

DP Surveillance Policy

Adopted by

ISS ENTERPRISE LIMITED

Version 1: 15 - 09 - 2021



Circular References:

Circular Reference No	Date of Issue of Circular	Particulars
CDSL/OPS/DP/SYSTM/2021/309	15 th July 2021	SURVEILLANCE OBLIGATION OF DEPOSITORY PARTICIPANT

Introduction:

In order to further strengthen the Surveillance framework for the Securities Market, CDSL has advised all Depository Participants ("DPs") to put in place a surveillance framework.

In view of this, ISS Enterprise Limited ("Company") being CDSL Depository Participant has framed this DP Surveillance Policy ("Policy").

The surveillance activities of the Company as DP shall be conducted under overall supervision of its Compliance Officer. The Parameters / threshold based on which such type of alerts may be generated will be set, reviewed and applied after approval of Risk, Business and Compliance Department.

DP Alerts Generation and Review:

1. As a part of DP surveillance measures, CDSL provides DP Alerts on a fortnightly basis on certain thresholds as decided by CDSL from time to time.
2. In addition to these DP Alerts, the Company shall put in place a system to generate suitable alerts. Indicative Themes provided by CDSL for generation of DP Alerts are given in the **Annexure 1**. The Company as DP shall additionally generate appropriate surveillance alerts at its end too.
3. The Company shall analyze and review these alerts based on facts and verification of relevant documents including income/net worth as provided by BO. Further, the Company shall exercise its independent judgment and take appropriate action in order to detect any abnormal or suspicious transactions.
4. While reviewing DP Alerts, the Company shall obtain transaction rationale, verify demat statement and also obtain supporting documents as required from the DP client.
5. After verifying the documentary evidences, the Company will record its observations for such identified transactions of its DP client.

Client Due Diligence:

1. The Company shall carry out the Due Diligence of its DP client(s) on an on-going basis.
2. The Company shall ensure that key KYC parameters of the DP clients are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in Depository System as per the applicable SEBI requirements and internal policies.



Reporting of Alerts:

1. The Company shall maintain register (electronic / physical) for recording of all alerts generated.
2. With respect to the transactional alerts provided by CDSL, the Company shall review all alerts, and status thereof (Verified & Closed / Verified & Reported to Depository) including action taken is updated within 30 days as per the procedure w.r.t sharing of alert by CDSL with DPs and report submission by DPs as may be laid down by CDSL.
3. With respect to the alerts generated at the Company's end, the Company 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. Procedure w.r.t reporting of alert by the Company as DP will be provided by CDSL shall be appropriately followed
4. The Company shall provide duly approved status of the alerts on a quarterly basis, in the format prescribed by CDSL within 15 days from end of the quarter.
5. If there is nothing to report, 'NIL Report' needs to be submitted within 15 days from end of the quarter. This quarterly system of reporting shall be effective from the quarter ending December 2021 or as extended by CDSL from time to time.
6. A quarterly MIS shall be put up to the Company's 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 Format and Manner of reporting will be in accordance with CDSL Guidelines issued /to be issued from time to time. This Policy will be subject to review either once in a year or subject to regulatory change whichever is earlier.



Indicative Themes for Generation of DP Alerts

Sr. No.	Indicative themes:
1	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.
2	Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced.
3	Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.
4	Frequent Off-Market transfers by a client in a specified period
5	Off-market transfers not commensurate with the income/Net worth of the client.
6	Pledge transactions not commensurate with the income/Net worth of the client.
7	Off-market transfers (High Value) immediately after modification of details in demat account
8	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
9	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.
10	Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients.

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Policy on Surveillance of Transaction Alerts of ISS Enterprise Ltd.

Objective

The objective of this policy is to have in place an effective market surveillance mechanism to ensure investor protection and to safeguard the integrity of the markets. The goal of surveillance is to spot adverse situations in the markets and to pursue appropriate preventive actions to avoid disruption to the markets and the company. The fairness of the market is closely linked to investor protection and, in particular, to the prevention of improper trading practices. This monitoring is required to analyze the trading pattern of the clients in order to observe whether any transaction (buying/selling) done intentionally, which will have an abnormal effect on the price and/or volumes of any share, which is against the fundamental objective of the Securities Market.

