

Sodhani Securities Limited

SURVEILLANCE POLICY

I N D E X

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(Approved at Board Meeting held on 02nd Sep, 2022)

1. **Background:**

This is regarding NSE vide circular bearing reference no: NSE/INVG/22908 dated March 07, 2013, and NSE/SURV/40148 dated February 05, 2019, and NSE/SURV/48818 dated July 01, 2021, regarding Surveillance Obligations for Trading Members - Update.

In this context, to facilitate effective surveillance mechanisms at the Member level, the Exchanges would be generating/providing 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.

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 the confidence of investors in the market.

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

To facilitate an 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. **Generation of Alerts and its analysis:**

a) **Receipt of Alerts from Exchanges:**

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

Transactional Alerts to be provided by the Exchanges:

| Sr. No. | Transactional Alerts | Segment |
|---------|---|---------|
| 1. | Significantly increase in client activity | Cash |
| 2. | Sudden trading activity in a 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. | Reversal of Trades | Cash |
| 10. | Front Running | Cash |
| 11. | Order book spoofing i.e. large orders away from the market | Cash |

The above-mentioned alerts are indicative lists based on which alerts are generated by the exchanges and downloaded to the member.

b) Generation of Alerts by the member internally:

In addition to the transactional alerts downloaded by Exchanges, the company will also generate appropriate surveillance alerts internally to enable to monitor the trading activity of the clients.

The indicative themes on which the company may formulate the alerts are as under:

1. Client/group of clients, as identified by the company, accounting for a significant percentage of the total trading activity in a scrip/ contract as compared to the market.
2. Client/group of clients with new accounts or clients dealing after a significant time gap, as identified by the trading member, accounting for significant value/percentage of total trading activity in a scrip/contract as compared to the market.
3. Client/group of clients dealing frequently in small quantities/minimum market lot in a scrip/contract.
4. Disproportionate trading activity vs reported income/Net worth.

5. Frequent changes in KYC submitted by Clients
6. Significant trading activity in scrips by the client who has pledged the shares of the same scrip.

The following additional activities are also required to 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 the client.

Further, the member shall ensure that the 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 of the Clients are updated periodically as prescribed by SEBI and the latest information of the client is updated in the 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 the above alerts, the Member 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 the 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 belong to the client for whom the trades were transacted.

Member 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 A**”.

4. Time frame for disposition of alerts:

Member shall develop an in-house policy regarding disposition of alerts by Compliance officer / Director of the company. Member shall ensure that the alerts are get disposed of on regular basis say once in a week, etc. after obtaining trading rationale and analyzing the necessary documentary evidences, including the bank / demat statement, as stated above.

After analyzing the evidences, the member shall record its observations for such identified transactions of its Client/Group of Clients.

In case of transactional alerts downloaded by the Exchange, the member shall analyze all the alerts and status thereof (Verified & Closed/ Verified & Sent to Exchange) including action taken is updated within 45 days, in the Member Surveillance Dashboard. Also, in case any adverse/material observations are found against any particular client(s) / group of the client(s) from the alerts generated internally, the member shall report all such instances to the Exchange within 45 days of the alert generation.

The Member may seek an extension of the time period from the Exchange, wherever required. If there is any delay in the disposition of alerts then reasons for such a delay shall be documented and preserved as a record.

5. Suspicious / Manipulative activity identification and reporting process:

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

6. Record Maintenance:

All documents/records/alerts generated shall be preserved for a minimum period of 3 to 5 years as per internal policy or as per the time period prescribed by the respective exchanges from time to time. Records/documents to be maintained include books of accounts, agreements, duplicate copies of contract notes, recorded messages, order books, alerts given by the respective exchanges, alerts generated internally, suspicious transactions, etc.

7. Reporting to the Exchange:

The company shall provide duly approved status of the alerts on a Quarterly Basis, in the format given herewith as “**Annexure B**” to the Exchanges within 15 days from the end of the quarter.

The quarterly system of the reporting shall be effective from the quarter ending September 2021.

In case of late/non-submission of quarterly reporting of the alerts generated by the company as mentioned above, the company shall be liable for penalty as given below:

| Submission of status report beyond the stipulated period | Penalty to be imposed |
|---|--|
| 1 st instance | Rs. 10,000 per day till submission of the quarterly report |
| 2 nd instance | Rs. 20,000 per day till submission of the quarterly report |

It shall be noted that aforesaid penalty shall be levied on a monthly basis based on slabs as mentioned above and same shall be debited in the monthly bill.

8. Disciplinary Action:

The SEBI/Exchange shall initiate appropriate disciplinary action against the company if it is observed that the company has not fulfilled its surveillance obligations during investigation/inspection. Further, any non-compliance with respect to the surveillance obligations, including delay in the processing of transactional alerts downloaded by the Exchange and repeated instances of delay in reporting of the status of the alerts, may result in further disciplinary action as deem fit in terms of Rules, Bye-Laws and Regulations of the Exchange.

9. Review of Policy and Supervision:

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

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ANNEXURE A

STEPS TO BE FOLLOWED IN RESPECT OF TRANSACTIONAL ALERTS

Alerts Received / Generated Internally



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



If any concern seen post inquiry / receipt of explanation from client, member 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, Member shall send its comments to the Exchange within 45 days of the alert generation. Member may seek an extension of the time period from the Exchange, wherever required.

ANNEXURE B

A. STATUS OF ALERTS GENERATED BY THE MEMBER:

| Name of Alert | No. of alerts under process at the beginning of the quarter | No. of new alerts generated in the quarter | No. of alerts Verified & closed in the quarter | No. of alerts reported to Exchange (*) | No. of alerts pending/under process at the end of the quarter |
|----------------------|--|---|---|---|--|
| | | | | | |

B. (*) DETAILS OF ALERTS REFERRED TO THE EXCHANGE:

| Sr.no | Date of Alert | Type of Alert | Brief observation and detail of action taken | Date referred to Exchange |
|--------------|----------------------|----------------------|---|----------------------------------|
| | | | | |

C. DETAILS OF ANY MAJOR SURVEILLANCE ACTION TAKEN (OTHER THAN ALERTS REFERRED TO EXCHANGE), IF ANY, DURING THE QUARTER:

| Sr.no | Brief action taken during the quarter |
|--------------|--|
| | |
| | |

The member needs to submit the 'NIL Report' within 15 days from the end of the quarter if there is nothing to be reported.

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