Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank

CANARA BANK SECURITIES LTD.
(A WHOLLY OWNED SUBSIDIARY OF CANARA BANK)

SURVEILLANCE POLICY
(Reviewed on 19.01.2024)

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1. Background:

Being the capital market intermediary, we are subject to the Compliance from regulator as well as the exchanges. The clients from various walks of life with varied interests trade with us. There is an every possibility that client may deviate from the norms prescribed by the regulators as well as exchanges knowingly or unknowingly. Thus it is very important to have strict vigilance over the trades happening with our trade terminal. The alerts need to be generated frequently with the predefined criteria to investigate the abnormal trade practices. Further enquiry into the rational of trade with the concerned party to be noted and needs to be analyzed. Moreover it is also important to inform the exchange if the client response is not adequate.

NSE vide circular bearing reference no: NSE/INVG/22908 dated March 07, 2013 and BSE vide notice bearing reference no: 20130220-23 dated February 20, 2013 and reference no: 20130307-21 dated March 07, 2013, have advised regarding Surveillance Obligations for Trading Members.

In this context, to facilitate effective surveillance mechanisms at the Member level, the Exchanges would be generating / providing the alerts to the members based on the trading activity of their clients on the respective Exchanges. The member has to analyze the alerts provided by the exchanges and report in case of any suspicious transaction is noticed based on the parameter set by the exchanges and also set by the member internally. Besides exchange alerts this policy document aims to achieve the aforesaid objective.

2. Objective of Surveillance:

As the size of the complexities and level of technical sophistication of the market is increasing, the retail investors, in addition to HNIs, are placing an increased proportion of their money in securities markets. This requires a need for sound and effective mechanism / regulation which builds confidence of investors in the market.

Thus, in order to ensure investor protection and to safeguard the integrity of the market, it is imperative to have in place an effective market surveillance mechanism.

To facilitate effective surveillance mechanism for a well-functioning of the capital market, the tasks of information gathering, collation and analysis of data/information are divided among the Exchanges, Depositories, SEBI and Trading Members too.

Thus, to achieve effective surveillance for investor protection, market integrity and capital market development, it is necessary that member in addition to alerts been provided by respective regulatory authorities, shall also develop / set in house parameters as an integral part of their routine / regulatory process.

3. Surveillance function at Mid office

The following functions are to be carried out in the mid office of the company to monitor the margin erosion, PMLA, trading of clients and other Risk management measures as per Risk Management Policy of the company.

The Mid office shall ensure the following:

i. Market open and the system is in place – checking status of the market
ii. Market watch is appearing
iii. AMO orders are pushed
iv. Client activities
v. Orders of the clients are put through
vi. To watch any in process orders exist and to compare with the notices of NEAT/BOLT every 15 minutes
vii. Ensuring exchange guidelines and notices daily on MWPL (i.e scrips which exceeds 95% of MWPL)
viii. Trade to trade basket updation
ix. Banned stock updation as per exchange list daily
x. Updation of intraday stocks
xi. First day listing of IPOs. Ensuring that the necessary enablement at Central DP to place the shares on hold. Further ensuring that necessary parameters in respect of the new scrip is incorporated in the Surveillance system to enable the clients to trade.
xii. Name change of the companies
xiii. Intraday squaring off at 3.10 PM
xiv. Updation of client master- mobile no, email address, income details and other changes in client profile, etc.
xv. Unlocking of trading accounts, resetting of login passwords and activation of dormant trading accounts, etc.
xvi. Check SPAN margin is uploaded to the exchange on all F & O scrips and monitor continuously collection of SPAN, Extreme loss and extra 20% margin as per RMS policy of the company.
xvii. Intraday exposures are to be monitored continuously.
xviii. There should not be any exposures more than 10 times of the funds available as per RMS policy of the company.
xix. Ensure that the SPAN margin files released by the exchange at periodical intervals are uploaded to the front office. The mid office should ensure availability of margin and exposure as per guidelines and RMS policy.

xx. The M to M losses on margin to be collected from the clients at the earliest by the end of the day. In case the same is not recovered by the end of the day, the clients need to be contacted at the beginning of the next day to provide the funds before trading begins or the position needs to be squared off.

xxi. M to M Losses and erosion of margin to be monitored online

Monitoring of collection and Availability of margin

The dashboard at mid office will provide all the details for continuous monitoring of the client activities and margin level and provide alert at three levels with self-refreshing feature.
The dash board will provide the first warning of M to M margin at 60% level and second warning at 70% level and last warning at 80% level.

