

Kellton Securities Private Limited

Policies and Procedures

Surveillance Policy

For

Stock Broking and Depository Participant Operations

1. Applicability :

The Policy is applicable to the Stock Broking Operations and Depository Participant (DP) Operations w.e.f. 1st Day of October, 2021 of M/s. Kellton Securities Private Limited (KSPL). The policy is approved in the meeting of the Board of Directors of M/s. Kellton Securities Private Limited (KSPL) held on 25th of August 2021.

The Policy is framed in accordance with the provisions of SEBI Circular No. SEBI/HO/ISD/ISD/CIR/P/2021/22 Dt. 01.03.2021, NSE Circular No. NSE/SURV/48818 Dt. 01.07.2021 and CDSL Communiqué No. CDSL/OPS/DP/SYSTEM/2021/309 Dt. 15.07.2021 and Comm 2024/341 dated June 20, 2024

2. Surveillance Policy for Stock Broking :

2.1. The Stock Exchanges viz. NSE and BSE are providing alerts based on predefined criteria to all the stock brokers including KSPL through their portals. As per applicable Circulars, KSPL 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's) with FIU-India in accordance with provisions of PMLA (Maintenance of records) Rules, 2005.

2.2. In addition to the same, KSPL has framed its Surveillance Policy for its Stock Broking Operations to generate alerts as per guidance provided in NSE Circular No. NSE/SURV/48818 Dt. 01.07.2021 based on following criteria:

2.2.1. Trading activity in a single day by one client or group of clients who have contributed more than 25% in single scrip or a single derivative contract.

2.2.2. A client or a group of clients who are either new client / clients or who have reactivated their trading account after significant time gap and who have contributed more than 50% of the total trading volume of a single scrip or derivative contract in a single day.

2.2.3. Client or a group of clients dealing frequently in small quantities in a scrip.

2.2.4. Trading activity of a client found to be disproportionate considering a reported income range details or net-worth.

2.2.5. A client who has submitted modification request for changes in his/her/its demographic details of address, email id, mobile number, bank details etc., at least twice in a month.

- 2.2.6 A client or a group of clients who have been found to have direct or indirect connection with a listed company and who have executed any transactions prior to any dissemination of any price sensitive information by such listed company.
- 2.2.7. A client or group of clients having more than 20% volume of any scrip listed in for 'information list' or current watch list'.
- 2.2.8. A client or group of clients which persistently earn or incur high amount of loss through their trading activities or clients who appear to have executed trades with the objective of transfer of profits or losses.
- 2.2.9. A client who is holding more than 5% of paid up capital of a listed company and has pledged 100% of his / her / it's such holding for margin purpose and who has also significant trading volume in the same scrip which he/she/ it holds.
- 2.2.10. In case of a client or a group of clients who have been identified as per any of the above 9 criteria and whose orders are placed through a dealing office which is far from such client's address as per his / her / its KYC.
- 2.2.11. A client having demat account with KSPL and who has holding in a scrip of more than 5% of paid up capital of a listed company which has received the same shares through off-market transfer.
- 2.2.12. A client who has received shares of a listed company through multiple off-market transfer and has pledged such shares.
- 2.2.13. Identification of IP addresses of clients to identify multiple client codes trading from same IP address.
- 2.2.14. Clients who are connected with each other as per key KYC parameters of the clients as updated by respective client.
- 2.3. 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.
- 2.3.1. In case of any delay in disposing off any alerts, reasons for the same shall be recorded.
- 2.4. The stock broking operation shall identify suspicious / manipulative activities undertaken by any client through monitoring of order(s) and trade(s).
- 2.5. The stock broking operation shall, in case of reporting of any transaction as STR to FIU-India, shall evaluate whether any further action including suspension of the trading activity of the suspect client(s), reporting to Stock Exchanges/SEBI and / or other Regulatory Authorities.
- 2.6. The stock broking operation shall maintain records for such period as is prescribed under PMLA (maintenance of Records) Rules, 2005, and Securities

Contracts (Regulation) Rules, 1957 and any other directions as may be issued by SEBI/Stock Exchanges from time to time.

