

Surveillance Policy

CGS-CIMB Securities (India) Private Limited

Document Version Control and Change Management

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1. Preamble

The code of conduct in SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 outlines general framework for Trading Members, to be complied with to maintain integrity of the markets. In order to ensure that the conditions/obligations stipulated under the Act/Rules/Regulations are complied with by the Trading Member & their business model is in conformity with the regulatory framework, SEBI has entrusted Trading Members with the responsibility of carrying out surveillance functions, to help achieving the objectives of:

- 1.1. Maintaining integrity of the market,
- 1.2. Monitoring and identifying suspicious/manipulative transactions,
- 1.3. Curbing suspicious/manipulative activities at nascent stage.

Besides the above objectives, entrusting Trading Members to carry out surveillance functions may also help Trading Members in minimizing their business risk through better profiling of their clients and transactions. Thus, to achieve the above objectives and creating safer markets, SEBI has advised that 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.

With reference to NSE/BSE Circular ref no:- NSE/SURV/48818 & 20210701-30 dated July 01, 2021, Exchange has informed the trading members that, the Exchange has reassessed the on-going framework of surveillance obligations of trading members and has identified enhancements to make the said framework more effective. Trading members are also required to provide duly approved status of the alerts on a quarterly basis, in the following format to the Exchange within 15 days from end of the quarter

Trading members may have different types of business models and may offer different types and combination of services to different types of clients including retail, institutional, HNI through various modes like Call and Trade, Mobile based trading, Internet based trading, Portfolio Management Services (PMS), in addition to proprietary trading (including Algorithmic trading). For effective monitoring, trading member to carry out surveillance policy and functions for covering all such applicable business models / services they offer so that Trading Members in minimizing their business risk.

2. Framework of surveillance

Detection of suspicious/manipulative transactions is an ongoing continuous process which requires systematic analysis of transactions while carrying out Client Due Diligence (CDD) on a continuous basis, which includes collection/verification of additional updated information & appropriate actions that can be taken by the Trading member. In addition to the obligations under Prevention of Money Laundering Act (PMLA), actions may include suspension of the trading activity of the suspect client, or any other action as may be deemed appropriate. Processing of alerts within 45 days

from the date of alerts downloaded by the Exchanges as well as alerts generated at Trading member's end. The Surveillance Policy detailed hereunder lays down systems to detect, monitor and analyse transactions by co-relating the transaction data with the clients' information/data.

3. Indicative list of possible alerts to be generated

To achieve the surveillance objectives, an indicative list of possible alerts to be generated and analyzed, as a part of surveillance policy, is enumerated below:

1. Unusual trading activity

- a. Client(s)/Group of Client(s) who have been dealing in small quantities/value suddenly significantly increase their activity.
- b. Cumulative volume (buy+sell) during a pre-defined period (say fortnight/month/quarter) increases by certain threshold (say 100%) as compared to the earlier period of same duration

2. Sudden trading activity in dormant accounts

3. Clients/Group of Client(s), deal in common scrips/contracts contributing significant to the volume of the scrip/contract at the Stock Broker level and at the stock exchange level.

4. Activity of Client(s)/Group of Client(s) is concentrated in:

- a. few illiquid scrips/contracts or
- b. 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 the Stock Broker

5. Client(s)/Group of Client(s) dealing in scrip in quantity of one share or trade in minimum lot size.

6. Determining top Client(s)/Group of Client(s) in terms of net profit and/or net loss and special attention being paid where, a client is continuously incurring loss and to inquire whether the money brought in by the client is in line with his financial status. Consistency in profit/ loss at client/ group of clients' levels, rationale for such trading activities. (example -Client with an investment of Rs. 1 lakh makes profit of Rs. 1 crore in 1 month)

7. Specific transactions:- Besides the above, the following type of Transaction will also be monitored :

i. Trading activity of new client(s) will be closely monitored for at least a quarter, to understand the trading behavior of the client(s). Trading in new trading account can commence only after all the mandatory Unique Client Code (UCC) parameters such as Name, Address, PAN No. etc., have been uploaded by the Trading Member to the database of the Stock Exchange.

ii. Concentration of the Client(s)/Group of Client(s) in a scrip/contract vis-à-vis

CGS-CIMB's volume or Exchange volume.

iii. In case of accounts that are dormant for more than 1 year such accounts will be frozen/suspended and trading will be restarted only after carrying out due diligence of such client(s).

iv. Details of client(s) and trading activity of following types of client(s) will be monitored:

1. Clients who are frequently changing bank/demat account.
2. Clients who are opening and closing trading account within a short period of time.
3. Clients against whom regulatory actions such as debarment, observation/caution letters issued etc. have been taken by the regulatory authorities/Stock Exchanges.

