Risk Cash Shortfall
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- Previous Process
- New Auto- Risk Cash Shortfall
- Detail- Identification of clients in shortfall
- Detail- Liquidation
- Detail- Ageing shortfall and liquidation
- Reports
- New Process- Summary
- New Process- Benefits
As per previous process, for identifying clients in Cash shortfall and shortfall amount, below points were taken into consideration -

- **Clients considered for liquidation**-
  - Non FNO clients (i.e. SPAN + Exposure = 0)
  - Only broking clients (i.e. Non funding (NBFC) clients not considered)

- Haircut is as per GRG approved broking list and exceptions taken

- Non-GRG approved / Non-exempted scrip ie. scrips @ 100% HC were considered at-

<table>
<thead>
<tr>
<th>Equity</th>
<th>Bond</th>
<th>Mutual Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>75%</td>
<td>20%</td>
<td>30%</td>
</tr>
</tbody>
</table>

- Clients in T80 liquidation are exempted
- All clients having shortfall as per above calculation and GNLV% < 30% are picked for liquidation
- Stocks are liquidated to clear shortfall calculated as per above
New Auto- Risk Cash Shortfall

The new auto Risk Cash liquidation process will be processed daily morning at 9 am.

Auto Cash Liquidation has 3 step.

- Identification of clients in shortfall
- Liquidation - Calculate shortfall for liquidation and stock pickup
- Ageing shortfall and liquidation

Detail process is explained ahead.

Below are the formula’s used for new auto Risk Cash shortfall liquidation calculations. This may be different from formula’s used elsewhere.

1. Gross Value = (Quantity * previous day closing price) - T80 / SMTF320 / SMTF liquidation value as per previous day close price
2. After haircut (AHC) value = Gross Value * (100% - Haircut%)
3. Net Debit = Transaction Ledger debit + FDBG + cheque under clearing (CUC) + ATOM transfer + NEFT/RTGS + e-credit transfer + Corporate action benefit + Pay-out short + MFSS (redemption- credit not given and purchase- stock not received) + T80 / SMTF320 / SMTF liquidation value as per previous day close price
4. Shortfall = Net debit + sum of after haircut value stock value

*If negative will be considered as shortfall
Step 1 - Portfolio is classified in Concentrated / Diversified

A client’s portfolio will be considered concentrated if any of below criteria is met-
- Top scrip weightage is > 40% or
- Top three scrip weightage is > 70%

If none of the above criteria is met than the client’s portfolio will be considered diversified

Example - below are two portfolios of client ABC and XYZ
- ABC has a diversified portfolio as-
  - top scrip has weightage of 22% i.e. < 40% and
  - top three scrip has weightage of 60% i.e. < 70%

- XYZ has a concentrated portfolio as-
  - top three scrip has weightage of 100% i.e. > 70%

<table>
<thead>
<tr>
<th>Client</th>
<th>Scrip</th>
<th>Gross Value</th>
<th>Weightage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC</td>
<td>DELTACORP</td>
<td>125000</td>
<td>22</td>
</tr>
<tr>
<td>ABC</td>
<td>ABFRL</td>
<td>115000</td>
<td>21</td>
</tr>
<tr>
<td>ABC</td>
<td>EDELWEISS</td>
<td>95000</td>
<td>17</td>
</tr>
<tr>
<td>ABC</td>
<td>VEDL</td>
<td>85000</td>
<td>15</td>
</tr>
<tr>
<td>ABC</td>
<td>ADANIGAS</td>
<td>75000</td>
<td>13</td>
</tr>
<tr>
<td>ABC</td>
<td>JAICORPLTD</td>
<td>65000</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>560000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Client</th>
<th>Scrip</th>
<th>Gross Value</th>
<th>Weightage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>XYZ</td>
<td>DELTACORP</td>
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</tr>
<tr>
<td>XYZ</td>
<td>ABFRL</td>
<td>115000</td>
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<tr>
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<td>95000</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>335000</td>
<td></td>
</tr>
</tbody>
</table>
Identification of clients in shortfall

**Step 2- Risk shortfall is calculated**

- For clients having debit and due date ledger debit, risk shortfall is calculated.
- Shortfall is calculated considering GRG and exception haircut ie. risk haircut, without considering the scrip level capping

**Step 3- Revised shortfall-considering Discounted Hair cut**

- Minimum of risk haircut and BRG is considered
- Discounting as per clients portfolio and above haircut is considered to get the discounted haircut

*Example*- Suppose below is the discounting master. As per master-

1. if the haircut is 30% and portfolio is diversified, discounted haircut will be \((30\% \times (100\% - 30\%)) = 21\%
2. If the haircut is 30% and portfolio is concentrated, discounted haircut will be \((30\% \times 100\% - 20\%)) = 24\%

<table>
<thead>
<tr>
<th>Haircut %</th>
<th>Diversified</th>
<th>Concentrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 15</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>15 to 25</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>25 to 30</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>30 to 50</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>50 to 70</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>70 to 100</td>
<td>20</td>
<td>10</td>
</tr>
</tbody>
</table>

- Shortfall is calculated as per above calculated discounted haircut.
- Clients with shortfall will be as per above haircut, will be shortlisted for liquidation
Liquidation

For clients shortlisted for liquidation, liquidation will be done to regularize the shortfall.

