

# SURVEILLANCE POLICY

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**Applicability: Stock & Commodity Broker& Depository Participant**

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**AFFLUENCE SHARES & STOCK BROKERS PVT LTD**

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## **Objectives**

In accordance with Exchange and Depository Circulars trading members and Depository Participants (herein after referred as “**Member**”) are required to frame surveillance policy for handling effective monitoring of trading activity of client.

What is Surveillance?

Surveillance is the process of collecting and analyzing information concerning markets in order to detect unfair transactions that may violate securities related laws, rules and regulations. In order to ensure investor protection and to safeguard the integrity of the markets, it is imperative to have in place an effective market surveillance mechanism. The main objective of surveillance function is to help maintain a fair and efficient market for securities.

### *Broker & DP Role*

As a Member, we are first touch point in the securities market for investors and are expected to have reasonably fair understanding about our clients and its trading activities. Further, our employees and authorised person has direct touch with many of our clients.

Thus, Exchanges/regulators have entrusted on us the first level of the responsibility to ensure that neither us nor our client(s) are misusing the trading system by indulging in manipulation or any other illegal activities which can cause risk to the integrity of the market and distorts the equilibrium of the market.

### **Objectives of framing a surveillance policy covering**

- Alerts to be generated.
- Threshold limits and the rationale for the same.
- Review process.
- Time frame for disposition of alerts and if there is any delay in disposition, reason for the same should be documented.

- Suspicious/Manipulative activity identification and reporting process.
- Record Maintenance.

## Surveillance framework

Exchange & DP has mandated to have in place appropriate Surveillance Policies and Systems to detect, monitor and analyse transactions. For the above we have to co-relate the transaction data with their clients' information/data and. Detect suspicious/manipulative transactions is an ongoing continuous process with analysis of trades and transactions and carrying out Client Due Diligence (CDD) on a continuous basis.

In-order to implement the exchange directives, they have provided us alerts which have to be generated by us.

In addition to this we have also developed in-house surveillance system. The details of both these have been enumerated below:

### **A. EXCHANGE/DEPOSITORY ALERTS**

#### **A.1 Transactional Alerts Provided by Exchange/DP.**

In order to facilitate effective surveillance mechanisms at the Member level, the Exchanges provides following mandatory transactional alerts along with other alerts to the trading members as under;

Exchange	Path
BSE	e-BOSS System ♦ Regulatory Alerts
NSE	ENIT ♦ Transactional Alerts
MCX	"MCX e-Xchange", a web-based facility (Reports-->Surveillance-->Alert/Report).
NCDEX	Through Extranet at "Transactional Alerts" folder.
CDSL	Through Surveillance Application creating REL ID.
NSDL	NSDL e-PASS portal.

This facilitates the trading members to effectively monitor the trading activity of their clients.

### Alerts Provided by BSE & NSE

<b>Sr. No.</b>	<b>Transactional Alerts</b>	<b>Segment</b>
1.1	Significant increase in client activity	Cash
1.2	Sudden trading activity in dormant account	Cash
1.3	Clients/Group of Client(s), dealing in common scrips	Cash
1.4	Client(s)/Group of Client(s) concentrated in a few illiquid scrips	Cash
1.5	Client(s)/Group of Client(s) dealing in scrip in minimum lot size	Cash
1.6	Client / Group of Client(s) Concentration in a scrip	Cash
1.7	Circular Trading	Cash
1.8	Pump and Dump	Cash
1.9	Wash Sales	Cash & Derivatives
1.10	Reversal of Trades	Cash & Derivatives
1.11	Front Running	Cash
1.12	Concentrated position in the Open Interest / High Turnover concentration	Derivatives
1.13	Order book spoofing i.e. large orders away from market	Cash

### Alerts Provided by MCX & NCDEX

<b>Sr. No.</b>	<b>Transactional Alerts</b>	<b>Periodicity of Alerts</b>
2.1	Significant increase in Client Activity	Monthly
2.2	Sudden trading activity in dormant account	Monthly
2.3	Concentrated Open Interest position	Daily
2.4	High Turnover concentration	Weekly
2.5	Large Trade (Quantity)	Daily
2.6	Order Spoofing	Daily

### Alerts Provided by CDSL & NSDL

<b>Sr. No.</b>	<b>Transactional Alerts</b>
3.1	Alert for Multiple Account (Same Demographic details)
3.2	Email ID of clients getting Bounced
3.3	Frequent Changes in Demat Account Details

