

Khosla Tradewise Pvt. Ltd.

Short Selling Policy

This Short Selling Policy outlines the rules, responsibilities, and compliance measures governing short selling activities by clients and proprietary trading, ensuring adherence to regulatory guidelines and promoting market integrity.

1. Definition of Short Selling

Short selling is the act of selling securities that are not owned by the seller, with the intention of repurchasing them later at a lower price. It involves borrowing shares to sell them in the market and then buying them back to return to the lender.

2. Compliance with Regulatory Guidelines

- **Regulatory Framework:** Trading Members must comply with all applicable regulatory guidelines from the Securities and Exchange Board of India (SEBI) and the stock exchanges (NSE/BSE).
- **Permitted Categories of Short Selling:** Clients may only short-sell securities that are specifically permitted by the exchanges, in line with their respective categories (e.g., intraday vs. delivery-based short selling).
- **Restricted Securities:** Securities placed on the Exchange's ban list or categorized under the Additional Surveillance Measures (ASM) or Graded Surveillance Measures (GSM), may not be short-sold. Trading Members are responsible for ensuring clients adhere to these restrictions.

3. Client & Trading Member Short Selling Rules

- **Retail & Institutional Clients:** Clients (both retail and institutional) may short-sell only in securities that are eligible for short selling by the exchanges.
- **Proprietary Trading by Brokers:** Brokers must ensure adequate risk management processes are in place and that sufficient margins are maintained to cover short positions in proprietary trading.
- **Intraday Short Selling:** Intraday short positions must be squared off (bought back) before the market closes. Any position not squared off within the specified time frame will be subject to exchange-imposed penalties and may result in an auction settlement.

4. Margin & Risk Management

- **Margin Requirements:** Clients must maintain margin as prescribed by the exchange for short selling. The margin requirements may vary depending on the nature of the security being short sold.
- **Auto-Square-Off:** Any open short positions must be squared off before market closure on the same trading day. In case of failure to square off, an auto-square-off mechanism will be initiated, subject to penalties as per exchange rules.
- **Risk Management Controls:** Brokers may implement additional margin requirements or other risk controls (e.g., restrictions on specific stocks or client risk profiles) to mitigate potential market risks.

5. Penalties & Auction Settlement

- **Failure to Square-Off:** If a short position is not squared off by the close of the market, the position will be subject to compulsory auction settlement by the exchange.
- **Auction Penalties:** In the event of an auction settlement, the short seller will be liable to pay the auction price, which may be higher than the market price. A fixed penalty may also be levied by the exchange as per its guidelines.
- **Additional Penalties:** Trading Members may impose additional penalties on clients who fail to settle the shortage of securities before the prescribed pay-in time.

6. Reporting & Monitoring

- **Transaction Records:** Trading Members are required to maintain comprehensive records of all short-selling transactions executed by clients and proprietary accounts.
- **Compliance & Monitoring:** The compliance team will regularly review short-selling activities to ensure adherence to all regulatory guidelines. The objective is to prevent market manipulation, avoid non-compliance, and protect investor interests.
- **Periodic Reporting:** Trading Members must report short-selling activities, as mandated by the SEBI and the exchanges, to ensure transparency and compliance with regulatory requirements.

7. Prohibited Short Selling Activities

- **Market Manipulation:** Any engagement in market manipulation, including but not limited to creating false or misleading trading patterns, is strictly prohibited.
- **Failure to Deliver:** Clients must settle all short trades within the prescribed time frame. Failure to deliver securities or fulfill obligations will lead to penalties and potential legal consequences.

8. Purpose of the Policy

This policy is designed to ensure:

- Full compliance with SEBI, NSE, and BSE regulations.
- Prevention of market abuse and manipulation.
- Protection of investor interests by promoting transparency and fair-trading practices.

Trading Members and clients are expected to understand and adhere to this policy to maintain the integrity and stability of the securities market. Non-compliance may result in penalties, legal actions, and suspension of trading privileges.

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