



SURVEILLANCE POLICY

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Surveillance framework

National Stock Exchange of India Limited vide Circular Ref. No. 452/2021 dated July 01, 2021 and CDSL Circular No. CDSL/POLICY/2021/309 dated July 15, 2021 have mandated the need of on-going framework for surveillance obligations of Trading Members/ Depository Participants and to have in place appropriate Surveillance Policies and Systems to detect, monitor and analyze transactions. For complying with the exchange/Depository/regulatory directives the company has formulated a Policy to co-relate the transaction data with their clients' information/data and to detect suspicious/manipulative transactions, analysis of trades and transactions and carrying out Client Due Diligence (CDD) on a continuous basis.

Objectives of framing a surveillance policy

- To generate appropriate surveillance alerts.
- Threshold limits and the rationale for the same.
- Time frame for disposition of alerts and if there is any delay in disposition, reason for the same should be documented.
- To identify Suspicious/Manipulative activity identification and their reporting.
- Maintenance of appropriate records.

In-order to implement the exchange/Depository/regulatory directives, they have provided us alerts which have to be generated by the company/depository participants. The details of which these have been enumerated below:

1. SIGNIFICANT INCREASE IN CLIENT ACTIVITY

Client(s)/Group of Client(s) who have been dealing in small quantities/value, suddenly/ significantly increase their activity over a period of time say fortnight/month/quarter and this increases by certain threshold limit of more than 50% as compared to the earlier period of same duration, we review and conduct an analysis on parameters such as;

- Whether such volume is justified and gives the background of the client and his past trading activity.
- Amount of funds that was brought in by the Client(s)/Group of Client(s) for the purchases made during the period.
- Whether such inflow of funds is in line with the financial status of the client.
- Whether the transactions of such Client(s)/Group of Client(s) are contributing to concentration or impacting the price and or volumes.

2. SUDDEN TRADING ACTIVITY IN DORMANT ACCOUNT

An inactive client resumes trading starts/resumes trading or the client start trading in illiquid stocks or low market capitalized scrips or enters into huge transactions not to commensurate with the financial strength of the client, we have to review and examine the following;

- Reasons for trading in such scrips/contracts.
- Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices.
- Whether there is any concerted attempt by a Client(s)/Group of Client(s) to indulge in movement of profit/loss from one client to another account.

3. CLIENTS / GROUP OF CLIENT(S), DEAL IN COMMON SCRIPS

Clients / group of client(s) dealing in common scrips contributing significant to the volume of the scrip/contract at the Trading Member level and at the stock exchange level we need to review and examine the following;

- Reasons for trading in such scrips/contracts.
- Whether there is any concerted attempt by to impact the prices.
- Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.

4. CLIENTS / GROUP OF CLIENT(S) IS CONCENTRATED IN A FEW ILLIQUID SCRIPS

There is a sudden activity by Client(s)/Group of Client(s) in illiquid securities/contracts manifested in terms of volume as compared to the volume of the exchange or that of the Trading Member we need to review and examine the following;

- Reasons for trading in such scrips/contracts.
- Whether there is any concerted attempt to impact the prices.
- Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.

5. CLIENT / GROUP OF CLIENT(S) DEALING IN SCRIP IN MINIMUM LOT SIZE

Client / group of client(s) dealing in scrip in quantity of one share or trade in minimum lot size we need to review and examine the following

- Reasons for such trading behavior.
- Trading pattern and repeated instances.

6. CLIENT / GROUP OF CLIENT(S) CONCENTRATION IN A SCRIP

We need to review and examine the following;

- Whether there trading is sudden trading
- Whether there is any concerted attempt to impact the prices of such scrips/contracts.
- Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.
- Probable matching of transactions with another client.
- Apparent loss booking transactions in illiquid contract/securities
- Whether the transactions of are contributing to concentration or impacting the price.

7. CIRCULAR TRADING

- Continuous trading of client/group of clients in particular scrip over a period of time
- Client/group of clients contributing significant volume (broker and exchange level) in particular scrip – especially illiquid scrip and /or illiquid contracts
- Possible matching of trades with a specific group of clients (like same trade number on both buy and sell side of a member and/or immediate execution of order in illiquid scrip etc.)
- Possible reversal of trades with the same group of clients (like same trade number on both buy and sell side of a member and/or immediate execution of order in illiquid scrip)

8. PUMP AND DUMP

- Activity concentrated in illiquid scrips/contracts.
- Sudden activity in illiquid securities/contracts.
- Percentage of activity to total market in the scrip/contract is high.
- Trades being executed at prices significantly away from the market and later on squaring off to earn significant profits.