4. Clients who have debit balance in their ledgers continuously for a certain period of time or who default in making payment/delivery.

5. Clients who have debit balance in their ledgers continuously for more than three months or who default in making payment/delivery.

v. Instances of payment by Client(s)/Group of Client(s) in the form of cash equivalents like Demand Draft, Pay order etc. will be monitored for

- i. Whether such Client(s)/Group of Client(s) is continuously making such payments and reasons for the same

- ii. Whether Client(s)/Group of Client(s) is using his unaccounted money or acting as a front for somebody else.

- iii. Client / group of clients with new account or clients dealing after a significant time gap, accounting for significant value/ percentage of total trading activity in a scrip/ contract as compared to the market.

8. Client/ group of clients dealing frequently in small quantities/minimum market lot in a scrip/ contract. (Example-• A client trades in 1 share regularly in a small cap item a hundred times a day -• Total number of trades in the security - 200)

9. Disproportionate trading activity vs reported income/ Net worth. (It is not "trading volume", it is "trading activity") A jobber trading in index futures throughout the day would be okay. (Example -Income Rs. 1 lakh/ Networth Rs. 1 crore, purchases shares of Rs. 25 crore)

10. Frequent changes in KYC submitted by clients (example- A client is changing is email and mobile every month)

11. Based on an announcement by a listed company, identify Client/ group of clients, having possible direct / indirect connection with a listed company, who have undertaken any suspicious trading activity prior to price sensitive announcement by said listed company.

12. Significant trading activity in scrips by client who has pledged the shares of same scrip (example -Trades in a single small cap security, pledges the same, buys more, pledges the same, buys more and so on). Significant trading activity in scrips where client has pledged shares or has significant holding or has frequent off-market transactions.

13. In case of concerns of trading activity of a client or a group of clients in a scrip, monitoring whether the orders are being placed by respective clients or their authorized representatives and monitoring client's address as per KYC vis a vis the

dealing office address. (example - Client lives in Surat, but orders placed at dealing offices at Guwahati, Bhopal and Chennai).

14. Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location) (for IBT). Especially when the clients are no related/ connected.

4. Indicative list of suspicious/manipulative trading pattern

The following type of transaction will also be monitored to identify suspicious/manipulative trading pattern

i. Circular Trading:

1. Continuous trading of client/group of clients in particular scrip over a period of time. Client/ group of clients, accounting for a significant percentage of the total trading activity in a scrip / contract as compared to the market. (Extreme example • A small cap item- • Group of clients trade 100% of the volume every day for 1 month)
2. Client/group of clients contributing significant volume (CGS-CIMB 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 within CGS-CIMB
4. Possible reversal of trades within CGS-CIMB with the same group of clients

ii. Pump and Dump:

1. Activity concentrated in illiquid scrips/contracts.
2. Sudden activity in illiquid securities/contracts.
3. Percentage of Client(s)/Group of Client(s) 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.

iii. Insider Trading :

1. Sudden activity of a Client(s)/Group of Client(s) in a particular scrip/ contract just ahead of a major announcement; Client/ group of clients having significant selling concentration, in the scrips, forming part of 'For Information list' or 'Current Watch list. Unsolicited SMSs.

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iv. Wash Sales or Reversal of Trades:

1. Same Client(s)/ Group of Client(s) on both sides of the transaction with in CGS-CIMB
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

v. Front Running:

1. Trading by employees, ahead of large buy/sell transactions and subsequent square off will be identified and such transactions will be reviewed for determining front running

2. There is a consistent pattern employees trading ahead of large buy/sell transactions.

vi. Concentrated position in the Open Interest/high turnover concentration

vii. 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.

5. Identification of Suspicious/ Manipulative Transactions

• Establish Groups/association amongst clients

In order to establish groups/associations amongst clients, periodic analysis shall be carried out to identify multiple accounts/common accounts/group of client(s) based on various parameters such as:

a. For Individual clients

Based on various parameters including PAN or address, email id, telephone/mobile number, introducer or authorized signatory or nominee or Power of Attorney or combination of Individual related to an HUF, partnerships, trusts, corporate etc.

b. For Corporate accounts

i. Based on common address, contact details, email ID, Directors/Promoters/Authorized Signatories/Authorized persons to deal with the company, DIN number/PAN number/addresses provided by the client at the time of KYC/annual updates. Undertaking may be obtained from the corporate account holder/directors/individuals/other account holders regarding their associations with listed companies. Such association of the Client(s)/Group of Client(s) with listed company will be captured in the client database for further analysis.

c. Association of client(s) with HUF, Partnerships, Trusts, Corporate, Unincorporated association or a body of individuals, Registered Society etc., to be captured in the client database for further analysis.

d. Client(s)/Group of Client(s) placing their orders from same IP address.

