follows:

A. Investor Service Centre(ISC)/ Investor Grievances Redressal Committee (IGRC):

i. The national commodity derivative exchanges shall set up investor service centers (ISC) for the benefit of the public/ investors in accordance with the circular CIR/MRD/DSA/03/2012 dated January 20, 2012.

ii. The national commodity derivatives exchanges shall constitute IGRC in accordance with the SEBI circular no CIR/MRD/DSA/03/2012 dated January 20, 2012 and shall perform all such functions and responsibilities as stated in the SEBI circular no CIR/MRD/ICC/30/2013 dated September 26, 2013.

B. Arbitration Committee / Panel and Appellate Arbitration:

i. The national commodity derivatives exchanges shall maintain panel of arbitrators, code of conduct for arbitrators, arbitration process, appellate arbitration, place of arbitration (nearest address provided by the client in the KYC form), implementation of arbitration award in favour of clients, records and disclosures as per the provisions of SEBI Circulars no CIR/MRD/DSA/24/2010 dated August 11,2010, CIR/MRD/DSA/04/2012 date January 20, 2012 and CIR/MRD/ICC/20/2013 dated July 05, 2013.

ii. The national commodity derivatives exchanges shall make applicable the arbitration fees to each parties to the arbitration in accordance with the SEBI Circular No CIR/MRD/DSA/29/2010 dated August 31, 2010 read with CIR/MRD/ICC/29/2012 dated November 07, 2012 and CIR/MRD/ICC/29/2013 dated September 26, 2013.

C. Automatic Process and Common Pool of arbitrators :

i. The national commodity derivatives exchanges shall pool all arbitrators of their exchange in the common pool across all national commodity derivatives exchanges, facilitate automatic selection of arbitrators from the common pool and shall also follow all other provisions mentioned in the SEBI Circular CIR/MRD/ICC/8/2013 dated March 18, 2013.

34.11 In order to enhance the effectiveness of grievance redressal mechanism at Market Infrastructure Institutions (MIIs), SEBI has comprehensively reviewed the existing framework in consultation with the Stock Exchanges and Depositories (inter alia, issues relating to strengthening of arbitration mechanism and investor protection mechanism). Based on the aforesaid review, SEBI vide its Circular No. SEBI/HO/DMS/CIR/P/2017/15 dated February 23, 2017 decided to revamp the grievance redressal mechanism at Stock Exchanges and Depositories (wherever applicable), as follows:-

i. Public dissemination of profiles of arbitrators: In order to enhance transparency and also to provide choice to parties, Exchanges shall disseminate information w.r.t. brief profile, qualification, areas of experience/ expertise, number of arbitration matters handled, pre-arbitration experience, etc. of the arbitrators on their website.

ii. Submission of documents in soft copies: In order to assist the arbitrators in pronouncing comprehensive and speedy awards, Exchanges shall make necessary arrangements in terms of hardware viz., computer, scanner, printer, etc. and required software's at exchange offices/ Investor Service Centers (ISCs) to facilitate the clients to type/ convert their documents into electronic format/ soft copy. Such electronic format/ soft copies shall be provided to the arbitrators along with original submissions in physical copies.

iii. Review and Training of arbitrators: Investor Service Committee of the Exchanges shall review the performance of the arbitrators annually and submit the review report to the Board of the Exchange. Training need of the arbitrators will be catered by National Institute of Securities Markets (NISM). Cost of training of arbitrators may be incurred from ISF of the exchange.

iv. Mechanism for implementation of award: Stock Exchanges/ Depositories shall create a common database of defaulting clients accessible to members/ depository participants across the Stock Exchanges/ Depositories. For this purpose, a client may be identified as defaulter if the client does not pay the award amount to the member as directed in the IGRP/ arbitration/ appellate arbitration order and also does not appeal at the next level of redressal mechanism within the timelines prescribed by SEBI or file an application to court to set aside such order in accordance with Section 34 of the Arbitration and Conciliation Act, 1996 (in case of aggrieved by arbitration/ appellate award).

v. Empanelment of arbitrators and segregation of arbitration and appellate arbitration panel: There shall be

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separate panels for arbitration and appellate arbitration. Further, for appellate arbitration, at least one member of the panel shall be a Retired Judge. Stock Exchanges/ Depositories shall obtain prior approval of SEBI before empanelment of arbitrators/ appellate arbitrators.

vi. Empanelment of IGRP Members: Stock Exchanges shall empanel IGRP members, however, no arbitrator/ appellate arbitrator shall be empaneled as IGRP member.

vii. Revision in professional fee of arbitrators: The arbitrator fee shall be upwardly revised to Rs.18,000/- (Rs. Eighteen thousand) per case. Consequent to this upward revision, the additional expenses attributable to a client over and above the fee structure as specified in point x, shall be borne by the client (wherever applicable) and Stock Exchange/ Depository equally. The total expense attributable to the member/ depository participant has to be borne by the concerned member/ depository participant.

viii. Place of Arbitration/ Appellate Arbitration: In case award amount is more than Rs. 50 lakh (Rs. Fifty lakh), the next level of proceedings (arbitration or appellate arbitration) may take place at the nearest metro city, if desired by any of the party involved. The additional cost for arbitration, if any, to be borne by the appealing party.

ix. Arbitration / Appellate Arbitration award: In order to safeguard the interest of the parties involved in arbitration and to ensure speedy implementation of the arbitration award, the rate of interest on the award passed by arbitrators shall be in compliance with Arbitration and Conciliation (Amendment) Act, 2015.

x. Speeding up grievance redressal mechanism: In order to have faster implementation of award and to discourage delayed filling of arbitrations by members, the fee structure (exclusive of statutory dues - stamp duty, service tax, etc.) for filing arbitration reference shall be as follows:-

