

# POLICY FOR HANDLING CLIENT COLLATERAL / MARGIN

**Effective Date:** As per SEBI Circular | **Classification:** Mandatory Compliance | **Applies to:** All Trading Clients

## 1. INTRODUCTION AND PURPOSE

This Policy for Handling Client Collateral and Margin (hereinafter "the Policy") has been formulated by Skywards Investec Private Limited (hereinafter "the Company" or "the Broker") to establish a comprehensive, transparent, and SEBI-compliant framework for the collection, maintenance, reporting, and release of client collateral across all exchange segments in which the Company operates.

The Policy is grounded in the following regulatory instruments:

- Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 (as amended)
- SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 – Margin obligations for stock brokers
- SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/237 dated November 25, 2020 – Revised framework for margins in cash and F&O segments
- SEBI Master Circular on Stock Brokers (latest applicable version)
- NSE/BSE/MCX/NCDEX Exchange circulars and Bye-Laws relating to margins and collateral
- NSDL/CDSL Bye-Laws and Operating Guidelines on Margin Pledge
- Prevention of Money Laundering Act, 2002 (PMLA) and associated SEBI/FIU guidelines

This Policy supersedes any earlier internal guidelines, circulars, or procedures on the subject. All staff, departments, and systems handling client collateral must adhere to this Policy.

## 2. SCOPE AND APPLICABILITY

This Policy applies to:

- All registered clients of the Company trading in any exchange segment: Equity Cash (NSE/BSE), Equity Derivatives (F&O), Currency Derivatives (CDS), Commodity Derivatives (MCX/NCDEX), and Debt Market Segment.
- All employees, officers, branches, sub-brokers, Authorised Persons (APs), and technology/back-office vendors handling or processing client collateral.
- All types of collateral accepted by the Company, including cash, securities (equities, mutual fund units, G-Secs), Fixed Deposit Receipts (FDRs), and Bank Guarantees (BGs).

This Policy does NOT apply to proprietary trading positions of the Company. Proprietary and client funds/securities must be strictly always segregated.

### 3. KEY DEFINITIONS

Term	Definition
Collateral	Cash, securities, or other assets provided by a client to secure their trading obligations.
Margin	The minimum amount of collateral required to initiate or maintain a position in any segment.
SPAN Margin	Standard Portfolio Analysis of Risk – the minimum margin required by clearing corporations for F&O positions.
Exposure Margin	Additional margin collected over and above SPAN to cover any residual risk.
VAR Margin	Value at Risk margin applicable to cash market (equity) positions.
ELM	Extreme Loss Margin – levied in addition to VAR margin on cash market securities.
Margin Pledge	A mechanism under depository regulations whereby client securities are pledged in favour of the broker for margin purposes.
Re-pledge	Further pledge of client-pledged securities by the broker in favour of the Clearing Corporation to meet exchange margin obligations.
MTM	Mark-to-Market – daily settlement of profit/loss on open positions.
Clearing Corporation (CC)	NSCCL, BSE Clearing, ICCL, MCCL, or any other SEBI-recognised clearing entity.
Peak Margin	Highest margin obligation computed at any snapshot during the trading day.
Haircut	A percentage reduction applied to the market value of a security when computing its margin eligibility.

### 4. ROLES AND RESPONSIBILITIES

#### 4.1 Board of Directors / Compliance Committee

- Approve this Policy and any amendments thereto.
- Ensure adequate systems, resources, and oversight mechanisms are in place.
- Review compliance reports and take corrective action on exceptions.

#### 4.2 Compliance Officer

- Ensure the Policy is implemented, updated, and communicated across all business units.
- Monitor regulatory changes (SEBI, Exchange, Depository) and update the Policy accordingly.
- File/certify all mandatory disclosures and reports to exchanges and SEBI.
- Investigate any suspected misuse of client collateral and escalate to the Board and regulators as required.

#### 4.3 Risk Management Department

- Compute and update client-level margin requirements in real time.
- Monitor intra-day and end-of-day margin shortfalls and trigger alerts.

- Define and review the approved list of securities for non-cash collateral.
- Ensure the 50:50 cash-to-non-cash composition rule is met at clearing corporation level.

#### 4.4 Accounts / Treasury Department

- Receive, record, and reconcile cash collateral receipts and refunds.
- Maintain segregation of client funds from Company's own funds.
- Process refund/release of cash collateral within stipulated timelines.

#### 4.5 Dealing / Front Office

- Verify client margin sufficiency before order acceptance.
- Refuse or square-off positions where collateral is insufficient.
- Alert Risk Management of unusual or large position requests.

#### 4.6 Back Office / Operations

- Execute margin pledge and re-pledge instructions through the Depository system.
- Generate and distribute daily Collateral Statements to clients.
- Upload daily collateral and margin utilisation data to exchanges/clearing corporations.