• Due diligence

Diligence will be carried out on a continuous basis. Key KYC parameters such as Income or Net worth, Occupation, Address, Phone Number, Email Id, Bank account details, Demat account details etc., of its clients will be updated periodically.

• Periodic analysis

Periodic analysis will be carried out to identify,

a. Clients having history of violations based on past/current SEBI orders or Exchange actions or any other regulatory actions.

b. Value of transactions inconsistent with the client's apparent financial standing. The Liquid Net worth of the client will be identified and then the cumulative inflow in a particular period will be matched with the liquid net worth. If the cumulative inflow is higher than the net worth then the same will be analysed further.

c. Client(s)/Group of Client(s) as insiders to various companies based on KYC/UCC data, MCA data or Exchange Data or Annual report of listed corporate or any other publicly available data.

6. Monitoring, Analysing and Reporting

Monitoring

Alerts are monitored manually. Trade details will be taken from the back office system and analyzed to identify client trading behaviour and trading patterns.

Clients will be profiled under the High, Medium and Low Risk categories based on the client type and income groups and clients' trading activities will be analysed based on the parameters outlined below. Risk points will be allocated to client's violating the defined parameters.

Risk Profiling:

- i. **Type of Client:** Based on category / nature of client Risk profiling would be as under.

Customer Type	Risk Profile	Rationale
Individuals - With Annual Income up to Rs.5.00 lacs	Low Risk	Identity and source of wealth can be easily identified and transactions largely conform to the known profile
Staff member	Low Risk	Salaried employees, whose salary structure is well defined
Institutions - Institute/FII/ PSU & Institution -Banks/ Mutual Funds/ Insurance Companies, Public Ltd Company	High Risk	Balance Sheets and PL statements are easily available but not upto date Sources of funds are clear but as per region instruction all Institutions to be marked as high risk.
Individuals -With Annual Income greater than Rs.5.00 lacs to 10 Lacs	Medium Risk	Identity and source of wealth can be easily identified however larger value transactions have a potential for greater risk
Individuals -With Annual Income greater than Rs.5.00 lacs to 10 Lacs	High Risk	Identity and source of wealth can be easily identified however larger value transactions have a potential for greater risk
Proprietor	High Risk	Sources of funds are not clear. Non face to face customers

Partnership	High Risk	Sources of funds are not clear.
Private Ltd. Company	High Risk	Sources of funds are not clear.
HUF	High Risk	Sources of funds are not clear.
NRE/ NRI/ NRO/OCB	High Risk	Sources of funds are not clear.
Trust (Registered/Unregistered)	High Risk	Sources of funds are not clear.

ii. Transactional History of client: Client with high turnover & F&O trading i.e. average daily turnover of more than Rs.50.00 Lacs, in a given month would be categorized as a High Risk Client.

As of now we are dealing with super HNI business so all client is covered under High risk profile.

Transactional Alerts

1. Cross Segment Client Strength: Client's purchasing strength is derived based on the Income and Net worth declared by the client. The declared Income/Net worth (With a multiplier of five- considering that an exposure equivalent to five times the balance in the clients trading account is available to the client) is used to calculate the purchasing power of the client. Net outstanding trading debit in the trading account of the client will be compared to the client strength, calculated as above. Risk Points will be assigned to the client for violations, if any.

2. Client Purchase to Income: Daily traded volume of the client will be compared with the Income/Net Worth declared by the client. Trades done in excess of income declared will be assigned Risk Points on each violation.

3. Client Exchange Volumes: This report analyzes daily volume of the client in each security with total volumes for the scrip with the exchange on that day. Depending upon the scrip group and percentage share of the volume with exchange volume Risk Points will be assigned to the clients.

4. Client Scrip Concentration: This report analyzes the volume of the client in each security with total volumes of the client during the period. Depending upon the scrip group and percentage share of the volume to total volume Risk Points will be assigned to the clients.

5. Illiquid Scrip: Illiquid scrips, will be those scrips which are defined as illiquid by the stock exchanges, NSE and BSE. Each trade in Illiquid Scrip will be assigned Risk Point irrespective of the scrip group or category.

6. Synchronized Trading: Trades wherein both buyer and seller belong to CGS-CIMB will be identified. Risk points will be assigned to such trades for each instance of violation.

7. **AUM Reduction report:** This report gives details of the clients who are making continuous losses, across equity & derivatives segments. The reports will be scrutinized to see how the loss is being funded by the client.

