

RISK MANAGEMENT POLICY

Name of Document	Risk Management Policy for Clearing Member (CM) Services
Document Owner / Department	Finance (Clearing)
Version	2.0
Date/Year	March 2024
Compliance Officer	Umesh Kumar registered with NSE Clearing Limited (NCL) as Compliance Officer
Risk Management Committee Members (RMC)	Risk Management Committee (RMC) members would be as per the Charter of the RMC approved by Board from time to time
Frequency of Internal reporting to RMC	Half Yearly
Review	Annually

Estee Advisors Pvt. Ltd. is a clearing Member for National Stock Exchange (NSE), Bombay Stock Exchange (BSE), across their various segments. The ESTEE CM also acts as a Clearing Member (CM) on the Futures and Options Segment & Currency Derivatives segment of NSE, BSE. The CM has opted NSE Clearing Ltd (NCL) [erstwhile National Securities Clearing Corporation Limited (NSCCL)] as its designated Clearing Corporation (CC) for its Clearing Member business. The CM business is required to comply with the rules, regulations, circulars, notifications and other forms of communications issued by SEBI, the Stock Exchanges and Clearing Corporations (* REXCCs)

The major functions required to be performed by the Estee as a CM are as under:

- 1. Risk Management**, which include online monitoring of margin utilization, generating alerts for utilization exceeding predetermined triggers, monitoring position limits etc.
- 2. Collateral Management**, involving handling of collateral placed by the Trading Members (TMs)/Custodial Participant (CP) towards trading exposure, setting trading limits, ongoing valuation of collateral.
- 3. Clearing and Settlement** of trades executed by Trading Member (TMs)/Custodial Participant (CP), monitoring and collection of MTM and exchange obligation from the TMs/CP and obligation settlement with CC.
- 4. Reporting** of mandatory information to the REXCCs as per prescribed periodicity.

In order to ensure smooth execution of these functions an operational guideline here. With changing regulatory scenario there is a need to envisage said policy in certain aspects which will further strengthen the oversight of the clients under the CM business. The said policy is now proposed as under:

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R - Regulatory

EX - Exchange

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CC - Clearing Corporations

a. Eligibility of customer:

Clearing and settlement services shall be offered to the following categories of clients:

1. Custodial Participants (CPs), including but not limited to -
 - a. Insurance Companies
 - b. Mutual Funds (MFs) and their Schemes
 - c. Non-Resident Indians (NRIs)
 - d. Foreign Portfolio Investors (FPIs) and their Schemes
 - e. Alternative Investment Fund (AIFs) and their Schemes
 - f. Portfolio Managers and their Schemes

registered through Custodial Participant Code (CP Code) facility provided by the Clearing Corporations.

The on boarding of Custodial Participants (CP) for CM relationship should be based on the following parameters:

No.	Criteria	Remarks
1	Management	The promoters should have track record of more than 1 years in capital markets
2	Financial Strength	The entity should have a minimum ATNW of Rs. 1 crores
3	Business Model	The client CP viz. Institutional and Proprietary business should be assessed for each case.
		Risk Management Practices adopted by the CP should form part of the proposal to provide/renew clearing services.
		CP's involved in algo or high frequency trade should be on boarded on a selective basis.
4	Operational Conduct	There should be NIL high utilization in last 6 Months
		No disciplinary action by SEBI / Exchanges in the last 1 years.
		There should no penal actions against the CP for material noncompliance to SEBI/ Exchange guidelines.
		Pending legal cases with the entity's customer should not have material impact on the CP financials.
5	Terms and Conditions for Collaterals	Cash Non-Cash Ratio should be in line with exchange requirements for Self-Clearing Members / Clearing Member (Presently, 50:50 Ratio) for CPs.

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		Impact Cost Criteria for CPs should be as per the exchange norms for Clearing Members
		CM Operations (ESTEE) are maintaining collateral information in back-office application and also building functionalities in back office to keep the record of collateral information as declared by CP.

Annual Performance review of CPs:

Annual performance review to be carried out by Coverage Team (BD) broadly covering the following points. The said review to be put up to above approving authorities through Appraisal system by Coverage Team (BD).

