

## **Introduction:**

Indo Thai Securities Limited is dealing in financial services, hence risk management is of utmost importance because we need to deal with various kinds of risk like Market Risk, Liquidity Risk Credit Risk, Systems and network failure Risk, Employee Fraud or default Risk and other risk.

The Risk shall be determined on the basis of their materiality. In determining the materiality of risk factors, the following shall be considered:

1. Some risks may not be material individually but may be material when considered collectively.
2. Some risks may have an impact which is qualitative though not quantitative.
3. Some risk may not be material at present but may have a material impact in the future.

Risk Management is an integral part of an organization. We have deployed resources in terms of technology, people and processes to manage our risk management function. The global financial crisis has also highlighted the need to manage risks regarding new financial instruments such as derivatives, currency futures etc.

We build this Policy for guiding the operations of the organization with reference to circulars issued by exchanges/ depositories time to time. This policy is also made for adherence of SEBI and/or Exchange/ Depository (CDSL) norms which has to be followed by an intermediately during their operational activities time to time.

## **OBJECTIVE**

The objective of this policy is to have in place an effective market surveillance mechanism to ensure investor protection and to safeguard the integrity of the

markets. The goal of surveillance is to spot adverse situations in the markets and to pursue appropriate preventive actions to avoid disruption to the markets. The fairness of the markets is closely linked to investor protection and, in particular, to the prevention of improper trading practices. This monitoring is required to analyze the trading pattern of the clients in order to observe whether any transaction (buying or selling) done intentionally which will have an abnormal effect on the price and/or volumes of any share, which is against the fundamental objective of the Securities Market. In order to further strengthen the Surveillance framework for the Securities Market, Depository have advised to put in place surveillance framework.

### **BACKGROUND**

BSE Limited and National Stock Exchange vide its circular nos. 20130307-21 & NSE/INVG/22908 dated March 7, 2013 and CDSL vide its circular no. CDSL/OPS/DP/SYSTM/2021/309 dated 15<sup>th</sup> July, 2021, intimated that the Exchange would be downloading the following alerts based on the trading activity of the client for facilitating the effective surveillance mechanism and directed the stock brokers to frame a surveillance policy for the same. The surveillance policy shall cover the maintenance and disposition of alerts received from exchanges/generated at our end.

### **TRANSACTIONAL ALERTS FOR ALL SEGMENTS, EXCHANGES AND DP:**

- Significant increase in client activity
- Sudden trading activity in dormant account
- Clients/Group of Client(s), deal in common scrip
- Client(s)/Group of Client(s) is concentrated in a few illiquid scrip
- Client(s)/Group of Client(s) dealing in scrip in minimum lot size
- Client/ Group of (Client(s) Concentration in a scrip
- Circular Trading
- Pump and Dump (Pump-and-dump" involve the touting of a company's stock (typically small, so-called "micro cap" companies through false and misleading statements to the marketplace)
- Wash Sales (A wash sale is trading activity in which shares of Security are sold at

a loss and a substantially identical Security is purchased)

- Reversal of Trades
- Front Running (Execution of orders in a security for its Own account by the member while taking advantage of advance knowledge of orders from its customers)
- Concentrated position in the Open Interest/High Turnover concentration
- Order book spoofing i.e. large orders away from market
- Alert for multiple demat accounts opened with same demographic details: Alert for accounts opened with same PAN /mobile number / email id/ bank account no. / address considering the existing demat accounts held with the DP
- Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced
- Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc
- Frequent Off-Market transfers by a client in a specified period
- Off-market transfers not commensurate with the income/Networth of the client
- Pledge transactions not commensurate with the income/Networth of the client
- Off-market transfers (High Value) immediately after modification of details in demat account
- Review of reasons of off-market transfers provided by client for off-market transfers vis-à-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
- Alert for newly opened accounts wherein sudden Increase in transactions activities in short span of time and suddenly holding in demat account becomes zero or account becomes dormant after some time
- Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients.

### **TERMS USED IN THIS POLICY**

Alerts : Referred as transactional alerts arising due to sudden significant increase in client activity, sudden trading activity in inactive/dormant accounts, clients/groups of clients dealer in common scrips, illiquid scrips, minimum lot size/or single scrip,

large orders away from the market, concentrated position in the open interest/high turnover concentration, circular trading, pump and dump, wash sales, reversal of trades, front running, multiple demat accounts opened with same demographic details, frequent Off-Market transfers.

