

SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

Surveillance Policy for Stock Brokers

The **Surveillance Policy for Stock Brokers** is designed to monitor, detect, and prevent any suspicious or unlawful activities in the stock market that could compromise market integrity or harm client interests. The policy ensures compliance with regulatory requirements and mandates the implementation of robust monitoring mechanisms to prevent insider trading, market manipulation, and other malpractices.

1. Objective of the Surveillance Policy

- **Market Integrity:** Ensure the fairness, transparency, and efficiency of the markets.
- **Prevention of Fraud:** Detect and prevent fraudulent, unethical, or manipulative practices such as insider trading, market manipulation, or unauthorized trading.
- **Regulatory Compliance:** Ensure compliance with the rules and regulations laid down by regulatory bodies such as SEBI (Securities and Exchange Board of India), exchanges (NSE/BSE), and other governing bodies.
- **Client Protection:** Safeguard the interests of clients by detecting suspicious trading patterns or any actions that may harm them.

2. Scope of the Policy

- This policy applies to all market activities conducted through the broker, including but not limited to:
 - **Cash Market Transactions**
 - **Derivatives Trading (Futures & Options)**
 - **Margin Trading**
 - **Algorithmic and High-Frequency Trading**
 - **Off-Market Trades**
 - **Client Transactions**
 - **Prop (Proprietary) Trading**

3. Key Components of the Surveillance Policy

3.1 Monitoring Mechanisms

- **Trade Surveillance Systems:**

SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

- Implement automated surveillance systems to monitor trades in real-time and detect unusual or suspicious activities.
 - Surveillance systems should be capable of flagging irregular patterns, price movements, trade volumes, or deviations from the norm.
 - **Post-Trade Analysis:**
 - Conduct daily post-trade analysis of executed trades to identify potential violations of market regulations or unusual trading patterns.
 - Ensure that trades comply with exchange and regulatory guidelines.
 - **Market Alerts:**
 - Set up predefined alerts for market abuse indicators, including:
 - **Price Rigging:** Sudden or significant price movement in a security without any corresponding market news.
 - **Front Running:** Executing trades based on anticipated large client orders.
 - **Insider Trading:** Trading based on non-public material information.
 - **Pump and Dump Schemes:** Large, sudden buying followed by rapid selling to manipulate stock prices.
 - **Pattern Recognition:**
 - Implement pattern recognition algorithms to detect potential wash trades, circular trading, or price manipulation.
 - Flag any large trades outside normal market behavior for further investigation.
-

3.2 Trade Exceptions and Alerts

- **Exception Handling:**
 - Set up parameters to identify exceptions such as significant changes in trading volume, abrupt price fluctuations, or trades placed outside normal market hours.
 - Exceptions are automatically flagged for review, and a dedicated surveillance team investigates these irregularities.
- **Actionable Alerts:**
 - Alerts that require immediate action, such as instances of insider trading, front running, or potential client harm, should be escalated to senior management and compliance officers.

SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

- Timely action must be taken in case of violations, including notifying exchanges or regulatory bodies when necessary.
-

3.3 Suspicious Transaction Reporting

- **Identification of Suspicious Activity:**
 - Conduct thorough investigations of suspicious activities such as unusual trading patterns, disproportionate order sizes, or repeated short-term trades on the same security.
 - Suspicious patterns such as buying a large position just before a price rise or selling ahead of negative news should be flagged for deeper scrutiny.
 - **Reporting Obligations:**
 - Stock brokers must report suspicious activities to the appropriate authorities, such as SEBI or the stock exchanges, through Suspicious Transaction Reports (STRs) or other regulatory reporting mechanisms.
 - Timely reporting is crucial to preventing further malpractices.
-

4. Client and Employee Surveillance

4.1 Client-Level Surveillance

- **Client Profiling:**
 - Create profiles for each client, categorizing them based on their trading patterns, risk appetite, and market exposure.
 - Identify high-risk clients or those who engage in frequent large trades, high-frequency trading, or other speculative activities.
- **Unusual Client Behavior:**
 - Monitor client accounts for unusual trading behavior, such as a sudden spike in trading volume, unusually large positions, or erratic trading patterns.
 - Investigate client behavior that deviates from historical trading patterns and escalate concerns to compliance and risk management teams if necessary.
- **KYC/AML Integration:**
 - Ensure Know Your Client (KYC) and Anti-Money Laundering (AML) protocols are integrated with the surveillance system to detect potential money laundering, identity theft, or unlawful use of client accounts.

SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

4.2 Employee Surveillance

- **Employee Trades Monitoring:**
 - Implement policies for monitoring employee trades to prevent front-running, insider trading, or any misuse of sensitive market information.
 - Restrict or prohibit certain employees from trading in specific securities where they might have access to non-public information.
 - **Conflict of Interest:**
 - Ensure that employee trading activities do not create conflicts of interest with client interests or proprietary trading activities.
 - **Whistleblower Protection:**
 - Establish a whistleblower policy that allows employees to report unethical or suspicious activities without fear of retaliation.
-

5. Escalation and Investigation Process

5.1 Escalation Mechanism

- **Escalation of Alerts:**
 - Alerts or exceptions that indicate potential breaches of market rules should be escalated to the compliance team, senior management, or the risk committee, depending on the severity of the issue.
- **Threshold-Based Escalation:**
 - Implement threshold-based escalation procedures based on the severity of the issue, e.g., high-value trades with unusual patterns should be escalated immediately, while lower-risk issues may undergo routine reviews.
- **Regular Reporting:**
 - Maintain a reporting structure where all identified issues and investigations are regularly reviewed and discussed at compliance meetings, and reports are submitted to senior management.

5.2 Investigation Process

- **Internal Investigation:**

SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

- Upon detection of suspicious activities, an internal investigation must be conducted to gather all necessary facts and data related to the flagged trades or accounts.
 - Obtain explanations from relevant clients or employees and cross-check data to assess the legitimacy of the trades.
 - **External Investigation:**
 - In cases where internal investigations raise concerns about market manipulation, insider trading, or regulatory violations, escalate the matter to external authorities like SEBI, stock exchanges, or law enforcement.
 - **Documentation:**
 - Document the entire investigation process, including the nature of the alerts, findings, actions taken, and any corrective measures implemented.
-

6. Compliance and Reporting Obligations

6.1 Regulatory Compliance

- **Adherence to SEBI Guidelines:**
 - Ensure compliance with all SEBI guidelines related to surveillance, including the reporting of suspicious activities, market manipulation, and insider trading.
- **Exchange Reporting:**
 - Report any abnormal trading behavior, breaches, or suspicious activities to the relevant stock exchanges as per their guidelines.

6.2 Record Keeping

- **Data Retention:**
 - Maintain a record of all surveillance data, alerts, reports, and investigations for a specified period (as mandated by regulators) to enable audits or reviews by regulatory authorities.
 - **Audit Trail:**
 - Ensure that all trade-related data and surveillance actions are logged, creating a transparent and traceable audit trail for internal and regulatory reviews.
-

7. Risk Management and Corrective Measures

7.1 Risk Identification

- **Identify High-Risk Areas:**

SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

- Conduct periodic risk assessments to identify high-risk securities, market segments, or clients that may require additional surveillance or scrutiny.

7.2 Corrective Actions

- **Mitigation Plans:**

- Implement corrective measures such as enhanced surveillance, client restrictions, or temporary suspensions when suspicious activities are detected.

- **Penalties and Actions:**

- In cases of verified wrongdoing, take immediate corrective actions, including imposing penalties, account suspension, or terminating relationships with high-risk clients or employees involved in unethical practices.
-

8. Review and Enhancement of the Surveillance Policy

8.1 Regular Policy Review

- The surveillance policy should be periodically reviewed and updated to reflect:
 - Changes in market practices.
 - Updates in regulatory requirements.
 - Advancements in surveillance technology.

8.2 External Audits

- Subject the surveillance system and policy to regular external audits to ensure the effectiveness of surveillance measures and compliance with the latest regulations.

8.3 Training and Awareness

- **Employee Training:**

- Regularly train employees on the surveillance policy, focusing on how to recognize and respond to suspicious market activities, ethical behavior, and reporting mechanisms.

- **Client Education:**

- Educate clients about suspicious activities and reporting mechanisms, helping to promote a culture of transparency and ethical behavior in the market.

SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange