

# SURVEILLANCE POLICY

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## 1. OBJECTIVE

The objective of this policy is to establish an effective market surveillance mechanism to ensure investor protection, safeguard the integrity of the markets, and monitor both trading activities and depository participant (DP) operations.

The purpose of surveillance is to identify adverse or suspicious situations in the markets and implement appropriate preventive measures to avoid market disruptions. The fairness of the markets is directly linked to investor protection, particularly through the prevention of improper trading practices and unauthorized depository activities. This monitoring process involves analyzing client trading patterns and demat account transactions to detect any intentional anomalies that could abnormally influence the market or violate regulatory frameworks.

## 2. BACKGROUND & REGULATORY SCOPE

This policy is formulated in compliance with the following regulatory directives:

- **Trading Member Obligations:** National Stock Exchange (NSE) Circular no. NSE/INVG/22908 and Bombay Stock Exchange (BSE) Circular no. 20130307-21 dated March 7, 2013, governing transactional alerts based on client trading activities.
- **Depository Participant (DP) Obligations:** CDSL Communiqué CDSL/OPS/DP/SYSTEM/2021/309 (Circular 309) dated July 15, 2021, mandating DPs to implement a robust surveillance framework based on the nature of business, type of clients, number of demat accounts, and volume of transactions.

## 3. TRANSACTIONAL ALERTS FRAMEWORK

Bullsmart monitors transactional alerts across both its **Trading Segment (Stockbroker)** and **Depository Participant (DP) Segment**.

### A. Trading Segment Alerts (Cash & Derivatives)

The following alerts are generated internally or received from the Stock Exchanges to identify potential market manipulation:

Sr. No.	Alert Type / Theme	Segment
1	Significant increase in client activity	Cash
2	Sudden trading activity in dormant account	Cash
3	Clients/Group of Clients dealing in common scrips	Cash
4	Clients/Group of Clients concentrated in a few illiquid scrips	Cash
5	Clients/Group of Clients dealing in scrips with minimum lot size	Cash
6	Client/Group of Clients concentration in a specific scrip	Cash
7	Circular Trading	Cash

8	Pump and Dump: Involves promoting a company's stock (typically small, 'microcap' companies) through false and misleading statements to manipulate the market.	Cash
9	Wash Sales: Trading activity where shares of a security are sold at a loss and a substantially identical security is repurchased.	Cash & Derivatives
10	Reversal of Trades	Cash & Derivatives
11	Front Running: Execution of orders in a security by the member for its own account, exploiting advance knowledge of customer orders.	Cash
12	Order Book Spoofing: Placing large orders away from the market to create a false impression of demand or supply.	Cash

#### B. Depository Participant (DP) Segment Alerts (CDSL Mandated)

In compliance with CDSL Circular 309, appropriate thresholds and parameters are implemented to generate and analyze patterns/trends for the following indicative DP themes:

Sr. No.	Indicative DP Themes / Alert Types
1.	<b>Multiple Demat Accounts:</b> Multiple accounts opened with the same demographic details (Same PAN, mobile number, email ID, bank account, or address) considering existing accounts held with the DP.
2.	<b>Bounced Communications:</b> Registered emails or letters sent to the client's address are repeatedly bounced.
3.	<b>Frequent Profile Changes:</b> Frequent alterations to crucial demat account fields such as address, email ID, mobile number, Authorized Signatory, or Power of Attorney (POA) holder.
4.	<b>Frequent Off-Market Transfers:</b> A high volume of off-market transfers executed by a client within a specified short period
5.	<b>Disproportionate Off-Market Transfers:</b> Off-market transfers that are completely non-commensurate with the declared income/net worth of the client.
6.	<b>Disproportionate Pledge Transactions:</b> Pledge transactions that are not commensurate with the declared income/net worth of the client.
7.	<b>High-Value Post-Modification Transfers:</b> High-value off-market transfers executed immediately after modifications are made to demat account details.
8.	<b>Suspicious Transfer Rationale:</b> Client rationales for off-market transfers that do not align with their profile (e.g., "Gifts with consideration", frequent gifts/donations to unrelated parties, or frequent off-market sales).
9.	<b>High-Activity New Accounts:</b> Newly opened demat accounts showing a sudden spike in transaction velocity in a short span, followed by a sudden zero balance or the account turning completely dormant.
10.	<b>Market Manipulation Detection:</b> Any other alerts or internal mechanisms deployed to prevent and detect market manipulation activities carried out by clients.