3. Surveillance Policy for Operations as Depository Participant:

- 3.1. CDSL is providing transactional alerts on bi-weekly basis based on threshold defined by CDSL to all the Depository Participants including KSPL through CDSL report download utility. As per applicable communiqués, KSPL 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.
- 3.2. In addition to the same, KSPL has framed its Surveillance Policy for Stock Broking operations to generate alerts as per guidance provided in NSE Circular No. NSE/SURV/48818 Dt. 01.07.2021 based on following criteria:
 - 3.2.1. Multiple Demat Accounts opened with same PAN/Mobile Number / Email ID / Bank Account Details / address. While reviewing BO account details, the details of existing BO shall also be considered.
 - 3.2.2. Email / letters sent to clients on their registered Email ID / address which bounces / returns undelivered.
 - 3.2.3. A BO who has submitted modification request for changes in his/her/its demographic details of address, email id, mobile number, bank details, POA holder, Authorized Signatory etc. at least twice in a month.
 - 3.2.4. Frequent Off-Market Transfer of securities more than twice in a month without any genuine reasons.
 - 3.2.5. Off-Market Transactions not commensurate with the income / net-worth of the BO.
 - 3.2.6. Pledge transactions not commensurate with the income/net-worth of the BO.
 - 3.2.7. High value Off-Market Transfer Immediately after modification of either email ID/Mobile Number / Address without genuine reason.
 - 3.2.8. Review of reasons for Off-Market transfer provided by the BO which appears non-genuine based on either profile of the BO or on account of reason codes, including frequent off-market transfer with reason code gift/donation to unrelated parties and/or with reason code off-market sales.
 - 3.2.9. Sudden increase in transaction activity in a newly opened account in a short span of time. An account in which securities balance suddenly reduces to zero and an active account with regular transaction suddenly becomes dormant.
- 3.3. The DP shall review the alerts provided by CDSL on fortnightly basis and shall ensure to process the same as early as possible. In any case, these alerts will be processed within 30 days from the date of generation of the alert by CDSL.

- 3.3.1. In case of any delay in disposing off any alerts, reasons for the same shall be recorded.
- 3.4. The DP shall identify suspicious / manipulative activities undertaken by any client through monitoring of transaction(s).
- 3.5. The DP shall, in case of reporting of any transaction as STR to FIU-India, shall evaluate whether any further action including disassociating with the suspect client(s) and reporting to CDSL/SEBI and / or Other Regulatory Authorities.
- 3.6. The DP shall maintain records for such period as is prescribed under PMLA (Maintenance of Records) Rules, 2005, and Securities Contracts (Regulation) Rules, 1957, SEBI (Depository and Participants) Regulations, 1996, DP Operating Instructions and any other directions as may be issued by SEBI / Stock Exchanges from time to time.

4. Process of Disposal of Alerts and Action:

- 4.1. The designated officials who are tasked to review the alerts on daily basis shall review the same.
- 4.2. 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.
- 4.3. If the designated official after due diligence and making such inquiry as such official finds necessary comes to a conclusion that the alert warrants an action, the official will forward the same with his / her view to the Compliance Officer for his / her approval.
- 4.4. 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 CDSL and / or discontinue the relationship with the client.
- 4.5. 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.
- 4.6. The records of alerts generated, disposed of as closed and details of action taken wherever applicable shall be maintained with such security measures as would make such records temper proof and the access is available on the designated officials under the supervision of the Compliance Officer.

5. Obligations of Compliance Officer / Designated Director and Internal Auditor of the Stock Broking Business and Depository Participant operations:

- 5.1. The surveillance activities of the stock broking operations and that of DP operations shall be conducted under overall supervision of the Compliance Officer of KSPL. The Policy implemented by KSPL in accordance with the provisions of Prevention of Money Laundering Act, 2002 and rules made there under as Reporting Entity.
- 5.2. A quarterly MIS shall be put up by the Compliance Officer to the board and the Designated Director giving number of alerts generated during the quarter, number of alerts closed, number of alerts generated during the quarter, number of alerts closed, number of alerts on which action taken with details of action taken and number of alerts pending at the end of the quarter along with reasons for pendency and action plan for closure. The Board as well as the Designated Director shall be appraised of any exception noticed during the disposal of the alerts.
- 5.3. The Designated Director shall be responsible for all surveillance activities carried out by the trading member.
- 5.4. KSPL shall submit its surveillance policy to the internal auditor for stock broking operations and inter Auditor of DP operations for review and shall satisfy the queries / questions, if any, raised by the internal auditor with respect to the implementation of the surveillance policy, its effectiveness and the alerts generated.