Amount of Claim / Counter Claim, whichever is higher (Rs.)	If claim is filed within six months	If claim is filed after six months	If the Claim is filed beyond the timeline prescribed in Column 3 (only for Trading Member)
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000	Additional Fee of Rs. 3,000/- per month over and above fee prescribed in Column 3
> 10,00,000 - ≤ 25,00,000	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh	Additional Fee of Rs. 6,000/- per month over and above fee prescribed in Column 3
> 25,00,000	Rs. 17,500 plus 0.2 % amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs. 90,000	Additional Fee of Rs. 12,000/- per month over and above fee prescribed in Column 3

a. The filing fee will be utilized to meet the fee payable to the arbitrators.

b. A client, who has a claim / counter claim upto Rs. 10 lakh and files arbitration reference, will be exempted from filing the deposit.

c. Excess of filing fee over fee payable to the arbitrator, if any, to be deposited in the IPF of the respective exchange.

d. In all cases, on issue of the arbitral award the stock exchange shall refund the deposit to the party in whose favour the award has been passed.

34.12 SEBI, vide its Circular No. CIR/CDMRD/DIECE/02/2015 dated November 16, 2015, mandated Investor Grievance Redressal System and Arbitration Mechanism to National Commodity Derivatives Exchanges (herein after referred to as Exchanges) and directed exchanges to comply with the provisions of circulars as issued by SEBI in this regard, with effect from April 01, 2016. In order to further enhance the effectiveness of grievance redressal mechanism at Market Infrastructure Institutions (MIIs), based on the internal deliberations, discussions and feedback as received from MIIs, SEBI vide its **Circular No. CIR/CDMRD/DEICE/CIR/P/2017/77 July 11, 2017** decided to add/modify certain provisions in the aforesaid circular, which are as follows:

i. Public dissemination of profiles of arbitrators: In order to enhance transparency and also to provide choice to parties, Exchanges shall disseminate information w.r.t. brief profile, qualification, areas of experience/ expertise, number of arbitration matters handled, pre-arbitration experience, etc. of the arbitrators on their website.

ii. Submission of documents in soft copies: In order to assist the arbitrators in pronouncing comprehensive and speedy awards, Exchanges shall make necessary arrangements in terms of hardware viz., computer, scanner, printer, etc. and required software's at exchange offices/ Investor Service Centers (ISCs) to facilitate the clients to type/ convert their documents into electronic format/ soft copy. Such electronic format/ soft copies shall be provided to the arbitrators along with original submissions in physical copies.

iii. Review and Training of arbitrators: Investor Service Committee of the Exchanges shall review the performance of the arbitrators annually and submit the review report to the Board of the Exchange. Training need of the arbitrators will be catered by National Institute of Securities Markets (NISM). Cost of training of arbitrators may be incurred from ISF of the exchange.

iv. Mechanism for implementation of award: Exchanges shall create a common database of defaulting clients accessible to members across the Exchanges. For this purpose, a client may be identified as defaulter if the client does not pay the award amount to the member as directed in the IGRP/ arbitration/ appellate arbitration order and also does not appeal at the next level of redressal mechanism within the timelines prescribed by SEBI or file an application to court to set aside such order in accordance with Section 34 of the Arbitration and Conciliation Act, 1996 (in case of aggrieved by arbitration/ appellate award).

v. Empanelment of arbitrators and segregation of arbitration and appellate arbitration panel: There shall be separate panels for arbitration and appellate arbitration. Further, for appellate arbitration, at least one member of the panel shall be a Retired Judge. Exchanges shall obtain prior approval of SEBI before empanelment of arbitrators/ appellate arbitrators.

vi. Empanelment of IGRP members: Exchanges shall empanel IGRP members, however, no arbitrator/ appellate arbitrator shall be empaneled as IGRP member.

vii. Revision in professional fee of arbitrators: The arbitrator fee shall be upwardly revised to Rs.18,000/- (Rs. Eighteen thousand) per case. Consequent to this upward revision, the additional expenses attributable to a client over and above the fee structure as specified in point x, shall be borne by the client (wherever applicable) and Exchange equally. The total expense attributable to the member has to be borne by the concerned member.

viii. Place of Arbitration/ Appellate Arbitration: In case award amount is more than Rs. 50 lakh (Rs. Fifty lakh), the next level of proceedings (arbitration or appellate arbitration) may take place at the nearest metro city, if desired by any of the party involved. The additional cost for arbitration, if any, to be borne by the appealing party.

ix. Arbitration / Appellate Arbitration award: In order to safeguard the interest of the parties involved in arbitration and to ensure speedy implementation of the arbitration award, the rate of interest on the award passed by arbitrators shall be in compliance with Arbitration and Conciliation (Amendment) Act, 2015.

x. Speeding up grievance redressal mechanism: In order to have faster implementation of award and to discourage delayed filling of arbitrations by members, the fee structure (exclusive of statutory dues - stamp duty, service tax, etc.) for filing arbitration reference shall be as follows:-

Amount of Claim / Counter Claim, whichever is higher (Rs.)	If claim is filed within six months	If claim is filed after six months	If the Claim is filed beyond the timeline prescribed in Column 3 (only for Trading Member)
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000	Additional Fee of Rs. 3,000/- per month over and above fee prescribed in Column 3
> 10,00,000 - ≤ 25,00,000	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh	Additional Fee of Rs. 6,000/- per month over and above fee prescribed in Column 3
> 25,00,000	Rs. 17,500 plus 0.2 % amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs. 90,000	Additional Fee of Rs. 12,000/- per month over and above fee prescribed in Column 3

a. The filing fee will be utilized to meet the fee payable to the arbitrators. Excess of filing fee over fee payable to the arbitrator, if any, to be deposited in the IPF of the respective exchange.

