

SURVEILLANCE (TRANSACTION ALERTS) POLICY
(Version 1.6)

Choice Equity Broking Private Limited
(Member-BSE, NSE, MCX, NCDEX, ICEX, CDSL & NSDL)

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(References: SEBI Circular no-MIRSD/ SE /Cir-19/2009, dated-December 3, 2009, BSE Circular-20130220-23 dated February 20, 2013, BSE Circular-20130307-21, dated- March 07, 2013, BSE Circular-20170223-44, dated- February 23, 2017, BSE Circular- 20180321-46, dated-March 21, 2018, BSE Circular- 20170807-31, dated-Aug 07, 2017, BSE Circular- 20121101-16, dated-November 01, 2012, BSE Circular- 20171117-18, dated-November 17, 2017 & NSE Circular- NSE/INVG/22908, dated-March 07, 2013, NSE Circular- NSE/SURV/34262, dated-February 23, 2017, NSE Circular- NSE/INVG/36333, dated-November 17, 2017.

1. Background:

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 achieve this and to create safer markets, the Trading Members should have in place adequate surveillance policies and system in order to monitor suspicious/manipulative transactions and curb such activities, if any.

2. Objective:

The objective of this policy framework is to:

- Monitor and report suspicious transactions.
- Monitoring and identifying suspicious/manipulative transactions
- Curbing suspicious/manipulative activities at nascent stage.
- Minimizing business risk through better profiling of clients and transactions.

3. Scope of the Policy:

The policy covers the various surveillance alerts generated / received from the exchange for identifying suspicious trades, analysis of these alerts, methodology of reporting the alerts to the exchange/ FIU.

4. Types of Surveillance alerts:

A. External Alerts (Alerts received from exchanges)

Exchanges/Depositories (NSE/BSE/MCX/NCDEX/ICEX/CDSL/NSDL) share transaction alerts for the trading done by the clients which needs to be downloaded from respective exchange portal by the trading member for detailed analysis and action.

Following are the alerts which shall be provided by the exchange.

Sr. No.	Transactional Alerts	Segment
1	Significant increase in client activity from previous month (Avg Daily Turnover)	Cash / Commodity
2	Sudden trading activity in dormant account	Cash / Commodity
3	Clients/Group of Client(s), dealing in common scrip's	Cash
4	Circular Trading	Cash
5	Pump and Dump (Trades)	Cash
6	Wash Sales / Trades (Pan Based)	Cash / Derivatives & Currency
7	Reversal of Trades	Cash / Derivatives & Currency
8	Front Running	Cash
9	Order book spoofing i.e. large orders away from market	Cash
10	Singular trades in minimum market lot	Cash & Derivatives
11	Client(s)/Group of Client(s) concentrated in illiquid scrip / Contract	Cash / Derivatives / Currency & Commodity
12	High Client Con Contributing Significantly To the Vol of Scrip	Cash
13	USDINR/EURINR/GBPINR/JPYINR Aggregate Sentimental Position (For Info Only)	Currency
14	USDINR Sentimental Position Breach	Currency
15	USDINR/EURINR/GBPINR/JPYINR Aggregate Sentimental Short Position reached/breached	Currency
16	USDINR Short Position Breach	Currency
17	Client OI Above 3% OI limit of Previous Day	Currency
18	USDINR/EURINR/GBPINR/JPYINR Aggregate Sentimental Position reached/breached	Currency
19	USDINR/EURINR/GBPINR/JPYINR Aggregate Sentimental Short Position (For Info Only)	Currency
20	Increase In Position Limits on expiry Due to fall in Exchange Level Asset OI	Currency
21	Position Limit Exceeds The Applicable Limit	Currency

22	Self-trade	Cash/ Derivatives/ Currency & Commodity
23	Concentration in Open Interest – Commodity Level	Commodity
24	Concentration in Turnover	Commodity

The alerts provided by the exchanges will download on daily basis by compliance department from respective exchange portal for analysis. The alerts shall be analyzed based on the following points.

