

SURVEILLANCE POLICY FOR DP OPERATIONS

Sr. No.	Version	Policy made On:	Policy approved On:	Policy Created by:	Policy Reviewed by:
1.	V1.3	12/01/2024	13/01/2024	Compliance Officer	Compliance Head
2.	V 1.4	-	15/01/2025	Compliance Officer	Compliance Head
3.	V 1.5	-	11/09/2026	Compliance Officer	Compliance Head

Objective:

The objective of this policy is to have in place an effective 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 transactions of the clients in order to observe whether any transaction (receipt / withdrawal) is being done in a manner which will have an abnormal effect on the Securities Market.

ARJ Securities Pvt. Ltd. the Depository Participant has made this Surveillance Policy for enhancing the controls and for generation and resolution of alerts on the various transactions. The policy has been approved by the Board of Directors. The Compliance Office will be responsible for its proper implementation, review on periodical basis and make further changes as may be required to keep it in line with the market trends. This policy is made to facilitate effective surveillance mechanisms at **ARJ Securities Pvt. Ltd.**

Depositories to provide the alerts based on the transactions done in the Depository. The alerts received from the depository will be analysed and **ARJ Securities Pvt. Ltd.** will seek client information and documentary evidence as may be required for closing the alert. The surveillance policy, SOP and alert parameters shall be reviewed once in a year by the compliance officer so as to incorporate the changes as may be required for keeping the policy updated and in line with the market trends.

The policy is framed in accordance with the provisions of SEBI Circular No. SEBI/HO/ISD/ISD/CIR/P/2021/22 dated 01.03.2021, and CDSL communique No. CDSL/OPS/DP/SYSTM/2021/309 dated 15.07.2021. Amendments Brought by Communique No. CDSL/OPS/DP/SYSTM/2024/341 June 20, 2024 Surveillance Obligation of Depository Participant and Amendment in Quarterly Reporting Format included in the policy.

A. Following are the transactional alerts covered in surveillance:

No.	Transactional Alerts
1.	Multiple demat accounts opened with the same demographic details like same PAN/ mobile number/ email ID/ bank account number/ address considering the existing demat accounts held

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No.	Transactional Alerts
2.	Communication (emails/ letters) at registered email ID / address of client getting bounced /
3.	Frequent changes in demat account details such as address, email ID, mobile number, authorised signatory POA holder, etc.
4.	Frequent off market transfers by the client during a specified period
5.	Off-market transactions 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.	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.	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
10.	Any other type of market manipulation activity carried out

The above transactional alerts list can be modified to add any other type of alerts as and when required.

DP shall analyze and review the alerts generated based on the facts and verification of relevant documents including income/ net worth as provided by the BO and exercise their independent judgement and take appropriate action in order to detect any abnormal or suspicious transactions

Client(s) Information:

To carry out the Due Diligence of the client(s) on continuous basis. Further, to ensure that key KYC parameters are updated on a periodic basis as prescribed by SEBI and latest information of the active client is updated in Depository system. Addition/ Modification of any parameters (correspondence address, contact details, email id, bank details, etc.) relating to client should also be updated immediately in the database of depository and the same shall be updated in back office also, to establish groups/ association amongst clients to identify multiple accounts/ common account/ group of clients.

Analysis:

To analyse the trading activity of the Client(s) / Group of Client(s) or scripts identified based on above alerts:

- a) Seek explanation from such identified Client(s)/ Group of Client(s) for entering into such transactions.
- b) (1) Seek documentary evidence such as bank statement/ demat transaction statement / gift deed

/ debit note / credit note or any other documents to determine the Genuity of the transaction. Demat account statements of the Client(s)/ Group of Client(s) from which securities pay-in / transfer has been met, to be sought, if required. (2) The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the securities for the settlement of such trades actually belongs to the client for whom the trades were transacted.

- c) After analysing the documentary evidences, the DP shall record its observations for such identified transactions or Client(s)/ Group of Client(s). In case adverse observation is recorded, the DP shall report all such instances to the Depository within 45 days of the alert generation. The DP may seek extension of the time period from the Depository, wherever required.

Record Maintenance:

ARJ Securities Pvt. Ltd. shall maintain records for such period as is prescribed under PMLA (Maintenance of Records) Rules, 2005, and Securities Contracts (Regulation) Rules, 1957, SEBI (Depository and Participants) Regulations, 1996, DP Operating Instructions and any other directions as may be issued by SEBI/ Stock Exchanges require the records to be maintained for a minimum period of **8 (Eight)** years.

Monitoring and Reporting:

Following is the procedures to be adopted in case of any alert being received either from depositories or alert being generated at our end:

- a. To review the alerts based on
 - a) Type of alert downloaded from the Depositories
 - b) Financial details of the client
 - c) Past Trading pattern of the clients/ client group
 - d) Demat transaction details (The period for such statements may be at least +/- 15 days from the date of transactions)
 - e) Other connected clients in DPs records (common email/ mobile number/ address, other linkages, etc.)
 - f) Other publicly available information.

