

**FINQUEST SECURITIES PVT  
LTD** (SURVEILLANCE POLICY REVIEWED AND UPDATED 01-  
04-2024)

**Policy Reviewed & Approved by:**

*Designated Director: Hardik B. Patel*

*Compliance Officer: Deepak Chavd*

**SURVEILLANCE POLICY**

**1. Background:**

Surveillance is the process of collecting and analysing 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, **FINQUEST SECURITIES PVT LTD** would have in place adequate surveillance policies and system in order to monitor suspicious/manipulative transactions and curb such activities, if any.

**2. Objective:**

In order to facilitate an effective surveillance mechanism to monitor the transactions in Cash, Equity -Derivative, Currency Derivative Market Segments and Commodity Derivative Market Segment of the Stock Exchange(s), where the Firm 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 and The Stock Exchanges.

**3. Responsibility:**

**3.1** The Compliance Officer shall be responsible for the implementation and





supervision of this Policy.

**3.2** The 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.

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

**3.4** 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.

**3.5** 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.

**3.6** The Directors/Partners/Proprietor shall peruse, review and provide necessary guidance with regard to the "**Surveillance Policy**", periodically, for strengthening the processes.

#### **4. Policy Procedures for Disposition of Alerts:**

**4.1 Downloading of Transaction Alerts:** The Transaction Alerts provided by the Stock Exchanges and internally generated shall be downloaded by "the compliance Team" on a regular basis and the same shall be forwarded to the Compliance Officer.

**4.2 Client(s) Information:** The "Compliance Team" shall carry out the necessary Due Diligence of the client(s), whose name appears on the Transaction Alerts. The said officer shall ensure that the KYC parameters are updated on a periodic basis as prescribed by Securities & Exchange Board of India (SEBI) and latest information of the client is updated in UCC database of the respective Exchanges. Based on available information, the trading member shall establish groups / association amongst clients, inter-alia, to identify multiple accounts / common account / group of clients.

**4.3 Documentation:** The Compliance Team in order to analyze the trading activity of the Client(s)/Group of Client(s) or scrips identified based on the Transaction Alerts, shall do the following:

- a) Seek explanation from such identified Client(s)/Group of Client(s) for entering into such transactions.
- b) Seek documentary evidence such as Bank Statement / Demat Transaction Statement / Income proof or any other documents to satisfy itself.
- c) In case of Funds, Bank Statements of the Client(s)/Group of Client(s) from which Funds pay-in have been met, to be sought.
- d) In case of Securities, Demat Account Statements of the Client(s)/Group of





- Client(s) from which Securities pay-in have been met, to be sought.
- e) The period of such statements mentioned in point (c) & (d) may be at least +/- one month from the date of transactions to verify whether the funds/ securities for the settlement of such trades actually belongs to the client to whom the trades were transacted.

**4.4 Analysis:** Upon receipt of the above mentioned documents, the Compliance Officer shall analyze the documents sought from the Client as well as the KYC & KRA of the Client and shall record the observations for such identified transactions or Client(s)/Group of Client(s). Compliance officer shall also analyze whether any frequent changes are being made by any client(s)/ Group of Client(s) in the KYC as well as the above mentioned documents

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

**Alert Generation System:** The Compliance Team generates alert reports at the end of each day from the Software which is analyzed to identify suspicious transactions. Alerts from Stock Exchanges are also collated.

**(i) Quality of Dealing:**

- Identify scrips in BE, T and TS 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.25Lacs 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 in our client beneficiary/pool account.
- 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) Significant trading activity in scrips where client has pledge shares or has significant holding or has frequent off market transactions:**

This refers to significant increase in trading activity for client(s)/ Group of client(s) in any particular scrip(s) or client(s)/ Group of client(s) is holding or pledging shares of any particular scrip(s) or doing frequent off market





transactions in that particular scrip(s). In such cases following shall be examined:

- Review the deals above Rs. \_\_\_\_\_ in a single scrip
- Identify the scrip in which, client(s) are dealing in higher volume and doing off market transactions frequently
- Identify the client(s), who have taken high value positions in any particular scrip(s), review their ledger accounts in order to verify whether there is sudden increase in.

(v) **Monitoring of IP address:** In case of internet trading facility has been provided to clients then we need to review frequently, whether multiple clients are using same IP address or location for punching trades.

(vi) **Sudden trading activity in dormant accounts:**

This refers to such cases where the client has not traded more than 6 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 180 days.
- Reasons for trading in such scrips/contracts.
- 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.
- Additional verification before placing the order so as to verify that the client himself is placing the orders.