b. A client, who has a claim / counter claim upto Rs. 10 lakh and files arbitration reference, will be exempted from filing the deposit.

c. In all cases, on issue of the arbitral award the exchange shall refund the deposit to the party in whose favour the award has been passed.

xi. Threshold limit for interim relief paid out of IPF in Exchanges: SEBI vide its circular no CIR/CDMRD/DIECE dated November 16, 2015 has made applicable Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013 to Exchanges. In partial modification to Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013 on "Investor Grievance Redressal Mechanism" the following changes are prescribed:

a. Exchanges, in consultation with the IPF Trust and SEBI, shall review and progressively increase the amount of interim relief available against a single claim for an investor, at least every three years.

b. The Exchanges shall disseminate the interim relief limit fixed by them and any change thereof, to the public through a Press Release and also through its website.

c. In case, award is in favour of client and the member opts for arbitration wherein the claim value admissible to the client is not more than Rs. 20 lakhs (Rs. Twenty lakhs), the following steps shall be undertaken by the Exchange:

i. In case the IGRP award is in favour of the client then 50% of the admissible claim value or Rs. 2.00 lakhs (Rs. Two lakhs), whichever is less, shall be released to the client from IPF of the Exchange.

ii. In case the arbitration award is in favour of the client and the member opts for appellate arbitration then 50% of the amount mentioned in the arbitration award or Rs. 3.00 lakhs (Rs. Three lakhs), whichever is less, shall be released to the client from IPF of the Exchanges. The amount released shall exclude the amount already released to the client at clause (a) above.

iii. In case the appellate arbitration award is in favour of the client and the member opts for making an application under Section 34 of the Arbitration and Conciliation Act, 1996 to set aside the appellate arbitration award, then 75% of the amount determined in the appellate arbitration award or Rs. 5.00 lakhs (Rs. Five Lakhs), whichever is less, shall be released to the client from IPF of the Exchanges. The amount released shall exclude the amount already released to the client at clause (a) and (b) above.

iv. Total amount released to the client through the facility of interim relief from IPF in terms of this Circular shall not exceed Rs. 10.00 lakhs (Ten lakhs) in a financial year.

35. Internet & Wireless Technology Based Trading Facility:

A. SMIFS Limited is eligible for providing Internet based trading (IBT) and securities trading through the use of wireless technology that shall include the use of devices such as mobile phone, laptop with data card, etc. which use Internet Protocol (IP). SMIFS Limited shall comply with all requirements applicable to internet based trading/securities trading using wireless technology as may be specified by SEBI & the Exchanges from time to time.

B. The client is desirous of investing/trading in securities and for this purpose, the client is desirous of using either the internet based trading facility or the facility for securities trading through use of wireless technology. SMIFS Limited shall provide IBT Service to the Client, and the Client shall avail of the IBT Service, on and subject to SEBI/Exchanges Provisions and the terms and conditions specified on the Stock broker's IBT Web Site provided that they are in line with the norms prescribed by Exchanges/SEBI.

C. SMIFS Limited shall bring to the notice of client the features, risks, responsibilities, obligations and liabilities associated with securities trading through wireless technology/internet/smart order routing or any other technology should be brought to the notice of the client by the stock broker.

D. SMIFS Limited shall make the client aware that the Stock Broker's IBT system itself generates the initial password and its password policy as stipulated in line with norms prescribed by Exchanges/SEBI.

E. The Client shall be responsible for keeping the Username and Password confidential and secure and shall be solely responsible for all orders entered and transactions done by any person whosoever through the Stock broker's IBT System using the Client's Username and/or Password whether or not such person was authorized to do so. Also the client is aware that authentication technologies and strict security measures are required for the internet trading/securities trading through wireless technology through order routed system and undertakes to ensure that the password of the client and/or his authorized representative are not revealed to any third party including employees and dealers of SMIFS Limited.

F. The Client shall immediately notify the Stock broker in writing if he forgets his password, discovers security flaw in Stock Broker's IBT System, discovers/ suspects discrepancies/ unauthorized access through his username/ password/ account with full details of such unauthorized use, the date, the manner and the transactions effected pursuant to such unauthorized use, etc.

G. The Client is fully aware of and understands the risks associated with availing of a service for routing orders over the internet/ securities trading through wireless technology and Client shall be fully liable and responsible for any and all acts done in the Client's Username/ Password in any manner whatsoever.

H. SMIFS Limited shall send the order/trade confirmation through email to the client at his request. The client is aware that the order/ trade confirmation is also provided on the web portal. In case client is trading using wireless technology, SMIFS Limited shall send the order/trade confirmation on the device of the client.

I. The client is aware that trading over the internet involves many uncertain factors and complex hardware, software, systems, communication lines, peripherals, etc. are susceptible to interruptions and dislocations. SMIFS Limited and the Exchange do not make any representation or warranty that the SMIFS Limited IBT Service will be available to the Client at all times without any interruption.

J. The Client shall not have any claim against the Exchange or SMIFS Limited on account of any suspension, interruption, non-availability or malfunctioning of the Stock broker's IBT System or Service or the Exchange's service or systems or non-execution of his orders due to any link/system failure at the Client/ SMIFS Limited/ Exchange end for any reason beyond the control of SMIFS Limited / Exchanges.

36. Streamlining the Process of Rights Issue

36.1 The Securities and Exchange Board of India (SEBI), vide its **Circular No. SEBI/ HO/ CFD/ DIL2/ CIR/ P/ 2020/ 13 dated February 18, 2020** has simplified the rights issue process to make it more efficient and effective, by amending the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulations") and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"). Accordingly, following changes are made with respect to the Rights Issue process :

1. The period for advance notice to stock exchange(s) under Regulation 42(2) of LODR Regulations has been reduced from at least 7 working days to at least 3 working days (excluding the date of intimation and the record date), for the purpose of rights issue.

