MUNI BROKING HOUSE LIMITED
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SURVEILLANCE POLICY – TRADING

Last Reviewed on	Reviewed By	Approved By
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SURVEILLANCE POLICY – TRADING

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, Muni Broking House Limited, would have in place adequate surveillance policies and system in order to monitor suspicious/manipulative transactions and curb such activities, if any.

Objective:

In order to facilitate an effective surveillance mechanism to monitor the transactions in the Exchanges where the company is registered as a Trading Member, this Surveillance Policy is being formulated in compliance and/or as mandated by Securities and Exchange Board of India.

Responsibility:

The Compliance Officer shall be responsible for the implementation and supervision of this Policy.

The Executives, Compliance Executives, Surveillance executive and back office executives shall assist and report to the Compliance Officer on a daily basis in respect of the alerts generated for the surveillance mechanism.

The Compliance Officer shall take all necessary steps to analyze, monitor, document and report the findings to the relevant Exchanges and regulatory bodies, in a time bound manner, as detailed here under and as mandated by Exchanges and regulatory bodies.

The Compliance Officer shall take adequate precautions to ensure implementation of an effective surveillance mechanism, based on the day-to-day activities of the clients, general market information and the facts and circumstances.

The Internal Auditor of the firm, shall review the Policy, its implementation, documentation, effectiveness and review the alerts generated during the period of audit and shall record the observations with respect to the same in their Internal Audit Reports.

The board of directors shall peruse, review and provide necessary guidance with regard to the “Surveillance Policy”, periodically, for strengthening the processes.

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

Alert Generation System: The Risk Management Team generates alert reports at the end of each day from the Back Office Software which is analyzed to identify suspicious transactions. Alerts from Stock Exchanges and Depositories are also collated.

(i) Quality of Dealing:

- Identify scrips in BE & T2T having 50 % of Exchange volume.
- Segregate the scrip volume based on the security category (e.g., EQ and BE in case of NSE and A, B, T, etc., in case of BSE).
- Identify the clients and check the bonafide of transactions.

(ii) High Value Deals:

- Review the deals above Rs. 25 Lacs in single scrip.
- In case of buy deals, check whether sufficient margin is available.
- In case of sale deal, check whether the shares are available.
- Identify scrips where deals are persistently contributing higher volumes.
- Identify clients, who have taken high value positions, review their ledger accounts in order to verify whether there is sudden increase in.

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

- Transaction Turnover more than Rs. 10.00 Lacs.
- Delivery Turnover more than Rs. 1.00 Lacs.
- Deal size more than 2 times of the average deal size.
- 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.

(iv) Sudden trading activity in dormant accounts: This refers to such cases where the client has not traded more than 3 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:

- Trade Gap Analysis for more than 90 days.
- 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.

(v) 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 account

(vi) Clients/Group of Client(s), dealing in common scrips: Such dealing is contributing significantly to the volume of the scrip at broker 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.
- In case a client/ group of clients contributed more than 40% volume at Exchange level, repeatedly in the same scrip in last fifteen-day, client(s) is / are accumulating the scrip.
- Check if client(s) is/ are transferring the same to third party Demat accounts through off-market transactions.

(vii) Client(s)/Group of Client(s) concentrated in a few illiquid scrips: The following shall be reviewed and examined:

- Typically, the Risk Management Team shall block trading in scrips which are listed as Illiquid Scrips by the Stock Exchanges through its circulars.
- Any trading in such scrips are done on specific request by client, and the same is allowed by the Compliance Officer only upon scrutiny of the beneficial ownership of the selling, pre-pay-in of funds by the buying client and trades are executed at the last traded price.
- Activity concentrated in illiquid scrips.
- Sudden activity in illiquid securities.
- 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.
- Percentage of Client(s)/Group of Client(s) activity to total market in the scrip/contract is high.
- Identify clients who have traded in these scrips more than 25% of Exchange volume.

(viii) Client(s)/Group of Client(s) dealing in scrip in minimum lot size/Concentration in 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 indicate towards probability of illegal trading at the clients' end.

(ix) Synchronized Trades/Cross Trades/Circular Trading:

- Scrutinize Synchronized/Cross Trade Report generated by the system as well as the data published by the Stock Exchanges on their official website. Identify clients having cross or synchronized trades.

- Typically, any request for Block Deal is to be handled by the Risk Management Team directly under the guidance of Compliance Officer at the Head Office Level. Trades are to be executed only upon scrutinizing/ obtaining - proof of beneficial ownership of the selling client, proof of availability of funds by the buying client, pre-pay-in of shares of the selling client, pre-pay-in of funds by the buying client. Upon complying the same, trades are to be executed at the last traded price to avoid any price distortion. The executions of such trades are to be reported to the Designated Director as a routine compliance.
- 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 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)

(x) Pump and Dump:

- Risk Management Team to disallow trades for being executed at prices significantly away from the market and later on squaring off to earn significant profits.

(xi) 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

(xii) Front Running:

- Trading, by Client(s)/ Group of Client(s)/employees, ahead of large buy/sell transactions and subsequent square off have 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.

