

## **SURVEILLANCE POLICY**

### **OBJECTIVE**

The objective of this policy is to have in place an effective market surveillance mechanism to ensure investor protection and to safeguard the integrity of the markets. The goal of surveillance is to spot adverse situations in the markets and to pursue appropriate preventive actions to avoid disruption to the markets. The fairness of the markets is closely linked to investor protection and, in particular, to the prevention of improper trading practices. This monitoring is required to analyse the trading pattern of the clients in order to observe whether any transaction (buying / selling) done intentionally, which will have an abnormal effect on the price and / or volumes of any share, which is against the fundamental objective of the Securities Market.

### **BACKGROUND**

National Stock Exchange vide circular no. NSE/INVG/22908 dated March 7, 2013, intimated that the Exchange would be downloading the following alerts based on the trading activity of the client for facilitating the effective surveillance mechanism and directed the stock brokers to frame a surveillance policy for the same. The surveillance policy shall cover the maintenance and disposition of alerts received from exchanges/generated at our end.

### **SCOPE OF THE POLICY**

The policy covers the various surveillance alerts generated / received from the exchange for identifying suspicious trades, analysis of these alerts, methodology of reporting the alerts to the exchange/ FIU.

### **TYPES OF SURVEILLANCE ALERTS**

<b>Sr No.</b>	<b>Transactional Alerts</b>	<b>Segment</b>
1	Significant increase in client activity	Cash
2	Sudden trading activity in dormant account	Cash
3	Clients/Group of Client(s), deal in common scrips	Cash
4	Client(s)/Group of Client(s) is concentrated in a few illiquid scrips	Cash
5	Client(s)/Group of Client(s) dealing in scrip in minimum lot size	Cash
6	Client / Group of Client(s) Concentration in a scrip	Cash
7	Circular Trading	Cash
8	Pump and Dump (Pump-and-dump" involve the touting of a company's stock (typically small, so-called "microcap" companies) through false and misleading statements to the marketplace.)	Cash

9	Wash Sales ( A wash sale is trading activity in which shares of a security are sold at a loss and a substantially identical security is purchased)	Cash & Derivatives
10	Reversal of Trades	Cash & Derivatives
11	Front Running (Execution of orders in a security for its own account by the member while taking advantage of advance knowledge of orders from its customers)	Cash
12	Concentrated position in the Open Interest / High Turnover concentration	Derivatives
13	Order book spoofing i.e. large orders away from market	Cash

## DOWNLOADING AND ANALYZING ALERTS BY SURVEILLANCE TEAM

The alerts provided by exchanges shall be downloaded on daily basis by the Compliance department from respective exchange system for an in depth analysis. The alerts shall be analyzed based on type of alert, client's past trading pattern, clients occupation, clients financial review , other connected clients in our database, etc. The alerts which are found to be suspicious and of which the Surveillance Team is of the opinion that the same needs to be reported to the exchange shall be flagged separately. Such alerts should be forwarded to the concerned Relationship Manager/Risk Head for further clarification and scrutiny.

## STEPS TO BE TAKEN FOR ANALYSIS OF EACH ALERT BY SURVEILLANCE TEAM:

### i. Significant increase in client activity

Client(s)/Group of Client(s)1 who have been dealing in small quantities/value suddenly significantly increase their activity. In such cases the following shall be examined:

- Whether such volume is justified given the background of the client and his past trading activity.
- Cumulative 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.

### ii. Sudden trading activity in dormant accounts

This refers to such cases where the client has not traded more than 12 months and suddenly starts/resumes trading in stocks or low market capitalized scrips or enters into transaction which is not in line with his financial strength. In such cases following shall be reviewed and examined:

- Reasons for trading in such scrips/contracts.
- Whether the client is only placing the order or is it some third party
- Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices of such scrips/contracts through use of such dormant accounts.

- 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 through use of such dormant accounts.

**iii. Clients/Group of Client(s), dealing in common scrips**

Such dealing is contributing significantly to the volume of the scrip at Quant level and at the stock exchange level. The following shall be reviewed and examined:

- Reasons for trading in such scrips.
- Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices of such scrips.
- 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.

**iv. Client(s)/Group of Client(s) concentrated in a few illiquid scrips**

The following shall be reviewed and examined:

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

**v. Client(s)/Group of Client(s) dealing in scrip in minimum lot size/ Concentration in a scrip**

The following shall be reviewed and examined:

- Reasons for such trading behavior.
- Whether the transactions of such Client(s)/Group of Client(s) are contributing to concentration or impacting the price.
- Whether such transactions indicates towards probability of illegal trading at the clients' end.

