

C. R. KOTHARI & SONS STOCK BROKING PRIVATE LIMITED
CIN: U67120UP2004PTC038336

Surveillance Policy (version 2015-16)

Objective:

Surveillance function helps in achieving objectives of:

- Maintaining integrity of the market,
- Monitoring and identifying suspicious/manipulative transactions,
- Curbing suspicious/manipulative activities at nascent stage.
- Minimizing business risk through better profiling of clients and transactions.

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.

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.

Types of Surveillance alerts:

A. Alerts received from exchange Exchanges (NSE) will share surveillance alerts for the trading done by the clients which needs to be downloaded by the Trading Members for detailed analysis. Following are the alerts which shall be provided by exchanges:

Sr. No.	Transactional Alerts	Segment
1	Significant increase in client activity	Cash
2	Sudden trading activity in dormant account	Cash
3	Clients/Group of Client(s), dealing in common scrip's	Cash
4	Client(s)/Group of Client(s) concentrated in a few illiquid scrip's	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	Wash Sales	Cash & Derivatives
10	Reversal of Trades	Cash & Derivatives
11	Front Running	Cash
12	Concentrated position in the Open Interest/High Turnover concentration	Derivatives
13	Order book spoofing i.e. large orders away from market	Cash

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1. Downloading and analyzing alerts by Compliance Team:

The alerts provided by exchanges shall be downloaded on daily basis by the Compliance department from respective exchange system for an in depth analysis. 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. The alerts which are found to be suspicious and of which the Compliance Team is of the opinion that the same needs to be reported to the exchange shall be flagged separately. Such alerts should be forwarded to the concerned Relationship Manager/Risk Head for further clarification and scrutiny.

2. Steps to be taken for analysis of each alert by Compliance Team:

i. Significant increase in client activity: Client(s)/Group of Client(s)1 who have been dealing in small quantities/value suddenly significantly increase their activity. In such cases the following shall be examined:

- Whether such volume is justified given the background of the client and his past trading activity.
- Cumulative amount of funds that was brought in by the Client(s)/Group of Client(s) for the purchases made during the period.
- Whether such inflow of funds is in line with the financial status of the client.
- Whether the transactions of such Client(s)/Group of Client(s) are contributing to concentration or impacting the price.

ii. Sudden trading activity in dormant accounts- This refers to such cases where the client has not traded more than 12 months and suddenly starts/resumes trading in stocks or low market capitalized scrips or enters into transaction which is not in line with his financial strength. In such cases following shall be reviewed and examined:

- Reasons for trading in such scrips/contracts.
- Whether the client is only placing the order or is it some third party
- Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices of such scrips/contracts through use of such dormant accounts.
- 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 through use of such dormant accounts.

iii. Clients/Group of Client(s), dealing in common scrips: Such dealing is contributing significantly to the volume of the scrip at CRK level and at the stock exchange level. The following shall be reviewed and examined:

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

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iv. Client(s)/Group of Client(s) concentrated in a few illiquid scrips:

The following shall be reviewed and examined:

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

v. Client(s)/Group of Client(s) dealing in scrip in minimum lot size/ Concentration in a scrip: The following shall be reviewed and examined:

- Reasons for such trading behavior.
- Whether the transactions of such Client(s)/Group of Client(s) are contributing to concentration or impacting the price.
- Whether such transactions indicates towards probability of illegal trading at the clients' end.

vi. Circular Trading:

- Continuous trading of client/group of clients in particular scrip over a period of time.
- Client/group of clients contributing significant volume (broker and exchange level) in a particular scrip—especially illiquid scrip
- Possible matching of trades with a specific group of clients (like same trade number on both buy and sell side and/or immediate execution of order in illiquid scrip etc.)
- Possible reversal of trades with the same group of clients (like same trade number on both buy and sell side and/or immediate execution of order in illiquid scrip)

vii. Pump and Dump:

- Activity concentrated in illiquid scrips.
- Sudden activity in illiquid securities.
- Percentage of Client(s)/Group of Client(s) activity to total market in the scrip/contract is high.
- Trades being executed at prices significantly away from the market and later on squaring off to earn significant profits.

viii. Wash Sales or Reversal of Trades:

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

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ix. Front Running:

- Trading, by Client(s)/ Group of Client(s)/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
- There is a consistent pattern of Client(s)/ Group of Client(s)/employees trading ahead of large buy/sell transactions.

x. Concentrated position in the Open Interest/high turnover concentration:

- Client(s)/Group of Client(s) having significant position in the total open interest of a particular scrip.
- Client(s)/Group of Client(s) not reducing/closing their positions in spite of the scrip being in ban period.
- Client(s)/Group of Client(s) activity accounts for a significant percentage of the total trading in the contract/securities at the Trading member and exchange level.
- Monitor the trading pattern of Client(s)/Group of Client(s) who have Open Interest positions/concentration greater than equal to the thresholds prescribed.

xi. Order book spoofing i.e. large orders away from market:

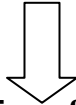
- Consistent placement of large orders significantly away from the market with low trade to order trade ratio or canceling orders within seconds after placing them thereby creating a false impression of depth in a particular scrip/contract
- Repeated pattern of placement of large buy orders which are away from the market price and simultaneous placement of sell orders to benefit from price rise or vice-versa.

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

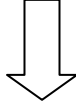
Compliance Team shall conduct an in depth scrutiny of alerts received from Exchanges. Each alert shall be studied with Root Cause Analysis (RCA) approach. The following shall be the process flow:

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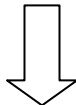
Receipt of alerts from Exchange



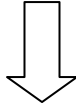
Scrutiny of alerts



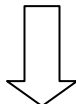
**Email to respective RM/Risk Head for clarification on the trade done.
(Wherever require Compliance Team will issue letter to clients asking explanation
for the trade with supporting documents)**



**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/Risk Head/Client, Compliance team
will analyses 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.**

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 Directors for necessary action as may be deemed fit depending on the facts and circumstances of each case. Further, as per the regulatory requirements, Members are required to report the adverse alerts within 45 days from the date of receipt of the alert. However, in case of exceptional circumstances extension of time may be sought. 4. 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.

Reference Circulars:

NSE NSE/INVG/22908 7th March, 2013