

**Shubham Stock Broking Services Private Limited**

**Member of NSE & BSE**

**SURVEILLANCE POLICY**

## **A. Background**

We along with our employees are the first touch point in the securities market for investors and are expected to have reasonably fair understanding about their client(s) and its trading activity. 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.

## **B. Surveillance framework**

It is mandatory under the exchange/regulatory directives to have in place appropriate Surveillance Policies and Systems to detect, monitor and analyze 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 software. The details of both these have been enumerated below:

### **I. EXCHANGE ALERTS**

- ❖ Unusual trading 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 have review and conduct a analysis on parameters such as;

1. Whether such volume is justified give the background of the client and his past trading activity.
2. Amount of funds that was brought in by the Client(s)/Group of Client(s) for the purchases made during the period.
3. Whether such inflow of funds is in line with the financial status of the client.
4. 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 accounts-**An inactive client resumes trading starts/resumes trading and additionally 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;

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

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

**4. Activity of Client(s)/Group of Client(s) is concentrated in a few illiquid scrips/contracts or 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;

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

**5. Client(s)/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

1. Reasons for such trading behaviour.
2. Trading pattern and repeated instances.

**6. In accordance to the list of illiquid scrips/contracts provided by exchanges,**

we need to review and examine the following;

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

**7. Circular Trading:**

1. Continuous trading of client/group of clients in particular scrip over a period of time.
2. Client/group of clients contributing significant volume (broker and exchange level) in a particular scrip – especially illiquid scrip and /or illiquid contracts
3. 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.)
4. 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:**

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

### **9. Wash Sales or Reversal of Trades:**

1. Same Client) on both sides of the transaction. (i.e. same trade number on both the buy and sell side with us)
2. 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.
3. One client makes significant profit and other suffers a loss or apparent loss booking transactions in illiquid contract/securities including options

### **10. Front Running:**

1. 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
2. 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:**

1. Client having significant position in the total open interest of a particular scrip.
2. Client not reducing/closing their positions in spite of the scrip being in ban period.
3. Client activity accounts for a significant percentage of the total trading in the contract/securities at member and exchange level.
4. 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:**

1. Consistent placement of large orders significantly away from the market with low trade to order trade ratio or cancelling orders within seconds after placing them thereby creating a false impression of depth in a particular scrip/contract
2. 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.

## **II. OFFLINE IN-HOUSE ALERTS**

**1) Report on Delivery above Rs.100,00,000 - all segments of equities** Placement of large orders with the delivery turnover contributing in value terms above Rs. 100,00,000 for all segments are generated.

It is to be seen whether the volume of such delivery is commensurate with the financial status of the client and is routine trading pattern. If it matches with his financial status and his trading pattern, it is not a matter of surveillance.

If it does not match with the financial status then it becomes a matter of surveillance.

## **2. Trade dealing in small quantities**

The trades where the quantity traded is less than 100 are generated.

The nature of the client with respect to his financial status and his trading behaviour is matched with the quantity traded and it becomes a matter of surveillance where intention of small quantity is just to create a market distortion and not as a genuine intention to buy or sell the shares. Such trades become matter of surveillance.

There may be small clients who want to buy or sell shares in quantity less than 100 because they are not large risk taker and their financial status is very ordinary. Alerts for such types of trades/clients are not a matter of surveillance.

## **3. Clients with trading volume exceeding certain limit**

Trades where trading value of any client on any date is more than Rs. 2.5 crore, alerts are generated.

It is to be seen whether the volume of such delivery is commensurate with the financial status of the client and is routine trading pattern. If it matches with his financial status and his trading pattern, it is not a matter of surveillance.

If it does not match with the financial status then it becomes a matter of surveillance.

## **4. Trade delivery volume exceed specify limit**

Alerts are generated where trade delivery value of specified scrip for any client is more than Rs. 50 lac.

It is to be seen whether the volume of such delivery is commensurate with the financial status of the client and is routine trading pattern. If it matches with his financial status and his trading pattern, it is not a matter of surveillance.

If it does not match with the financial status then it becomes a matter of surveillance.

## **5. Unusual trading behaviour**

If any client does any trade which is indicative of an unusual trading behaviour in terms of scripts traded or flow of payments or order placement mechanism which gives a suspicion that the intention of the client is not making genuine trades but have attributes of an unfair trade practice and such trades or such client come to the notice of the front office staff or the back-office staff, it becomes a matter of surveillance.

## **6. Alert Generated by DP system**

All transactions of delivery trades correspond the delivery movement in the demat system. The DP gives the alert for any unusual quantities in the DP system. If such unusual quantities do not match with the financial status and trading behaviour of the client, it becomes a matter of surveillance.

## **7. High Value Payments/Receipts**

Where the value of payments exceeds Rs. 25 lac by any client, it becomes a matter of surveillance.

It such payment/receipts are in accordance his pay-in /pay-out obligations or according to the margin requirements as per the F&O exposures generally taken by the client, it is not a matter of surveillance and if it is not so, it becomes matter of surveillance.

## **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) Module of Online Trade Matching Popup:** In this module all the trades that get matched can be viewed and thereafter further verification and/or analysis is done.

**2) Module on Online Ban Scrip Position Tracker:** 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.

**3) Module on 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.

## **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. 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.

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 and also restricts from further trading.

### **C. Analysis**

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

1. Shortlist Clients where alerts are indicate a matter of surveillance to be further probed
2. Seek explanation from such identified Client
3. Seek documentary evidence such as bank statement/demat transaction statements or other information to analyze and establish that client explanation is genuine.
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.

### **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 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

**1. 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**

**2. 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.**

**3. Having multiple accounts with the Trading Member and using different trading accounts alternatively. 4. Client frequently changing bank/ demat account.**