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1. What is Risk Reduction Mode (RRM)?

When 90% of Trading or Clearing member's effective deposit is utilized towards margins, the trading terminal of Trading or Clearing member is placed in Risk Reduction Mode wherein all new orders are checked for sufficiency of margins.

2. Will all outstanding orders get cancelled when member enter RRM?

Yes. All unexecuted orders shall be cancelled once trading or clearing member breaches 90% collateral utilization level.

3. Can member place new orders while in RRM?

Yes. The member can place new orders in RRM which may result in increase in position however, all new orders shall be checked for sufficiency of margins and orders that do not satisfy sufficiency of margins will be rejected.

4. Which order type is allowed during RRM?

Only orders with Immediate or Cancel (IOC) attribute shall be permitted in this mode and all other order type shall be rejected.

5. When is the member moved back to normal mode?

The member will be able to trade in normal mode as and when the margin utilization goes below 85%.

6. How will be member notified about RRM?

Member will get message on its Trading terminal when member enters RRM and comes out of RRM.

7. What will be the member status if member exceeds 100% of its margin limit?

If the member exceeds 100% of its margin limit, its trading terminal will be placed in square off mode. In square off mode, position reducing and margin reducing orders will only be accepted. Fresh orders which increases position or margin will be rejected

8. Is spread order and stop loss order allowed in RRM / square off mode?

No. Spread orders and stop loss orders are not allowed in RRM and square off mode.

9. Is RRM applicable at User/Dealer level?

No. RRM is applicable only at Trading or Clearing member level

10. How will the monitoring of Risk Reduction mode be done?

For monitoring of the risk reduction mode (90% utilization or such applicable limit), the following procedure shall be adopted:

- a. **TM level risk reduction mode:**
 Client margin in excess of 90% of the client collateral shall be identified for each client under a TM. The total of such client margin in excess of 90% of the client collateral, plus the proprietary TM margin shall be assessed against the TM proprietary collateral for monitoring of TM level risk reduction mode.
- b. **CM level Risk Reduction mode:**
 Sum of client margin in excess of 90% of the client collateral for each client under a TM plus the proprietary TM margin, in excess of 90% of TM proprietary collateral shall be calculated as TM margin in excess of 90% of TM collateral. Sum of such margin for each TM clearing through a CM, plus sum of client margin in excess of 90% of the client collateral for each client clearing through such CM, plus the proprietary CM margin shall be assessed against the proprietary CM collateral for monitoring of CM level risk reduction mode.
- c. Once a CM is in RRM mode, all the TMs clearing through the CM shall be in RRM mode
- d. An illustration for monitoring of risk reduction mode is provided below:

Suppose the total collateral (allocated collateral plus securities collateral placed through margin pledge/ re-pledge to CC) and margin obligation of CM Proprietary, TM Proprietary and Client level is as given below:

CM	TM	Client	Collateral (Rs)	Margin (Rs)	Client Margin > 90% (Rs)
CM-1	-	Prop	1,200	800	-
CM-1	TM-1	Prop	500	400	-
CM-1	TM-1	Client-1	800	780	60

CM-1	TM-1	Client-2	500	450	0
CM-1	TM-1	Client-3	400	380	20
CM-1	TM-2	Prop	500	200	-
CM-1	TM-2	Client-4	1,000	920	20
CM-1	TM-2	Client-5	1,000	880	0

TM level monitoring

In the above table, “Client Margin>90%”, has been calculated as margin for the client less 90% of the client collateral. Risk reduction mode monitoring for TM shall be based on assessment of [TM Prop Margin + Client Margin>90%] against the [TM Prop collateral]. Accordingly, margin utilization percentage of TM1 and TM2 would be as under:

Margin utilization percentage of TM1 = $[400 + (60 + 0 + 20)] / 500 = 96\%$

Margin utilization percentage of TM2 = $[200 + (20 + 0)] / 500 = 44\%$

In other words, for TM1, margin of Rs 30 is in excess of 90% of its prop collateral, while there is no excess margin for TM2 against its prop collateral. The same has been tabulated below:

TM	Client Margin > 90% (Rs)	TM Prop Margin	90% of TM Prop Collateral	TM Margin > 90% (Rs)
TM-1	80	400	450	30
TM-2	20	200	450	0

CM level monitoring

In the above table, “TM Margin>90%”, or TM Margin in excess of 90%, has been calculated as [Client Margin>90% + TM Prop margin] in excess of 90% of TM prop collateral. Risk reduction mode monitoring for CM shall be based on assessment of [CM Prop Margin + TM Margin>90%] against the [CM Prop Collateral]. Accordingly, margin utilization percentage of CM1 would be as under:

Margin utilization percentage of CM1 = $[800 + (30 + 0)] / 1200 = 69.1\%$