

P H Financials And Investments Pvt Ltd
SURVEILLANCE POLICY

Surveillance policy dated 05/12/2020 , is being reviewed and updated keeping in view Exchange circular no NSE/SURV/48818 dated 01/07/2021 and CDSL Communiqué no CDSL/OPS/DP/SYSTEM/2021/309 dated 15/07/2021.

A. Background

We along with our Employees are the first touch point in the securities market for investors and are expected to have reasonably fair understanding about client(s) and its trading activity. Thus, Exchanges/regulators have trusted on us the first level of the responsibility by processing of transactional alerts provided by the exchange/depository as well as generation of own surveillance alerts at our end to ensure that neither we , nor any of 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 distort the equilibrium of the market.

B. Objective of framing surveillance policy

- Generation of suitable surveillance alerts guided by the indicative themes provided by the exchanges. The indicative themes provided by the exchanges are inclusive and not exhaustive.
- Transactional alerts provided by the exchanges
- Fixing of threshold limits/parameters for alerts and the rationale for the same.
- Obligations regarding client due diligence
- Obligation with respect to processing of alerts
- Obligation regarding quarterly reporting
- Processing of alerts within 45 days from the date of alerts downloaded by the exchanges/depository as well as alerts generated at our end.
- Documentation of reasons for any delay in disposition of any alerts
- System for identifying suspicious/manipulative activity and reporting the same to the respective authorities

- Maintenance of records for the period as stipulated under the applicable statutes.

Surveillance framework :

With respect to the transactional alerts being downloaded from the Exchange/ Exchanges /generated by the software, the following activities will be carried based on UCC parameters:

Alerts generated there upon to be co-related with the client(s) transaction data/information available in the our back office system. Due Diligence of client(s) will be carried out on a continuous basis for monitoring/detection of suspicious/manipulative transaction.

Other activities are mentioned as under:

1. Unusual trading activity:

Client(s)/Group of Client(s) who have been dealing in small quantities/value significantly increase their activity over a period of time say fortnight/month/quarter and the increases is beyond the threshold limit of more than 50% as compared to the earlier period of same duration. The alerts so generated should be disposed off after considering;

- a) Whether such volume is justified given the background of the client and his past trading activity.
- b) Amount of funds that was brought in by the Client(s)/Group of Client(s) for the purchases made during the period.
- c) Whether such inflow of funds is in line with the financial status of the client.
- d) 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 starts/resumes trading and additionally the client start trading in illiquid stocks or low market capitalized scrip or enters into huge transactions not commensurate with the financial strength of the client, The alerts so generated should be disposed off after considering :

- a. Reasons for trading in such scrip/contracts.
- b. Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices.
- c. 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 scrip/contracts contributing significant increase in the volume of the scrip/contract at the trading member level and at the stock exchange level.

The alerts so generated should be disposed off after considering;

- a. Reasons for trading in such scrip/contracts.
- b. Whether there is any concerted attempt to impact the prices.
- c. 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/contracts or there is a sudden activity by Client(s)/Group of Client(s) in illiquid securities/contracts , there by leading to increase in volume as compared to the volume of the exchange or that of the trading member:

Alerts so generated should be disposed off after considering

- a. Reasons for trading in such scrips/contracts.
- b. Whether there is any concerted attempt to impact the prices.
- c. 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 frequently in small quantities/minimum market lot in a scrip/contract.

Alerts so generated shall be disposed off after considering

- a. Reasons for such trading behavior.
- b. Trading pattern and repeated instances.

6. Trading in the illiquid shares as per list provided by the exchange

The alerts so generated should be disposed off after considering

- a. Whether there is sudden trading in the scrip
- b. Whether there is any concerted attempt to impact the prices of such shares
- c. Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.
- d. Probable matching of transactions with another client.
- e. Apparent loss booking transactions in illiquid shares
- f. Whether the transactions are contributing to concentration or impacting the price.

7. Circular Trading:

The alerts so generated should be disposed off after considering

- a. Continuous trading of client/group of clients in particular scrip over a period of time.
- b. Client/group of clients contributing significant increase in volume (broker and exchange level) in a particular scrip – especially illiquid scrip and /or illiquid contracts
- c. Possible matching of trades with a specific group of clients, Possible reversal of trades with the same group of clients

8. Pump and Dump:

Alerts so generated should be disposed off after considering

- a. Concentrated activity in illiquid scrips.
- b. Sudden activity in illiquid securities.
- c. Volume of transaction to total market volume in the particular scrip is high.

