

ESTEE ADVISORS PRIVATE LIMITED

POLICY FOR SURVEILLANCE

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. The fairness of the markets is closely linked to investor protection and, in particular, to the prevention of improper trading practices. This monitoring is required to analyse 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.

Background:

National Stock Exchange vide circular no. NSE/INVG/22908 dated March 7, 2013, intimated that the Exchange would be downloading the following alerts based on the trading activity of the client for facilitating the effective surveillance mechanism and directed the stock brokers to frame a surveillance policy for the same. The surveillance policy shall cover the maintenance and disposition of alerts received from exchanges/generated at our end.

Sr No	Transactional Alerts	Segment
1	Significant increase in client activity	Cash
2	Sudden trading activity in dormant account	Cash
3	Clients/Group of Client(s), deal in common scrips	Cash
4	Client(s)/Group of Client(s) is concentrated in a few illiquid scrips	Cash
5	Client(s)/Group of Client(s) dealing in scrip in minimum lot size	Cash
6	Client / Group of Client(s) Concentration in a scrip	Cash
7	Circular Trading	Cash
8	Pump and Dump (Pump-and-dump” involve the touting of a company’s stock (typically small, so-called “microcap” companies) through false and misleading statements to the marketplace.)	Cash
9	Wash Sales (A wash sale is trading activity in which shares of a security are sold at a loss and a substantially identical security is purchased)	Cash & Derivatives
10	Reversal of Trades	Cash & Derivatives
11	Front Running (Execution of orders in a security for its own account by the member while taking advantage of advance knowledge of orders from its customers)	Cash
12	Concentrated position in the Open Interest / High Turnover concentration	Derivatives
13	Order book spoofing i.e. large orders away from market	Cash

Terms used in this Policy:

Alerts: Referred as transactional alerts arising due to sudden significant increase in client activity, sudden trading activity in inactive/dormant accounts, clients/groups of clients dealer in common scrips, illiquid scrips, minimum lot size/or single scrip, large orders away from the market, concentrated position in the open interest/high turnover concentration, circular trading, pump and dump, wash sales, reversal of trades, front running.

Policy:

Transactional alerts

In accordance with the circular no.NSE/INVG/22908 dated March 7, 2013 issued by National Stock Exchange and in order to maintain the records of the transactional alerts received from exchanges or generated at our end, the following steps would be taken to review and dispose the alerts

1. Review the type of alert downloaded by exchange or generated at our end
2. Financial details of the client
3. Past trading pattern of the clients/client group
4. Bank/demat transaction details

5. Other connected clients having common email/mobile number/address or any other linkages etc.
6. Other publicly available information

On receipt of the above information, analyse the alerts generated and in case of any adverse findings/comments, the same shall be communicated to the Exchange within 45 days from the alert generation.

In case analysis is taking time due to complexity, an extension may be taken from the exchange to review the alert(s)

In order to have indepth analysis of the above transactional alerts, the following due diligence shall be taken:

Client(s) Information:

Due Diligence of client(s) would be done on a continuous basis. Client information should be updated at least once a year through periodic review. Financial information also needs to be updated for all active clients and the following relevant documents pertaining to financial details to be obtained from clients.

1. Copy of ITR Acknowledgement
2. Copy of Annual Accounts
3. Copy of Form 16 in case of salary income
4. Net worth certificate
5. Salary Slip
6. Bank account statement for last 6 months
7. Copy of demat account Holding statement.
8. Any other relevant documents substantiating ownership of assets.
9. Self declaration along with relevant supporting.

Addition/ Modification of any parameter (correspondence address, contact details, email id, bank and beneficiary accounts) relating to client should also be updated immediately in the UCI database of exchange and the same shall be updated in back office also.

Based on the above information/documents, identification of groups / association amongst clients to identify multiple accounts / common account / group of clients would be established.

Groups to be formed on the basis of details of family/ group/ associate provided by clients during their registration or at the time of periodic review and on the basis of any authorization submitted by the client for adjustment of their balances.

Analysis:

In order to analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified based on the alerts received from the Exchange, the following information shall be sought from clients:

- a. Seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions. Letter/ email to be sent to client asking the client to confirm that client has adhered to trading regulations and details may be sought pertaining to funds and securities and other trading pattern.
- b. Seek documentary evidence such as Bank Statement / Demat Transaction Statement or any other documents to support the statement provided by client.

1. In case of funds, Bank statements of the Client(s) / Group of Client(s) from where funds pay-in have been met, to be sought. Sources of funds in the bank statements to be verified. In case of securities, Demat account statements of the Client(s) / Group of Client(s) from where securities pay-in has been met, to be sought.

2. 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.

- c. After analyzing the documentary evidences, including the Bank / Demat statement, the observations shall be recorded for such identified transactions or Client(s) / Group of Client(s). In case of adverse observations, the same will be reported to the Exchange within 45 days of the alert generation. Extension of the time period from the Exchange will be sought, if required.

In case the client does not cooperate or does not revert within reasonable period, Exchange to be informed based on the information available with the member.

Monitoring and Reporting :

The surveillance process shall be conducted under overall supervision of its Compliance Officer and based on facts and circumstances, he / she is required to take adequate precaution.

Designated directors / partners / proprietor / Compliance Officer would be responsible for all surveillance activities carried out by the Trading Member and for the record maintenance and reporting of such activities.

A quarterly MIS shall be put up to the Board/Partners/Proprietor on the number of alerts pending at the beginning of the quarter, generated during the quarter, disposed off during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed and appropriate action would be taken. In case of any exception noticed during the disposition of alerts, the same shall be put up to the Board/Partners/Proprietor.

Internal auditor shall review this 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.

Review Policy:

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

In case of Individuals / Partnership Members: The policy may be reviewed by the Managing Partners / Sole proprietor

In case of Corporate Members : The policy may be reviewed by the Managing Director/CEO and place the changes in policy before the Board at the meeting first held after such changes are introduced.

Policy communication:

A copy of the approved policy shall be made available to Compliance officer, Head of risk and Head of Operations.

Disclaimer: Members are requested to make this policy more Comprehensive based on their business requirements and not to treat this as the full and final policy.

Members may also add reference circulars of any other exchange wherein they are registered.