3.4	Frequent off-market transfers by clients
3.5	Off-Market Transaction not sync with Income/Net worth
3.6	Pledge Transaction not sync with Income/ Net worth
3.7	High Value off-Market Transaction after account modification
3.8	Off-market reason not sync with client profile
3.9	Sudden increase in transaction in new accounts

## **A.2 Suspicious / Manipulative activity identification and reporting process**

### **1. Client Information:**

- Implementing Anti Money Laundering Policy vis a vis KYC standards for New Clients Acceptance and implementing high standard of due diligence process.
- Periodic updating of client database and having system to do continuous client due diligence.
- Identification of Beneficial Ownership
- Identification of Multiple Accounts/common Accounts/group of Clients
- Analysing common emails, mobile numbers, address and other linkages
- Other publicly available information

### **2. Analysis Client Activity**

Clients' trading pattern or activity shall be analysed based on Alert received /generated through exchange system. There are alerts which require only client confirmation or explanations or trading history analysis and there are other alerts which require documentary evidence viz. Bank Statement or Demat Statement for +/- 15 Days as per Exchange requirements.

Here, Transaction Alerts falling under Sr. No. 1.1,1.2, 2.1 & 2.2 requires

- trading history analysis,
- last 12 months trading turnover analysis,
- turnover v/s income range comparison
- and client confirmation on sudden activity in dormant account.

Member shall take also reasonable steps to analysis these type of alerts and shall be required to close the status of alerts or report the exchange in case of any adverse findings.

In case of transactional alerts Sr. No. 1.3 to 1.13& 2.3 to 2.6, requires

- trading history analysis,
- last 12 months trading turnover analysis,
- turnover v/s income range comparison
- explanations regarding alerts received and
- Obtain +/- 15 Days' Bank statement in case of Funds Movement and Demat Statement in case of movement of shares to verify ultimate beneficial ownership.

Member shall record observation for such transactional alerts and maintain records with regard to such analysis. In case, client failed to provide explanation or documentary evidences, such client(s) shall be deactivated and shall be re-activated only after they satisfy all requirement of this policy

## **B. MEMBER ALERTS**

### **1) Report on Delivery above Rs.500000 & TO above Rs.2500000 – all segments of equities and commodities**

Placement of large orders with the delivery turnover contributing in value terms above Rs. 5,00,000 and trading turnover in terms of value above Rs.2,50,000/- for all segments are generated.

1. In case if the name of any new client appears in this report and / or the name of the client comes again in the report after a period of 15 days to one month, then compliance team informs about the said trade details to the RMS team.
2. Thereafter RMS team does the trade/ledger confirmation with the end client and accordingly updates the compliance team.

### **2) CASH Excess Volume (more than 5% of market volume) (equity segment)**

Trades in equity segment contributing to more than 5% of the exchange volume are generated.

1. The records so generated are analysed vis-a vis exchange volume, repeated days of the trading and price volatility, company financials etc.
2. In case of any repeated days of trading, contributing to significant exchange volumes and or price volatility or concentrated trading among selective group of client is observed, then in such instances after analysis appropriate steps are taken.

### **3) Illiquid scrip (equity segment)**

Trades in equity segment for the illiquid securities (which have been identified as illiquid by exchange) are generated.

1. The records so generated are compared visa vis. exchange volumes, repeated days of trading, price volatility in the scrip.
2. Additionally the financials of the company are also analysed to ascertain whether the trading volumes and price movements are justified.
3. In case any trading is found to be abnormal, initial alerts are sent to the branches. If repeated, after proper verification and analysis the scrip may also be blocked from further trading.

#### **4) F&O Profit/Loss & Futures Rate Fluctuation (equity derivatives)**

Trades in equity derivatives for the above referred parameter which are generated in case of clients executing trades at price above 20% of the previous closing price and or incurring huge profits or losses are generated.

1. For the records generated under this alert are evaluated in case of any un-usual pattern clarification from the client/or branch is sought.
2. Reasons for huge gain/loss shall also be recorded, if required.