- i. Brief background of the CPs
- ii. Promoter and Management details of CPs
- iii. Networth and/or Financial details of CPs
- iv. Operational conduct * CM - CP relationship
- v. KYC of the client shall be checked as per policy
- vi. For any change approval taken / policy revisions incorporated during the year of CPs

*Operational Conduct:

- a. Any pay-in shortage funded by CM on end of day (EOD) for CPs
- b. Number of instances of Pay-in shortages / Pay-in obligation not met within exchange cut-off time of 8 Am, (CPs)
- c. Any significant penalties observed for CPs
- d. Any significant observation on debit balances of CP's
- e. Any penalties levied to CPs

Action if any, (basis comments from approving authority) would be seeking additional proprietary collaterals / levying additional charges / sending warning letter and email / informing concerns to Clearing Corporation / Exchanges and / or termination of CM-CP relationship.

b. Accepted Collateral:

1.Security Deposit:

The CM to maintain a deposit of Rs. 10 Lakhs for own whose trades are cleared and settled by the CM for their Futures and Options Segment (Equity Derivatives Segment). Security

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deposit shall be collected from each TM. Accordingly, security deposit of Rs. 10 Lacs shall be collected from every TM in the following manner:

- Rs. 10 Lacs in the form of Cash

For CP in the Currency Derivatives Segment there is no need of any minimum - Security Deposit. CPs are not required to maintain any minimum-security deposit for Equity / Currency Derivatives Segment.

2. Collateral accepted from TM/CPs:

Collateral type	Haircut	Concentration Limits (Upper Limit to avoid Concentration Risk)	Valuation
Cash and Cash Equivalent			
Cash	Nil	No Limit	Actual Cash deposited by CP
Fixed Deposits (FDs) As per exchange approved list of Banks	Nil	No Limit	FD Principal Amount
Bank Guarantees (BGs) As per exchange approved list of Banks	Nil	No Limit	As per BG submitted in the standard format
Approved Securities	As per exchange Hair cut	50:50	After Hair cut
Government Securities (G-Sec) & Treasury Bills, in CSDL and Demat form -As per the approved list released by the exchanges / Clearing Corporation from time to time	As specified by Exchange / Clearing Corporation from time to time	As specified by Exchange / Clearing Corporation from time to time #	Daily - as per previous Bhav Copy
Sovereign Glod Bond - As per the approved list released by the exchange / Clearing Corporation from time to time	As specified by Exchange / Clearing Corporation from time to time	As specified by Exchange / Clearing Corporation from time to time #	Daily - as per previous Bhav Copy

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Units of Liquid Mutual Funds schemes and other schemes / instruments identified as cash equivalent component as per list of approved securities released by the exchange/Clearing Corporation from time to time	As specified by Exchange / Clearing Corporation from time to time	As specified by Exchange / Clearing Corporation from time to time #	Daily - as per previous day NAV
Non-Cash Equivalent			
Corporate Bonds, Mutual Fund Schemes, Exchange Traded Funds, Equity Shares and all such instruments as per list of approved securities released by the exchange/Clearing Corporation from time to time	As specified by Exchange / Clearing Corporation from time to time	As specified by Exchange / Clearing Corporation from time to time #	Daily - as per previous day NAV

The ESTEE shall accept the following types of collateral towards margin requirements for setting up of trading limits / allocation of exposure limits by Clearing Corporation (CC):

(i) Across all TMs and CPs - As per the CM level limit prescribed by the designated CC.

(ii) TM / CP level shall be on FIFO basis, within the overall CM level limit prescribed by designated CC.

Important Points

- As per the implementation of exposure limits to be allocated by Clearing Corporation (basis submission of cash and cash equivalent by CM), the UCC of TM also need to maintain cash: non-cash ratio of 50: 50 which shall be implemented post system enhancements in the back-office solutions or the date of implementation of the REXCCs circular on Segregation of collateral at client level, whichever is later
- The Demat Securities to be accepted as eligible collaterals (segment wise) through pledge re-pledge mechanism only. The same can be re-re-pledged with Clearing Corporation segment wise.
- In all the cases Impact Cost criteria as prescribed by Clearing Corporation from time to time needs to be followed and Deviations if any to be approved by approving authorities as mentioned above in deviation criteria.