**vi. Circular Trading**

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

**vii. Pump and Dump**

- Activity concentrated in illiquid scrips.
- Sudden activity in illiquid securities.

- Percentage of Client(s)/Group of Client(s) 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.

#### **viii. Wash Sales or Reversal of Trades**

- Same Client(s)/ Group of Client(s) on both sides of the transaction. (i.e. same trade number on both the buy and sell side)
- Reversal of transactions by same Client(s) or within same Group of Client(s) at significantly different trade prices within a short period 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

#### **ix. Front Running**

- Trading, by Client(s)/ Group of Client(s)/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(s)/ Group of Client(s)/employees trading ahead of large buy/sell transactions.

#### **x. Concentrated position in the Open Interest/high turnover concentration**

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

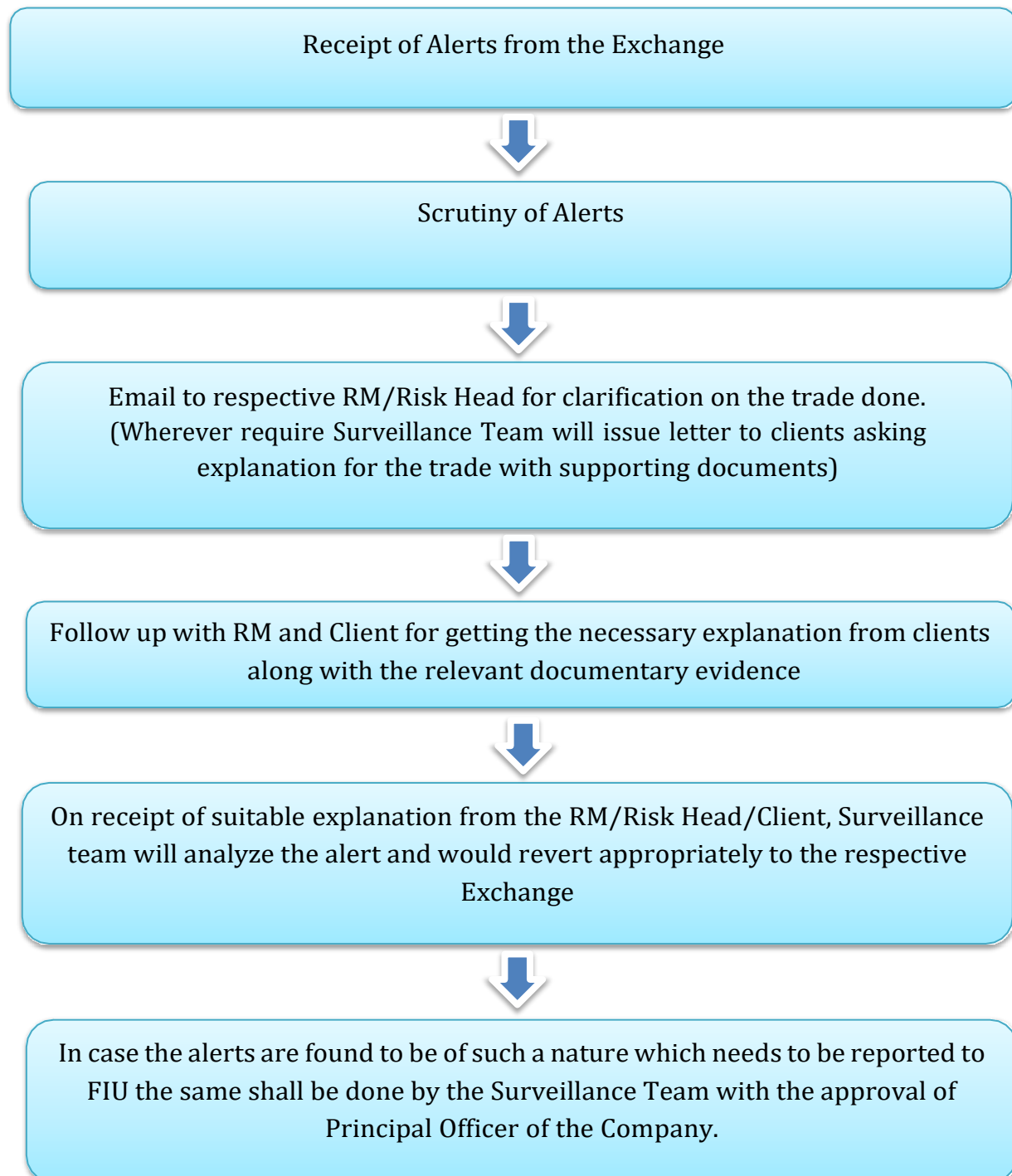
#### **xi. Order book spoofing i.e. large orders away from market**

- 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.

**Scrutiny of the alerts, identifying suspicious activity and reporting the same to exchange/FIU:**

Surveillance Team shall conduct an in depth scrutiny of alerts received from Exchanges. Each alert shall be studied with Root Cause Analysis (RCA) approach.

The following shall be the process flow:



It is to be noted that in case of exceptional circumstances where it may be difficult to seek explanation from clients on account of non-co-operation of clients/ client not traceable, etc. the process mentioned above will not be completed. In such cases the matter would be brought to the notice of the Compliance Officer/Designated Directors for necessary action as may be deemed fit depending on the facts and circumstances of each case.

### **Terms used in this Policy:**

Alerts: Referred as transactional alerts arising due to sudden significant increase in client activity, sudden trading activity in inactive/dormant accounts, clients/groups of clients dealer in common scrips, illiquid scrips, minimum lot size/or single scrip, large orders away from the market, concentrated position in the open interest/high turnover concentration, circular trading, pump and dump, wash sales, reversal of trades, front running.

### **Transactional alerts:**

In accordance with the circular No.NSE/INVG/22908 dated March 7, 2013 issued by National Stock Exchange and in order to maintain the records of the transactional alerts received from exchanges or generated at our end, the following steps would be taken to review and dispose the alerts

1. Review the type of alert downloaded by exchange or generated at our end
2. Financial details of the client
3. Past trading pattern of the clients/client group
4. Bank/demat transaction details
5. Other connected clients having common email/mobile number/address or any other linkages etc.
6. Other publicly available information to review the alert(s)

### **Client(s) Information:**

Due Diligence of client(s) would be done on a continuous basis. Client information is been updated at least once a year through periodic review. Financial information also needs to be updated for all active clients and the following relevant documents pertaining to financial details are obtained from clients.

2. Copy of Annual Accounts
4. Net worth certificate
5. Salary Slip
6. Bank account statement for last 6 months
7. Copy of demat account Holding statement.

8. Any other relevant documents substantiating ownership of assets.
9. Self declaration along with relevant supporting.

Addition/ Modification of any parameter (correspondence address, contact details, email id, bank and beneficiary accounts) relating to client is updated immediately in the UCI database of exchange and the same in the back office also.

Based on the above information/documents, identification of groups / association amongst clients to identify multiple accounts / common account / group of clients is been established.

Groups has been formed on the basis of details of family/ group/ associate provided by clients during their registration or at the time of periodic review and on the basis of any authorization submitted by the client for adjustment of their balances.

### **Analysis**

In order to analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified based on the alerts received from the Exchange, the following information shall be sought from clients:

- a. Seeking explanation 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 funds and securities and other trading pattern.
- b. Seeking documentary evidence such as Bank Statement / Demat Transaction Statement or any other documents to support the statement provided by client.
  1. In case of funds, Bank statements of the Client(s) / Group of Client(s) from where funds pay-in have been met, to be sought. Sources of funds in the bank statements to be verified. In case of securities, Demat account statements of the Client(s) / Group of Client(s) from where securities pay-in has been met, to be sought.
  2. The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the funds / securities for the settlement of such trades actually belongs to the client for whom the trades were transacted.
- c. 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). In case of adverse observations, the same will be reported to the Exchange within 45 days of the alert generation. Extension of the time period from the Exchange will be sought, if required.

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.

### **Monitoring and Reporting :**

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.

Designated directors / Compliance Officer would be responsible for all surveillance activities carried out and for the record maintenance and reporting of such activities.

A monthly MIS shall be put up to the Board on the number of alerts pending at the beginning of the month, generated during the month, disposed off during the month and pending at the end of the month. 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.

### **Record Maintenance and review of process:**

Each alert received from the exchange shall be backed by necessary supporting documentary evidence substantiating the reason for reporting/non reporting the same to the exchange. An excel sheet shall be maintained by the Surveillance Team wherein in the details of each alert, explanation sought from client, documentary evidence collected from clients, reason for reporting/ non reporting the alert to exchange, reason for reporting the alert to FIU, any other additional details as may be deemed fit may be captured.

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.