2. Issuance of newspaper advertisement disclosing date of completion of dispatch and intimation of same to the stock exchanges for dissemination on their websites, as per Regulation 84 (1) of ICDR Regulations, shall be completed by the issuer at least 2 days before the date of opening of the issue.

3. Introduction of dematerialized Rights Entitlements (REs) –

    a. In the letter of offer and the abridged letter of offer, the issuer shall disclose the process of credit of REs in the demat account and renunciation thereof.

b. REs shall be credited to the demat account of eligible shareholders in dematerialized form.

c. In REs process, the REs with a separate ISIN shall be credited to the demat account of the shareholders before the date of opening of the issue, against the shares held by them as on the record date.

d. Physical shareholders shall be required to provide their demat account details to Issuer / Registrar to the Issue for credit of REs not later than two working days prior to the issue closing date, such that credit of REs in their demat account takes place at least one day before the issue closing date.

4. Trading of dematerialized REs on stock exchange platform -

a. REs shall be traded on secondary market platform of Stock exchanges, with T+2 rolling settlement, similar to the equity shares. Trading in REs on the secondary market platform of stock exchanges shall commence along with the opening of the issue and shall be closed at least four days prior to the closure of the rights issue.

b. Investors holding REs in dematerialized mode shall be able to renounce their entitlements by trading on stock exchange platform or off-market transfer. Such trades will be settled by transferring dematerialized REs through depository mechanism, in the same manner as done for all other types of securities.

5. Payment mode - Application for a rights issue shall be made only through ASBA facility.

6. No withdrawal of application shall be permitted by any shareholder after the issue closing date.

7. Procedures on the Rights Issue process

A. Application Form

a. The issuer shall dispatch a common application form to its shareholders as on the record date. Along with application form, the issuer shall also send the details of the rights entitlements of the shareholder separately.

b. This application form can be used both by shareholder or renouncee.

c. Registrar to the issue shall also upload the application forms on its website.

d. Applicants can use application form available on the website of registrar to the issue or printed forms sourced from the issuer, merchant bankers or registrars to the issue.

e. In terms of Regulation 78 of the ICDR Regulations, investor also has option to make an application in writing on a plain paper.

B. Credit of Rights Entitlements ("REs") in dematerialized form

a. The depositories shall put necessary procedures in place for issue and credit of REs in demat mode.

b. The issuer making a rights issue of specified securities shall ensure that it has made necessary arrangements with depositories to issue and credit the REs in demat mode in the demat accounts of shareholders holding shares as on the record date.

c. A separate ISIN shall be obtained by the issuer for credit of REs. d. Issuer shall specify the ISIN for REs while announcing the record date. However, for issues where the record date is announced before February 14, 2020, and the letter of offer is filed with the stock exchanges on or after February 14, 2020, the Issuer shall file the letter of offer with the stock exchanges only after it has obtained ISIN for REs.

e. Based on the rights entitlement ratio, the issuer shall credit REs in dematerialized mode through corporate action to shareholders holding shares as on record date. The ISIN of REs shall be kept frozen (for debit) in the depository system till the date of opening of the issue.

f. Physical shareholders shall be required to provide their demat account details to Issuer / Registrar to the Issue for credit of REs not later than two working days prior to issue closing date, such that credit of REs in their demat account takes place at least one day before issue closing date.

g. In case of fractional entitlements of REs, the fractional part shall be ignored by rounding down the entitlement.

h. The issuer shall submit details of total REs credited to the stock exchanges immediately after completing the corporate action for the same and shall obtain requisite trading approval from the stock exchanges.

i. The details with respect to shareholder entitlement shall be made available on the website of the Registrar to the issue and the investors shall be able to check their respective entitlements on the website of the Registrar by keying their details, after adequate security controls to ensure that investors' information is made available only to the particular investor. Issuer shall also carry these links on their website.

j. If the demat account of a shareholder is frozen or demat account details are not available, including shares held in unclaimed suspense account or in the account of IEPF Authority, then REs shall be credited in a suspense escrow demat account of the Company and an intimation should be sent to such shareholder by the issuer /Registrar to the issue.

k. The issuer shall intimate issue closing date to the depositories at least one day before the issue closing date, and the depositories shall suspend the ISIN of REs for transfers, from issue closing date.

l. REs which are neither renounced nor subscribed by the shareholders, shall be lapsed after closure of the Rights Issue.

m. Issuer Company shall ensure that REs which are lapsed are extinguished from the depository system once securities are allotted pursuant to Rights Issue. Once allotment is done, the ISIN for REs shall be permanently deactivated in the depository system by the depositories.

C. Renunciation process and trading of REs on stock exchange platform:

a. The stock exchanges shall put necessary procedures in place for trading of REs on stock exchange platform.

b. REs credited to demat account can be renounced either by sale of REs using stock exchanges platform or off-market transfer and such trades will be settled by transferring dematerialized REs through depository mechanism in the same manner as done for all other types of securities.
c. For sale of REs through stock exchange, investors can place order for sale of REs only to the extent of REs available in the demat account of the investor. Trading in REs on the secondary market platform of Stock exchanges will happen electronically on T+2 rolling settlement basis where T being the date of trading. The transactions will be settled on trade-for-trade basis.

d. Issuer shall inform the dates of issue opening and closing to the stock exchanges and the depositories at the time of filing the letter of offer with the stock exchanges.

e. Trading in REs shall commence on the date of opening of the issue and shall be closed at least four days prior to the closure of rights issue.

D. Submission of Application form in Rights Issue

a. All investors (including renouncee) shall submit application forms using ASBA facility through the Self Certified Syndicate Banks (SCSB) network during the issue period.

b. Investor shall submit only one application form for REs available in a particular demat account.

E. Allotment process in the rights issue

a. Facility for correction of bid data as collated by the SCSBs after issue closing shall be provided for period of one day i.e. on next working day after issue closing.

b. Registrar shall obtain demographic details of all applicants from depositories.

c. Registrar shall obtain details of holders of REs as on issue closing date, from the depositories.

d. After reconciliation of valid ASBA applications, funds blocked and REs demat holding list, the registrar shall finalise allocation of securities offered through rights offering.

e. Registrar shall credit the shares to the respective demat accounts of the applicants based on basis of allotment approved by the designated stock exchange and shall issue instructions to unblock bank accounts wherever necessary.

8. This circular dated February 18, 2020 shall be applicable for all rights issues and fast track rights issue where Letter of Offer (LoF) is filed with the stock exchanges on or after February 14, 2020

36.2 NSE vide **Circular No. NSE/CMTR/43576 dated February 17, 2020** have laid the following trading parameters for trading Rights Entitlement in the Capital Market Segment:

Segment	Capital Market Segment
Market Type	Normal (N)
Book Type	Regular Lot (RL), Stop Loss (SL)
Symbol of the security	Shall be intimated from time to time
Series	Trade for Trade with series as 2@ -Z) and number (1-9) thereafter. For e.g. the first Rights entitlement for a company would list Series 2A and the second one 2B and thereon

Minimum Lot Size Value	1
Order Type	Day, Immediate or Cancel (IOC), Market & Limit Order
Order matching	Anonymous order book. Continuous matching with Price Time priority.
Tick Size	Rs. 0.05 or 0.01 (Same as parent series)
Price Bands	+/- 40%
Eligible Members	All members eligible to trade in Capital market segment
Market Sessions	Units shall be available for trading in Continuous & Closing session only.

36.3 Pursuant to SEBI circular SEBI/HO/CFD/DIL2/CIR/P/2020/13 dated January 22, 2020, NSE vide **Circular No. NSE/CMPT/43578 dated February 18, 2020** laid the following for Clearing & Settlement of Rights Entitlement Traded on Stock Exchanges:

- All clearing members in CM segment shall be eligible for clearing and settlement of Rights Entitlement.
- Applicable margin shall be 100% of Rights Entitlement.
- Settlement guarantee shall be provided for trades and settlement shall be compulsorily done in dematerialised mode.
- Trades executed shall be settled on T+2 basis.
- All trades shall be settled under settlement type 'N'.
- Trades executed in '2@' series shall be cleared and settled on gross basis and funds shall be settled in net basis.
- Any shortages in Rights Entitlement shall be directly closed-out at the highest price of Rights Entitlement prevailing across the Exchanges from the day of trading till the T+1 day or 20% above the settlement price of Rights Entitlement on the T+1 day, whichever is higher.

36.4 NSE is in partial modification to Exchange Circular No. NSE/CMTR/43576 dated February 17, 2020 regarding trading in Rights Entitlement in the Capital Market Segment have laid the below changes vide Exchange **Circular No. NSE/CMTR/44410 dated May 19, 2020** in trading parameters:

Segment	Capital Market Segment
Market Type	Normal (N)
Book Type	Regular Lot (RL), Stop Loss (SL)
Symbol of the security	Shall be intimated from time to time
Series	Trade for Trade with series as BE
Minimum Lot Size Value	1
Order Type	Day, Immediate or Cancel (IOC), Market & Limit Order
Order matching	Anonymous order book. Continuous matching with Price Time priority.
Tick Size	Rs. 0.05 or 0.01 (Same as parent symbol)
Price Bands	+/- 40%
Eligible Members	All members eligible to trade in Capital market segment
Market Sessions	Rights Entitlement shall be available for trading in Regular Pre-Open (09:00 to 09:15), Continuous & Closing session.

In addition to above, Rights Entitlement shall also be available in Block deal trading window with series as BL.

36.5 NSE is in partial modification to Exchange **Circular No. NSE/CMPT/44415 dated May 19, 2020** regarding trading in Rights Entitlement in the Capital Market Segment have laid the below changes in trading parameters:

- All clearing members in CM segment shall be eligible for clearing and settlement of rights entitlement
- Applicable margin for right entitlement shall be 100%
- Settlement guarantee shall be provided for trades and settlement shall be compulsorily done in dematerialised mode
- Trades executed shall be settled on T+2 basis
- Transactions executed in series 'BE' shall be settled under settlement type 'W' and transactions executed in series 'BL' shall be settled under settlement type 'N'. Transactions shall be cleared and settled on a trade for trade basis and there shall be no netting of transactions
- Clearing members may use the existing facility to do early pay-in of securities / funds
- Any shortages in rights entitlement shall be directly closed-out at the highest price of rights entitlement prevailing across the Exchanges from the day of trading till the T+1 day or 20% above the settlement price of rights entitlement on the T+1 day, whichever is higher

This circular shall be effective from **May 20, 2020**.

37. General Principles of Risk Management & Compliance:

A. The ambit of Securities Broking activity is no longer confined to metro and big cities and Operations are spread across from all corners of the country including District, Towns and Villages. The Company has to face risks mainly on account of impulsive behavior manifested in employee-client relationship. Keeping the above factors in mind, SMIFS have put in the following measures to safeguard the interests of the Clients:

a) Certified Trained Professionals under NISM Certification are recruited as per the regulatory mandates.
b) Meetings are held regularly at Head Office with group of employees like Branch Managers / Dealers to educate them on various aspects of their job responsibility and the danger in violating the laid down instructions.
c) Any dubious/unauthorized transactions done by any employee or any attempt made to bend rules are to be reported by other employees at the branch to Head Office promptly.