- **Sudden Increase In Volumes**

a. Our surveillance team regularly notices the volume of every client and alerts generated by back office software. If any client trades in any particular scrip where the volume compared to exchange volume is more than 10%, then our surveillance team traces such trade and inform the Compliance team immediately. Compliance team examine the same and if such trades found as unusual transaction, then compliance team sought clarification for their satisfaction through making calls or sending letter/emails to the respective client.

b. High value off-market transactions are regularly monitored.

c. Sudden increase in the volume in newly opened demat accounts are closely monitored and reported if found unreasonable.

- **Sudden activity in dormant account**

Company may, at its absolute discretion, decide to deregister a particular client if client's account has been lying dormant for a long time or client is not traceable.

Company has made separate policy for dealing in dormant account, treatment for Reactivation of Dormant Accounts is as under:

The Client accounts would be reactivated only after undertaking proper due diligence process and fulfillment of such conditions as may be deemed fit in the case where the account had been deactivated. The Client has to make written request or E-mail from his designated E-mail id for reactivation of his/her/its account.

- **Trading Pattern of Group of Clients**

Surveillance system of Company notices the activity and trading pattern of particular clients as well as group of clients, if any transaction found which is doing for common scripts and/or illiquid scripts or for volumes in a particular script. Surveillance team informed immediately to Compliance Officer. And Compliance team take steps to found the justification from concern client/s for such transaction.

- **Circular Trading by Group of Persons**

Circular Trading means and relates to trading by a client or a trading member or a group of related trading members and/or their clients, normally through more than one trading member and executing trades, with one or more entities of this group entering buy orders and on the other side one or more entities of the same group and/or with other unconnected entities in the market entering sell orders or vice versa with a design to manipulate the price of a security and / or by a design to create an artificial or false market, or by a design to defraud or misuse the system and the like.

Circular trading is basically trade done by a group of people among themselves to rig the share price. For e.g. A,B,C who are holding the same share “Stock A” can do a circular trading by A selling to B and B selling to C and C selling to A. By doing this they will be able to increase or decrease the share price since the trades are executed between themselves. This is normally done in IPO shares during listing to create the activity in the scrip and to distribute the stocks.

- **Pump And Dump**

A scheme that attempts to boost the price of a stock through recommendations based on false, misleading or greatly exaggerated statements. The perpetrators of this scheme, who already have an established position in the company's stock, sell their positions after the hype has led to a higher share price. This practice is illegal based on securities law and can lead to heavy fines.

The victims of this scheme will often lose a considerable amount of their investment as the stock often falls back down after the process is complete.

- **Wash Sale**

A transaction where an investor sells a losing security to claim a capital loss, only to repurchase it again for a bargain. Wash sales are a method investors employ to try and recognize a tax loss without actually changing their position.

- **Front Running**

The unethical practice of a broker trading an equity based on information from the analyst department before his or her clients have been given the information

Front-running is an illegal practice where a stockbroker executes orders on a security for his/her own account, taking advantage of advance knowledge of pending orders. Since Front-running is an offence and company never promote such type of activities in any manner.

**POLICY**

In accordance with the circulars dated March 7, 2013 issued by BSE Limited and National Stock Exchange and CDSL circular dated 15th July, 2021 and in order to maintain the records of the transactional alerts received from exchanges or generated at our end, the following steps would be taken to review and dispose the alerts

1. Review the type of alert downloaded by exchange or generated at our end
2. Financial details of the client
3. Past trading pattern of the clients/client group
4. Bank/ demat transaction details
5. Other connected clients having common email/mobile number/address or any other linkages etc.
6. Other publicly available information

On receipt of the above information, analyze the alerts generated and in case of any adverse findings/comments, the same shall be communicated to the Exchange within 45 days from the alert generation.

In case analysis is taking time due to complexity an extension may be taken from the exchange to review the alert(s).

In order to have in-depth analysis of the above transactional alerts, the following due diligence shall be taken based on following parameters:

### **CLIENT(S) INFORMATION**

Due Diligence of client(s) would be done on a continuous basis. Client information should be updated at least once a year through periodic review. Financial information also needs to be updated for all active clients and the following relevant documents pertaining to financial details to be obtained from clients.

1. Copy of ITR Acknowledgement
2. Copy of Annual Accounts
3. Copy of Form 16 in case of salary income
4. Net worth certificate
5. Salary Slip
6. Bank account statement for last 6 months
7. Copy of demat account Holding statement
8. Any other relevant documents substantiating ownership of assets
9. Self declaration along with relevant supporting

Addition/ Modification of any parameter (correspondence address, contact details, email-ID, bank and beneficiary accounts.) relating to client should also be updated immediately in the UCI database of exchange and the same shall be updated in back office also.