6. Obligation of Quarterly reporting of Status of the Alerts generated for Stock Broking Operations and Depository Participant Operations:

- 6.1 A quarterly statement providing duly approved status of alerts in respect of Stock Broking Operations on quarterly basis shall be submitted to BSE and NSE in the following format within 15 days after the end of the quarter:

A. 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

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 referred to Exchanges) if any during the quarter.

Sr. No.	Brief Action taken during the quarter

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

- 6.2. A quarterly statement providing duly approved status of alerts in respect of DP operations on quarterly basis shall be submitted to CDSL in the following format within 15 days after the end of the quarter:

- A. Status of Alerts generated by the Depository Participant:

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

- 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 referred to Exchanges) if any during the quarter.

Sr. No.	Brief Action taken during the quarter

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

7. Schedule of the implementation of the Policy:

- 7.1. The Policy shall be implemented by stock broking operations with effect from 1st Day of August, 2021. The first reporting by Stock Broking Operations shall be submitted within 15 days of 30th September, 2021.
- 7.2. The policy shall be implemented by DP Operations with effect from 1st Day of October, 2021. The first reporting by DP operations shall be submitted within 15 days of 31st October, 2021.

8 AMENDMENT IN QUARTERLY REPORTING FORMAT

regarding surveillance obligation of Depository Participant (DP), wherein DPs are required to generate appropriate surveillance alerts at their end, to enable them to effectively monitor the transactions of their clients at their end as per the laid down surveillance policy. Further DP has obligation of reporting the status of alerts generated to CDSL.

Additional columns have been introduced in the quarterly reporting format to provide comprehensive overview on the alerts generated by DPs.

Name of Alert	Opening Balance of alerts at the beginning of the quarter (A)	No. of alerts generated during the quarter (B)	Total no. of alerts (C=A+B)	No. of alerts closed during the quarter (D)	Alerts pending at the end of the quarter (E = C - D)	Ageing analysis of the alerts pending at the end of the Quarter (since alert generation date) (Segregation of E column)					Reason for pendency #
						< 1 month	1-2 months	2-3 months	3-6 months	> 6 months	

reason for pendency is required to be provided for outstanding alerts in each bucket of age.

The above format will come in effect from September 30, 2024. DP can submit the report in new format for the quarter ended September 2024.

In addition to obligations mentioned in communiques mentioned above, DP are required to

- ☐ Prepare Standard Operating Procedure (SOP) for processing of surveillance alerts (which includes alerts generated at DP end as well as alerts generated by CDSL).
- ☐ DP has to ensure that SOP shall include alert generation parameters, establishing timelines for response, outlining escalation procedures, and any other essential processes related to alert handling.
- ☐ The SOP and alert parameters needs to be reviewed on a periodic basis by the compliance officer.

- ☐ DP shall ensure that Maker-Checker mechanism is followed during processing and disposal of surveillance alerts.

In the recent past, CDSL has observed an anomalous modus operandi with respect to followings,

- a) Multiple demat accounts of different entities being opened with a common bank account.
- b) Accounts were opened by obtaining multiple PANs by single entity.

After advising the DP to freeze all such accounts, CDSL has also taken necessary actions against concerned DP, including levy of monetary penalty, temporary suspension from opening new demat accounts and issuance of Show Cause Notice etc.

In light of these findings, CDSL advises DPs to stay alert and vigilant against such activities.

Further following important points are re-iterated again for compliance at DP end.

- Disposal of alerts within 30 days from the date of alerts generated at Participants end and alerts provided by CDSL.
- Any non-compliance with respect to surveillance obligations which may inter alia include delay in processing of alerts generated by DP / provided by CDSL and repeated instances of delay in reporting of the status of alerts, may result in further disciplinary action as deemed fit in terms of DP Operating instructions and bye-laws of Depository.

9. Review of Policy:

The Surveillance Policy shall be reviewed on periodic basis and at least once a year by the Compliance Officer to ensure that the same is updated in line with market trends, updated regulations and practices.

Kellton Securities Private Limited

CDSL DPID 35200