SURVEILLANCE POLICY

RRB Master Securities Delhi Limited

A. Background

We along with our Employees/Branch-Offices are the first touch point in the securities market for investors and are expected to have reasonably fair understanding about their client(s) and its trading activity. Thus, Exchanges/regulators have entrusted on us the first level of the responsibility to ensure that neither us nor our client(s) are misusing the trading system by indulging in manipulation or any other illegal activities which can cause risk to the integrity of the market and distorts the equilibrium of the market.

This policy is made to facilitate effective surveillance mechanisms in our organization. The Exchange will provide alerts to us based on the transactions traded on the Exchange. As per applicable Circulars, RRBMSDL is reviewing these alerts and taking appropriate actions after carrying out due diligence viz. either disposing off alerts with appropriate reasons/findings recorded or filing Suspicious Transaction Report (STR) with FIU-India in accordance with provisions of PMLA (Maintenance of records) Rules,2005.

Following are the transactional Alerts to be covered in surveillance:-

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

Objectives of framing a surveillance policy covering

- Alerts to be generated.
- Threshold limits and the rationale for the same.
- Review process.

- Time frame for disposition of alerts and if there is any delay in disposition, reason for the same should be documented.
- Suspicious/Manipulative activity identification and reporting process.
- Record Maintenance.

B. Surveillance framework It is mandatory under the exchange/regulatory directives to have in place appropriate Surveillance Policies and Systems to detect, monitor and analyze transactions. For the above we have to co-relate the transaction data with their clients' information/data and, Detect suspicious/manipulative transactions is an ongoing continuous process with analysis of trades and transactions and carrying out Client Due Diligence (CDD) on a continuous basis.

In-order to implement the exchange directives, they have provided us alerts which have to be generated by us. In addition to this we have also developed in-house surveillance software. The details of both these have been enumerated below:

I. EXCHANGE ALERTS

1. Unusual trading activity : Client(s)/Group of Client(s) who have been dealing in small quantities/value suddenly significantly increase their activity over a period of time say fortnight/month/quarter and this increases by certain threshold limit of more than 50% as compared to the earlier period of same duration, we have review and conduct a analysis on parameters such as:

1. Whether such volume is justified give the background of the client and his past trading activity.

2. Amount of funds that was brought in by the Client(s)/Group of Client(s) for the purchases made during the period.

3. Whether such inflow of funds is in line with the financial status of the client.

4. Whether the transactions of such Client(s)/Group of Client(s) are contributing to concentration or impacting the price and or volumes.

2. Sudden trading activity in dormant accounts-An inactive client resumes trading starts/resumes trading and additionally the client start trading in illiquid stocks or low market capitalized scripts or enters into huge transactions not to commensurate with the financial strength of the client, we have to review and examine the following:

1. Reasons for trading in such scripts/contracts.

2. Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices.

3. 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 account.

3. Clients/Group of Client(s), deal in common scripts/contracts contributing significant to the volume of the scrip/contract at the Trading Member level and at the stock exchange level. We need to review and examine the following:

1. Reasons for trading in such scripts/contracts.

2. Whether there is any concerted attempt by to impact the prices.

3. Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.

4. Activity of Client(s)/Group of Client(s) is concentrated in a few illiquid scripts/contracts or 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 that of the Trading Member.

We need to review and examine the following:

1. Reasons for trading in such scripts/contracts.

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

We need to review and examine the following

1. Reasons for such trading behavior.
2. Trading pattern and repeated instances.

6. In accordance to the list of illiquid scripts/contracts provided by exchanges,

we need to review and examine the following:

1. Whether there is sudden trading

2. Whether there is any concerted attempt to impact the prices of such scripts/contracts.

3. Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.

4. Probable matching of transactions with another client.

5. Apparent loss booking transactions in illiquid contract/securities

6. Whether the transactions of are contributing to concentration or impacting the price.

7. Circular Trading:

1. Continuous trading of client/group of clients in particular scrip over a period of time.

2. Client/group of clients contributing significant volume (broker and exchange level) in a particular script – especially illiquid script and /or illiquid contracts

3. Possible matching of trades with a specific group of clients (like same trade number on both buy and sell side of a member and/or immediate execution of order in illiquid scrip etc.)