#### 4.7 Technology / IT

- Maintain real-time and end-of-day systems for margin computation, alerts, and reporting.
- Ensure audit logs and data retention comply with regulatory requirements.
- Implement access controls to prevent unauthorised changes to client collateral records.

### 5. ELIGIBLE FORMS OF COLLATERAL AND HAIRCUTS

The Company accepts collateral only in the forms listed below. The Compliance and Risk Management departments shall maintain and update the approved list in line with exchange/SEBI circulars. Securities not on the approved list shall not be accepted as collateral.

Collateral Type	Haircut	Eligible Value	Applicable Segment(s)
Cash / Bank Transfer (RTGS/NEFT/IMPS)	Nil	100%	All segments
Fixed Deposit Receipts (FDR) – scheduled banks	10%	90%	All segments
Government Securities (G-Secs, T-Bills)	10%	90%	All segments
Listed Equity Shares (Group I)	As per SEBI/Exchange list	Varies by scrip	All segments
Listed Equity Shares (Group II & others)	As per SEBI/Exchange list	Varies by scrip	F&O, CDS only
Units of Liquid/Debt Mutual Funds	10%	90%	All segments

Units of Equity Mutual Funds	As per SEBI/Exchange list	Varies	F&O, CDS only
Bank Guarantees (BG)	Nil	100%	All segments
Sovereign Gold Bonds (SGB)	As per Exchange	Varies	F&O only

### Key Rules on Collateral Composition:

- Minimum 50% of the collateral deposited at clearing corporation level must be in cash or cash equivalents (e.g., FDRs, BGs, G-Secs). Non-cash collateral (equity shares, MF units, etc.) shall not exceed 50% of total collateral at the CC level.
- Haircuts are applied by the exchange/clearing corporation. The Company may apply additional internal haircuts at its discretion for prudential risk management.
- Securities not listed on the approved list, or securities with corporate actions pending, may be rejected at the Company's discretion.

## 6. MARGIN COLLECTION – PROCESS AND REQUIREMENTS

### 6.1 Upfront Margin Collection

In accordance with SEBI mandate, the Company shall collect upfront margins from clients BEFORE allowing execution of any trade. No order shall be accepted or placed without adequate margin being available in the client's account.

- Equity Cash Segment: VAR Margin + ELM (as prescribed by exchanges for the respective scrip).
- Equity F&O Segment: SPAN Margin + Exposure Margin (as prescribed by NSCCL/BSE Clearing).
- Currency Derivatives: Applicable SPAN + Exposure Margin (as prescribed by exchanges).
- Commodity Derivatives: SPAN + Additional margin as prescribed by MCX/NCDEX clearing corporations.

### 6.2 Peak Margin Compliance

Consistent with SEBI's peak margin norms, the Company shall ensure that:

- Margin collected from clients is not less than the peak margin obligation computed on any intra-day snapshot published by the Clearing Corporation.
- The Company's Risk Management system shall monitor all four intra-day margin snapshots and ensure no shortfall occurs at the client level.
- Any intra-day shortfall detected shall trigger immediate alerts, and the Risk team may restrict further trading for the client until the shortfall is covered.

### 6.3 Margin for Delivery-Based Trades (Cash Segment)

- For delivery-based trades in the cash segment, 100% of the trade value (or applicable VAR + ELM, whichever is higher as per regulatory guidance) shall be collected upfront from the client on T+0.
- Margin/pay-in collected from clients must be reported to the exchange on a daily basis and must not be used for the Company's proprietary obligations.

#### **6.4 Mark-to-Market (MTM) Margin**

- MTM losses on open F&O/commodity positions shall be collected from clients on a daily basis (T+1 morning, before market open).
- If a client fails to meet MTM margin calls, the Company reserves the right to square-off the client's positions to the extent necessary to cover the deficit, without prior notice, as per the Risk Management Policy and client agreement.

#### **6.5 Additional / Ad Hoc Margin**

The Company may, at its discretion or on exchange direction, call for additional margin from clients in the following scenarios:

- Significant adverse market movements or increased volatility.
- Concentration risk in a single security or sector.
- Regulatory direction or exchange advisory.
- Client-specific risk concerns identified by the Risk Management team.

### **7. MARGIN PLEDGE AND RE-PLEDGE MECHANISM**

#### **7.1 Pledge of Client Securities**

In compliance with SEBI circular dated July 20, 2020 (effective September 1, 2020), securities offered by clients as collateral for margin purposes must be pledged through the Depository system (NSDL/CDSL) using the Margin Pledge functionality. The process is as follows:

- I. Client initiates a Margin Pledge request from their own Demat account in favour of the Company's Demat account, specifying the securities and quantity.
- II. The Company receives an OTP-based or online confirmation request and shall accept the pledge ONLY after client authentication.
- III. Upon pledge creation, the Company's back-office records the pledged securities as eligible margin for the respective client.
- IV. Securities held in the Company's pool account or Client Unpaid Securities Account (CUSA) shall NOT be recognised as margin for any client.

