



**SIDDHARTHA COMMODITIES PVT. LTD.**

# **SURVEILLANCE POLICY**

**OF**

**SIDDHARTHA COMMODITIES PRIVATE LIMITED.**

**(Reviewed on 25.07.2022)**





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### **1. Preamble**

The Surveillance Policy of SIDDHARTHA COMMODITIES PRIVATE LIMITED. broadly covers the surveillance obligations of trading members and depository participants (“DP”) to facilitate effective surveillance at the Members and DP end including, inter alia, generation of transactional alerts provided by the Exchanges and CDSL. The surveillance policy of SIDDHARTHA COMMODITIES PRIVATE LIMITED. is updated in response to the changing surveillance Obligations for Trading Members and depository participants as mandated through the circulars:

### **2. Objectives:**

The objectives of the Surveillance Policy include, inter alia, the following:

- To generate transactional alerts
- To set the limits and the rationale threshold limits and the rationale for the same.
- To review /update processes.
- To determine the time frame for disposition of alerts and if there is any delay in disposition, reason for the same
- To identify and report suspicious/Manipulative activity
- To maintain records in accordance with the policy/exchange/CDSL requirements.

### **3. Scope of Policy**

SIDDHARTHA COMMODITIES PRIVATE LIMITED. offers its service in different segments to different types of clients including retail, institutional, HNI through various modes like Internet based trading, in addition to proprietary trading (including Algorithmic trading). The surveillance policy of SIDDHARTHA COMMODITIES PRIVATE LIMITED. shall inter alia cover the following:

- 3.1** Generation of suitable surveillance alerts which may be guided by indicative themes (the list is inclusive and not exhaustive) given in para 4 below.
- 3.2** Review and disposal of transactional alerts provided by the Exchanges/CDSL based on some thresholds or parameters. We as trading member and DP have closer supervision and are in possession of considerably more information about our clients and so we also consider suitable parameters to generate additional alerts to detect any suspicious transaction activity.
- 3.3** Processing and Disposal of alerts within 30 days from the date of alerts generated at CDSL end and within 45 days from the date of alerts downloaded by the Exchanges
- 3.4** Reporting to CDSL/exchanges and other authorities as applicable, in case of any abnormal activity



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- 3.5 Documentation of reasons for delay, if any, in disposition of alerts
- 3.6 Suspicious / Manipulative activity identification.
- 3.7 In addition to the obligations under Prevention of Money Laundering Act (PMLA), actions may include suspension of the trading activity of the suspect client, or any other action as may be deemed appropriate.
- 3.8 Record maintenance for the period as stipulated under applicable statutes

**4. Obligation of SIDDHARTHA COMMODITIES PRIVATE LIMITED. to generate additional Surveillance alerts:**

In addition to the transactional alerts downloaded by Exchanges and CDSL, we are also required to generate appropriate surveillance alerts at our end, to enable us to effectively monitor the trading activity of our clients at our end as per the laid down surveillance policy. SIDDHARTHA COMMODITIES PRIVATE LIMITED. will 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. The indicative themes on which we formulate our own alerts including analyzing the patterns and trends with respect to such themes are as under:

**4.1 The indicative themes additionally applicable to SIDDHARTHA COMMODITIES PRIVATE LIMITED. as trading member**

- I. 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.
- II. 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.
- III. Client / group of clients dealing frequently in small quantities / minimum market lot in a scrip / contract.
- IV. Disproportionate trading activity vs reported income / Net worth.
- V. Frequent changes in KYC submitted by clients.
- VI. 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.
- VII. Client / group of clients having significant selling concentration, in the scrips, forming part of 'For Information list' or 'Current Watch list'.
- VIII. Consistency in profit / loss at client / group of clients' levels, rationale for such trading activities.
- IX. Significant trading activity in scrips by client who has pledged the shares of same scrip.
- X. In case of concerns of trading activity of a client / group of clients in a scrip,



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- XI. 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.

**4.2 The indicative them as additionally applicable to Depository Participants.**

- I. 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.
- II. Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced.
- III. Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.
- IV. Frequent Off-Market transfers by a client in a specified period
- V. Off-market transfers not commensurate with the income/Networth of the client.
- VI. Pledge transactions not commensurate with the income/Networth of the client.
- VII. Off-market transfers (High Value) immediately after modification of details in demat account
- VIII. 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
- IX. 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.
- X. Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients.

The above alerts and parameters are illustrative and not exhaustive. Based on facts and circumstances, SIDDHARTHA COMMODITIES PRIVATE LIMITED. may exercise their independent judgment and shall add/edit/modify Surveillance alerts and parameters which are more stringent than those enumerated above.