#### **5) F&O Excess Volume (more than 5% of market volume) (equity and commodity derivatives)**

Trades in derivatives and commodity derivative are generated in trades are more than 5% of market volumes

1. For the records generated under this alert are evaluated visa-vis the strike price, maturity date of the contract, type of derivative contract, underlying etc are analysed and evaluated.
2. In case if the name of any new client appears in this report and / or the name of the client comes again in the report after a period of 15 days to one month, then compliance team informs about the said trade details to the RMS team.
3. Thereafter RMS team does the trade/ledger confirmation with the end client and accordingly updates the compliance team.

#### **6) Matching of Trades – all segments (equities and commodities)**

The trades which get matched (applicable for all segments) at member level and or client level are generated under this alert.

1. The records so generated, comparison is done to ascertain whether they have been carried out from the same trading terminal or same location or for group of same family codes.

2. In case of illiquid scrip/contracts or significant volumes or price volatility observed, explanation is sought and or warning is issued to the client.

### **III. ONLINE IN-HOUSE ALERTS**

The following are the various alerts, wherein the records coming under these alerts are analysed with the financials of the company, repetitive nature of the instances, volumes and or price volatility. These alerts are observed by the RMS on real time basis and in case of any suspicious nature, appropriate reasons are sought from the branch/franchisee/clients. We have summarized the online alerts which are being monitored as on date:

#### **1) Online Trade Matching Popup:**

All the trades that get matched can be viewed and thereafter further verification and/or analysis is done.

#### **2) Online Delivery Tracking:**

This report provide the trades of the clients who take delivery above Rs.5 lacs in value terms or all delivery above 10,000 in quantity terms (this limit is modified on time to time basis.

#### **3) Online Ban Scrip Position Tracking:**

This report provides the records in case any client takes position in “Ban” security, then we can come to know via this pop up that position is open and may attract penalty in case position is carried further.

#### **4) Unregistered/Inactive Client Trade:**

This report shows that in case any client is inactive as per our back office software or not registered, in spite of which trade is done the details can be ascertained via trading terminal and can be restricted from further trading and to complete the reactivation/registration process as the case may be.

#### **5) Spurt in volume:**

This reports provide the records of the trades in which there is any sudden increase in volume in comparison with 2 weeks average exchange volume.

#### **6) Matching of Trades (in commodities):**

The trades which get matched at member level and or client level are generated under this alert. The records so generated, comparison is done to ascertain whether they have been carried out from the same trading terminal or same location or for group of same family codes.

### **III. Demat Account related Alerts**



As a SEBI registered Depository Participants (DP), following alerts are to be generated and analysed for further scrutiny.

**1) Multiple Demat Account using same demographic details:**

Alert for multiple demat accounts opened with same demographic details: System shall generate alert for accounts opened with same PAN /mobile number / email id/ bank account no. / address considering the existing demat accounts held with the DP.

Detail analysis of such demat account to be carried out and rational behind such number of account opening shall be identified.

**2) In correct Address details /Bounce Emails.**

System shall generate alerts wherein emails/letters sent to BO are returned back/bounced due to incorrect address or email ID.

**3) Frequent Modifications**

Alerts to be generated for demat account where in address, email id, mobile number, Authorized Signatory, POA holder etc. are changed frequently.

**4) Off-Market Transfers Alerts**

System shall generate alerts based on Off-Market Transfers considering following.

- Frequency of Off-Market Trades during particular time intervals.
- Value of Off-Market Trades Vis-à-vis Income/Networth of BO.
- High Value Off-Market Trades immediate upon demat account modification.
- Review of Reason for Off-Market Trades Vis-à-vis Profile of BO, Purpose of Off-market Transaction viz Frequent Transfer as Gift or Donation to unrelated Parties, Transfer with reason code; Off-Market Sale and Transfer considering unreasonable consideration.

**5)** System shall generate alert for Pledge Transaction , if value of transaction do not commensurate with Income/Networth of BO.

**6)** System shall generate 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.

**All above alerts to be scrutinized and analysed on case to case basis and any suspicious activity shall be reported to the depository.**

**PMLA Alerts as specified by FIU:** *Apart from above alerts, alerts as specified by FIU via Email/Log-in to Portal shall be implemented in system either manual or using software.*

#### **IV. ADDITIONAL MONITORING**

1. 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.
2. 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.
3. 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.
4. 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's and also restricts from further trading.
5. Bulk deals have been disclosed/reported; illiquid scrips/contract or derivatives scrips which are in ban period. Trading activity in such scrips may be analysed for Client.
6. *Frequent instances of payment by Client(s)/ Group of Client(s) in the form of cash equivalents like Demand Draft, Pay order etc. to be monitored for*
7. *When home or business telephone number has been disconnected or there is no such number when an attempt is made to contact client or documents sent at its email/home/business address returned undelivered.*
8. *Having multiple accounts with the Trading Member and using different trading accounts alternatively.*
9. *Client frequently changing bank/ demat account*

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.

