

# SURVILIENCE POLICY

**Effective Date:** As per SEBI Circular | **Classification:** Mandatory Compliance | **Applies to:** All Trading Clients

## 1. OBJECTIVE

The objective of this policy is to establish an effective market surveillance mechanism to ensure investor protection and safeguard the integrity of the markets. The purpose of surveillance is to identify adverse 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. This monitoring process involves analyzing client trading patterns to detect any intentional transactions (buying/selling) that could abnormally influence the price and/or volume of any security, which would contradict the fundamental objectives of the securities market.

## 2. BACKGROUND

The National Stock Exchange, through circular no. NSE/INVG/22908 dated March 7, 2013, and the Bombay Stock Exchange, through circular no. 20130307-21 dated March 7, 2013, announced that the exchanges would be providing alerts based on client trading activities to facilitate an effective surveillance mechanism. Accordingly, stockbrokers were directed to implement a surveillance policy covering the maintenance and disposition of alerts received from the exchanges or generated internally by Bullsmart.

### Transactional Alerts – Segment-wise

Sr. No.	Sr. No.	Sr. No.
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

### 3. 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.

### 4. CLIENT INFORMATION AND DUE DILIGENCE

Ongoing due diligence of client(s) will be conducted to ensure the accuracy and relevance of their information. Client details must be reviewed and updated at least once a year through periodic assessments. Financial information will also be refreshed regularly for all active clients, with the following relevant documents obtained:

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

**Updating Client Details:**

Any changes to client parameters (e.g., correspondence address, contact details, email ID, bank accounts, or beneficiary accounts) must be promptly reflected in the UCI database of the exchange. The same updates will be recorded in Bullsmart's back-office system.

**Identifying Client Associations**

Based on the collected data, Bullsmart will identify potential client groups or to detect multiple, common, or linked accounts.

**Grouping Criteria:**

Client groups will be formed using information provided during registration, periodic reviews, or based on client authorizations for balance adjustments.

**Analysis and Verification Process**

- To effectively analyze the trading activities of client(s), group(s) of clients, or specific scrips identified through alerts received from the exchange, Bullsmart will undertake the following measures:

**Client Communication and Explanation:**

- Seek an explanation from the identified client(s) or group(s) of clients regarding the flagged transactions.
- Send a formal letter or email requesting the client(s) to confirm adherence to trading regulations.
- Request relevant details pertaining to funds, securities, and trading patterns.

**Documentary Evidence Collection:**

- Obtain supporting documents such as bank statements, demat transaction statements, or any other records that verify the client's claims.

**For fund-related verification**

- Collect bank statements from the client(s) or group(s) of clients showing the pay-in sources.
- Verify the origin of funds mentioned in the statements.

**For securities-related verification**

- Obtain demat account statements from the client(s) or group(s) of clients reflecting the securities pay-in sources.

Review statements covering a period of at least  $\pm 15$  days from the transaction date to confirm whether the funds or securities used for settlement genuinely belong to the respective client(s).

**Recording and Reporting Observations**

- Upon analyzing the documentary evidence, record the observations related to the flagged transactions or client(s)/group(s) involved.
- In case of adverse findings, report the observations to the exchange within 45 days of alert generation.

- If the review requires additional time due to complexity, Bullsmart will request an extension from the exchange.

**Non-Cooperation by Client(s):**

If the client(s) fail to cooperate or do not respond within a reasonable period, Bullsmart will report the matter to the exchange based on the available information.

**5. MONITORING AND REPORTING PROCEDURES**

The surveillance process will be conducted under the overall supervision of the Compliance Officer, who will take necessary precautions based on the facts and circumstances of each case.

**6. COMPLIANCE OFFICER'S RESPONSIBILITIES**

- The Compliance Officer will oversee all surveillance activities performed by the trading member.
- They will be responsible for maintaining records and reporting the outcomes of such activities.

**7. QUARTERLY REVIEW AND REPORTING**

- A quarterly review will be conducted by the Designated Director to assess the status of alerts, including:
  - Alerts pending at the beginning of the quarter.
  - Alerts generated during the quarter.
  - Alerts resolved during the quarter.
  - Alerts still pending at the end of the quarter.

Any reasons for pending alerts will be discussed, and appropriate action will be taken. In the event of any exceptional cases identified during the alert disposition process, the matter will be escalated to the Board of Directors.

**8. INTERNAL AUDIT AND EVALUATION**

- The Internal Auditor will review this policy, its implementation, and its overall effectiveness.
- The auditor will also examine the alerts generated during the audit period.
- All observations related to the surveillance process will be documented in the internal audit report.

**9. SUSPICIOUS TRANSACTION REPORTING (STR) PROCESS FLOW**

A structured process is followed for identifying and reporting suspicious transactions or trades (STR) through its vendor-based system (xxx), using pre-defined thresholds and parameters. The process involves the following steps:

**10. ALERT GENERATION AND ANALYSIS**

Alerts are automatically generated by the xxx system based on pre-set thresholds and parameters. Each alert is thoroughly analyzed, and appropriate actions are taken based on the findings.

**11. STR DRAFT PREPARATION**

- If a suspicious transaction or trade is detected, an STR draft is prepared.
- The draft includes:
  - Client KYC details

- Investigation findings
- Grounds for suspicion

**12. COMPLIANCE OFFICER APPROVAL**

The STR draft is submitted to the Compliance Officer for approval within 7 days of identifying the suspicious transaction or trade.

**13. FILING ON FIU PORTAL**

Once approved, the STR is digitally signed by the Principal Officer.

**14. APPROVAL AUTHORITY**

This policy has been approved by the Board of Directors of Bullsmart.

**15. POLICY REVIEW**

This policy will be reviewed periodically, specifically:

- Whenever changes are introduced by any statutory authority.
- Whenever modifications are deemed necessary due to evolving business needs.

**16. POLICY COMMUNICATION**

A copy of the approved policy will be made available to the Compliance Officer for reference and implementation.