**5. Obligation of Depository Participants regarding Client due diligence:**

The following activities required to be carried out by SIDDHARTHA COMMODITIES Private Limited for client due diligence:

- i. We are required to carry out the Due Diligence of their client(s) on an on-going basis.
- ii. 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 UCC database of the Exchange and in depository system.



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### **6. Surveillance framework**

#### **6.1 Exchange/CDSL Alerts**

It is mandatory under the exchange/CDSL 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 clients' information/data and detect suspicious/manipulative transactions as 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/CDSL 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:

##### **1. Significant increase in client 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;

- i. Whether such volume is justified give the background of the client and his past trading activity.
- ii. Amount of funds that was brought in by the Client(s)/Group of Client(s) for the purchases made during the period.
- iii. Whether such inflow of funds is in line with the financial status of the client.
- iv. 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/ Trading accounts**

An inactive client resumes trading starts/resumes trading and additionally the client start trading in illiquid stocks or low market capitalized scrips or enters into huge transactions not to commensurate with the financial strength of the client, we have to review and examine the following;

- i. Reasons for trading in such scrips/contracts.
- ii. Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices.
- iii. 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.



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### **3. Clients/Group of Client(s), deal in common scrips**

**Clients/Group of Client(s), deal in common scrips/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;**

- i. Reasons for trading in such scrips/contracts.
- ii. Whether there is any concerted attempt by to impact the prices.
- iii. 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 scrips**

**Activity of Client(s)/Group of Client(s) is concentrated in a few illiquid scrips/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;**

- i. Reasons for trading in such scrips/contracts.
- ii. Whether there is any concerted attempt to impact the prices.
- iii. Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.

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

We need to review and examine the following

- i. Reasons for such trading behavior.
- ii. Trading pattern and repeated instances.

### **6. Client/Group of Client(s) Concentration in a scrip**

**In accordance to the list of illiquid scrips/contracts provided by exchanges, we need to review and examine the following;**

- i. Whether there trading is sudden trading
- ii. Whether there is any concerted attempt to impact the prices of such scrips/contracts.
- iii. Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.
- iv. Probable matching of transactions with another client.
- v. Apparent loss booking transactions in illiquid contract/securities
- vi. Whether the transactions of are contributing to concentration or impacting the price.

### **7. Circular Trading:**

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



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- ii. Client/group of clients contributing significant volume (broker and exchange level) in a particular scrip – especially illiquid scrip and /or illiquid contracts
- iii. 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.)
- iv. 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:**

- i. Activity concentrated in illiquid scrips/contracts.
- ii. Sudden activity in illiquid securities/contracts.
- iii. Percentage of activity to total market in the scrip/contract is high.
- iv. Trades being executed at prices significantly away from the market and later on squaring off to earn significant profits.

**9. Wash Sales or Reversal of Trades:**

- i. Same Client on both sides of the transaction. (i.e. same trade number on both the buy and sell side with us)
- ii. 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.
- iii. One client makes significant profit and other suffers a loss or apparent loss booking transactions in illiquid contract/securities including options

**10. Front Running**

- i. 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
- ii. There is a consistent pattern of Client employees trading ahead of large buy/sell transactions.

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

- i. Client having significant position in the total open interest of a particular scrip.
- ii. Client not reducing/closing their positions in spite of the scrip being in ban period.
- iii. Client activity accounts for a significant percentage of the total trading in the contract/securities at member and exchange level.
- iv. 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 :**

- i. 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



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- ii. a false impression of depth in a particular scrip/contract
- iii. 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.

**6.2 ADDITIONAL MONITORING**

- i. 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.
- ii. 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.
- iii. Likewise, demat account numbers are provided to the demat account holders only after obtaining the Client registration forms and activating the same into the DP system.
- iv. 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/AP's and also restricts from further trading.
- v. Bulk deals have been disclosed/reported; illiquid scrips/contract or derivatives scrips which are in ban period. Trading activity in such scrips may be analyzed for Client.
- vi. 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.

**7. Obligation of SIDDHARTHA COMMODITIES PRIVATE LIMITED. for reporting the status of alerts generated by SIDDHARTHA COMMODITIES PRIVATE LIMITED. as Stock Broker**

SIDDHARTHA COMMODITIES PRIVATE LIMITED. is required to maintain register (electronic/physical) for recording of all alerts generated

While reviewing alerts, SIDDHARTHA COMMODITIES PRIVATE LIMITED. shall obtain transaction rationale, verify demat statement and also obtain supporting documents as required from the client

After verifying the documentary evidences, SIDDHARTHA COMMODITIES PRIVATE LIMITED. will record its observations for such identified transactions of its Client

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





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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

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.