The mid office should intimate to the client at the first level itself by email and/or over phone and/or fastest connecting mode. If the clients are not bringing the funds at the second level alerts, the clients are to be informed about squaring off and alerted. At the third level, the company should take the decision of squaring off or continuity of client's activity. At the erosion of 100% margin, the mid office shall square off the position without further intimation.

The intraday exposures are to be squared off by the clients before 3.10 P M. The mid office shall square off all the outstanding intraday trades at 3.10 P M as per Risk Management Policy of the Company.

4. Generation of Alerts and it analysis:

4.1 Receipt of Alerts from Exchanges:

In order to facilitate effective surveillance mechanisms at the Member level, the exchanges would provide the below mentioned alerts based on the trading activity carried out by the member for its clients on the respective Exchanges on daily basis.

Types of Transactional Alerts received from the Exchanges:

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.	Concentrated position in the Open Interest / High Turnover concentration	Derivatives
13.	Order book spoofing i.e. large orders away from market	Cash

i. **Significant increase in client activity: Client(s)/Group of Client(s) 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 6 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 client to another.**

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 of time.

- **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 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**

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.**

4.2 Generation of Alerts by the company internally

Though the abovementioned alerts provided by Exchanges are indicative in nature, presently the company is generating internal alerts as per PMLA policy and Risk management Policy of the company. The function is carried out at the Mid office.

In view of the above, the following parameters have been set as the preliminary parameters to generate the internal alerts. However the guidelines are not extensive in nature and the alert generating designator should invariably search for the abnormalities with utmost cautiousness.

CBSL is having TSS software to import the trade data along with the exchange information. The vendor has provided predefined scoring for each following parameters. Company shall revisit the parameters once in 6 months or depending on regulatory changes introduced for different category of scrip whichever is earlier and change the parameters for generating the scorecards as per our requirements.

Generation of Alerts and it Analysis:

S. No.	Alert Name	Purpose	Threshold Limit
1.	Net money in 30 days (S21) *	1. Client is investing funds which are not a part of his disclosed wealth. (Undeclared Income) 2. To check the sources/mode of the funds received.	Amount of Rs.50 lacs or more received in a month.
2.	Issued capital turnover in single Day(S25)	1. Could lead to indicators of market manipulation. 2. Could lead to indicators of Insider Trading.	0.50% of the Issued Capital in a single day.

		3. Could lead to indicators of artificial volume creation	
3.	Scrip Concentration in 30 days(S26)	1. Could lead to indicators of market manipulation 2. Could lead to indicators of price manipulation 3. Could lead to indicators of artificial volume creation	Client concentration reaches 25 lacs and the scrip concentration is 80% of the scrip concentration. Exclude scrip of A &B group.
4.	Net money in 1 day(S30)*	1. Could lead to conclusion that the ultimate beneficial owner is someone other than the client. 2. Client is investing funds which are not a part of his disclosed wealth. (Undeclared Income)	Amount of Rs.10 lacs or more received in a single day.
5.	Net money out 1 day(S31)*	1. Could lead to conclusion that the ultimate beneficial owner is someone other than the client. 2. Client is investing funds which are not a part of his disclosed wealth. (Undeclared assets)	Amount of Rs.10 lacs or more paid in a single day.
6.	Net money out 30 day(S34)*	1 Could lead to conclusion that the ultimate beneficial owner is someone other than the client. 2. Client is investing funds which are not a part of his disclosed wealth. (Undeclared assets) 3. Could lead to conclusion that the ultimate beneficial owner is Third Party in case the shares sold are received from third party from Demat Statement.	Amount of Rs.50 lacs or more paid in 30 days.
7.	Synchronized Trade in 1 day FO(S43)	1. Indication of market manipulation. 2. Pump and dump theory indicators. 3. Indicators on artificial volume profit or loss creation. 4. Indicators on artificial volume creation. 5. Indicators of activity in illiquid scrip. 6. Indicators od circular trading	Where the trade value is more than: • Futures= 50 lacs • Options= 1 crore