(xiii) 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.
- Identify the scrips where there is sudden increase in volume or rate by comparing the Exchange volume.
- Check whether Broker has contributed substantial volume (more than 25 %) in such

scrips. Identify clients who have contributed more than 25 % of the volume at the Exchange. Check for intimation letter uploaded by the Stock Exchange for the purpose of Additional Margin.

- Identify the clients who are trading frequently in the scrips (more than 3 times in last five days).

(xiv) 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.

(xv) Impact of Trading Pattern on Price and Volume of the Scrip

- Identify the days on which the client has taken concentrated positions in the scrip and Compare price and volume on the Exchange on said dates to ascertain whether:
  - ✓ Increase in price or volume beyond 20%.
  - ✓ Client has taken positions at day's high or low rates.

(xvi) Review of Client Receipts / Payments

- Review of Receipts/Payment details of the Client having unusual pattern of funds movement. Analyze the Receipts & Payments of the client on daily basis and on Q-to-Q basis. Daily Bank Reconciliation on a Maker-Checker basis to be conducted to scrutinize Dishonor of Cheques.

(xvii) Relation of Client with the Management/ Promoters of the Company

- Check whether the client is related to management or promoters of the company in whose scrip client is trading.
- Also check whether the client is holding more than 1% of the shares of the company.

(xviii) <u>Review of KYC & Turnover Vis-à-vis Financial Income Submitted by Client</u>

- Review the KYC and supporting documents submitted by the client.
- Validate volume done by the client with his financial net worth and margin provided.
- Identify the clients whose turnover is disproportionate with the Annual Income provided in KYC.
- Review the Risk categorization of the client and categorize the client based on the validation done.
- Scrutinize the Transactions of the clients and follow up with the concerned branches for collection of the latest financials. Seek details from Branch on the occupation, social and financial status of client. If Branch feedback on client is not satisfactory, refer the case to the Principal Officer.

(xix) <u>Graded Surveillance Measures (GSM):</u>

In continuation with the various measures implemented above to enhance market integrity and safeguard interest of investors, the Compliance Officer and Risk Management Team shall also implement the Graded Surveillance Measures (GSM) on securities that witness an abnormal price rise that is not commensurate with financial health and fundamentals of the company.

At present, there are 6 stages defined under GSM framework viz. from Stage I to Stage VI. Surveillance action has been defined for each stage. Once the security goes into a particular stage, it shall attract the corresponding surveillance action. Stage wise Surveillance actions are listed below –

Stage	Surveillance Actions
I	Transfer to Trade for Trade with price band of 5% or lower as applicable.
II	Trade for Trade with price band of 5% or lower as applicable and Additional Surveillance Deposit (ASD) of 100% of trade value to be collected from Buyer.
III	Trading permitted once a week (Every Monday) and ASD of 100% of trade value to be collected from Buyer.
IV	Trading permitted once a week (Every Monday) with ASD of 200% of trade value to be collected from Buyer.
V	Trading permitted once a month (First Monday of the month) with ASD of 200% of trade value to be collected from Buyer.
VI	Trading permitted once a month (First Monday of the month) with no upward movement in price of the security with ASD of 200% of trade value to be collected from Buyer.

The Risk Management Team has to be extra cautious and diligent while dealing in such securities as they have been placed under higher level of surveillance. A file containing stage wise GSM details is available on the website of NSE and BSE at the following link:

- https://www.nseindia.com/invest/content/equities_surv_actions.htm
- https://www.bseindia.com/markets/equity/EQReports/graded_surveil_measure.aspx

GSM framework shall work in addition to existing actions undertaken by the Exchange on the company's securities.

(xx) Additional Surveillance Measure (ASM)

The Compliance Officer and Risk Management Team shall also implement Additional Surveillance Measure along with the aforesaid measures on securities with surveillance concerns based on objective parameters viz. Price variation, Volatility etc.

The shortlisting of securities for placing in ASM is based on objective criteria covering the following parameters:

- High Low Variation
- Client Concentration
- No. of Price Band Hits
- Close to Close Price Variation
- PE ratio

The surveillance actions applicable for the shortlisted securities are as under:

- Securities shall be placed in Price Band of 5% or as directed by the Stock Exchange(s) from time to time
- Margins shall be levied at the rate of 100%.

ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

Unsolicited Messages (SMS Stocks):

1. Clients are advised to remain cautious on the unsolicited emails and SMS advising investor to buy, sell or hold securities and trade only on the basis of informed decision.
2. Investors are also requested to share their knowledge or evidence of systemic wrongdoing, potential frauds or unethical behavior through the anonymous portal facility provided on Exchange website and mail at the following addresses:
   - ❖ invg@nse.co.in
   - ❖ investigation@bseindia.com
3. Clients to exercise caution towards unsolicited emails and SMS and also request their clients to buy, sell or hold securities and trade only on the basis of informed decision. Clients are further requested not to blindly follow these unfounded rumors, tips etc. and invest after conducting appropriate analysis of respective companies.
4. In view of above & as a part of surveillance measure to protect investor's interest and maintain market integrity, Exchange has advised members to exercise greater caution with respect to tips / rumors circulated via various mediums such as analyst websites, social networks, SMS, Whats App, Blogs etc. while dealing in the securities listed on the Exchange on behalf of their clients.
5. The Securities identified by Exchange(s) in which unsolicited SMS are circulated shall be kept suspended and barred from further buying & selling by us and shall be monitored on regular basis.
6. The Clients shall remain cautious on the unsolicited emails and SMS advising to buy, sell or hold securities and trade only on the basis of informed decision.
7. Broker may in exceptional circumstances, where the Client has dealt in "SMS Stocks, shall withhold the pay-out of funds and/or securities of the Client and/or suspend the Demat Accounts for Debits, without assigning any reasons, to adjust the Traded Value of Trades in such SMS Stocks with retrospective effect and transfer the same to the Designated Bank Account earmarked for this purpose as mandated by Stock Exchange(s)/SEBI from time-to-time and retain the same till directed by the Stock Exchange(s)/SEBI for such release.

Obligation to generate Surveillance Alerts:

We shall generate appropriate surveillance alerts at our end, to enable us to effectively monitor the transactions of our clients. The indicative themes on which we will formulate our alerts are as under. We will also analyze patterns and trends with respect to different themes. We shall put in place a system to generate these alerts and obtain the approval of our Board in our next meeting.

Sr. No.	Indicative themes:
1	Client / group of clients, as identified, 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, 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. Pledge transactions not commensurate with the income/Net worth of the client.
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'.
8	Consistency in profit / loss at client / group of clients' levels, rationale for such trading activities.
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 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.
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)

The above-mentioned alerts may be generated based on some threshold/parameters and are illustrative and not exhaustive. We will review these alerts based on facts and verification of relevant documents including income/net worth as provided by Client.

Obligation regarding Client due diligence:

The following activities shall be carried out by our entity for client due diligence .

We shall to carry out the Due Diligence of their client(s) on an on-going basis.

We 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 to w.r.t. Processing of Alerts:

We shall maintain register (electronic/physical) for recording of all alerts generated.

While reviewing alerts, we shall obtain transaction rationale, verify account statement and also obtain supporting documents as required from the client.

After verifying the documentary evidences, we shall record its observations for such identified transactions of its Client.

With respect to the transactional alerts to be provided by Exchanges and Depository, we shall ensure that all alerts are reviewed and status thereof (Verified & Closed/Verified & Reported to Depository) including action taken is updated within 45 days, on the respective portals of the intermediaries.

With respect to the alerts generated at our end, we shall report instances with adverse observation, along with details of action taken, to the intermediaries within 45 days of the alert generation.

Obligation of Compliance Officer, Designated Director and Internal Auditor/Concurrent Auditor:

The surveillance activities shall be conducted under overall supervision of Compliance Officer. The Compliance Officer shall be responsible for any unauthenticated market related rumors are circulated by the employees.

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.

Internal auditor 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.

Internal Auditor shall verify that the quarterly MIS is prepared and placed before the Board.

Obligation of Quarterly reporting of status of the alerts generated:

We shall provide duly approved status of the alerts on a quarterly basis, in the following format to Exchange within 15 days from end of the quarter.

a) Status of Alerts generated by the Depository:

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	No. of alerts pending for process at the end of quarter

b) Details of Alerts referred to the Exchange:

Sr. No.	Date of Alert	Type of Alert	Brief Observation and Details of Action Taken	Date Referred to Exchange

c) Details of any major surveillance action taken (other than alerts reported to Exchange / Depository), if any, during the quarter:

Sr. No.	Brief action taken during the quarter

In case we do not have anything to report, we shall submit 'NIL Report' within 15 days from end of the quarter.

The above details shall be uploaded on the Exchange Portal.

Record Maintenance & Reporting:

The Compliance Officer shall be responsible for all surveillance activities carried out by the Company and for the record maintenance of such activities.

The Compliance Officer shall be assisted by the Risk Management Team for the surveillance activities and shall have the discretion to take assistance/help from any professionals and/or software for the better implementation of the surveillance activities, without diluting the accountability and responsibility of the Compliance Officer.

Each alert received from the Exchange / Depository shall be backed by necessary supporting documentary evidence collected from clients, any other additional details as may be deemed fit may be captured and placed before the Board for review.

Further, the records mentioned in above have to be maintained and preserved for a period of five years from receiving such alert from the exchanges.

Review Procedure:

In order to ensure the effectiveness of the policies and procedures on the Surveillance Obligations, it shall be reviewed once in every year and as and when required to incorporate the additions, changes, modifications etc., as directed by regulator and such changes shall take place from their effective date.

The Compliance Officer shall be responsible to ensure that as and when the policy is reviewed or updated, the same is consistent with the applicable laws and rules of the exchanges and to bring all the significant changes in the said policy to the notice of Designated Director and place the reviewed policy before the Board for its adoption.

The Surveillance policy shall take into account all amendments of PMLA policy to the extent applicable.

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