

Sodhani Securities Ltd – Depository Participant

SURVEILLANCE POLICY

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. It prevents manipulation, price distortion, and other market abuses.

NSDL vide its Circular No.: NSDL/POLICY/2021/0072 dated July 15, 2021 has prescribed the Surveillance Obligations for Depository Participants (DP).

The surveillance function cannot be effective and successful unless it is coupled with strong market intelligence. Surveillance and monitoring of the trading and depository system plays an integral role in the current market scenario as the entire settlement process is completed through the depository system. Apart from the settlement of market trades, host of other functions are carried out by the DP:

- ❖ Demat of physical securities.
- ❖ Remat of securities from electronic form to physical form.
- ❖ Off-market transfer of shares for various purposes as permitted by SEBI.
- ❖ Pledge/recording of Non-disposal undertaking, etc.

The above referred Circular casts an obligation on DP

- ❖ To review and disposal of transactional alerts provided by NSDL within 30 days and report to NSDL and other authorities as applicable in case of any abnormal activity.
- ❖ To frame a suitable surveillance framework and devise systems and process to generate alerts based on transactions, review and process these alerts within 30 days and report to NSDL and other authorities as applicable in case of any abnormal activity.

Review and disposal of transactional alerts provided by NSDL

The mode and procedure for review, disposal and reporting of transactional alerts to be provided by Depository is yet to be received from Depository. SOP in that regard will be prepared after reviewing the prescribed requirements.

We have prepared a surveillance policy based on the interaction with other DP and our understanding on the subject and after considering the nature of our business, type of clients, number of demat accounts, number of transactions etc. The Policy is enumerated as under:

i. Generation of suitable surveillance alerts

The surveillance alerts would be generated as follows:

TRANSACTION BASED ALERTS			
S No.	CONTENT/ALERTS	PERIODICITY	REMARKS
1	High Value transactions - transaction having cumulative value of more than Rs 10.0 lacs per transaction type. This report will cover all transaction types.	Daily	Transactions of high risk/ special category clients to be monitored closely.
2	Frequent off-market transfers by a client in a specified period.	Daily	
3	Off-market transfers not commensurate with the income/Net worth of the client.	Daily	This will be implemented once income range data/net worth is updated in back-office
4	Pledge transactions not commensurate with the income/Net worth of the client.	Daily	This will be implemented once income range data/net worth is updated in back-office
5	Off market transfer (high value) immediately after modification details in demat account	Daily	
6	Review of reasons of off-market transfers provided by client for off-market transfers vis-a-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, etc.	Daily	
CLIENT BASED & OTHER ALERTS			
S No.	CONTENT/ALERTS	PERIODICITY	REMARKS
1	Alert for multiple demat accounts opened with same demographic details: alert for accounts opened with same PAN/Mobile number/Email Id/Address considering the existing demat accounts held with the DP.	Weekly	Will cover all the new demat accounts opened during the week.
2	Frequent changes in details of demat account such as, address, email id, mobile number, authorized signatory, POA holder etc.	Weekly	Will cover all the demographic details modifications done in demat accounts opened during the week.
3	Alert for communication (emails/letter) sent on registered Email Id/Address of client are getting bounced.	Weekly	Event based/reported weekly
4	Alert for newly opened accounts where in sudden increase in transaction activities in short span of time and suddenly holding in demat account becomes zero or account become dormant after some time.	Weekly	
5	Any other alert and mechanism in order to prevent and detect any type of market manipulation activity carried out by our clients.	Weekly	

Alerts generated above are illustrative and not exhaustive and will be reviewed based on their use/efficacy. Alerts will have to be analyzed and reviewed based on facts and verification of relevant documents including income/net worth as provided by BO. Further, SSL are required to exercise our independent judgment and take appropriate action in order to detect any abnormal or suspicious transaction. Some modifications/updatons would be required to be carried out in the current back office software to generate alerts and would be carried out

ii. Client due diligence:

The obligation of Client due diligence is also cast on SSL under the PMLA Regulations and various SEBI/NSDL Circulars and directions. Client due diligence of our client(s) is required to be done on an on-going basis. Also the key KYC parameters of the clients are updated on periodic basis as prescribed by SEBI and latest information of the client is updated in Depository System, KRA and CERSAI database.

iii. Disposal of alerts provided by NSDL and generated at SSL end

Alerts provided by NSDL and generated by the back office system have to be reviewed and disposed as under:

- ❖ All alerts generated or received from NSDL have to be recorded in a register (Electronic/physical). Initially it will be recorded in a Excel sheet until suitable software application is not ready.
- ❖ The alerts will be reviewed by the Demat Officer who will obtain transaction rationale, verify demat statement and also obtain supporting documents as required from the client.
- ❖ After verifying the collected information and documentary evidences, the Demat Officer will place his observation and views to the Executive Director who after reviewing all the information will record his observations about the transaction.
- ❖ Transactions including abnormal activities, which warrant to be reported to NSDL or other agencies (FIU/SEBI/NSE) will be done with complete details along with the action taken within 7 days of the date of identification of adverse observation. However, reporting of such incidents to NSDL will be done only after the detailed procedure for such reporting is notified by NSDL.
- ❖ The mode and process of receiving alerts from NSDL, recording, reviewing and reporting the action taken by SSL to NSDL is yet to be notified by NSDL and will be done as prescribed. The reporting of action taken by SSL has to be completed within 30 days of receipt of alert from NSDL.

iv. Obligation of Quarterly reporting of status of the alerts generated by SSL.

SSL is also required to provide status of all the alerts on a quarterly basis, in the following format to NSDL within 15 days from end of the quarter.

Status of alerts generated by the Depository:

Name of Alert	No. of alerts pending at the begging of quarter	No. of new alerts generated in the quarter		No. of alerts verified & closed in the quarter	No. of alerts reported to depository	No. of alerts pending process at the end of quarter

Details of any major surveillance action taken (other than alerts reported to depository). If any during the quarter:

Sr. NO.	Brief action taken during the quarter

In case of NIL report, we need to submit 'Nil Report' within 15 days from end of the quarter. Electronic upload facility will provided by NSDL in NSDL e-PASS Portal. The above mentioned quarterly system of reporting shall be effective from the quarter ending December 2021.

v. Documentation of reason for delay, if any, in disposing of alerts

Supportive documentation whilst analyzing and reporting the alert should be procured till the final disposal of the alert. Reasons for delay in disposing the alerts beyond the 7 days of the date of identification of adverse observation needs to be recorded. Alerts received from NSDL are required to be reviewed within 30 days of receipt and status thereof including action taken has to be reported to NSDL within the 30 day period. Reasons for delay in review/reporting are required to be recorded.

vi. Framework of appropriate actions that can be taken by the Participant as per obligations under Prevention of Money Laundering Act (PMLA)

The obligations of DP under the surveillance mechanism is over and above the obligations under the PMLA regulations.

vii. Record maintenance for the period as stipulated under applicable statutes

We shall maintain and keep all such records and documentary evidences of incidents/alerts that have been analyzed/recorded by us either In in appropriate form for the time period as amy be prescribed in this regard. Such records will be produced as and when asked by exchanges/Depository or by any other regulatory authority.

viii. The surveillance policy of SSL shall be reviewed once in a year and will be approved by its Board of Directors

The Surveillance policy will be reviewed and updated as and when required based on practical experience and regulatory guidelines issued from time to time, but at least once every year.

Version 1: No Change

Dated: 01th September 2022.

Drafted by: -Compliance

Approved by: Board of Directors at its' meeting held on 02nd September 2022.