8.	Artificial volume creation Buy/Sell-Cash Segment(S50)	1. Artificial volume creation in cash segment 2. Could give lead to Insider Trading indicators. 3. Could lead to indicators of market manipulation 4. Could lead to indicators of price manipulation	• Turnover= 5Lacs, & • Scrip concentration=10% of the exchange volume & • Times (Buy + Sell) = 3 times in 30 days. When all these three criteria are matched, the alert will be generated.
9.	Artificial volume creation in illiquid scrip-Buy/Sell(S51)	1. Could give lead to Insider Trading indicators. 2. Could lead to indicators of market manipulation 3. Could lead to indicators of price manipulation	• Turnover= 1Lacs & • Scrip concentration=5% of the exchange volume & • Times (Buy + Sell) = 2 times in 30 days. When all these three criteria are matched, the alert will be generated.
10.	Artificial volume creation FNO (S52)	1. Could give lead to Insider Trading indicators. 2. Could lead to indicators of market manipulation 3. Could lead to indicators of price manipulation	25% of the exchange volume.
11.	Net pay in cash segment average 6 months (S53)*	1. To identify clients which bring in money, beyond the declared (In KYC) financial strength	Amount of Rs. 1 crore received twice in 6 months
12.	Net pay out cash segment average 6 months (S54)*	1. To identify clients which take money and which is beyond the declared (in KYC) net worth.	Amount of Rs. 50 lacs paid twice in 6 months.
13.	Self-Trade in single day in Equity segment(S55)	1. To identify client who indulge in Market Manipulation activity by simultaneously buying and selling with the same broker at same location or at different location which may result into creation of artificial market making for volume generation for scrip or Undergoing making of artificial profit or loss creation or circular trading activity.	Where the Turnover exceed 1 Rs
14.	Self-Trade in single day in FNO segment(S56)	1. To identify client who indulge in Market Manipulation activity by simultaneously buying and selling with the same broker at same location or at different location which may result into creation of artificial market making for volume generation for scrip or Undergoing making of artificial profit or loss creation or circular trading activity.	Where the Turnover exceed 1Rs
15.	Delivery turnover	To identify whose turnover is disproportionate with the annual	Where the delivery turnover

	in single day(S58)	income/Net worth provided in the KYC.	exceed 50 lacs and 2 times of the delivery multiplier where the delivery multiplier includes (Income + Net worth)*2.
16.	High money in flow in new account(S59)*	To check the suspicious transactions and to compare the financial capability of the client as given in the KYC.	Single transaction amounting to Rs 10 lacs or more.
17.	High money out flow in new account(S60)*	To check the suspicious transactions and to compare the financial capability of the client as given in the KYC.	Single transaction amounting to Rs 10 lacs or more.
18.	Trade in dormant account(180 days)(S64)	To check the transactions value greater than threshold limit within one month form the date of activation.	Where the total turnover exceeds 5 lacs
19.	Marking High Open price (S72)-Transaction where first trade price and last trade price are higher than the previous day's closing price in small quantities.	1. Could give lead to Insider Trading indicators. 2. Could lead to indicators of market manipulation 3. Could lead to indicators of price manipulation	Turnover is less than1 lacs
20.	Small orders in single stock 15 days(S73)	1. Could give lead to Insider Trading indicators. 2. Could lead to indicators of market manipulation 3. Could lead to indicators of price manipulation	Small order quantity=5 quantity& Small order percentage=80% of the exchange volume & Minimum order=30 times in 15 days. Exclude scrip belonging to A &B group
21.	Intraday turnover in single day-cash Segment(S86)	1. Could give lead to Insider Trading indicators. 2. Could lead to indicators of market manipulation	Turnover =50 lacs and trading multiplier 10 times where the multiplier includes (Income + Net worth)*10.
22.	Intraday turnover in single day-FNO Segment(S87)	1. Could give lead to Insider Trading indicators. 2. Could lead to indicators of market manipulation	Turnover= 2 crores and trading multiplier 10 times where the multiplier includes (Income + Net worth)*10.
23.	Structured Purchases (For 90 days) (S88)-where the bulk trade is being placed by the client at a	1. Could give lead to Insider Trading indicators. 2. Could lead to indicators of market manipulation	Net buy to issued capital exceeds 5% of total share capital in 30 days.