#### 4. REVIEW, DISPOSAL, AND REPORTING TIMELINES

Bullsmart maintains a comprehensive register (electronic/physical) to track the generation, review, and disposal of all internal and regulator-provided alerts.

##### A. Disposition Timelines

- **Stock Exchange / Trading Alerts:** Reviewed and analyzed internally. If adverse findings or suspicious activities are identified, they must be reported to the exchange within **45 days** of alert generation.
- **CDSL / DP Segment Alerts:** All transactional alerts provided by CDSL or generated internally at the DP end must be reviewed and disposed of within **30 days** from the date of generation.

#### **B. Reporting Timelines for DP Adverse Findings**

- **CDSL System Alerts:** Status updates (Verified & Closed / Verified & Reported to Depository) along with actions taken must be updated within **30 days**.
- **DP Internal Alerts:** Instances with adverse observations, along with details of action taken, must be reported to CDSL within **7 days** of the date of identification of the adverse observation.
- **Delays:** If a complex case requires more time for review, the explicit reasons for the delay in the disposition of the alert must be formally documented.

### **5. TERMS USED IN THIS POLICY**

#### **Alerts**

Refers to transactional alerts triggered by sudden and significant increases in client activity, unexpected trading in inactive or dormant accounts, or trading by clients/groups of clients dealing in common scrips. This also includes alerts for activities involving illiquid scrips, minimum lot sizes or single scrip trades, large orders placed away from the market price, concentrated positions in open interest or high turnover concentration, as well as patterns indicative of circular trading, pump and dump schemes, wash sales, trade reversals, and front running.

#### **Transactional Alerts**

In accordance with circular no. NSE/INVG/22908 dated March 7, 2013, issued by the National Stock Exchange, and circular no. 20130307-21 dated March 7, 2013, issued by the Bombay Stock Exchange, Bullsmart will maintain records of transactional alerts received from exchanges or generated internally. The following steps will be taken to review and address these alerts:

- Review the type of alert downloaded by exchange or generated at our end
- Financial details of the client.
- Past trading pattern of the clients/client group.
- Bank/demat transaction details.
- Other connected clients having common email/mobile number/address or any other linkages etc.
- Other publicly available information.

Upon receiving the necessary information, the alerts will be thoroughly analyzed. If any adverse findings or suspicious activities are identified, they will be reported to the exchange within 45 days of alert generation. In cases where the analysis requires more time due to complexity, Bullsmart may seek an extension from the exchange for further review.

To ensure a comprehensive evaluation of transactional alerts, the following due diligence measures will be undertaken.

## 6. CLIENT INFORMATION AND DUE DILIGENCE

Ongoing due diligence is mandatory to ensure key KYC parameters are precise and aligned with regulatory requirements.

### A. Periodic Updates

- Client details must be reviewed and updated at least once a year through periodic assessments.
- Latest information must be updated promptly in the Depository System and the Exchange's UCI database (such as correspondence address, contact details, email ID, bank accounts, or beneficiary accounts).

### B. Financial Document Collection

Financial information will be updated regularly for all active clients by obtaining the following valid supporting documents:

- Copy of ITR Acknowledgement / Form 16
- Copy of Annual Accounts / Net worth certificate
- Salary Slip / Bank account statements for the last 6 months
- Copy of demat account holding statement
- Self-declaration along with relevant asset ownership proofs

### C. Analysis and Verification Process

When an alert is flagged, the surveillance team will execute the following verification steps:

1. **Seek Explanation:** Request a formal explanation/confirmation from the client/client group regarding the flagged transactions, alongside transaction rationales.
2. **Verify Fund & Securities Flow:**
  - Collect and analyze bank statements to verify the origin and pay-in sources of funds.
  - Obtain and review demat statements covering a period of **at least 15 days** from the transaction date to confirm the genuine ownership and settlement source of securities.
3. **Cross-Verify Profile:** Evaluate whether the transaction rationale, value, or pledge matches the declared income/net worth profile of the client.
4. **Identify Associations:** Form client groups based on registration data, common links (email, mobile, address, or POA), or balance adjustment authorizations to identify coordinated market activities.
5. **Non-Cooperation:** If the client fails to respond or cooperate within a reasonable time frame, the matter will be reported to the Exchange/Depository based on available data.

## 7. GOVERNANCE, MONITORING, AND REPORTING

### A. Compliance Officer's Responsibilities

- The entire surveillance framework operates under the direct supervision of the Compliance Officer.

- The Compliance Officer ensures independent judgment is exercised, records are safely retained for the legally stipulated period, and actions align with the Prevention of Money Laundering Act (PMLA) obligations.

#### **B. Quarterly Management Information System (MIS) to the Board**

A quarterly surveillance MIS must be prepared and placed before the Designated Director / Board of Directors within 15 days from the end of each quarter. The MIS will account for:

- Alerts pending at the beginning of the quarter.
- New alerts generated during the quarter.
- Alerts processed, resolved, and closed during the quarter. Alerts reported to the Exchanges or Depository (CDSL).
- Alerts pending at the end of the quarter, including explicit reasons for pendency and an action plan for closure.
- Any exceptional or major surveillance actions/non-compliance noticed during the disposal process.

#### **C. Quarterly Reporting to CDSL**

Bullsmart will submit the duly approved status of DP alerts in the prescribed format to CDSL within 15 days from the end of each quarter. If there are no alerts to report, a 'NIL Report' will be electronically submitted within the same 15-day deadline.

#### **D. Internal and Concurrent Audit**

- The Internal / Concurrent Auditor will review the surveillance policy, its actual field implementation, and its overall efficacy.
- The auditor will verify that the Quarterly Surveillance MIS is being regularly prepared and presented to the Board.
- All audit observations and sample checks on alerts during the audit period will be documented explicitly in the internal audit report.

### **8. SUSPICIOUS TRANSACTION REPORTING (STR) PROCESS**

Suspicious transactions or trades (STR) are managed systematically via an automated, vendor-based system using pre-defined thresholds.

1. **Alert Generation & Analysis:** Alerts are triggered automatically based on preset parameters and scrutinized by the analysis team.
2. **STR Draft Preparation:** If a transaction remains suspicious post-review, an STR draft is collated containing client KYC details, comprehensive investigation findings, and grounds for suspicion.
3. **Compliance Approval:** The STR draft is forwarded to the Compliance Officer for approval within **7 days** of identifying the suspicious transaction or trade.
4. **Filing:** Once approved, the STR is digitally signed and safely submitted by the Principal Officer through the official **FIU Portal**.

## 9. DISCIPLINARY ACTIONS AND PENALTIES

Non-fulfillment of surveillance obligations, delayed processing of alerts (internal or exchange/CDSL provided), or failure to submit quarterly reports to CDSL within 15 days can result in the following actions:

- Levying of financial penalties by CDSL for late or non-submission of quarterly data.
- Disciplinary action initiated during CDSL/Regulator audits and inspections.
- Further strict administrative or disciplinary actions in accordance with Depository Bye-laws and Operating Instructions, without precluding any independent enforcement action by SEBI.

## 10. POLICY REVIEW & COMMUNICATION

- **Approval Authority:** This policy is approved by the Board of Directors of Bullsmart.
- **Annual Review:** This surveillance policy will be reviewed **at least once a year** to ensure it remains aligned with evolving business needs, or whenever changes are introduced by statutory authorities (SEBI, Exchanges, or CDSL).
- **Communication:** A copy of this approved policy will be officially communicated to the Compliance Officer, the operations team, and the Internal/Concurrent Auditors for immediate reference and strict compliance.