- **Client(s) Information:** Compliance team is required to carry out the Due Diligence of its client(s) on a continuous basis. Further, Compliance Team shall ensure that key KYC parameters are updated on a periodic basis as prescribed by SEBI and latest information of the client, including information pertaining to directors/ partners/ trustees/ Karta in case of non-individual clients, is updated in UCC database of the Exchange. Based on this information the Trading Member shall establish groups/ association amongst clients to identify multiple accounts/ common account/ group of clients. Compliance Team is also required to profile their clients and categorize the clients under one of the category, namely, Commercial participant (value chain participant/ exporter/ importer, hedger, etc.) or Noncommercial participant (financial participant/ trader/ arbitrageur, etc.)
- **Analysis:** In order to analyze the trading activity of the Client(s)/ Group of Client(s) or Commodity identified based on above alerts, the Compliance Team is required 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/ warehouse receipt (for Commodities with compulsory delivery) or any other documents to satisfy itself.
 1. 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 commodities with compulsory delivery, documentary evidence including warehouse receipt of the Client(s)/ Group of Client(s) for which commodities pay-in have been met, to be sought.
 2. The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the funds for the settlement of such trades actually belongs to the client for whom the trades were transacted.

c. After analyzing the documentary evidences, including the bank statement/ warehouse receipt, the Trading Member shall record its observations for such identified transactions for Client(s)/ Group of Client(s). In case where adverse observations are recorded, the Trading Member shall report all such instances to the Exchange within 45 days of the alert generation. The Trading Member may seek extension of the time period from the Exchange, wherever required.

B. Internal Alerts (Alerts generated by AML software)

Sr. No.	Transactional Alerts	Segment
1	High value single transaction	Cash / Derivatives /Currency & Commodity
2	High Value in a day	Cash / Derivatives /Currency & Commodity
3	Traded with Minimum Risk	Cash / Derivatives /Currency & Commodity
4	Funded but not utilized	Cash
5	Money in ledger account but not used	Cash / Derivatives /Currency & Commodity
6	Fund withdrawal after small loss	Cash / Derivatives /Currency & Commodity
7	Jump in Equity buy Turnover	Cash
8	Jump in Equity sell Turnover	Cash
9	Jump in turnover	Cash / Derivatives / Currency & Commodity
10	Multiple small deposits	Cash / Derivatives / Currency & Commodity
11	Trades done by PEP	Cash / Derivatives / Currency & Commodity
12	Scrip concentration monthly	Cash
13	Synchronized Trading 7 days in Equity	Cash
14	Synchronized Trading 7 days in Equity Derivatives	Derivatives
15	Artificial volume creation in Illiquid scrips	Cash / Derivatives / Currency & Commodity
16	Turnover in GSM scrip	Cash
17	High turnover by Senior Citizen	Cash / Derivatives / Currency & Commodity
18	External Agency Inquiry	Cash / Derivatives / Currency & Commodity
19	Alert by regulator	Cash / Derivatives / Currency & Commodity
20	CDSL Dematerialization Alerts	Cash
21	Significant Holding in Listed company	Cash

The alerts generated by our AML software will review by compliance department and MIS of alerts will send to compliance officer for final review. The alerts shall be analyzed based on type of alert, client's past trading pattern, clients occupation, clients financial review , other connected clients in our database, etc.

5. Scrutiny of the alerts, identifying suspicious activity and reporting the same to exchange/FIU:

Compliance team will conduct an in depth scrutiny of alerts received from Exchanges as well as internal software. Each alert will be studied with following process flow.

It is to be noted that in case of exceptional circumstances where it may be difficult to seek explanation from clients on account of non-co-operation of clients/ client not traceable, etc. the process mentioned above will not be completed. In such cases the matter would be brought to the notice of the Compliance Officer/Designated:

Receipt of alerts from Exchange and internal software



Scrutiny of alerts



Email to respective RM/Branch Manager/ Authorised Person/ Risk Head for clarification on the trade done. (Wherever require Compliance Team will issue letter to clients asking explanation for the trade with supporting documents) Follow up with RM and getting the necessary explanation from clients along with the relevant documentary evidence



On receipt of suitable explanation from the RM/Branch Manager/ Authorised Person/ Risk Head, Compliance team will analyse the alert and would revert appropriately to the respective Exchange



In case the alerts are found to be of such a nature which needs to be reported to FIU the same shall be done with the approval of Principal Officer of the Company.

6. Record Maintenance and review of process :

Each alert received from the exchange shall be backed by necessary supporting documentary evidence substantiating the reason for reporting/non reporting the same to the exchange. An excel sheet shall be maintained by the Compliance Team wherein in the details of each alert, explanation sought from client, documentary evidence collected from clients, reason for reporting/ non reporting the alert to exchange, reason for reporting the alert to FIU, any other additional details as may be deemed fit may be captured.