	price away from the normal market price.		
24.	Turnover in GSM scrip(S91)	1. Could give lead to Insider Trading indicators. 2. Could lead to indicators of market manipulation	Turnover=5000 or more

*Alerts are not applicable as the same is being monitored by the bank.
Institutional and proprietary trades are excluded for the generation of alerts.

Recently the exchanges have come with the guidelines suggesting additional of few extra parameters in the said report for better monitoring. Accordingly we have taken up with our Vendor and added the following parameters for better surveillance. Alerts will be generated on breach of the threshold limit.:-

S. No.	Alert Name	Purpose	Threshold Limit
1.	High Turnover in 1 Day EQ (S24)	1. The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold 2. Client turnover in stock buy or sell is greater than or equal to set turnover threshold	• Turnover= 5Lacs, & • Scrip concentration=10% of the exchange volume & • Times (Buy + Sell) = 3times in 30 days.
2.	High Turnover 1 Day FNO (S49)	1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold	Retail client in FUTIDX & FUTSTK 1. Greater than or equal to 5%. 2. Greater than or equal to Rs.35 lacs. HUF client in OPTSTK,OPTCUR 3. Greater than or equal to 4%. 4. Greater than or equal to Rs.21 lacs.
3.	Scenario for Small Orders in Single Stock 15 Days (S73)	To identify clients indulging in frequent small quantity orders	1. Small order quantity less than or equal to 5. 2. Small order quantity greater than or equal to 75%. 3. Minimum order greater than or equal to 10 order.
4.	Client Purchase to Income Monthly (S102)	1.The Net buy T/o is greater than or equal to the fair value of client 2.Client Net buy is greater than or equal to set turnover threshold	1.The Net buy T/o is greater than or equal to the Income Strength of client 2.Client Net buy is greater than or equal to 20 lacs
5.	Client Net Sell (S104)	1.The Net Sell T/o is greater than or equal to the fair value	1.The Net Sell T/o is greater than or equal to the fair value of client

		of client 2.Client Net Sell is greater than or equal to set turnover threshold	2.Client Net Sell is greater than or equal to 20 lacs
6.	Profit compare with Exchange T/o (S126)	1.The profit of the client in thinly traded script in a short span of a time is greater than or equal to the set threshold 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold	1. Greater than or equal to 1 lacs or 50% of gain 2. Greater than or equal to 10% of sell turnover
7.	Loss compare with Exchange T/o (S127)	1.To detect The loss of the client in thinly traded script in a short span of a time is greater than or equal to the set threshold 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold	1.Greater than or equal to 1 lacs or 50% of loss 2.Greater than or equal to 8% of sell turnover
8.	High Turnover in 1 Day in specific scrip (S145)	1.The percentages of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold 2. Client turnover in stock buy or sell is greater than or equal to set turnover threshold.	1. Greater than or equal to 5 lacs 2. Greater than or equal to 10% of scrip
9.	Speculation Profit/Loss (S149)	The Profit/Loss of the client is greater than or equal to the set threshold	1.The Profit/Loss of the Individual client is greater than or equal to 2.5 lacs 2. The Profit/Loss of the Proprietary client is greater than or equal to 5 lacs
10.	High Turnover by group of clients in 1 Day EQ (S151)	This Scenario will detect the High Turnover done by a group of clients in 1 day. It will generate alert if, 1. The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by group of clients. 2. Client Group turnover in	1.Greater than or equal to 10% 2.Greater than or equal to 5 lacs