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3. Own collateral placed by the CM:

The CM may be required to place own collateral with the clearing corporations from time to time in order to maintain the margin utilization levels at the CM level, facilitate shifting / on-boarding of CPs, shifting of collateral between exchanges and / or segments, as substitutes for BGs and FDRs placed as collateral by the clients as these cannot be placed onward with the REXCCs, etc. Own collateral may be placed in the form of Cash / G-secs / Bonds / other Bank BGs/FDs.

c. Margins

The various margins levied by the REXCCs in equity / currency derivatives segments include Initial margin, SPAN margin, Exposure margin, Extreme Loss margin, Premium margin, Assignment margin, Delivery margins etc. The Clearing Corporation collects the same from the CM on real time basis with 50: 50 cash: non - cash criteria. The CM shall upfront collect the margins from the CPs and monitor the margin utilization levels at CPs as well as CM level on a real time basis. The CM shall monitor the Peak Margins and EoD margins of CPs under it during the day as stipulated by Clearing Corporation.

The thresholds for placing additional CM's own collateral basis the margin utilization is as under:

CM's Overall Margin Utilization (%)	Action to be taken	
Upto 70 %	No Action	
80 % and above	1	CM Operations (ESTEE) to place additional collateral with Clearing Corporation by utilizing. The written confirmation shall be provided by BD. Post exhausting the said collateral
	2	ESTEE will request CP along with BD team to arrange additional collateral from CP client in form of Cash only within 2 hours. (The above scenario may occur on some volatile day)

Also, the CM shall monitor the utilization level of its CPs as follows:

1. Custodial Participant Level:

Margin Utilization (%)	Action to be taken
Upto 80%	No Action
Above 80% and up to 90%	Alert to be sent by CM Operations (ESTEE) to the CP to arrange for additional collateral.
Above 90%	BD Team / CM Operations (ESTEE) to inform the client to immediately arrange for additional collateral, pending which only trades resulting in reduction of open positions to be confirmed

Any changes to the above mentioned actionable would require approval from Head Clearing & Head BD, highlighting the reasons for the change being sought.

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2. Margin Call FNO and Currency

Margin Call FNO and Currency

- Clients who are in margin shortfall will not be given any fresh limit. Any shortfall should be made good by T+1 day by squaring off the position or by providing additional funds before 9.30 am
- Clients who are in margin shortfall on T-day and are coming in MTM square off, positions of such clients will be squared off and no upcoming fund will be considered
- The margin in the front end will be enhanced in real-time based on clearance of the receipt of the fund on T+5-day overdue of the client, the account will be in square-off mode for the day. However, as per new regulations, no further limits can be assigned in case of overdue above T+5 on any exchange. In a scenario where it is overdue on any exchanges then the client status remains in square-off mode on all the exchanges
- SMS intimation will be sent to client w.r.t debit T+5 days
- Clients are supposed to transfer funds or reduce their positions on T+5
- In case a client fails to clear the debit, RMS will sell the stock to clear the ageing debit on T+6
- The selling of scrips will be done on FIFO basis i.e., scrips bought on T Day will be sold first by RMS to clear the debit
- **Seeking data information from TMs/CPs in the event of repeated cases of shortfall in margins / margins on Consolidated Crystallised Obligation or governance issues**

d. Trading Limits

Till implementation of Segregation and allocation of collateral circular, CP limits should be based on the effective collateral placed by the CP. Post re-re pledging of CPs shares there will not be any limits set up to that extent of valuation of shares as determined by Clearing Corporation. The limits only for non-re-re pledged shares and cash & cash equivalent to be set up. CP shall be allowed to withdraw collateral or shift collateral from one segment to the other only if the resultant margin utilization (i.e., margin utilization post the withdrawal / release of collateral) in the segment from where the collateral is being withdrawn / released is below 90%.