B. It must be clearly understood by the Client(s) that their dealings on Stock Exchanges through SMIFS shall be subject to the fulfilling of certain formalities set out by the SMIFS, which may inter alia include the filling the Know Your Client (in short "KYC") Form, reading the rights and obligations, do's and don'ts, etc., and are subject to the Rules, Byelaws and Regulations of relevant Stock exchanges, its Clearing Corporation, guidelines prescribed by SEBI and in force from time to time and Circulars as may be issued by Stock exchanges or its Clearing Corporation and in force from time to time.

C. On opening of a Securities Trading Account the clients are provided a Welcome Letter from Head Office drawing the attention to the client's rights and obligations and the need to discharge such obligations on being intimated by SMIFS. Such letters are mailed (both in physical and electronic form) by Head Office direct to the client's recorded address along with the documents executed by the Client at the time of submitting its Application for Opening the Account. Clients are requested to the read the documents carefully and preserve them for any future reference. The client shall furnish all such details in full as are required by SMIFS Limited in "Account Opening Form" with supporting details, made mandatory by stock exchanges/SEBI from time to time. The client shall familiarize himself with all the mandatory provisions in the Account Opening documents. Any additional clauses or documents specified by SMIFS Limited shall be non-mandatory, as per terms & conditions accepted by the client. The client shall immediately notify SMIFS Limited in writing if there is any change in the information in the 'account opening form' as provided at the time of account opening and thereafter; including the information on winding up petition/insolvency petition or any litigation which may have material bearing on his capacity. The client shall provide/update the financial information to SMIFS Limited on a periodic basis. SMIFS Limited and its Authorized Person(s) shall maintain all the details of the client as mentioned in the account opening form or any other information pertaining to the client, confidentially and that they shall not disclose the same to any person/authority except as required under any law/regulatory requirements. Provided however that SMIFS Limited may so disclose information about his client to any person or authority with the express permission of the client.

D. SMIFS Limited shall ensure due protection to the client regarding client's rights to dividends, rights or bonus shares, etc. in respect of transactions routed through it and it shall not do anything which is likely to harm the interest of the client with whom and for whom they may have had transactions in securities.

E. SMIFS Limited and client shall reconcile and settle their accounts from time to time as per the Rules, Regulations, Bye Laws, Circulars, Notices and Guidelines issued by SEBI and the relevant Exchanges where the trade is executed.

F. SMIFS Limited shall issue a contract note to his constituents for trades executed in such format as may be prescribed by the Exchange from time to time containing records of all transactions including details of order number, trade number, trade time, trade price, trade quantity, details of the derivatives contract, client code, brokerage, all charges levied etc. and with all other relevant details as required therein to be filled in and issued in such manner and within such time as prescribed by the Exchange. SMIFS Limited shall send contract notes to the investors within one working day of the execution of the trades in hard copy and/or in electronic form using digital signature.

G. In case, client opts to receive the contract note in electronic form, he shall provide an appropriate e-mail id to SMIFS Limited. The client shall communicate to SMIFS Limited any change in the email-id through a physical letter. If the client has opted for internet trading, the request for change of email id may be made through the secured access by way of client specific user id and password.

H. SMIFS Limited shall ensure that all ECNs sent through the e-mail shall be digitally signed, encrypted, non-tamper able and in compliance with the provisions of the IT Act, 2000. In case, ECN is sent through e-mail as an attachment, the attached file shall also be secured with the digital signature, encrypted and non-tamperable

I. The client shall note that non-receipt of bounced mail notification by SMIFS Limited shall amount to delivery of the contract note at the e-mail ID of the client.

J. SMIFS Limited shall retain ECN and acknowledgement of the e-mail in a soft and non-tamperable form in the manner prescribed by the exchange in compliance with the provisions of the IT Act, 2000 and as per the extant rules/regulations/circulars/guidelines issued by SEBI/Stock Exchanges from time to time. The proof of delivery i.e., log report generated by the system at the time of sending the contract notes shall be maintained by SMIFS Limited for the specified period under the extant regulations of SEBI/stock exchanges. The log report shall provide the details of the contract notes that are not delivered to the client/e-mails rejected or bounced back. SMIFS Limited shall take all possible steps to ensure receipt of notification of bounced mails by him at all times within the stipulated time period under the extant regulations of SEBI/stock exchanges

K. SMIFS Limited shall continue to send contract notes in the physical mode to such clients who do not opt to receive the contract notes in the electronic form. Wherever the ECNs have not been delivered to the client or has been rejected (bouncing of mails) by the e-mail ID of the client, SMIFS Limited shall send a physical contract note to the client within the stipulated time under the extant regulations of SEBI/stock exchanges and maintain the proof of delivery of such physical contract notes.

L. In addition to the e-mail communication of the ECNs to the client, SMIFS Limited shall simultaneously publish the ECN on his designated web-site, if any, in a secured way and enable relevant access to the clients and for this purpose, shall allot a unique user name and password to the client, with an option to the client to save the contract note electronically and/or take a print out of the same.

M. Contract notes are generated digitally and e-mailed to client within the stipulated 24 hours and secured access is provided to clients to ensure that the books of records are maintained in a Compliant Manner. Clients can view details of their ledger, margin, shortfall etc. through the secured login on to the Official website of SMIFS Limited at "WWW.SMIFS.COM". The client has to be aware about their position, outstanding balance and Risk. SMIFS Limited is under no legal obligation to send any separate communication apart from Contract Notes, Margin Statement, Shortfalls, and Open Positions etc. But as a safeguard to the Clients, SMIFS may take extra efforts generally to ensure that client is well informed about the Risk and the possible actions, which may follow. The communication would generally be through SMS / Email on registered contact details registered with SMIFS and additionally to host reports through secured Back Office Access.