Step 1 - Haircut to be considered (liquidation haircut)

After haircut value will be recalculated considering haircut as per below-
• For equity - Risk haircut i.e. considering GRG and exception haircuts
• Other selected non-approved scrip will be considered at higher haircut
• Bond and MF will be considered at flat haircut of risk haircut whichever is lower.

Please note - Discounting benefit will not be consider. Discounting is consider only to identify client in shortfall.

• Clients in T80, SMTF320 and SMTF shortfall, benefit of stocks getting liquidated will be considered while calculating shortfall
• Cheque entry done in salesops till 9 am will be considered for shortfall calculation

Step 2 - identifying stock for liquidation

Stocks will be picked up considering liquidation haircut, to clear the liquidation shortfall. Currently only settled stocks will be picked for liquidation on below priority

1. Equity stock with liquidation haircut < 100% - priority will be given to lowest haircut, lowest price
2. Equity stock with 100% liquidation haircut - stock with highest price will be given priority

• Mutual funds and Bonds will not be picked for liquidation
• Quantity picked for liquidation in T 80, SMTF 320 and SMTF shortfall will be reduced to avoid duplication
Ageing shortfall and Liquidation

Client with continuous Risk shortfall and no shortfall as per discounted haircut, will be considering for ageing shortfall. Ageing will be calculated for clients with Risk shortfall, not considering discounted haircut benefit.

- For clients with continuous shortfall, discounting will be reduced

*Example*—Suppose below is the Ageing discounting master. As per master—

1. If the haircut is 30% and portfolio is diversified, ageing discounted haircut will be \((30\% \times (100\% - 20\%)) = 24\%\)
2. If the haircut is 30% and portfolio is concentrated, ageing discounted haircut will be \((30\% \times 100\% - 10\%)) = 27\%\)

<table>
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</tr>
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<tr>
<td>1 to 15</td>
<td>0</td>
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<tr>
<td>15 to 25</td>
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</tr>
<tr>
<td>25 to 30</td>
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<td>10</td>
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<tr>
<td>30 to 50</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>50 to 70</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>70 to 100</td>
<td>10</td>
<td>0</td>
</tr>
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- Shortfall will be calculated as per above calculated ageing discounted haircut.
- For clients falling in shortfall as per above haircut, liquidation will be triggered on ageing day (currently set at 6th day).
- Liquidation shortfall and stock picking process remains same.

If client is not in shortfall as per ageing discounted haircut, but is there in risk shortfall- client will not be shortlisted for auto cash liquidation.
Detail calculation of shortfall, haircut considered, stocks in liquidation is available in CIP on below path:

CIP --- Risk Management --- PWA --- Shortfall --- Reports
New Process- Summary

As per new risk cash shortfall auto process:

**Client to be considered**
- Non FNO clients i.e. SPAN + Exposure = 0
- Only broking clients i.e. Funding (NBFC) clients will not be considered

**Identifying clients in shortfall**
- Client’s portfolio will be tagged as Diversified and Concentrated.
- Shortfall will be calculated considering below haircuts (HC):
  1. Risk haircut as per GRG/exception
  2. Flat haircut on bond and MF
  3. Higher haircut will be applicable on selected non-approved scrips
  4. Total benefit given on non-approved equity stocks will be capped.
- On above HC, discounting will be provided for both diversified and concentrated portfolio.
- Higher discounting will be provided on diversified portfolio.
- Discounting benefit will be reduced for clients with continuous risk shortfall.
- Clients in T80, SMTF320 and SMTF shortfall, benefit of stocks getting liquidated will be considered while calculating shortfall.

**Shortfall liquidation**
- Once client is identified in shortfall as per above, position will be liquidated to clear Risk shortfall.
- Higher haircut on selected non-approved scrip and flat haircut on bond and MFs will be considered.
- Bond and MFs will not be picked for liquidation.
- Ledger of broking and SMTF will be considered post adjusting T80, SMTF320 and SMTF shortfall liquidation value as per previous day close price.
- Position will be liquidated around 10 am as per liquidation file updated in CIP.
- Comments and cheque entry done in salesops till 9 am will only be considered.
Risk cash shortfall auto liquidation process has been revised to considering both quality of stocks and quality of portfolio as a whole.

**Benefit of new process-**

**Quality of stocks -**
- Will take care that positions of client’s account are not liquidated with small price movement
- Benefit will be given to clients with approved stock
- Currently flat benefit is given to all non-approved equity leading to debit getting built against non-approved scrips. As per new process, selected scrip will be given higher haircut for shortfall calculation
- Does not take into consideration GNLV% but recalculates the shortfall to identify clients in Risk
- Flat benefit will be given to all bonds and MFs. Currently only unapproved bond and MFs are given flat benefit

**Quality of portfolio -**
- Clients with diversified portfolio will be given higher benefit
- Will avoid concentrated debit getting built against non-approved scrips