As per SEBI Circular on Segregation of Collateral at CP/UCC level, the clearing corporation will be utilizing collateral allocation information submitted by clearing member for allowing and monitoring of margin utilization at UCC level of Trading Member for Cash & Cash Equivalent Collateral. The same will be applicable for CPs opting for the 'Auto Confirmation' of trades.

e. Monitoring

1. Procedure for segregation of TM Proprietary and Client collaterals, Client Level Margin and Trading Limits:

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While the demat securities come through pledge re-pledge mechanism (NSDL and CDSL system as the case may be) and are identified at the individual UCC level, while depositing the cash and cash equivalent collaterals the TM has to mention whether the collaterals are own collaterals or Client's collateral through an e-mail. The same shall be entered in back-office system accordingly and to be used for monitoring of peak margin and EoD margins on the TMs PRO account. The same will also help in identifying intermingling of Clients Collaterals with TM's proprietary collaterals.

With implementation of allocation of collaterals for cash and cash equivalent and securities which are now re-re pledged with Clearing Corporation, the monitoring margin utilization vis a vis collateral will be by Clearing Corporation. Going forward, the Trading Members need to provide their client data Unique Client Code (UCC) wise, collateral type wise and segment wise. The Clearing Corporation shall use such collateral allocation information to ensure that the collateral allocated to the client (TM's Own / TM's End Client / CP) is used towards the margin obligation of that client only. While providing of the data by TMs to CM and CM to CC have already started, the Clearing Corporation collateral allocation basis the said submission, i.e., implementation of the REXCCs circular on Segregation of Collateral at Client level. The TMs have to ensure that data submission is correct and any penalties arising out of non-submission/incorrect submission to the CM and there after onward submission to Clearing Corporation shall be passed on to the Trading Members & its clients.

2. Monitoring of Mark to Market (M2M) Pay-in : The M2M to be monitored as follows:

No.	MTM payin * (as % of total post haircut collateral placed by CP)	Action to be taken
1	Unto 25%	No action required
2	Above 25% and up to 35%	CM Operations (ESTEE) team to send alert to CP to take offset the position to minimize loss / ensure funds are available to cover the probable MTM pay in. BD Team to also
3	Above 35%	BD Team to advise the client to ensure bringing the positions of their end clients / pro positions / or bring additional collaterals in such a way that the overall MTM probable

* MTM on Futures position for Options position to be considered

Any change to the above mentioned actionable would require approval jointly from BD & Clearing Head highlighting the reasons for the changes being sought.

3. Reporting of alerts to the CC

During the course of business, various kinds of alerts may get generated, e.g. shortfall in margin / pay-in obligations, frequent levy of penalties, co-mingling of collaterals, continuous debit balances of some UCCs, adverse remarks in the audit reports submitted by the Tm Clients, adverse findings on conducting of an inspection by the CM, etc. The Compliance Officer, after consultation with the Head BD & Clearing Head shall be responsible for reporting these alerts to the CC within 5 working days of the findings

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5. Reports to be sent by CM Operations (ESTEE) team to BD Team and Compliance Officer:

The reports should inter-alia cover the following:

- I. TMs/CP put on high utilisation mode by CC
- II. Payin shortages funded by the CM on EoD basis
- III. MTM losses if any, as percentage of total collateral.

6. Annual Inspection of TMs.

We conduct inspection of our TMs on annual basis.

f. Event of Default

- 1) In case of an unfulfilled pay-in obligations and / or the Trading Member being restricted from further trading or being declared as defaulter by REXCC, the event shall attract the relevant provisions of the CM-CP Agreement and Supplementary Agreements or all Amendment Agreement to Supplementary Agreement between the CM and CPs, in addition to the provisions prescribed in SEBI Circular Nos. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/1 15 dated July 01, 2020 and SEBI/HO/MRD2 DCAP/CIR/2021/0598 dated July 20, 2021, as modified, amended, supplemented or superseded from time to time.
- 2) Further, as required under NCL Circular No. NCL/CMPL/44977 dated July 10, 2020, fund shortfall of Rs 5 Lakhs and above shall continue to be reported to the Clearing Corporation as per the extant regulations.
- 3) On the occurrence of such an event of TM and / or on the failure of a CP meeting its settlement obligations, CM operation (ESTEE) team shall inform to the BD team. Action suggested by them, including the squaring off of open positions shall be completed within the timelines prescribed by the SEBI, (which is currently 15 days as per Clause 4.9 of the SEBI Circular dated 01.07.2020) by CM Operation (ESTEE) team. The sequence of events shall generally comprise of the following:

- a) debit the pay-in amount from the CPs settlement account with the Clearing Member.

i. Settlement Account of CP

- b) inform the Exchange/Clearing Corporation of the TMs/CPs default and provide them details thereof.
- c) set the trading limit of all the underlying UCCs of the TM at zero (0) on the risk management system provided by the Clearing Corporation in order to ensure that the underlying UCCs are not able to create any fresh positions
- d) resort to/ initiate the squaring-off/ closing-out/ liquidation of any / all the open positions (UCC/CP) on an IOC basis
- e) Adjust the amount towards stamp duty and other amounts payable on invocation of securities, from the TM's /CP's ledger with the Clearing Member.
- f) provide details of the UCC (including PRO) level pay-in obligations and breakup of the collaterals placed by the TM in the name of / on behalf of the underlying UCCs to the CC for the liquidation of the collateral, as prescribed in SEBI Circular No. SEBI/HO/MRD2 DCAP/CIR/2021/0598 dated 20 Jul 2021 and under the

supervision of the CC , invoke, encash, sell, redeem or in any way liquidate, in no particular sequence, the collaterals submitted by the Trading Member on behalf of / in the name of the underlying UCCs and appropriate the net (post costs and expenses) proceeds against the amount due from the UCC. If the net sale / redemption / liquidation proceeds at the UCC level are found short / inadequate, the shortfall shall be appropriated by selling / redeeming / liquidating the TM's Prop collateral to that extent, under the supervision of CC on an ongoing basis till such time all the positions of the respective UCCs are closed-out and the pay-in amounts are recovered). While the liquidation and appropriation process shall be the same for CPs, there shall be no need to seek any kind of consent or approval from the CC in case of a CP default.

- g) Adjust the amount towards the service charge and / or penal interest for the delay and all other charges, fees, and other amounts due to the Clearing Member and the Clearing Corporation from the CP's ledger account with the Clearing Member.
- h) In case of pay-out in the intervening period, transfer the same to the ledger Account of the CPs.
- i) release the unencumbered UCC level collaterals to the Exchanges/ Clearing Corporations as prescribed in the applicable SEBI circulars and/or as per the directions of the initiating Stock Exchange / Clearing Corporation.
- j) call upon the Exchanges and the Clearing Corporations to declare the CP as a 'defaulter' and request them to transfer the security deposits, margin deposits and all such credits in the Clearing Member account with them, to the Clearing Member, towards the remaining shortfall on the CP account.
- l) issue a termination notice to formally end the CM-CP relationship.

4) The costs and expenses of the action initiated by the Clearing Member on the triggering of an 'event of default' shall be adjusted to the CP.

h. Following Escalation Matrix to be followed with respect to any instances of non-compliances / delay in meeting Pay In obligation / Non-Reporting or Incorrect reporting of data/ of TMs/CPs by ESTEE Team:

First Level - An intimation to be send	BD Relationship Manager - ESTEE clearing head
Second Level - Any approval to be sought	
There should have any two-joint approval as mention in second level escalation matrix.	

i. Responsibility Matrix:

Description/Particulars	Responsibility (Department)
Client Management (On boarding, Annual Performance review existing relationship management, Notice of Disassociation etc....) Any approval or deviation approval	BD Team

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Monitoring Client Collateral, Segregation of Collateral, Maintenance of client Data, Risk Management, Audit & Compliance Data Operational aspects in case of default	Operations (ESTEE)
Any notice/communication to TM/CP	Operation (ESTEE) (Based on instructions from BD Team)
Exchange and Regulatory Reporting	Operation (ESTEE) / Compliance Officer
Reporting & Presentation to Risk Management Committee on half yearly basis	BD Team along with Compliance officer

Details for online request for freezing /blocking trading account

1. Email: stopetrade@esteeadvisors.com
2. Phone No.: 9873999472

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