N. SMIFS Limited shall make pay out of funds or delivery of securities, as the case may be, to the Client within one working day of receipt of the payout from the relevant Exchange where the trade is executed unless otherwise specified by the client and subject to such terms and conditions as may be prescribed by the relevant Exchange from time to time where the trade is executed.

O. SMIFS Limited shall send a complete `Statement of Accounts' for both funds and securities in respect of each of its clients in such periodicity and format within such time, as may be prescribed by the relevant Exchange, from time to time, where the trade is executed. The Statement shall also state that the client shall report errors, if any, in the Statement within such time as may be prescribed by the relevant Exchange from time to time where the trade was executed, from the receipt thereof to SMIFS Limited.

P. SMIFS Limited shall send daily margin statements to the clients. Daily Margin statement should include, inter-alia, details of collateral deposited, collateral utilized and collateral status (available balance/due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities

Q. The Client shall ensure that it has the required legal capacity to, and is authorized to, enter into the relationship with SMIFS Limited and is capable of performing his obligations and undertakings hereunder. All actions required to be taken to ensure compliance of all the transactions, which the Client may enter into shall be completed by the Client prior to such transaction being entered into

R. As mandated all client instructions are monitored by recording over Voice Loggers, sending SMS and E-Mails to Alert Clients on the pre-order level and Confirmation on similar modes on execution of Trades and post market Transaction Status at their registered E-Mail Addresses and Mobile Numbers. Clients are requested to check their E-Mails regularly and their Mobile Records. The Clients are further requested to attend the Interactive Voice Alerts and respond to the same without the influence and dictation of others. Anomalies if any should be reported to the Compliance Officer at SMIFS.COMPLIANCE@SMIFS.COM forthwith and/or speak to the Compliance & Ethics Officer at +91 33 4011 5401 / 6634 5401.

S. SMIFS provide exposure against the upfront margin received in the form of Cash/Collateral from the Client and the Client also has the prerogative to demand withdrawal of cash and Collaterals at its discretion. The Client is entitled to forthwith release of funds lying credit to its ledger, on pay-out. In case the Client has authorized SMIFS to maintain a running ledger account, a Written Request from the registered email id. of the Client addressed at PAYMENTS@SMIFS.COM to the Funds Settlement Department of SMIFS OR a System Driven Request from the Back Office/ Order Management Trade Application, for the release of funds. Such release of funds would be however subject to un-discharged liabilities of the Client. In case SMIFS fails to discharge its responsibilities with regard to funds pay-out due and payable to the Client, SMIFS shall be liable to pay an interest penalty of 8% per annum for the number of days of delay of such fund settlement, payable by SMIFS Limited from the date of the pay-out and/or the date of receipt of specific request from the Client for such settlement. The Client shall not be entitled to any interest or other benefit on the credit balance/surplus margin made available/maintained with SMIFS Limited.

T. SMIFS has a process of re-classifying the Client's Risk Profile into High Risk Category /Medium Risk Category, based on the Client's trading patterns and the mandated time frame maintained to discharge its responsibility towards pay-in obligations for the executed trades. Clients whose financial obligations remain due and payable more than 30 Days, SMIFS shall classify them into **High Risk** category and efforts shall be made to realize the money at the earliest. Clients whose financial obligations remain due and payable more than 15 Days but less than 30 Days, SMIFS shall classify them into **Medium Risk** category and efforts shall be made to realize the money at the earliest. Clients whose financial obligations remain due and payable more than 7 Days but less than 15 Days, SMIFS shall classify them into **Low Risk** category and efforts shall be made to realize the money at the earliest.

U. Any Grievance of the Client is redressed promptly and resolved on best effort basis by SMIFS Limited within 7 days from the receipt of the Grievance to ensure client satisfaction. The Client is advised to bring to the Notice of the Compliance Officer of any Grievances by writing to INVESTORS@SMIFS.COM . In case the Client is dissatisfied with the Grievance Redressal Process offered by SMIFS Limited it has the liberty to register its Grievance with Securities & Exchange Board of India over the "SCORES PORTAL" and/or approach the Investor Grievance Redressal Forum of the Stock Exchanges where the Company is a Trading Member. Each and every Branch and/or Franchisee of the Company is maintaining an Investor Grievance Register. The Clients are advised to make use of the facility for registering their Grievances, if any, by noting the same through the Grievance Register.

V. Trading Members are subjected to monitory penalties / strictures for committing any violations of the rules and regulations, notifications, guidelines, instructions etc., issued by SEBI or the Central Govt. or the Exchanges. Each Trading Member, therefore, carries certain risks in the area of compliance. There are myriad numbers of instructions which a Trading Member should meticulously comply every day. Important issues which are key to the surveillance measures of the Regulators and Stock Exchanges are indicated below:

a) Failure to comply strict adherence to KYC norms at the time of opening of Securities Trading Account of clients.
b) Failure to exercise proper due diligence for verification of all client details regarding bank accounts details, in-person verifications, proper execution of Account Opening, issue of risk disclosure document etc.
c) Failure to exercise proper watch and due diligence leading to suspicious transactions whose transactions are not commensurate to the income and financial status of the client.
d) Doing business with and/or for defaulting clients.
e) Non adherence to Anti Money Laundering Act.