		stock buy or sell is greater than or equal to set turnover threshold by group of clients	
11.	High Turnover by group of clients in 1 Day FNO (S152)	This Scenario will detect the High Turnover done by a group of clients in 1 day. It will generate alert if, 1. The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by group of clients. 2. Client Group turnover in stock buy or sell is greater than or equal to set turnover threshold by group of clients	For FUTSTK 1.Greater than or equal to 3% 2.Greater than or equal to 1 crore For OPTSTK 1.Greater than or equal to 5% 2.Greater than or equal to 50 lacs
12.	High Turnover by new client in 1 Day EQ (S153)	The system will detect and alert if 1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by new client 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold by new client	Greater than or equal to 7 Turnover less than or equal to 5 lacs
13.	High Turnover by Group of new clients in 1 Day EQ (S154)	The system will detect and alert if 1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by group of new client 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold by group of new client	1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to 10% 2.Client Group turnover in stock buy or sell is greater than or equal to 5lacs
14.	High Turnover by new client in 1 Day FNO	The system will detect and alert if 1.The percentage of scrip	1. Greater than or equal to 2% 2.Client turnover in stock buy

	(S155)	turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by new client 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold by new client	or sell is greater than or equal to 3 crores
15.	High Turnover by Group of new clients in 1 Day FNO (S156)	The system will detect and alert if 1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by group of new client 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold by group of new client	For FUTSTK 1. turnover is greater than or equal to 10% 2.Client Group turnover in stock buy or sell is greater than or equal to 5 lacs For OPTSTK 1. Turnover is greater than or equal to 9% 2.Client Group turnover in stock buy or sell is greater than or equal to 5 lacs 3.Number of clients less than or equal to 5 4.Group share percentage less than 3%
16.	Small orders in single stock by group of clients EQ (S157)	To identify the group of clients indulging in frequent small quantity orders	1.Client small order quantity less than or equal to 5 2.Group small order total quantity less than or equal to 15 3.Percentage of total groups order quantity greater than or equal to 50% 4.Minimum group orders greater than or equal to 10 orders 5.Number of client in groups less than or equal to 5
17.	Small Orders in Single Stock FNO (S158)	To identify clients indulging in frequent small quantity orders	For FUTSTK Client order value less than or equal to 10 lacs of contract value For OPTSTK Client order value less than or

			equal to 2 lacs of premium value
18.	Small Orders in Single Stock by Group of Clients FNO (S159)	To identify group of clients indulging in frequent small quantity orders	For FUTSTK 1.Client small order turnover less than or equal to 10 lacs of contract value 2.Group small order turnover equal to 50 lacs of contract value For OPTSTK 1.Client small order turnover less than or equal to 1 lacs of premium value 2.Group small order turnover equal to 2.5 lacs of premium value
19.	Trade near Corporation Announcement (S160)	1.To detect clients and alert if the turnover of client in a particular scrip is greater than or equal to set threshold when there is a corporate announcement for that scrip 2.To detect clients and alert if the Profit/Loss of client in a particular scrip is greater than or equal to set threshold when there is a corporate announcement for that scrip	1.Turnover greater than or equal to 10 lacs 2.The Profit/Loss of client in a particular scrip is greater than or equal to 6lacs

Apart from the revision in parameters under PMLA/AML by the exchange, now NSDL has also come up with guidelines on generation of alert for Depository participants vide circular No. NSDL/POLICY/2021/0072 dated July 15, 2021 via NSDL wherein the participants are required to generate appropriate alerts so that the transactions of the clients are effectively monitored. Accordingly, as per the themes provided by NSDL we have taken up with our vendor and introduced the following parameters for alert generation for our DP.