If any concern is seen post inquiry/ receipt of explanation from client, we have to forward the alerts to the

Depositories with client comments and any documents deemed relevant.

- b. Within 45 days of the alert generation. The extension of the time period can be sought from Depositories in case wherever additional time is required the reason for the same shall be documented.

- c. A Register for recording the alerts has to be maintained which shall record the following: Time frame for disposition of alerts, the findings, in case if any delay is found in disposition then the reason for the delay should also be noted, etc.
- d. A quarterly MIS shall be put to the Board of Directors, updating on the alerts pending at the beginning of the quarter, alerts 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 of Directors shall be apprised of any exception noticed during disposition of alerts.

The surveillance process shall be conducted under overall supervision of the Compliance Officer/ Designated Director and record maintenance and reporting of such activities

Internal auditor of **ARJ Securities Pvt. Ltd.** 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.

Obligation of Depository Participants to frame Surveillance Policy.

- I. DPs shall frame a surveillance policy based on nature of DP business (i.e., Bank, Stockbroker, Custodian etc.), type of clients, number of demat accounts, number of transactions etc. and which shall, inter alia, cover the following:
- II. Generation of suitable surveillance alerts which may be guided by indicative themes (the list is inclusive and not exhaustive) .
- III. Review and disposal of transactional alerts provided by CDSL (Transactional alerts provided by CDSL will be based on some thresholds. DPs may have their own different thresholds or own parameters to generate additional alerts of their own in point I above, so as to detect any suspicious transaction activity).
- IV. Disposal of alerts within 30 days from the date of alerts generated at DP end and alerts provided by CDSL.
- V. Reporting to CDSL and other authorities as applicable, in case of any abnormal activity
- VI. Documentation of reasons for delay, if any, in disposition of alerts.
- VII. Framework of appropriate actions that can be taken by the Participant as per obligations under Prevention of Money Laundering Act (PMLA)
- VIII. Record maintenance for the period as stipulated under applicable statutes
- IX. The surveillance policy of the DPs shall be reviewed once in a year.
- X. The surveillance process shall be conducted under overall supervision of the Compliance Officer/ Designated Director.

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Internal auditor 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.

Other obligations:

- Maintain register (electronic/physical) for recording of all alerts generated.
- While reviewing alerts, DP shall obtain transaction rationale, verify demat statement and also obtain supporting documents as required from the client
- After verifying the documentary evidences, record observations for such identified transactions of its Client.
- With respect to the transactional alerts provided by Depository, DP shall ensure that all alerts are reviewed, and status thereof (Verified & Closed / Verified & Reported to Depository) including action taken is updated within 30 days.
- With respect to the alerts generated at the DP end, report instances with adverse observation, along with details of action taken, to CDSL within 7 days of the date of identification of adverse observation.
- In case there are no adverse observations, the alert would be closed after recording the reason for arriving at such conclusion

REPORTING OF STATUS OF THE ALERTS:

The ARJ will duly provide the approved status of the alerts on a quarterly basis to the Exchange/Depository within 15 days from the end of the quarter in the following format:

BROKING:

TABLE A: Status of Alerts generated by the Trading Member:

Name of the Alert	No. of alerts under process at the beginning of the Quarter	No. of new alerts generated in the quarter	No. of Alerts verified & closed in the quarter	No. of Alerts referred to Exchange	No. of alerts pending/under process at the end of quarter

TABLE B: Details of alerts referred to the Exchange

Sr. No.	Date of Alert	Type of Alert	Brief observation and details of action taken	Date referred to Exchange

TABLE C: Details of any major surveillance action taken (other than alerts referred to Exchange/Depository), if any, during the quarter:

Sr. No.	Brief action taken during the quarter

DEPOSITORY:

TABLE A: Status of Alerts generated by the Depository:

Name of the Alert	No. of alerts under process at the beginning of the Quarter	No. of new alerts generated in the quarter	No. of Alerts verified & closed in the quarter	No. of Alerts referred to Depository	No. of alerts pending/under process at the end of quarter

TABLE B: Details of any major surveillance action taken (other than alerts reported to Depository), if any, during the quarter:

Sr. No.	Brief action taken during the quarter

Table C : Quarterly reporting of status of the alerts generated by DPs:

Name of Alert	No. of alerts pending at the beginning of quarter (A)	No. of new alerts generated in the quarter (B)	Total No. of alerts (C=A+B)	No. of alerts Verified & closed in the quarter (D)	No. of alerts pending process at the end of quarter (E=C-D)	Ageing analysis of the alerts pending at the end of the Quarter (since alert generation date) (Segregation of E column)					Reason for Pendency #
						<1 month	1-2 months	2-3 months	3-6 months	>6 months	

The ARJ will submit “NIL” report to the Exchange/ Depository within 15 days from the end of quarter if it has nothing to report.

CONCLUSION:

The above guidelines are illustrative and not exhaustive. Based on facts and circumstances, ARJ will exercise their independent judgment and take adequate precaution. Further the clauses of this policy are subjected to change with the periodic updation in the ARJ.