W. At SMIFS we have put in suitable measures to maintain high standard of work procedures so that the relative guidelines are strictly complied with by the operative staff members. With majority of the functions being centralized at Head Office, there is constant monitoring of the quality of working. The quality of compliance by our branches is also supervised through periodical inspection of the branches. SMIFS has a system of conducting regular Audits for verifications at all levels (Branches as well as Head Office Level). Strict due diligence is maintained while opening of accounts, complying with KYC requirements, ensuring systems safety in complying with the client instructions, manner of uploading client instructions, verifying client signatures and in maintaining client records etc. and updating the same periodically. Remedial measures are initiated immediately on detection of shortcomings.

X. SMIFS does not deal in Cash and does not guarantee any fixed/assured returns to its Clients. Thus the Clients should not deal in cash and should not get allured of any returns on their investments in any manner whatsoever. In case the Client is approached with such offers, it should immediately write to the Compliance Officer of the Company providing the exact details of such violation. The Company shall not be responsible and liable for any direct dealings in violation of these laws in a personal capacity with any one.

Y. The relationship between SMIFS Limited and the client shall be terminated; if SMIFS Limited for any reason ceases to be a member of the stock exchange including cessation of membership by reason of SMIFS Limited's default, death, resignation or expulsion or if the certificate is cancelled by the Board. SMIFS Limited, Sub-Broker/ Authorized Person and the client shall be entitled to terminate the relationship between them without giving any reasons to the other party, after giving notice in writing of not less than one month to the other parties. Notwithstanding any such termination, all rights, liabilities and obligations of the parties arising out of or in respect of transactions entered into prior to the termination of this relationship shall continue to subsist and vest in/be binding on the respective parties or his/its respective heirs, executors, administrators, legal representatives or successors, as the case may be. In the event of demise/insolvency of the Sub-Broker/ Authorized Person or the cancellation of his/its registration with the Board or/withdrawal of recognition of the Sub-Broker/ Authorized Person by the stock exchange and/or termination of the agreement with the Sub-Broker/ Authorized Person by SMIFS Limited, for any reason whatsoever, the client shall be informed of such termination and the client shall be deemed to be the direct client of SMIFS Limited and all clauses in the 'Rights and Obligations' document(s) governing SMIFS Limited, Sub-Broker/ Authorized Person and client shall continue to be in force as it is, unless the client intimates to SMIFS Limited his/its intention to terminate their relationship by giving a notice in writing of not less than one month.

Z. SMIFS in its endeavor to provide a Hassle Free Trading Facility conducts timely updates through Mailers at the registered e-mail id of the Clients on the recent Developments of Securities Market and the applicable Rules, Bye-Lays, Circulars of the Stock Exchanges where SMIFS Limited is a Trading Member, Securities and Exchange Board of India and any other Extant Regulators. The Clients agree to acknowledge such communication and adhere to the same as its Obligation. The Company shall have the Right to refer to such communication/ updates for the conducting of its business and resolve the Grievances/ Disputes of the Clients, if any.

AA. SMIFS shall not be responsible for any losses incurred by the client if he/she is found guilty of unethical practices in contravention to the Rules and Regulations laid by the Extant Regulators. In case the client is found indulging in suspicious activities, SMIFS may report such transactions to the exchange(s). The company shall share all the required information pertaining to the Securities Transactions of the Client to the Regulator(s), Exchanges), and/or any other Extant Regulatory and the Client is legally bound to co-operate to provide the necessary information in a time bound manner required by the Stock Exchanges and/or the Regulatory Bodies. SMIFS may also keep in abeyance the pay-out of funds and/or securities, as per the extant provisions of the Stock Exchanges, till such time that the Client has been able to clearly demonstrate that his/her/its actions were not malafide in any manner. The Company has the right to initiate necessary legal recourse against the perpetrators with the Public Authorities under the extant provisions of substantiate/ specific laws of the Land.

BB. In addition to the specific rights set out in this document, SMIFS Limited, its Sub-Broker/ Authorized Person and the client shall be entitled to exercise any other rights which the Company or the client may have under the Rules, Bye-laws and Regulations of the Exchanges in which the client chooses to trade and circulars/notices issued thereunder or Rules and Regulations of SEBI.

CC. The provisions of this document shall always be subject to Government notifications, any rules, regulations, guidelines and circulars/notices issued by SEBI and Rules, Regulations and Bye laws of the relevant stock exchanges, where the trade is executed, that may be in force from time to time.

SMIFS LIMITED

CIN: U51109WB1993PLC060987
Vaibhav (5F), 4, Lee Road, Kolkata – 700 020 Tel: (91 33) 4011 5401 / 6634 5401
Email ID: rms@smifs.com Website: www.smifs.com

DD. SMIFS Limited and the client shall abide by any award passed by the Arbitrator(s) under the Arbitration and Conciliation Act, 1996. However, there is also a provision of appeal within the stock exchanges, if either party is not satisfied with the arbitration award.

EE. Words and expressions which are used in this document but which are not defined herein shall, unless the context otherwise requires, have the same meaning as assigned thereto in the Rules, Byelaws and Regulations and circulars/notices issued thereunder of the Exchanges/SEBI.

FF. All additional voluntary clauses/document added by SMIFS Limited shall not be in contravention with rules/regulations/notices/circulars of Exchanges/SEBI. Any changes in such voluntary clauses/document(s) shall be preceded by a notice of 15 days. Any changes in the rights and obligations which are specified by Exchanges/SEBI shall also be brought to the notice of the clients.

GG. If the rights and obligations of the parties hereto are altered by virtue of change in Rules and regulations of SEBI or Bye-laws, Rules and Regulations of the relevant stock Exchanges where the trade is executed, such changes shall be deemed to have been incorporated herein in modification of the rights and obligations of the parties mentioned in this document.

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