

## NATIONAL STOCK EXCHANGE OF INDIA LIMITED

<b>DEPARTMENT : INVESTIGATION</b>	
Download Ref.No.: NSE/INVG/22908	Date : March 7, 2013
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All NSE Members

### **Sub : Surveillance Obligations for Trading Members**

In order to facilitate effective surveillance mechanisms at the Member level, the Exchange would download the below mentioned alerts based on the trading activity on the Exchange.

#### **Transactional Alerts to be provided by the Exchange:**

Sr. No.	Transactional Alerts	Segment
1	Significantly 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	Cash
9	Wash Sales	Cash & Derivatives
10	Reversal of Trades	Cash & Derivatives
11	Front Running	Cash
12	Concentrated position in the Open Interest / High Turnover concentration	Derivatives
13	Order book spoofing i.e. large orders away from market	Cash

The above transactional alerts are an indicative list. Trading Members may also formulate their own alerts in addition to the above mentioned type of alerts as per their surveillance policy.

The following activities are also required to be carried out by the Trading Members based on UCC parameters:

● **Client(s) Information:**

Trading Members are required to carry out the Due Diligence of its client(s) on a continuous basis. Further, Trading Members shall ensure that key KYC parameters 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 this information the Trading Member shall establish groups / association amongst clients to identify multiple accounts / common account / group of clients.

● **Analysis:**

In order to analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified based on above alerts, the Trading Member are required to :

a. Seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.

b. Seek documentary evidence such as bank statement / demat transaction statement or any other documents to satisfy itself.

1. In case of funds, Bank statements of the Client(s) / Group of Client(s) from which funds pay-in have 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.

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 Trading Member shall record its observations for such identified transactions or Client(s) / Group of Client(s). In case adverse observations are recorded, the Trading Member shall report all such instances to the Exchange within 45 days of the alert generation. The Trading Member may seek extension of the time period from the Exchange, wherever required.

● **Monitoring and reporting:**

1. For effective monitoring, Trading Member shall:

● Frame a surveillance policy covering:

i. Receipt of Alerts from Exchanges / generated at member's end.

ii. Time frame for disposition of alerts and if there is any delay in disposition, reason for

the same shall be documented.

- iii. Suspicious / Manipulative activity identification and reporting process
- iv. Record Maintenance

- The surveillance policy of the Trading Member shall be approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be.
- A quarterly MIS shall be put up to the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) 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 taken. Also, the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) shall be apprised of any exception noticed during the disposition of alerts.
- The surveillance process shall be conducted under overall supervision of its Compliance Officer.
- 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.

2. 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.

The above guidelines are illustrative and not exhaustive. Based on facts and circumstances, the trading members are required to exercise their independent judgment and take adequate precaution. The steps that the trading members need to follow in respect of the aforementioned alerts are attached at **Annexure**.

Trading Members are required to take a note of the above and put in place the required procedures, policies and processes after proper approvals of their relevant authorities latest by May 15, 2013.

The Exchange shall download these alerts to the Trading Members through Member Portal with effect from April 02, 2013. The Trading Members are requested to analyse these alerts and revert with their observations, if any, to the Exchange.

In case of any queries or clarifications, please contact the following officials: Ms. Yukti Sharma (022-26598228) or Ms. Shanti Idnani (022-26598418).

**For and on behalf of**

## National Stock Exchange of India Limited

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