9. REVERSAL OF TRADES

- Same Client) on both sides of the transaction. (i.e. same trade number on both the buy and sell side with us)
- Reversal of transactions by same Client(s) or within same Group of Client(s) at significantly different trade prices within a short period of time says 3-4 days.
- One client makes significant profit and other suffers a loss or apparent loss booking transactions in illiquid contract/securities including options

10. FRONT RUNNING

- Trading, by Client employees, ahead of large buy/sell transactions and subsequent square off has to be identified and such transactions have to be reviewed for determining front running
- There is a consistent pattern of Client employees trading ahead of large buy/sell transactions.

11. CONCENTRATED POSITION IN THE OPEN INTEREST / HIGH TURNOVER CONCENTRATION

- Client having significant position in the total open interest of a particular scrip.
- Client not reducing/closing their positions in spite of the scrip being in ban period.
- Client activity accounts for a significant percentage of the total trading in the contract/securities at member and exchange level.
- Monitor the trading pattern of Client(s) who have Open Interest positions/concentration greater than equal to the thresholds prescribed.

12. ORDER BOOK SPOOFING I.E. LARGE ORDERS AWAY FROM MARKET

- Consistent placement of large orders significantly away from the market with low trade to order trade ratio or canceling orders within seconds after placing them thereby creating a false impression of depth in a particular scrip/contract
- Repeated pattern of placement of large buy orders which are away from the market price and simultaneous placement of sell orders to benefit from price rise or vice-versa.

➤ Client(s) Information

- Due Diligence of its client(s) will be carried out on a continuous basis. It will also be ensured that key KYC parameters are updated on a continuous basis as prescribed by SEBI and latest information of the client is updated in UCC database of the Exchange.
- Based on this information, the Company will establish groups / association amongst clients to identify multiple accounts / common account / group of clients.

➤ **ADDITIONAL MONITORING**

- Not allowing trades of entities which are banned by SEBI/Exchange/other regulators. This database is verified by the KYC team before client account is activated.
- Trading is allowed to commence only after execution of the client registration form and all the mandatory Unique Client Code (UCC) parameters such as Name, Address, PAN No. etc., have been uploaded by us to the Exchange portal.
- Likewise, demat account numbers are provided to the demat account holders only after obtaining the Client registration forms and activating the same into the DP system.
- Clients who have debit balance in their ledgers continuously for a certain period of time or who default in making payment/delivery. This is monitored by our RMS team who dedicated does follow up with the clients/branches/AP and also restricts from further trading.
- Bulk deals have been disclosed/reported; illiquid scrips/contract or derivatives scrips which are in ban period. Trading activity in such scrips may be analyzed for Client.
- We need to correlate the transactional alerts with the information of client(s) available with them. The correlation of alerts with information of Client(s)/Group of Client(s) would help Trading Members to identify, mitigate and manage such transactions as well as minimizing business risk.

➤ **Analysis**

In order to analyze the trading activity of the Client scrips identified based on above alerts, we can do the following:-

- Shortlist Client for further analysis.
- Seek explanation from such identified Client
- Seek documentary evidence such as bank statement/demat transaction statements of last 6 months to 12 months period, to satisfy itself.
- On the basis of information received from the client and after proper evaluation and analysis, we decide our steps for suspending code and or the scrip from further trading.

➤ **Reporting**

- All action/analysis with respect the alerts generated should be completed within a reasonable time frame
- The surveillance policy of the Trading Member to be approved by the Board of Directors
- A daily reporting of the alerts to the designated director and principal officer / a quarterly MIS to the Board of Directors if there are alerts as to the number of alerts received, disposed off during the quarter and pending at the end of the quarter and the. Reasons for pendency should be discussed and appropriate action taken for disposing of the alerts.
- The surveillance process to be conducted under overall supervision of its Compliance Officer/Principal Officer.
- Officer under the PMLA directives/ Compliance Officer of the Company and their team would be to be responsible for all surveillance activities carried out for the record maintenance and reporting of such activities under the supervision of the Designated Director.
- Internal auditor shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in their report.

- This policy would be made available to the internal auditors and regulators during the course of audits or as and when demanded.
- Certain few things we can implement provided the concerned departments monitor and keep track.

Surveillance Policy for operations as Depository Participant:-

Depositories are providing transactional alerts on biweekly basis based on threshold defined by CDSL to the all the DPs report download utility. As per applicable Circular, the company is reviewing these alerts and taking appropriate actions after carrying out due diligence viz. either disposing off alerts with appropriate reasons/findings recorded or filing Suspicious Transaction Report (STR) with FIU-India in accordance with provisions of PMLA (Maintenance of records) Rules, 2005.