Back Ground:

Exchange circular nos. NSE/INVG/22908 dated March 07, 2013, NSE/SURV/40148 dated February 05, 2019 and NSE/SURV/48818 dated 3 July 2021 and BSE Notice No 20210701-30 dated 1st July 2021

Based on the above circulars and notice wherein the trading members were advised about surveillance obligations to facilitate effective surveillance at the member's end & covering processing of transactional alerts provided by the Exchange as well as own alerts generated by the trading members at their end based on their surveillance policy and take suitable actions thereof.

Obligation of Trading Members to generate additional Surveillance alerts:

It is reiterated that in addition to the transactional alerts downloaded by Exchanges, Trading members are also required to generate appropriate surveillance alerts at their end, to enable them to effectively monitor the trading activity of their clients at their end as per the laid down surveillance policy.

The indicative themes on which Trading Members may formulate their own alerts are as under. The trading member also needs to analysis patterns and trends with respect to different themes.

2.1 The indicative themes applicable to ALL Trading Members.

- 2.1.1 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.
- 2.1.2 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.



- 2.1.3 Client/ group of clients dealing frequently in small quantities/minimummarket lot in a scrip/ contract.
 - 2.1.4 Disproportionate trading activity vs reported income/ Net worth.
 - 2.1.5 Frequent changes in KYC submitted by clients.
 - 2.1.6 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.
 - 2.1.7 Client/ group of clients having significant selling concentration, in the scrips, forming part of 'For Information list' or 'Current Watch list'. For more details, kindly refer Exchange circular no. NSE/INVG/45517 dated August 30, 2020.
 - 2.1.8 Consistency in profit/ loss at client/ group of clients' levels, rationale for such trading activities. In addition, trading members may also refer details given in Exchange circular no. NSE/INVG/2019/40175 dated February 07, 2019.
 - 2.1.9 Significant trading activity in scrips by client who has pledged the shares of same scrip.
 - 2.1.10 In case of concerns of trading activity of a 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 client's address as per KYC vis a vis the dealing office address.
- 2.2 The indicative themes additionally applicable to Trading Members who are Depository Participants.
- 2.2.1** Significant trading activity in scrips where client has pledged shares or has significant holding or has frequent off-market transactions.
- 2.3 The indicative themes additionally applicable to Trading Members who have facility of internet-based trading.
- 2.3.1 Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location).

The above guidelines are illustrative and not exhaustive. Based on



circumstances and based on business model and service offered to the clients and for proprietary trading, the trading members are required to exercise their independent judgement and formulate their own alerts and take appropriate actions thereof.

3. Obligation of Trading Members w.r.t. client due diligence:

The following activities required to be carried out by the trading members for client due diligence is being reiterated:

3.1 Trading members are required to carry out the Due Diligence of their client(s) on an on-going basis.

3.2 Trading members 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. 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. Obligation of Trading Members w.r.t. processing of alerts:

4.1 Trading Member shall obtain trading rationale and necessary documentation including bank statements, demat statements for analysing/ processing the alerts.

4.2 After analyzing the documentary evidences, Trading member shall record its observations for such identified transactions of its Client/ Group of Clients.

4.3 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 Member Surveillance Dashboard.

4.4 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.

5 Obligation of Compliance officer, Designated Director/ Partners/ Proprietors and Internal Auditor of the Trading Member:

5.1 The surveillance activities of trading member shall be conducted under overall supervision of its Compliance Officer.



- 5.2 A quarterly MIS shall be put up to the Designated Director / Partners / Proprietor 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 Designated Director / Partners / Proprietor shall be apprised of any exception noticed during the disposition of alerts.
- 5.3 Designated Directors / Partners / Proprietor would be responsible for all surveillance activities carried out by the Trading member.

Internal auditor of trading member 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.

6. Obligation of Quarterly reporting of status of the alerts generated by the Tradingmember:

- a. Trading members are also required to provide duly approved status of the alerts on a quarterly basis, in the following format to the Exchange within 15 days from end of the quarter.