Alert. No.	Indicative themes	Name of the Scenario
1.	Alert for multiple demat accounts opened with	Multiple Account Open with

	same demographic details: Alert for accounts opened with same PAN /mobile number / email id/ bank account no. / address considering the existing demat accounts held with the Participant.	Common Details.
2.	Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced.	Client Communication Bounced Back, Undelivered etc these scenarios will be monitored.
3.	Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.	Client Frequent Demographic Changes
4.	Frequent Off-Market transfers by a client in a specified period	Off Market transaction monitoring.
5.	Off-market transfers not commensurate with the income/Net worth of the client.	Client Off-Market transactions vis-a-vis Fair Value
6.	Pledge transactions not commensurate with the income/Net worth of the client.	Pledge Transactions vis Client Fair Value
7.	Off-market transfers (High Value) immediately after modification of details in demat account	High value transactions after modification in account
8.	Review of reasons of off-market transfers provided by client for off-market transfers vis-à-vis profile of the client e.g. transfers with reason code Gifts with consideration, frequent transfers with reason code Gifts/Donation to unrelated parties, frequent transfers with reason code off-market sales	Client Off-Mkt Transfer of Specific Reason vis Fair Value
9.	Alert for newly opened accounts wherein sudden Increase in transactions activities in short span of time and suddenly holding in demat account becomes zero or account becomes dormant after some time.	High Transaction low holding value in new/dormant account
10.	Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients	For enhanced monitoring.

Following are the parameters on the basis of which alerts will be generated internally

1) Client scrip concentration

To understand whether a given client is focusing on a particular script over a particular period and also analysis of his focus on the investment pattern. This could give lead to

- ✓ **Insider Trading indicators**
- ✓ **understanding that for multiple accounts there is a common operator based on trading pattern**
- ✓ **understanding that for multiple accounts there is a common operator based on mobile number or email address**

Parameter set : Client focus ≥ 80% of investment in specific stock group (i.e. All group excluding "A" & "B" Group and scrip turnover is more than 'Rs.25lakhs

2) Client exchange volume

To understand the intent of the client on his share of turnover, trades , percentage, movement of the price over that period. Clubbed report for a period for a client for a scrip is taken and analysed. This will help to understand whether there is intent to do transactions of no economic rationale or manipulation. This would help in trying to understand matched trades between different brokerage houses through the indicator of the number of trades in the exchange and the client. This could give lead to

- ✓ **indicators of market manipulation**
- ✓ **pump and dump theory indicators**
- ✓ **indicators on artificial profit or loss creation**
- ✓ **indicators of artificial volume creation**
- ✓ **indicators of activity in illiquid scrip**
- ✓ **indicators of circular trading**

Parameter Set :

1) **25% or more volume done in a stock excluding "A" & "B" Group**

2) 10% or more volume done in a only "A" & "B" Group stock

3) 50 % or more in T2T segment

4) 50 % or more in a penny stock (Stock price Less than Rs. 10)

3) Synchronized trading

To identify client or a group of clients who indulge in Market Manipulation activity by simultaneously buying and selling with the same broker at same location or at different location which may result into creation of artificial market making for volume generation for scrip or undergoing making of artificial profit or loss creation or circular trading activity. This helps to identify clients who are trading within themselves or group of individuals. Analysis can throw light on

- ✓ **indicators of market manipulation**
- ✓ **pump and dump theory indicators**
- ✓ **indicators on artificial profit or loss creation**
- ✓ **indicators of artificial volume creation**
- ✓ **indicators of activity in illiquid scrip**
- ✓ **indicators of circular trading**

Parameter Set : Synchronised Trade more than 1.00 Lakh. for Illiquid scrips and Rs.10 lakhs for other T2T trades.