#### **C. Analysis**

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

1. Shortlist Client for further analysis.
2. Seek explanation from such identified Client

3. Seek documentary evidence such as bank statement/demat transaction statements of last 6 months to 12 months period, to satisfy itself.
4. 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
5. For DP related alerts we shall obtain transaction rationale, verify demat statement and other supporting documents provided by client.

#### **D. 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 Compliance 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.

Status of Alerts shall be provided to exchanges and depository on Quarterly basis within 15 days from end of Quarter in the prescribed format. In case, no alerts generated, Nil report shall be submitted.

#### **E Employee and Authorized Person Training:**

1. All employees and authorized persons must undergo regular training on the surveillance policy and their roles in implementing it effectively.
2. The training should include the importance of market integrity, investor protection, and adherence to securities laws and regulations.
3. Employees and authorized persons should be educated about the various transactional and demat account-related alerts and their significance.
4. They should be trained on how to handle and respond to different types of alerts and the steps to be taken for further analysis.
5. Emphasis should be placed on the need for confidentiality and the prohibition of spreading rumours or providing investment advice that may influence market activity.

Not Allowing Employees and Authorized Persons to Spread Rumours or Provide Investment Advice:

1. The surveillance policy should explicitly state that employees and authorized persons are prohibited from spreading rumours or providing investment advice, especially related to specific stocks or corporate actions.

2. Employees and authorized persons should be made aware of the consequences of engaging in such activities, which could lead to disciplinary action or termination of their association with the company.
3. Any instances of employees or authorized persons violating this prohibition should be reported to the compliance officer for appropriate action.

#### Prohibition of Stock Specific Investment Ideas or Portfolio Management Activities:

1. Employees and authorized persons should not engage in promoting or recommending specific stocks or investment ideas to clients or the public.
2. They should refrain from engaging in portfolio management activities on behalf of clients without proper authorization and compliance with regulatory requirements.
3. The policy should outline the consequences of violating this prohibition, including potential legal and regulatory implications.

#### Restrictions on SMS or Social Media Use for Publishing Price-Sensitive Information or Rumours:

1. Employees and authorized persons should be explicitly restricted from using SMS or social media platforms to publish price-sensitive information, rumours, or recommendations about any stock.
2. The policy should emphasize the need to comply with disclosure regulations and to avoid disseminating false or misleading information through any medium.
3. Measures should be in place to monitor and review employees' and authorized persons' communications on social media platforms to ensure compliance with the policy.

#### Avoiding Predictions or Insider News about a Company or Its Corporate Actions:

1. Employees and authorized persons must avoid making predictions or providing insider information about any company or its corporate actions.
2. The policy should stress the importance of adhering to insider trading laws and regulations, and the severe consequences of violating such laws.
3. There should be strict controls and oversight to prevent any unauthorized access to sensitive corporate information and to ensure that such information is not used for personal gain or to influence trading decisions.

#### Regular Monitoring and Compliance:

1. Compliance officer should conduct regular monitoring to ensure that employees and authorized persons are adhering to the surveillance policy and relevant regulations.
2. Any deviations or violations should be promptly addressed, and appropriate corrective actions should be taken.
3. The policy review process should include an assessment of the effectiveness of employee and authorized person training and the implementation of measures to prevent unauthorized dissemination of information and manipulation of market activity.

#### **F. OBLIGATION OF COMPLIANCE OFFICER**

The surveillance process to be conducted under overall supervision of Compliance Officer.

A quarterly MIS shall be put up to the Board on the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure. Also, the Board shall be apprised of any exception noticed during the disposal of alerts.

This policy, alerts and quarterly MIS shall be subject to Internal Audit and any observation shall on policy, its implementation, its effectiveness, review of alerts shall be taken on record and suitable corrective steps shall be taken.

#### **G. POLICY REVIEW**

This Policy shall be reviewed annually or as and when any regulatory changes occurs.