ISS Policy ON Generating Transaction alert and processing Exchange and own house alert

Based on above guide lines provide by the exchanges ISS has decided to adopt following policy:

Software: ISS is using transaction motoring software " TRACKWIZZ' by TSS Consultancy Pvt. LTD.

Transactional Alerts by NSE and BSE and IN HOUSE generation:

ISS will downed alert generated by NSE from ENIT surveillance Dash Board and BSE from BSE Extranet. For In house alert ISS has decided to for nine scenarios based on exchange stipulated theme with threshold shown at Annexure 1. All the exchange alerts to be imported at TRACKWIZZ.



Annexure 1

Scenario Name	Boutique	PROD SET THRESHOLDS
S24 High Turnover in 1 Day EQ	Client TO = 5 Lakhs & Scrip % = 5	Client TO (B Gr)= 500000; Scrip %=20 Client TO (All others Group) = 100000 Scrip %=10
S49 High Turnover in 1 Day F&O	Client TO = 20 Lakhs & Scrip % = 2	Client TO = 20 Lakhs & Scrip % = 2
S73 Scenario for Small Order in Single Stocks	Small Order qty= <=5, Small order % = 90, Minimum order = 50, Exclude A Gr	Small Order qty<=2; small order %=75; Minimum Order=50; Exclude=A,F Gr
S102 Client Purchase to Income monthly	Client TO = 50 Lakhs & Income Multiplier = 4	Client TO = 50 Lakhs & Income Multiplier = 4
S104 Client Net Sell	Client TO = 70 Lakhs	Client TO = 70 Lakhs
S126 Profit Compare with Exchange Turnover	% of Sale TO = 5, % of Gain = 10	% of sale TO=25; % of Gain=10
S127 Loss Compare with Exchange Turnover	% of Sale TO = 5, % of Gain = 10	% of Sale TO = 5, % of Gain = 10
S145 High Turnover in 1 Day in Specific Scrip	Client TO = 5 Lakhs & Scrip % =5	Client TO=50000; Scrip %=10
S149 Speculation Profit Loss	Profit/Loss = 3 Lakhs	Profit/Loss = 3 Lakhs

Analysing and Processing of ALERTS:

In order to maintain the records of the transactional alerts received from the Exchanges, or the one generated at our end, And to analyze the trading activity of the Client(s)/Group of Client(s) or scripts identified based on above alerts, based on the type of Alerts, the following steps might be taken to review and dispose of the alerts:

1. KYC updation (to update latest Income and net worth)
2. Seek explanation from such identified Client(s)/Group of Client(s) for entering into such transactions.
3. Financial details of the client.
4. Past trading pattern of the clients/client group.
5. Seek documentary evidence such as bank statement/demat transaction statement or any other
6. Documents to satisfy itself
 - In case of Funds the Financial details of the client, Bank statements of the Client(s)/Group of Client(s) from which funds pay-in has been met, to be sought.



- In case of securities, Demat account statements of the Client(s)/Group of Client(s) from which securities pay-in has been met, to be sought.
 - The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the funds/securities for the settlement of such trades actually belongs to the client for whom the trades were transacted.
7. Other connected clients having common email/mobile number/address or any other linkages etc.
8. Other publicly available information

On receipt of the above information, after analyzing the reply and evidences, ISS shall record its observations for such identified transactions or Client(s)/Group of Client(s) and in case of any adverse findings/comments/suspicion are observed, the same shall be communicated to the Exchange or any other regulatory, As desired by the Exchange Or depository Or any Regulatory, As per the time specified by the them. In case analysis is taking time due to complexity, an extension may be sought to review the alert(s).

Policy communication

A copy of the approved policy shall be made available to Compliance officer, Head of RMS and CEO of ISS.

Monitoring and reporting

Generally, the person who is deposing alerts if find any doubt on the said alert (s) same would assigned to senior level and the compliance officer would be monitoring the policy from time to time based on the guidelines of Regulators, Internal controls and the requirements of the business to safe guard the system. Any

The MIS on the surveillance activities shall be put up to the Board

Review

This policy may be reviewed as and when any statutory authority introduces any changes or as and when it is found necessary to change the policy due to business needs.

The Director/Compliance Officer 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.