In addition to the same, company has identified various Surveillance parameters in respect of its operations as Depository Participant to generate alerts as per guidance provided in CDSL Circulars based on following criteria:

- a. Multiple Demat accounts opened with same PAN/mobile number/ email ID/ bank account details/ address. While reviewing BO account details, the details of existing BO shall also be considered.
- b. Email/ letters sent to clients on their registered email ID/address which bounces/ returns undelivered.
- c. BO who has submitted modification request for changes in his/her/its demographic details of address, email id, mobile number, bank details, POA holder, Authorized Signatory etc. at least twice in a month.
- d. Frequent off-market transfer of securities more than twice in a month without genuine reasons.
- e. Off-market transactions not commensurate with the income/net worth of the BO.
- f. Pledge transactions not commensurate with the income/net worth of the BO.
- g. High value off-market transfer immediately after modification of either email ID/mobile number/ address without genuine reason.
- h. Review of reasons for off-market transfer provided by the BO which appears non-genuine based on either profile of the BO or on account of reason codes, including frequent off-market transfer with reason code gift/donation to unrelated parties and/or with reason code off- market sales.
- i. Sudden increase in transaction activity in a newly opened account in a short span of time. An account in which securities balance suddenly reduces to zero and an active account with regular transaction suddenly becomes dormant.

I. PROCESSING AND REVIEW AND DISPOSAL OF ALERTS:-

The surveillance process shall be conducted under overall supervision of its Compliance Officer and he/ she shall be the designated official tasked with the review, processing and disposal of alerts.

If the designated official finds after review and due diligence that the alert is required to be closed, the official shall close the same with appropriate remarks.

If the designated official after due diligence and making such inquiry, as such official finds necessary, comes to a conclusion that the given alert warrants an action, the official will forward the same with his/her views to the Designated Director for his/her approval.

In order to review, analyze and dispose-off the alerts, the designated official may:-

- a. Seek explanation / information from such identified Client(s) / Group of Client(s) for entering into such transactions. Letter/ email to be sent to client asking the client to confirm that client has adhered to trading regulations and details may be sought pertaining to source of funds and securities, economic sense and trading pattern.
- b. Seek documentary evidence such as Bank Statement / Demat Transaction Statement, Financial Statements or any other documents to support the trading pattern of the client.

After analyzing the documentary evidences, including the Bank / Demat statement, the observations shall be recorded for such identified transactions or Client(s) / Group of Client(s).

If the designated official finds that action in respect of such alert is warranted, he/she shall take such actions including filing STR with FIU-India, informing to Stock Exchanges and Depository and/or discontinue the relationship with the client.

In case of adverse observations, the report of such instances along with adverse observations and details of actions taken shall be submitted to the Stock Exchanges/ Depository within 7 days from date of identification of such instances.

In case the client does not cooperate or does not revert within reasonable period, Exchange to be informed based on the information available with the member.

All efforts shall be made to dispose-off a given alert within 45 days of its receipt / generation.

The records of alerts generated, disposed of as closed and details of action taken wherever applicable shall be maintained with such security measures as would make such records temper proof and the access is available on to designated officials under the supervision of the Compliance Officer.

II. MONITORING AND RECORD MAINTENANCE

The surveillance process shall be conducted under overall supervision of its Compliance Officer and based on facts and circumstances, he / she is required to take adequate precaution.

A quarterly MIS shall be put up by the Compliance Officer to the board and the Designated Director giving number of alerts generated during the quarter, number of alerts closed, number of alerts on which action taken with details of action taken and number of alerts pending at the end of the quarter along with reasons for pendency and action plan for closure. The Board as well as the Designated Director shall be apprised of any exception noticed during the disposal of the alerts

Reasons for pendency shall be discussed and appropriate action would be taken. In case of any exception noticed during the disposition of alerts, the same shall be put up to the Board.

Internal auditor shall review this policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in their report.

III. REPORTING OF ALERTS

The Company shall provide duly approved status of the Alerts on a Quarterly basis to the exchange in the format prescribed by the exchange within 15 days from the end of the quarter.

In case zero alert during the quarter, NIL report need to be submit to the exchange as per the prescribed format.

IV. REVIEW POLICY

This policy will be reviewed by the Designated Director, as and when there are any changes introduced by any statutory authority or at least once in a year to ensure that same is updated and in line with market trends, updated regulations and practices.