**8. Obligation of Compliance officer/Designated Director and Internal Auditor/Concurrent Auditor of SIDDHARTHA COMMODITIES PRIVATE LIMITED. as Trading member and Depository Participants**

The surveillance activities of trading member and DP shall be conducted under overall supervision of its Compliance Officer of SIDDHARTHA COMMODITIES PRIVATE LIMITED.

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.

The Designated Director shall be responsible for all surveillance activities carried out by the trading member.

Internal auditor of SIDDHARTHA COMMODITIES PRIVATE LIMITED. 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 of the SIDDHARTHA COMMODITIES PRIVATE LIMITED.

**9. Obligation of Quarterly reporting of status of the alerts generated by SIDDHARTHA COMMODITIES PRIVATE LIMITED. as Trading member and Depository Participants**

SIDDHARTHA COMMODITIES PRIVATE LIMITED. is required to 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 Trading Member:**



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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

**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) if any during the quarter**

Sr. No.	Brief action taken during the quarter

SIDDHARTHA COMMODITIES PRIVATE LIMITED. is required to provide duly approved status of the alerts on a quarterly basis, in the following format to CDSL /EXCHANGE within 15 days from end of the quarter.

**A. Status of Alerts generated by the Depository Participants:**

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



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**B. Details of any major surveillance action taken (other than alerts reported to CDSL) if any during the quarter**

Sr. No.	Brief action taken during the quarter

In case SIDDHARTHA COMMODITIES PVT LTD does not have anything to report, a “NIL Report” shall be filed within 15 days from the end of the quarter.

**10. Processing of Alerts**

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

- i. maintain register (electronic/physical) for recording of all alerts generated.
- ii. Shortlist Client for further analysis.
- iii. Seek explanation from such identified Client
- iv. Seek documentary evidence such as bank statement/demat transaction statements of last 6 months to 12 months period, to satisfy itself.
- v. After verifying the documentary evidences, trading member and DPs will record its observations for such identified transactions of its Client.
- vi. 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.

**11. Steps to close alerts**

The designated officials who are tasked to review the alerts on daily basis shall review the same.

- i. 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.
- ii. If the designated official after due diligence and making such inquiry as such official finds necessarily comes to a conclusion that the alert warrants an action, the official will forward the same with his/her views to the Compliance Officer for his/her approval.
- iii. 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.
- iv. 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 CDSL and/or discontinue the relationship with the client.
- v. The report of such instances along with adverse observations and details of actions taken shall be submitted to the Stock Exchanges/ CDSL within 7 days from date of identification of such instances.
- vi. The records of alerts generated, disposed of as closed and details of action taken



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- vii. wherever applicable shall be maintained with such security measures as would make such records temper proof and the access is available on to designated officials under the supervision of the Compliance Officer.

### 12. Reporting

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

The surveillance policy of the Trading Member to be approved by the Board of Directors.

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.

Certain few things we can implement provided the concerned departments monitor and keep track.

- i. Frequent instances of payment by Client(s)/Group of Client(s) in the form of cash equivalents like Demand Draft, Pay order etc. to be monitored for
- ii. When home or business telephone number has been disconnected or there is no such number when an attempt is made to contact client or documents sent at its email/home/business address returned undelivered.
- iii. Having multiple accounts with the Trading Member and using different trading accounts alternatively.
- iv. **Client frequently changing bank/ demat account.**

### 13. Actions:

Based on facts and circumstances, SIDDHARTHA COMMODITIES PRIVATE LIMITED. may take any of the below mentioned actions:

- Restrict client from further trading in scrip/contract
- Block Scrip/contract limit at global level
- Stop additional limit



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- Block DP rights
- Allow only square off
- Impose penalty

**14. Review of Policy**

The surveillance policy of SIDDHARTHA COMMODITIES PRIVATE LIMITED. has been approved by its Board of Directors. This policy shall be reviewed once in a year to keep it in line with the market trends updated regulations, and practices.

**Annexure I**

**Exchange alerts for Trading Members**

List of Transactional alerts downloaded by the Exchange to facilitate effective surveillance at the Member end are given as under:

<b>S.No</b>	<b>Transactional Alerts</b>
1.	Significant increase in client activity
2.	Sudden trading activity in dormant account
3.	Clients/Group of Client(s) dealing in common scrips
4.	Clients/Group of Client(s) is concentrated in a few illiquid scrips
5.	Clients/Group of Client(s) dealing in scrip in minimum lot size
6.	Clients/Group of Client(s) Concentration in a script
7.	Circular Trading
8.	Pump and Dump
9.	Reversal of Trades
10.	Front Running
11.	Concentrated position in the Open Interest/High Turnover concentration
12.	Order books proofing i.e .large orders a way from market