(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) **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.
- 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)

**(ix) 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

**(x) Concentrated position in the Open Interest/high turnover concentration:**

- Client(s)/Group of Client(s) having significant position in the total open interest of a particular scrip.
- Client(s)/Group of Client(s) not reducing /closing their positions in spite of the scrip being in ban period.
- Client(s)/Group of Client(s) activity accounts for a significant percentage of the total trading in the contract / securities at the Trading member and exchange level.
- Client(s)/Group of clients with new account or client 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.
- Client/ group of clients dealing frequently in small quantities/minimum market lot in a scrip /contract
- 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 Clients 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.

**(xi) Disproportionate trading activity Vs reported income/ Net Worth**

**(xii) Based on an announcement by a listed company, identify client/ group of client, having possible direct/indirect connection with a listed company, who have undertaken any suspicious trading activity prior to price sensitive announcement by the said listed company.**

**(xiii) Client / group of clients having significant selling concentration, in the scrips, forming part of 'For Information list' or 'Current Watch list'.**









(xiv) Significant trading activity in scrips by client who has pledged the shares of same scrip.

(xv) 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.

(xvi) 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 there by 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.

(xvii) 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.

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

- Review the KYC and supporting documents submitted by the client.
- Review the Risk categorization of the client and categorize the client based on the validation done.

(xix) Graded Surveillance Measures (GSM):

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.





Stage	Surveillance Actions
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.nseindia.com/invest/content/equities_surv_actions.htm)
- [https://www.bseindia.com/markets/equity/EQReports/graded\\_surveil\\_measures.aspx](https://www.bseindia.com/markets/equity/EQReports/graded_surveil_measures.aspx)

GSM frame work 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 short listing 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.

#### **5. Time Frame for Disposition & Closure of Alerts:**

With respect to the transactional alerts downloaded by the Exchange, trading member shall ensure that all alerts are analyzed and status thereof (Verified & Closed / Verified & Sent to Exchange) including action taken is updated within 45 days, in the respective Exchange System.

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

In case the matter prolongs beyond 45 days the same should be reported to the Designated Director / Partner / Proprietor, by the Compliance Officer, citing reasons for such delay. The Compliance Officer may seek extension of the time period from the Exchange, whenever required, under intimation to the Board of Designated Director / Partner / Proprietor.

#### **6. Management Information System(MIS):**

A Quarterly MIS Report (by 30 Calendar Days from the end of each quarter) shall be put up by the Compliance Officer to the Designated Director / Partner / Proprietor 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 along with reasons for pendency and action plan for closure. The Compliance Officer shall also apprise the Designated Director / Partner / Proprietor of any exception noticed during the disposition of Alerts.

#### **7. Unsolicited Messages (SMS Stocks):**

**7.1** 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.

**7.1.1** Investors are also requested to share their knowledge or evidence of systemic wrong doing, potential frauds or unethical behavior through the anonymous portal facility provided on Exchange website and mail at the following addresses:

➤ [invg@nse.co.in](mailto:invg@nse.co.in) ➤ [investigation@bseindia.com](mailto:investigation@bseindia.com)

**7.2** In recent past, Exchange has come across SMS tips being circulated whereby





as a festive bonanza, various stocks are being recommended with higher price targets leading to heightened trading activities in such stocks.

**7.2.1** Member advises their 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.

**7.2.2** In view of above & as a part of surveillance measure to protect investor's interest and maintain market integrity, Exchange is once again advising members to exercise greater caution with respect to tips/rumors circulated via various mediums such as analyst websites, social networks, SMS, WhatsApp, Blogs etc. While dealing in the securities listed on the Exchange on behalf of their clients.

**7.2.3** The Securities identified by Exchange(s) in which unsolicited SMS are circulated shall be kept suspended and barred from further buying & selling by Member and shall be monitored on regular basis.

**7.2.4** 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.

**7.2.5** Member 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 Accounts, 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.

## **8. Record Maintenance & Reporting:**

**8.1** The Designated Director / Partner / Proprietor shall be responsible for all surveillance activities carried out by the Company and for the record maintenance of such activities.

**8.2** The Compliance Officer shall be assisted by the Risk Management Team and the Back office 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.

**8.3** Each alert received from the exchange 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 of





Designated Director / Partner / Proprietor for review.

8.4 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.

**9. Quarterly reporting of status of the alerts generated by the Trading member:**

In order to comply with the SEBI & Exchange circular, trading members are required to provide duly approved status of the alerts on a quarterly basis(MIS), in the prescribed format to the Exchange within 15 days from end of the quarter by the designated compliance team in accordance with exchange circular BSE - 20210701-30 dated 01 Jul 2021 & NSE - NSE/SURV/48818 dated 01 Jul 2021.

**10. 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 / Partner / Proprietor and place the reviewed policy before the Board for its adoption.

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