- d. 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:

Alerts so generated should be disposed off after considering

- a. Same Client on both sides of the transaction.
- b. 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.
- c. One client makes significant profit and other suffers a loss or apparently looks like loss booking transactions in illiquid contract/securities including options.

10. Front Running:

Alerts so generated should be disposed of after considering

- a. 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.
- b. 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 forming part of 'For Information list' or 'Current watch list'

Alerts so generated should be disposed of after considering

- a. Client having significant position in the total open interest of a particular scrip.
- b. Client not reducing/closing their positions in spite of the scrip being in ban period.
- c. Client trading accounts for a significant percentage of the total trading in the contract/securities at member and exchange level.
- d. The trading pattern of Client(s) who have Open Interest positions/concentration greater than equal to the thresholds prescribed.
- e. Ref to exchange circular no. NSE/INVG/45517 dated 30/08/2020

12. Order book spoofing i.e. placing large orders significantly away from prevailing market price:

Alerts so generated should be disposed off after considering

- a. Consistent placement of large orders significantly away from the prevailing market price wherein trade to order trade ratio is very low or canceling orders within seconds after placing them there by creating a false impression of depth in a particular scrip/contract.
- b. Repeated pattern of placement of large buy orders which are away from the prevailing market price and simultaneous placement of sell orders to benefit from price rise or vice-versa.

Reports as mentioned here under should be generated and reviewed in case of off line trades:

1) Report on delivery above Rs.5,00,000 & above Rs.25,00,000 – in all segments of equities:

Placement of large orders with the delivery turnover contributing in value terms above Rs. 5,00,000 and trading turnover in terms of value above Rs.2,50,000/- for all segments .

- 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 appropriate due diligence should be undertaken

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

- a) The records so generated are analysed vis-a-vis exchange volume, repeated days of the trading and price volatility, company financials etc.
- b) 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 to be taken.

3) 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 .

- Alerts so generated should be evaluated and in case of any un-usual pattern, clarification from the client/or branch should be sought.

4) F&O Excess Volume (more than 5% of market volume) (equity derivatives):

Trades in derivatives are generated in cases where trades are more than 5% of market volumes

- a) For the alerts so generated under this alert are evaluated visa-vis the strike price, maturity date of the contract, type of derivative contract, underlying etc
- b) 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 appropriate due diligence should be undertaken.
- c) Thereafter RMS team does the trade/ledger confirmation with the end client and accordingly updates the compliance team.

5) Matching of Trades – all segments (equities):

The trades which get matched (applicable for all segments) at member level and or at client level. The alerts so generated, appropriate comparison should be done to ascertain whether they have been carried out from the same trading terminal or same location or for group of same family codes.

In case of illiquid scrip/contracts or significant volumes or price volatility observed, proper explanation should be sought and or adequate warning should be issued to the client.

Alerts as mentioned here under should be generated and reviewed in case of online trades :

Alerts generated as mentioned herein below should be analyzed keeping in view the financials of the client, repetitive nature of the instances, volumes and or price volatility. These alerts should be monitored by the RMS on real time basis and in case of any

suspicious nature, appropriate reasons should be sought from the branch/franchisee/clients. Few of the indicative themes for generation of alerts are mentioned herein below

- ❖ **Online Trade Matching Popup:** In this module all the trades that get matched can be viewed and thereafter further verification and/or analysis should be done.
- 1) **Online Delivery Tracker:** This report provides alerts of the clients who have taken delivery of Rs. 5 lacs and more in value terms or 10000 or more in quantity terms (Limit should be reviewed from time to time).
- 2) **Online Ban Scrip Position Tracker:** This report provides alerts in case client taking position in “Ban” security, .
- 3) **Unregistered/Inactive Client Trade:** This report provides alerts in case of client being inactive as per our back-office software or not registered, in spite of which he has undertaken trade,
- 4) **Spurt in volume:** This report provide the alerts in which there is sudden increase in volume in comparison with two weeks average exchange volume.

