

## **SURVEILLANCE POLICY**

### **INTRODUCTION:**

National Stock Exchange of India Limited (NSE) vide its circular dated 7<sup>th</sup> March 2013 and BSE Limited vide its notice dated 07<sup>th</sup> March 2013 has directed the trading members to frame a surveillance policy for effective monitoring of trades executed through them on the basis of alerts provided by the exchange.

### **ALERTS:**

In order to facilitate effective surveillance mechanisms, the Company shall download the below mentioned alerts provided by the exchange

| Sr. No. | Transactional Alerts  | Segment            |
|---------|---|--------------------|
| 1       | Significantly 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   | Cash               |
| 9       | Wash Sales  | Cash & Derivatives |
| 10      | Reversal of Trades  | Cash & Derivatives |
| 11      | Front Running   | Cash               |
| 12      | Concentration position in the Open Interest / High Turnover Concentration | Derivatives        |
| 13      | Order Book Spoofing i.e. large orders away from market                    | Cash               |

On the basis of the above alerts received from the Exchange and alert generated in addition to the above the following activity will be required to be carried out by the Compliance Officer and Head-Risk Management: -

### **1) Clients Information:**

They shall carry out Due Diligence of client and shall ensure that the key KYC parameters are updated on a periodic basis and latest information of the client is

updated in Unique Client Code (UCC) database of the Exchange. Based on this information Compliance Officer shall try to establish groups / association amongst clients to identify multiple accounts / common account / group of clients, if any.

## **2) Analysis:**

If he feels so, he may carry out the following procedure:

- a. To seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.
- b. To Seek documentary evidence such as bank statement / demat transaction statement or any other documents as below:
  - a. In case of funds, Bank statements of the Client(s) / Group of Client(s) from which funds pay-in have been met, to be sought. In case of securities, demat account statements of the Client(s) / Group of Client(s) from which securities pay-in has been met, to be sought.
  - b. 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.

He shall review the alerts based upon:

- 1) Type of the alerts downloaded by the exchange
  - 2) Financial details of the clients
  - 3) Past Trading pattern of the clients/ client group
  - 4) Bank /Demat transaction details
  - 5) Other connected clients in UCC (common email/mobile number/address, other linkages, etc)
  - 6) Other publicly available information.
- c. After analyzing the documentary evidences, he should record its observations for such identified transactions or Client(s) / Group of Client(s) in the Register maintained for the purpose. In case adverse observations are recorded, the Compliance Officer shall report all such instances to the Exchange within 45 days of the alert generation.

## **4) Monitoring and reporting:**

All alerts generated shall be disposed-off within 30 days, and any delay in disposition, reason for the same shall be documented.

In case of any Suspicious or any Manipulative activity is identified, the same will be mentioned in the Register and should be reported to the Stock Exchanges within 45 days of the alert generation.

We shall prepare quarterly MIS and shall put to the Board on the number of alerts pending at the beginning of the quarter, generated during the quarter, disposed off during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed and appropriate action will be taken. Also, the Board shall be apprised of any exception noticed during the disposition of alerts. The surveillance process shall be conducted under overall supervision of Compliance Officer. Compliance Officer would be responsible for all surveillance activities, record maintenance and reporting of such activities.

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.

**5) Policy communication**

A copy of this policy shall be made available to all the relevant staff, dealers, branch-In-charge, Compliance Officer and other stakeholders for their information and any change should be communicated to them.

**6) Review**

The Policy shall be reviewed on instruction of the Board of Directors or on issue of new circular/directive issued by Regulatory/ Statutory authorities.

Dated: 7<sup>th</sup> March, 2014