4) Illiquid scrip

To understand the intent of the client when he deals in not so liquid script. Analysis helps to find out indicators of unusual activity or manipulation activity in illiquid scrip

Trading in all illiquid scrips for value above Rs.1 lakh listed in exchange shall be considered for review and alert generation

5) Client net sell

This criteria will highlight to you clients which have been net selling. The idea here is to understand the source of securities or the way in which profit is generated. Factors considered are Buy and sell in equity segment in BSE & NSE. This also reveals details of those clients who have sold deliveries/Large Delivery Profits which is beyond their net worth. Detailed analysis could give lead to

- ✓ **Conclusion that the ultimate beneficial owner is someone other than the client.**
- ✓ **Client is selling securities which are not a part of his disclosed wealth. (Undeclared Investment)**

- ✓ **A client who is helping other people liquidate their undisclosed shares.**
- ✓ **Could identify a case where shady stocks used to make black money white.**
- ✓ **Could lead to a case where the shares being liquidated are acquired in a fraudulent manner.**

Parameter Set : Net Transaction value more than 25.00 Lakh in a month with sale within 6 months of BUY.

6) Client purchase to income

This parameter tells you the financial size vis a vis the fund flow and whether there is violation. Factors considered include Buy & Sell in equities versus declared income of the client. This includes those clients whose income is X and are bring funds in multiple of X. Detailed analysis could lead to indicators to understand about client source of Income whether it is own source or on behalf of third party.

Parameter Set : Net Transaction value more than 25.00 Lakh in a month OR more than 5 times declared annual income whichever is higher.

The Surveillance desk should generate suspicious transactions at the end of every month after importing the required trade data into TSS software along with the scores assigned in the software. Various Risk points & violation points are defined in the software on predefined parameters and the software will process the trade data imported on it and generate all types of suspicious transactions. The information generated are benchmarked against the above defined parameters for generating internal alerts and after careful analysis and understanding of individual transactions alerts are to be generated. The top alerts under each of the above parameter based on the scorecard needs to be further monitored and analyzed in depth in terms of the rational of trade, company fundamentals, price movement of the scrip, company news, and trade patterns along with fund flow patterns.

In addition to the above alerts, there should be special attention to the trades belonging to the sensitive areas in terms of trade volume and the income criteria provided by the customer. The trades under GSM, S+, and T2T segments in huge volumes need to be thoroughly checked irrespective of the scoring criteria. The repetitive trade with huge volumes by any client in the above sensitive categories is matter of suspicious and needs investigation.

Internal alerts generated based on above benchmarks are to be placed to the Compliance Officer of the Company for further analysis/closure/disposal.

The following additional activities shall also be carried out based on UCC parameters:

I. Client(s) Information:

The company shall carry out the Due Diligence of its client(s) on a continuous basis to satisfy itself about the financial soundness and investment objectives of client.

Further, the company shall ensure that Trading Activities of the client are commensurate with annual income / financial information disclosed by the client.

The company shall also ensure that key KYC parameters are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in UCC database of the Exchange. Based on this information, establish groups / association amongst clients to identify multiple accounts / common account / group of clients.

II. Analysis:

In order to analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified based on above alerts, the company shall require to:

a. Seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.

b. Seek documentary evidence such as bank statement / demat transaction statement or any other documents to satisfy itself.

- 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.

- 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.

The company on regular basis in addition to the above shall carry out the below mentioned task:

- Verify sources of funds as disclosed by clients

- Verify past trading pattern of the clients / client group

- Maintain continuous familiarity and follow up with clients where any inconsistency in the information is provided.

- Verify other connected details / clients based on common mobile number, email id or address or any other linkages, etc.

- Also verify details from publicly available information

Steps to be followed in respect of Transactional alerts are given herewith as **Annexure**.

5. Time frame for disposition of alerts:

The company shall ensure that the alerts are get disposed by Compliance officer / Director of the company on regular basis say within a fortnight and in any case not later than a month after analyzing the documentary evidences, including the bank / demat statement, as stated above.

In case any adverse / material observations are found against any particular client(s) / group of client(s), the company shall report all such instances to the Exchange within a fortnight and in any case not later than 45 days of the alert generation. The company shall seek extension of the time period from the Exchange, wherever required. If there is any delay in disposition of alerts then reasons for such a delay shall be documented and preserved as record.

6. Suspicious / Manipulative activity identification and reporting process:

On analysis of alerts and details received from clients / gathered from available sources, if any suspicion transaction / any manipulative activity identified then it should be immediately notified to the Compliance officer / Principal Officer or any other designated officer / director within the company. The notification shall be done in the form of a detailed report with specific reference to the client(s) / group of client(s), details of transactions and the nature /reason of suspicion.

7. Record Maintenance:

All documents / records / alerts generated shall be preserved for minimum period of five years or as per time period prescribed by the respective exchanges from time to time either in hard form or non tamperable soft form as per internal policy. Records / documents to be maintained include books of accounts, agreements, duplicate copies of contract notes, recorded messages, Client ledger, Margin register, Register of complaints, Statements of funds and securities, obligations received from Clearing houses, order books, alerts given by the respective exchanges, alerts generated internally, suspicious transactions, etc.

8. Reporting to Risk Management Committee of the Board:

A quarterly MIS shall be put up to the Risk Management Committee of 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 to be taken. The Board shall be apprised of any exception noticed during the disposition of alerts. While placing alerts to the Risk management Committee the following are to be adhered.

- ***All exchange alerts are to be placed to the Committee.***
- ***The sample of other than exchange generated alerts to be placed to the committee is to be decided by the internal auditors.***
- ***All the alerts i.e exchange generated/own alerts are to be reviewed by Concurrent auditors and furnish their views on the same. 100% exchange alerts are to be reviewed.***

9. Review of Policy and Supervision:

This policy shall be reviewed periodically but not later than a year. The surveillance process shall be conducted under overall supervision of its compliance officer. Designated directors / Compliance officer would be responsible for all surveillance activities carried out by the company and for the record maintenance and reporting of such activities.

Internal auditor of the company 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. The report of internal auditor shall be placed before board for discussion and for necessary action to be taken.

This Policy is prepared based on the guidelines prescribed under NSE & BSE circulars and shall be amended as per the amendment made by the exchange rules, regulations, byelaws & circulars from time to time

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Annexure

STEPS TO BE FOLLOWED IN RESPECT OF TRANSACTIONAL ALERTS

Alerts Received / Generated Internally

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Compliance Officer /Authorised Signatory to review the alerts based on

a. Type of alert received from the Exchange / generated internally
b. Review with Financial details of the client
c. Observe the Past Trading pattern of the clients/ client group
d. Verify clients Bank / Demat transaction details (The period for such statements may be at least +/- 15 days from the date of transactions)
e. Verify other connected clients in TM's UCC (common email/ mobile number/ address, other linkages, etc.)
f. Scrutinize other publicly available information

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If any concern seen post inquiry/ receipt of explanation from client, the company shall forward the alerts to the Exchange with the necessary / adequate comments and any supporting documents deemed relevant.

Note: In case of any adverse findings / comments, the company shall send its comments to the Exchange within 45 days of the alert generation. The company shall seek extension of the time period from the Exchange, wherever required.

AS DIRECTED BY RMC IN THE LAST COMMITTEE MEETING HELD ON 22.08.2017, SURVEILLANCE POLICY WAS SUBJECTED TO COMPREHENSIVE REVIEW WITH EXHAUSTIVE COVERAGE ON POLICY MATTERS PERTAINING TO ALERT GENERATION.

SINCE POLICY HAS UNDERGONE SUBSTANTIAL CHANGES, REVAMPED POLICY IS PREPARED WITHOUT ANNEXURE.