Over and above the indicative themes mentioned here in above, following themes should also be considered for generation and monitoring of alerts:

- A) Disproportionate trading activity v/s reported income/net-worth
- B) Frequent changes in KYC submitted by the clients
- C) Identification of clients /group of clients , having possible direct /indirect connection with a listed company , who have undertaken any suspicious trading activity prior to announcement by the listed company
- D) Consistency in profit /loss at client /group of clients’ levels, rational for such trading activities (Ref for details Exchange circular NO NSE/INVG/2019/40175 dated 07/02/2019
- E) Significant trading activity in scrip by client who has pledged the shares of same scrip, or has significant holding or has frequent off market transactions

- F) Trading activity of 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 of client's address as per KYC vis-a-vis the dealing office address
- G) Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location)
- H) Frequent instances of payment by Client(s)/Group of Client(s) in the form of cash equivalents like Demand Draft, Pay order etc.
- I) When residential 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/residential/business address returned undelivered.

Having multiple accounts with the Trading Member and using different trading accounts alternatively

Themes mentioned here in above are only indicative & are not exhaustive, the risk department and compliance department based on the situations / circumstances are required to exercise their own independent judgment and initiate appropriate surveillance there off.

Graded Market Surveillance (GSM)

NSE vide its circular NSE/SURV/34262 dated February 23, 2017 and BSE vide its circular 20170223-44 dated February 23 2017 introduced Graded Market Surveillance (GSM) as introduced by equity exchanges, on securities which witness an abnormal price rise not commensurate with financial health and fundamentals like Earnings, Book value, Fixed assets, Net-worth, P/E multiple, etc.

In addition to existing Surveillance action being imposed from time to time, securities shall be monitored for price movement by equity exchanges and based on pre-determined objective criteria shall attract following additional graded surveillance measures:

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 trading and ASD 100% of trade value to be deposited by the buyers (Every Monday)
IV	Trading permitted once a week trading with ASD 200% of trade value to be deposited by the buyers (Every Monday)
V	Trading permitted once a month trading with ASD 200% of trade value to be deposited by the buyers (First Monday of the month)

VI	Trading permitted once a month with no upward movement in price of the security with ASD 200% of trade value to be deposited by the buyers (First Monday of the month)
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In view of the above trading done in such shortlisted securities are analyzed and:

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.

In case of any further regulatory developments, the same would be implemented in scrip and accordingly deemed to be part of this policy.

Additional Surveillance Measure (ASM)

NSE vide its circular SE/SURV/37262 dated March 22 2018 and BSE vide its circular 20180321-46 dated March 21 2018 had informed that Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors have decided that along with other measures there shall be Additional Surveillance Measures (ASM) on securities with surveillance concerns viz. Price variation, volatility etc.

Accordingly, exchanges would review identification of securities for placing in ASM Framework has been carried out. In addition to this, exchanges have issued other circulars from time to time reviewing the parameters for the ASM framework and accordingly updating the scrips in the said framework.

In view of the above, financials of the company are analyzed to ascertain whether the trading volumes and price movements are justified. In case of 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 be blocked from further trading.

ADDITIONAL MONITORING

1. Not allowing trades of entities which are banned by SEBI/Exchange/other regulators. (should be verified by the KYC team before client account is activated).
2. Trading and activation of demat account should be 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. Mobile no, email & Income details are obtained and uploaded to respective authorities.
3. Clients having continuous debit balance in their ledgers for a certain period of time or have defaulted in making payment/delivery. Should be monitored by RMS team and appropriate follow up should be undertaken with the clients/branches/AP and may also restricts them from further trading.

Analysis

In order to analyze the trading activity of the Clients according to the scrip identified based on above alerts, following activities should be undertaken-

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, .
4. On the basis of information received from the client and after proper evaluation and analysis, decision should taken for closure of the alert or for further reporting .

Reporting

In cases of alerts generated at our end all action/analysis should be completed and in case of any adverse observation the same should be reported to the exchange within 45 days Alerts generated by the exchanges should be analysed and the status thereof (Verified and closed/verified and sent to the respective exchanges) including action takenis updated within 45 days in the exchange portal.

The surveillance policy should be approved by the Directors:

Daily reporting of the alerts generated should be provided to the designated directors and principal officer. Quarterly MIS should be provided to the Directors containing number of alerts received during the quarter , disposed off during the quarter and pending at the end of the quarter . Reasons for pendency should bediscussed and appropriate action should be initiated for disposing of the pending alerts.

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

This policy would be made available to the internal auditors and regulators during the course of audits or as and when demanded.

The member shall provide the required data of approved status of the alerts on quarterly basis in the format prescribed by the regulators to the exchange within 15 days from the end of the quarter. In case of no generation of alerts, then also nil report to be submitted. The policy should be periodically reviewed in order to test its effectiveness.
