

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 (BSE), National Stock Exchange of India Limited (NSE) and Central Depository Services Limited (CDSL) vide its circular dated July 1, 2021 BSE Notice No 20210701-30, NSE Circular Ref. No.: 452/2021 and CDSL Circular dated July 15, 2021, Ref. No.: CDSL/OPS/DP/SYSTEM/2021/309 , Ref. No.: CDSL/SURV/DP/ POLCY/2023/88 dated February 10, 2023 , Ref. No.: CDSL/OPS/DP/SYSTEM/2021/369 dated August 23, 2021 has directed the Trading Member / Depository Participant to frame a surveillance policy for effective monitoring the alerts based on trading / demat activity on the Exchanges / Depository as well as own alerts generated by the trading member / DP at their end based on their surveillance policy and suitable actions. Trading member / DP are directed to have proper mechanisms and to ensure that proper checks and balances are in control.

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.

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

SCOPE:

The company shall implement the following policy: -

A. TRANSACTIONAL ALERTS FOR ALL SEGMENTS, EXCHANGES AND DP:

In order to facilitate effective surveillance mechanisms, the Company would download the below mentioned alerts based on the trading activities on the exchanges.

- 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.

B. Transactional Alerts generated by Trading Member :

Further to effective monitoring the Trading activity of Clients, we have formulate system to generate following alerts:

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

percentage of total trading activity in a scrip / contract as compared to the market.

3. Client / group of clients dealing frequently in small quantities / minimum market lot in a scrip / contract.
4. Disproportionate trading activity vs reported income / Net worth.
5. Frequent changes in KYC submitted by clients.
6. 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.
7. Client / group of clients having significant selling concentration, in the scrips, forming part of „For Information list“ or „Current Watch list“. For more details, kindly refer Exchange notice no. 20200830-1 dated August 30, 2020.
8. Consistency in profit / loss at client / group of clients“ levels, rationale for such trading activities. In addition, trading members may also refer details given in Exchange notice no. 20190207-46 dated February 07, 2019.
9. Significant trading activity in scrips by client who has pledged the shares of same scrip.
10. In case of concerns of trading activity of a client / 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.
11. Significant trading activity in scrips where client has pledged shares or has significant holding or has frequent off-market transactions.
12. Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location).

C. Transaction Alerts generated by Depository Participant:

To effective monitoring the demat transactions of Clients, we have formulate system to generate following alerts:

1. 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 Participant.
2. Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced.
3. Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.
4. Frequent Off-Market transfers by a client in a specified period
5. Off-market transfers not commensurate with the income/Networth of the client.
6. Pledge transactions not commensurate with the income/Networth of the client.
7. Off-market transfers (High Value) immediately after modification of details in demat account
8. 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
9. 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.
10. Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients .

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 payin 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.

- **Obligation of Depository Participants to frame Surveillance Policy**

DPs shall frame a surveillance policy based on nature of DP business (i.e., Bank, Stockbroker, Custodian etc.), type of clients, number of demat accounts, number of transactions etc. and which shall, inter alia, cover the following:

- i. Generation of suitable surveillance alerts which may be guided by indicative themes (the list is inclusive and not exhaustive) given in point B below
- ii. Review and disposal of transactional alerts provided by CDSL (Transactional alerts provided by CDSL will be based on some thresholds. DPs may have their own different thresholds or own parameters to generate additional alerts of their own in point I above, so as to detect any suspicious transaction activity).
- iii. Disposal of alerts within 30 days from the date of alerts generated at DP end and alerts provided by CDSL.
- iv. Reporting to CDSL and other authorities as applicable, in case of any abnormal activity
- v. Documentation of reasons for delay, if any, in disposition of alerts.
- vi. Framework of appropriate actions that can be taken by the Participant as per obligations under Prevention of Money Laundering Act (PMLA)
- vii. Record maintenance for the period as stipulated under applicable statutes
- viii. The surveillance policy of the DPs shall be reviewed once in a year

The surveillance policy of the Participant shall be approved by its Board of Directors. In case, the DP is incorporated outside India, then the surveillance policy of the DP may be approved by a Committee constituted to oversee its Indian Operations.

- **Obligation of DPs to generate additional surveillance alerts**

DPs are required to generate appropriate surveillance alerts at their end, to enable them to effectively monitor the transactions of their clients at their end as per the laid down surveillance policy. The indicative themes on which DPs may formulate their own alerts are as under. The DPs also needs to analyse patterns and trends with respect to different themes. DPs shall put in place system to generate these alerts with effect from October 1, 2021 and obtain the approval of its Board in its next meeting.

Indicative themes:

1. 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.
2. Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced.
3. Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.
4. Frequent Off-Market transfers by a client in a specified period
5. Off-market transfers not commensurate with the income/Networth of the client.
6. Pledge transactions not commensurate with the income/Networth of the client
7. Off-market transfers (High Value) immediately after modification of details in demat account
8. 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
9. 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.
10. Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients.

- **Obligation of Depository Participants regarding Client due diligence:**

The following activities required to be carried out by DPs for client due diligence:

- i. DPs are required to carry out the Due Diligence of their client(s) on an on-going basis.
- ii. DPs shall ensure 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.

- **Obligation of DPs for reporting the status of alerts generated by DPs**

1. DPs are required to maintain register (electronic/physical) for recording of all alerts generated.
2. While reviewing alerts, DP shall obtain transaction rationale, verify demat statement and also obtain supporting documents as required from the client
3. After verifying the documentary evidences, DPs will record its observations for such identified transactions of its Client.
4. With respect to the transactional alerts provided by Depository, DP shall ensure that all alerts are reviewed, 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 DPs and report submission by DPs in this regard will be provided separately.
5. With respect to the alerts generated at the DP end, DP 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

- **Obligation of Compliance officer and Internal Auditor/Concurrent Auditor of the DP**

1. The surveillance activities of DP shall be conducted under overall supervision of its Compliance Officer.

2. 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, 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. Also, the Board shall be apprised of any exception noticed during the disposal of alerts.
3. Internal auditor of DP shall review the surveillance 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.
4. Internal Auditor shall verify that the quarterly MIS is prepared and placed before the Board of the DP.

• **Obligation of Quarterly reporting of status of the alerts generated by DPs**

DPs are also required to provide duly approved status of the alerts on a quarterly basis, in the following format to CDSL within 15 days from end of the quarter.

Status of Alerts generated by the Depository:

Quater	Name of Alert	No. of alerts pending at the beginning 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
Oct-Dec-2021	NIL	0	0	0	0	0
Jan-Mar - 2022	NIL	0	0	0	0	0
Apr-Jun 2022	NIL	0	0	0	0	0
Jul – Sep 2022	Frequent Off-Market transfers by a client	0	13	13	13	0
Jul – Sep 2022	Modification and updation in demographic details	0	14	14	14	0

Oct-Dec 2022	Off-market transfers not commensurate with the income/Networth	0	4	4	4	0
Oct-Dec 2022	Modification and updation in demographic details	0	23	23	23	0
Oct-Dec 2022	Frequent Off-Market transfers by a client	0	3	3	3	0
Jan-Mar 2023	Modification and updation in demographic details	0	15	15	15	0

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
1	NIL

• **Disciplinary action for non-fulfilment of Surveillance obligation by DP**

- Any non-compliance with respect to surveillance obligations which may inter alia include delay in processing of alerts generated by DP / provided by CDSL and repeated instances of delay in reporting of the status of alerts, may result in further disciplinary action as deemed fit in terms of DP Operating instructions and Bye-laws of Depositories.

Note: This policy is approved and adopted in Board Meeting held on 23rd May, 2023.