#### **7.2 Re-pledge to Clearing Corporation**

- The Company may re-pledge client-pledged securities to the Clearing Corporation (e.g., NSCCL) to meet exchange margin obligations, solely to the extent of the client's own margin requirements.
- Re-pledging shall be done only for the specific client's obligations; the Company shall not re-pledge one client's securities to meet another client's or its own margin obligations.
- A system-generated audit trail of all pledge and re-pledge transactions shall be maintained.

### **7.3 Release of Pledge**

- Upon closure/reduction of client positions or on receipt of alternative cash margin, the Company shall release the pledge within one working day.
- Pledge releases shall be processed automatically through the depository system, with client OTP/confirmation as required by depository bye-laws.
- No pledge on client securities shall be maintained beyond what is required for the client's own margin obligations.

## **8. PROHIBITION ON MISUSE OF CLIENT COLLATERAL**

The Company strictly prohibits any misuse of client collateral. The following actions are expressly prohibited:

- Using one client's collateral (cash or securities) to meet another client's margin obligations or the Company's proprietary obligations.
- Pledging, hypothecating, or disposing of client securities without the client's explicit written consent and SEBI/exchange-compliant authorization.
- Maintaining client securities in the Company's pool account beyond the permissible settlement timelines.
- Using client funds lying in the collateral account for the Company's own working capital or investments.
- Mixing client collateral with Company's own funds or securities at any point.

### **Systems and Controls:**

- The Company's technology systems shall enforce client-level ringfencing of collateral such that any margin utilisation, pledge, or transfer is linked to the specific client's obligations only.
- Dual authorization (Maker-Checker) is mandatory for all collateral movement transactions above a defined threshold (as notified internally).
- Any suspected or confirmed misuse shall be immediately reported to the Compliance Officer and the Board, and appropriate regulatory reporting shall be made without delay.

## **9. REPORTING OBLIGATIONS**

### **9.1 Daily Reporting to Exchanges / Clearing Corporations**

The Company shall submit the following reports to the relevant exchanges and clearing corporations daily, within the prescribed timelines:

- Client-level collateral details (segment-wise, asset-type-wise) – disaggregated reporting as per SEBI/exchange format.
- Margin utilisation at client level – peak margin vs. collateral available.
- Pledge and re-pledge data – as per NSDL/CDSL and clearing corporation requirements.
- MTM settlement and client-wise fund transfer records.

## 9.2 Reporting to Clients

- Margin / Collateral Statement: Every client shall receive a daily Margin and Collateral Statement (by email / SMS / trading platform) disclosing collateral held, margin utilised, and available margin.
- Transaction Alerts: Clients shall be notified of pledge creation, release, and any margin calls via registered email/mobile.
- Monthly Statement: A consolidated statement of collateral and positions shall be sent by the 10th of each month for the preceding month.

## 9.3 Internal Management Reporting

- Daily exception report on clients with margin shortfall – submitted to Risk Management Head and Compliance Officer.
- Weekly collateral composition report (cash vs. non-cash, segment-wise) – reviewed by Risk Management.
- Monthly compliance report on margin policy adherence – placed before the Compliance Committee.
- Quarterly internal audit of collateral processes – conducted by Internal Audit and findings reported to Board/Audit Committee.

## 10. Margin Shortfall and Square-Off Procedure

### 10.1 Detection of Shortfall

- The Risk Management system monitors client margin levels in real time during trading hours and at end of day.
- A margin shortfall is triggered when the available collateral (after haircuts) is less than the margin required for the client's open positions.
- Automated alerts (SMS, email, platform notification) are sent to the client immediately upon detection of a shortfall.

### 10.2 Cure Period

Clients shall be given the opportunity to cure the shortfall by:

- Depositing additional cash margin (RTGS/NEFT/UPI) into the designated client account; OR
- Pledging additional eligible securities via the Depository Margin Pledge mechanism.

The cure period shall not extend beyond the market close of the same trading day for intra-day shortfalls, or T+1 morning session open for end-of-day shortfalls consistent with SEBI peak margin regulations.

### **10.3 Square-Off**

- If the shortfall is not cured within the stipulated time, the Company reserves the right (and is obligated under exchange rules) to square-off the client's positions to the extent necessary to bring the margin back within acceptable limits.
- Square-offs shall be executed on a best-effort basis at prevailing market prices. The Company shall not be liable for any adverse price impact arising from a client-initiated shortfall.
- Squaring off of positions shall be carried out by the Risk Management / Dealing team using designated Square-Off IDs, with every transaction logged with timestamp, UCC, and reason code.
- Any resulting debit balance after square-off shall be recoverable from the client and constitutes a debt owed to the Company.