4. Possible reversal of trades with the same group of clients (like same trade number on both buy and sell side of a member and/or immediate execution of order in illiquid scrip)

8. Pump and Dump:

1. Activity concentrated in illiquid scripts/contracts.

2. Sudden activity in illiquid securities/contracts.

3. Percentage of 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.

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9. Reversal of Trades:

1. Same Client on both sides of the transaction. (i.e. same trade number on both the buy and sell side with us)

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

10. Front Running:

1. Trading by Client, 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

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

1. Client having significant position in the total open interest of a particular scrip.

2. Client not reducing/closing their positions in spite of the scrip being in ban period.

3. Client activity accounts for a significant percentage of the total trading in the contract/securities at member and exchange level.

4. Monitor the trading pattern of Client(s) who have Open Interest positions/concentration greater than equal to the thresholds prescribed.

12. 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 canceling 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.

**The stock broking operation shall review the alerts provided by Stock Exchanges on an ongoing basis and shall ensure to process the same as early as possible. In any case, these alerts will be processed within 45 days from the date of generation of the alert by the Stock Exchanges. In case of any delay in disposing off any alerts, reasons for the same shall be recorded.

II. IN-HOUSE ALERTS

1) **Report on Delivery above Rs.5000000 of equities.** Placement of large orders with the delivery turnover contributing in value terms above Rs. 5,000,000 and trading turnover in terms of value above Rs.7,5000,000/- for all segments are generated.

1. In case if the name of any new client appears in this report and / or the name of the client comes again in the report after a period of 15 days to one month, then compliance team informs about the said trade details to the RMS team.

2) CASH Excess Volume (more than 5% of market volume) (equity segment) Trades in equity segment contributing to more than 5% of the exchange volume are generated.

1. The records so generated are analyzed vis-a vis exchange volume, repeated days of the trading and price volatility, company financials etc.

2. In case of any repeated days of trading, contributing to significant exchange volumes and or price volatility or concentrated trading among selective group of client is observed, then in such instances after analysis appropriate steps are taken.

3) Illiquid script (equity segment) Trades in equity segment for the illiquid scripts (which have been identified as illiquid by exchange) are generated.

1. The records so generated are compared visa vis. exchange volumes, repeated days of trading, price volatility in the scrip.

2. Additionally the financials of the company are also analyzed to ascertain whether the trading volumes and price movements are justified.

3. In case any trading is found to be abnormal, initial alerts are sent to the branches. If repeated, after proper verification and analysis the scrip may also is blocked from further trading.

4) F&O Profit/Loss & Futures Rate Fluctuation (equity derivatives) Trades in equity derivatives for the above referred parameter which are generated in case of clients executing trades at price above 20% of the previous closing price and or incurring huge profits or losses are generated.

1. For the records generated under this alert are evaluated in case of any un-usual pattern clarification from the client/or branch is sought.

5) F&O Excess Volume (more than 5% of market volume) (equity derivatives) Trades in derivatives are generated in trades are more than 5% of market volumes

1. For the records generated under this alert are evaluated visa-vis the strike price, maturity date of the contract, type of derivative contract, underlying etc are analyzed and evaluated.

2. In case if the name of any new client appears in this report and / or the name of the client comes again in the report after a period of 15 days to one month, then compliance team informs about the said trade details to the RMS team.

3. Thereafter RMS team does the trade/ledger confirmation with the end client and accordingly updates the compliance team.

6) Matching of Trades – all segments (equities and commodities) The trades which get matched (applicable for all segments) at member level and or client level are generated under this alert.

1. The records so generated, comparison is done to ascertain whether they have been carried out from the same trading terminal or same location or for group of same family codes.

2. In case of illiquid script/contracts or significant volumes or price volatility observed, explanation is sought and or warning is issued to the client.

III. IN-HOUSE ALERTS ||

The following are the various alerts, wherein the records coming under these alerts are analyzed with the financials of the company, repetitive nature of the instances, volumes and or price volatility. These alerts are observed by the RMS on real time basis and in case of any suspicious nature, appropriate reasons are sought from the branch/ clients. We have summarized the online alerts which are being monitored as on date:

1) **Module of Online Trade Matching Popup :** In this module all the trades that get matched can be viewed and thereafter further verification and/or analysis is done.

