Ref: 09-10/ISS/217/KS May 5, 2009

□ Hand Delivery

- □ Fax
- □ Courier
- □ Post
- □ E-mail

All Registered Intermediaries of ISS Administrators/ Executive Director of Participating Exchanges, **Co-ordination Officers at Participating Exchanges** /Regional Administrative Offices

Dear Sir / Madam,

## Sub: Feedback on Risk Management System (RMS) payout of Securities followed by ISS.

This has reference to the above mentioned subject; we wish to inform all Registered Intermediaries (RIs) of ISS to take note of the Risk Management System (RMS) payout of securities followed by ISS. We received lots of queries / arguments regarding the above captioned subject, we give below the RMS logic followed by ISS

Risk Management System (RMS) is a process, wherein risk involved in each client is calculated by the system. Risk containment measures include capital adequacy requirements of members, monitoring of member performance and track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached, etc.

In ISS risk involved in clients are calculated by the below logic (Current Logic)

ISS Risk Management System (RMS) is based on the below logic (Payout out goes from the Beneficiary Account only)
Holding value of securities
Today's payout of securities
Future payout of securities
Today's shortage of securities
Future shortages of securities
Voucher date of ledger balance except for cheque received
If ledger balance is in debit then markup with 50%
Formula 1 Ledger amount - (Today's Short + Future Short) * 120 / 100 > = - 100
Formula 2 Today's Payout - (Today's Short + Future Short) * 120 / 100 > = 0
Formula 3 holding value + ledger amount + Today's payout - (Today's Short + Future Short) * 120 / 100
Full payout if (1 Formula = True and 2 Formula = True) then full payout
If above condition is not satisfied then payout will go to the extend of 3 formula

It was observed that few members face continuous problem with RMS payout process. As per RMS logic, ledger balance considers on voucher date only with holding of future purchase and fulfill future obligation of sale. In case of BTST, RMS logic goes wrong. Hence, ISS suggested changes in the RMS logic for which the process should consider debit value in comparison between voucher date debit balance except voucher date cheque and effective date debit balance of securities whichever is higher with markup by 50%.

ISS Risk Management System (RMS) is based on the below logic (Payout out goes from the Beneficiary Account only)

Holding value of securities

Today's shortage of securities

Future payout of securities

Today's shortage of securities

Future shortages of securities

Voucher date ledger balance except for cheque received (A)

Effective date ledger balance (B)

If Debit in both the date (Voucher date and Effective date) then make comparison between Voucher date and Effective Date) whichever is higher required to be taken for debit calculation If debit is only on one date (Voucher date or Effective date) then it should be consider for Debit calculation.

If ledger balance is in debit then markup with 50%

Formula 1 Ledger amount - (Today's Short + Future Short) \* 120 / 100 > = -500Formula 2 Today's Payout - (Today's Short + Future Short) \* 120 / 100 > = 0

Formula 3 holding value + ledger amount + Today's payout - (Today's Short + Future Short) \* 120 / 100

Full payout if (Formula 1 = True and Formula 2 = True) then full payout

If above condition is not satisfied then payout will go to the extend of 3 formula

Changes suggested by ISS for implementation is given above, we request our registered intermediaries to provide your feedback on the suggested RMS logic.

In case RIs require any further clarification / information regarding to the said subject, you may contact the undersigned on 9323189537 or at <u>custody@iseindia.com</u> or Tel. 67941115. Kindly forward your feedback to *Mr. Vishal Kavale* at <u>vishalk@iseindia.com</u>

Thanking you,

Yours faithfully, For ISE SECURITIES and SERVICES LIMITED

Kevin M. N. Sunder Custody Team Member