## **11. REFUND AND RELEASE OF COLLATERAL**

- On closure of all open positions or reduction in margin requirement, excess collateral shall be refunded/released promptly.
- Cash Refunds: Shall be processed within one working day of client request (subject to no pending pay-in obligations, regulatory holds, or pending disputes). Refunds shall be made only to the client's own bank account registered with the Company.
- Pledge Release: Shall be initiated via the Depository system within one working day of client request, provided there is no outstanding margin obligation against the pledged securities.
- No collateral shall be withheld beyond the client's margin obligations. In case of dispute, the matter shall be escalated to the Compliance Officer for resolution.
- Client requests for collateral release shall be made through the Company's designated channels (trading platform, email to the registered email ID, or written request to the branch/registered office).

## **12. RECORD KEEPING AND AUDIT TRAIL**

- All collateral-related transactions (receipts, refunds, pledges, re-pledges, releases) shall be recorded in the Company's back-office system with date, time, client UCC, amount/securities, and authorising officer.
- Records shall be retained for a minimum of five (5) years from the date of transaction, or such longer period as may be prescribed by SEBI/exchanges from time to time.
- Access to collateral records in the system shall be role-based, with all access logged for audit purposes.
- The Internal Audit team shall conduct a quarterly review of collateral processes, system access logs, and reconciliation statements. Findings shall be reported to the Audit Committee.
- SEBI and exchange inspectors shall be provided full access to all collateral records and audit trails upon request.

### 13. PENALTIES FOR NON-COMPLIANCE

Margin shortfalls and violations of SEBI/exchange norms attract penalties as follows:

Violation	Penalty/Action
Short collection < 1 lakh AND < 10% of applicable margin	0.5% per day
Short collection ≥ 1 lakh OR ≥ 10% of applicable margin	1.0% per day
Continuous short-collection (> 3 consecutive days)	5.0% per day from 4th day onwards
Misuse of client collateral / mixing of funds	Immediate suspension + SEBI reference
Non-reporting / incorrect reporting to Exchange/CC	As per Exchange/SEBI circular; up to ₹1 lakh per instance

In addition to regulatory penalties, the Company shall take appropriate disciplinary action against any employee or officer found responsible for a breach of this Policy, including warning, suspension, or termination as per the Company's HR policy.

### 14. CLIENT GRIEVANCE REDRESSAL

- Clients with grievances relating to margin collection, collateral mishandling, or wrongful square-off may contact the Compliance Officer at: [grievance@bullsmart.in] / [+91-9513496115].
- Grievances shall be acknowledged within 24 hours and resolved within 15 working days.
- If the client is not satisfied with the resolution, the matter may be escalated to the relevant Stock Exchange's Investor Grievance Redressal Mechanism (SCORES portal – scores.sebi.gov.in).
- The Company shall not penalise any client for raising a genuine grievance in good faith.

### 15. POLICY REVIEW AND AMENDMENT

- This Policy shall be reviewed at least once annually by the Compliance Officer and Risk Management Head, or more frequently upon issuance of new SEBI/exchange circulars or material change in business operations.
- Amendments shall be approved by the Board of Directors / Compliance Committee before coming into effect.
- All amendments shall be documented in the Version Control table (Section 1) with effective date and approving authority.
- Updated Policy shall be communicated to all relevant staff and made available on the Company's intranet/compliance portal.

**ANNEXURE A: KEY REGULATORY REFERENCES**

<b>Regulation / Circular</b>	<b>Subject</b>	<b>Issued By</b>
SEBI Circular SEBI/HO/MRD2/DCAP/CIR/P/2020/127 (Jul 20, 2020)	Margin obligations to be met by brokers – upfront collection	SEBI
SEBI Circular SEBI/HO/MRD2/DCAP/CIR/P/2020/237 (Nov 25, 2020)	Revised margin framework – cash & F&O; peak margin norms	SEBI
SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/139 (Nov 19, 2019)	Pledge/re-pledge of client securities for margin	SEBI
SEBI (Stock Brokers) Regulations, 1992 – Schedule II & IV	Code of conduct; client fund segregation obligations	SEBI
NSE/BSE Margin Circulars (latest)	Exchange-level margin requirements, reporting formats	NSE / BSE
NSDL/CDSL Margin Pledge Guidelines	Operational guidelines for Margin Pledge functionality	NSDL / CDSL
PMLA, 2002 & SEBI AML/CFT Guidelines	Client KYC, suspicious transaction reporting	Govt. of India / SEBI