2) **Module of Online Delivery Tracker:** This report provide the trades of the clients who take delivery above Rs.50 lacs in value terms or all delivery above 10,000 in quantity terms (this limit is modified on time to time basis.

3) **Module on Unregistered/Inactive Client Trade:** This report shows that in case any client is inactive as per our back office software or not registered, in spite of which trade is done the details can be ascertained via trading terminal and can be restricted from further trading and to complete the reactivation/registration process as the case may be.

4) **Module on Spurt in volume:** This reports provide the records of the trades in which there is any sudden increase in volume in comparison with 2 weeks average exchange volume.

5) **Matching of Trades:** The trades which get matched at member level and or client level are generated under this alert. The records so generated, comparison is done to ascertain whether they have been carried out from the same trading terminal or same location or for group of same family codes.

IV. ADDITIONAL MONITORING

1. Not allowing trades of entities which are banned by SEBI/Exchange/other regulators. This database is verified by the KYC team before client account is activated.

2. Trading is allowed to commence only after execution of the client registration form and all the mandatory Unique Client Code (UCC) parameters such as Name, Address, PAN No, etc., have been uploaded by us to the Exchange portal,

3.. Clients who have debit balance in their ledgers continuously for a certain period of time or who default in making payment/delivery. This is monitored by our RMS team who dedicated does follow up with the clients/branches and also restricts from further trading.

4. Bulk deals have been disclosed/reported; illiquid scripts/contract or derivatives scripts which are in ban period. Trading activity in such scripts may be analyzed for Client.

We need to correlate the transactional alerts with the information of client(s) available with them. The correlation of alerts with information of Client(s)/Group of Client(s) would help Trading Members to identify, mitigate and manage such transactions as well as minimizing business risk.

C. Analysis

The designated officials who are tasked to review the alerts ondaily basis shall review the same.If the designated official finds after review and due diligence that the alert is required to be closed, the official shall close the same with appropriate remarks and after due diligence and making such inquiry as such official finds necessary comes to a conclusion that the alert require an action, the official will forward the same with his/her views to the Compliance Officer for his/her approval.

The Compliance Officer, after review of the alerts along with the submitted comments of the designated official, decides to close the alert, he/she shall close it with appropriate remarks. If the Compliance Officer finds that action in respect of such alert is warranted, he/she shall take such actions including filing STR with FIU-India, informing to Stock Exchanges and NSDL and/or discontinue the relationship with the client.

In order to analyze the trading activity of the Client scripts identified based on above alerts, we can do the following:-

1. Shortlist Client for further analysis.

2. Seek explanation from such identified Client

3. Seek documentary evidence such as bank statement/demat transaction statements of last 6 months to 12 months period, to satisfy itself.

4. On the basis of information received from the client and after proper evaluation and analysis, we decide our steps for suspending code and or the scrip from further trading.

D. Reporting

All action/analysis with respect the alerts generated should be completed within a reasonable time frame

A daily reporting of the alerts to the designated director and principal officer / a quarterly MIS to the Board of Directors if there are alerts as to the number of alerts received, disposed off during the quarter and pending at the end of the quarter and the. Reasons for pendency should be discussed and appropriate action taken for disposing of the alerts.

The surveillance process to be conducted under overall supervision of its Compliance Officer/Principal Officer.

Principal Officer under the PMLA directives/ Compliance Officer of the Company and their team would be to be responsible for all surveillance activities carried out for the record maintenance and reporting of such activities under the supervision of the Designated Director.

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.

Status of Alerts generated by the Trading Member:

Name of Alert	No. of alerts under process at the beginning of quarter	No. of new alerts generated in the quarter	No. of alerts Verified & Closed in the quarter	No. of alerts referred to Exchange (*)	No. of alerts pending/ under process at the end of quarter

Details of alerts referred to the Exchange

No.	Date of Alert	Type of Alert	Brief observation and details of action taken	Date referred to Exchange

Details of any major surveillance action taken (other thanalerts referred to Exchanges) if any during the quarter

Sr. No.	Brief action taken during the quarter

In case RRBMSDL does not have anything to report, a "NIL Report" shallbe filed within 15 days from the end of the quarter.

The above mentioned policy made as per NSE Circular No. NSE/SURV/48818 dated July 1, 2021 for Surveillance has been approved by the Board of Directors.

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