Based on the above information/documents, identification of groups / association

amongst clients to identify multiple accounts / common account / group of clients would be established.

Groups to be formed on the basis of details of family/ group/ associate provided by clients during their registration or at the time of periodic review and on the basis of any authorization submitted by the client for adjustment of their balances.

### **ANALYSIS**

In order to analyze the trading activity Of the Client(s)/Group of Client (s) or scrips identified based on the alerts received from the Exchange, the following information shall be sought from clients:

- a. Seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions. Letter/ email to be sent to client asking the client to confirm that client has adhered to trading regulations and details may be sought pertaining to funds and securities and other trading pattern.
- b. Seek documentary evidence such as Bank Statement / Demat Transaction Statement or any other documents to support the statement provided by client.
  1. In case of funds Bank statements of the Client(s)/Group of Client(s) from where funds pay-in have been met, to be sought. Sources of funds in the bank statements to be verified. In case of securities, Demat account statements of the Client(s) / Group of Client(s) from where securities 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/securities 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 Demat statement, the observations shall be recorded for such identified transactions or Client(s) /



Group of Client(s). In case of adverse observations, the same will be reported to the Exchange within 45 days of the alert generation. Extension of the time period from the Exchange will be sought, if required.

In case the client does not cooperate or does not revert within reasonable period, Exchange to be informed based on the information available with the member.

### **MONITORING AND REPORTING**

The surveillance process shall be conducted under overall supervision of its Compliance Officer and based on facts and circumstances; he/she is required to take adequate precaution.

Designated Director(s) / Compliance Officer would be responsible for all surveillance activities carried out by the Trading member and for the record maintenance and reporting of such activities.

A quarterly MIS shall be put up to the Board on the number of alerts pending at the beginning of the quarter generated during the quarter, disposed off during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed and appropriate action would be taken. In case of any exception noticed during the disposition of alerts, the same shall be put up to Board.

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

### **Obligations of DP:**

1. We shall maintain register (electronic/physical) for recording of all alerts generated.
2. While reviewing alerts, we shall obtain transaction rationale, verify demat statement and also obtain supporting documents as required from the client.
3. After verifying the documentary evidences, we will record its observations for such identified transactions of its Client.

4. With respect to the transactional alerts provided by Depository, we shall ensure that all alerts are reviewed, disposed off and status thereof (Verified & Closed / Verified & Reported to Depository) including action taken is updated within 30 days. Detailed procedure w.r.t sharing of alert by CDSL with us and report submission by us in this regard will be provided separately.
5. With respect to the alerts generated at our end, we shall report instances with adverse observation, along with details of action taken, to CDSL within 7 days of the date of identification of adverse observation. Detailed procedure w.r.t reporting of alert by Participants will be provided separately.
6. We shall carry out the Due Diligence of our client(s) on an on-going basis.
7. It shall be ensured that key KYC parameters of the clients are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in Depository System.
8. We shall provide duly approved status of the alerts on a quarterly basis, in the prescribed format to CDSL within 15 days from end of the quarter w.e.f quarter ending December, 2021.
9. Additionally, the Back Office software shall also generate alerts, and such alerts shall also be disposed off within 30 days, and any suspicious transaction or alert shall be reported to CDSL at the earliest.

**Obligation of Compliance Officer:**

Compliance Officer shall be responsible for :

1. Compliance of the said policy;
2. Supervision of surveillance activities of the DP;
3. Putting up quarterly MIS before the Board, on the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure;
4. Apprising any exception noticed during the disposal of alerts to the Board;

**Internal Auditor shall:**

1. Review the surveillance policy, its implementation, effectiveness and the alerts generated during the period of audit.
2. Record the observations with respect to the same in their report.

3. Verify that the quarterly MIS is prepared and placed before the Board of the DP.

### **APPROVAL AUTHORITY**

This policy shall be approved by its Board.

### **REVIEW POLICY**

This policy shall be reviewed on annual basis, as well as when there are any changes introduced by any statutory authority or as and when it is found necessary to change the policy.

The policy may be reviewed by the Managing Director/CEO and place the changes in policy before the Board at the meeting first held after such changes are introduced.

### **POLICY COMMUNICATION**

A copy of the approved policy shall be made available to Compliance officer Head of risk and Head of Operations.

**Note:** This policy is approved and adopted in Board Meeting held on 13<sup>th</sup> August, 2021.