Process for review of Alerts

1. Firstly, the Cross Segment Client Strength report will be analysed to identify clients where trading does not conform to their declared income profile. Alerts will be generated for each instance of violation and letters/emails will be sent to clients for updating their Income details, along with necessary documentary evidence in support thereof. Alerts will be closed on receipt of updated income details matching with the transactions carried out by the client. On failure of client to update income alert will be taken up for further action.

2. Trades of clients appearing in the client scrip concentration report will be compared with the client exchange volume report and violations if any will be used for generating alert. Price movement for the security will be analysed to establish possible price manipulation by the client. If both the conditions viz. concentration of client volume with the exchange and considerable price movement is observed, then the alert will be escalated for further action.

3. Trades in illiquid security will be analyzed and letters or emails/ alerts will be sent to the clients cautioning them against trading in illiquid securities. Trades in illiquid securities will be analyzed in conjunction with client and exchange concentration report for possible price manipulation in illiquid securities. Only in cases where trades in illiquid securities also reflect volume generation/ price manipulation the alerts will be taken up for further action.

4. Report for synchronized trades where both the buyer and seller belong to CGS-CIMB will be analyzed on the following aspect,

- Whether trades are between same set of clients
- Is there any trend or previous instances of such trades by the client
- Whether these trades are in illiquid security or form significant portion of exchange volume.

If all of the above conditions are satisfied the alert will be taken up for further action.

5. Client purchase to income/Client Cross segment strength reports indicates trading pattern of clients who have traded in excess of their declared income. Letters or emails will be sent to clients for updating their income declaration.

6. AUM reduction report will verified to analyze how the losses are being funded by the client

- Whether loss is being funded by funds? In such cases are the funds being brought in by the client are consistent with their declared Income/ Net Worth
- Whether loss is being funded by selling of securities? In such cases, is the security being brought in through off market transactions. Alert will be taken up for further action in case satisfactory explanation is not forthcoming from the client(s).

7. Trades in the account of clients which were dormant will be analyzed and alerts will be generated for trades in excess of Income carried out in a Dormant clients' account.

8. Besides, the transactional alerts generated through the manual check, alerts received from the Stock Exchanges will also be analysed and acted upon as per the process laid down in this Policy.

Analysis

1. Based on analysis of the Trading pattern of the clients and the alerts generated Client(s)/Group of Client(s) will be shortlisted for further analysis.
2. Explanation will be sought from such identified Client(s)/Group of Client(s) for entering into such transactions.
3. Documentary evidence such as bank statement/demat transaction statement or other documents will be called from the Client(s)/Group of Client(s) to satisfy
 - a. In case of funds, Bank statements of the Client(s)/Group of Client(s) from which funds pay-in have been met, will be sought. In case of securities, demat account statements of the Client(s)/Group of Client(s) from which securities pay-in has been met, will be sought.
 - b. 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.
4. After analyzing the documentary evidences, observations for such identified transactions or Client(s)/Group of Client(s) will be recorded
5. After analyzing the Bank/Demat statements or other documents, in case adverse observations are recorded, all such instances will be reported to the Stock Exchanges.

Reporting

1. MIS will be put up to the Board of Directors on quarterly basis
 - a. Number of alerts pending at the beginning of the quarterly year
 - b. Number of alerts generated during the quarterly year
 - c. Number of alerts disposed off during the quarterly year and
 - d. Number of alerts pending at the end of the quarterly year.
 - e. Total number of alerts generated during the year
2. Reasons for pendency should be discussed and appropriate action taken.
3. All in house alerts details (alert name wise)
 - Opening Balance, Additions, Closures, Closing Balance
 - Details of in-house alerts referred to exchange
 - Along with observations and action taken
 - Any major Surveillance Action (if any) over and above
 - If no in-house alert generated
 - Submit Nil report
4. Quarterly Basis reporting to Exchange within 15 days from end of the quarter

Authority structure for Generation, Review and Closure of Alerts

The following authority structure has been formalized for generating, reviewing and closing of alerts,

Activity Authorized Person

Risk Profiling & Generation of alert Risk Management Department (RMD) Review of Alert/Recording of observations on Internal Transactional Alerts/Alerts received from exchanges. Senior Associates - RMD

Closure of Alerts Compliance Officer and Head Operations

Reporting of Suspicious Transactions Compliance Officer

7. Role of Internal Auditor

Internal auditors of the company shall review the surveillance policy, its implementation and effectiveness, Review the alerts generated during the period of audit and record observations with respect to the same in their report.

8. Role of Compliance Officer & Designated Directors

The surveillance process will be conducted under the overall supervision of its Compliance Officer, who shall be responsible for all surveillance activities carried out by CGS-CIMB, for the record maintenance and reporting of such activities. Compliance Officer responsible for supervision. Designated Directors responsible for Surveillance

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