

**LOTUSDEW**  
**SURVEILLANCE POLICY**

**I. Exchange alerts**

Unusual trading activity: Client(s)/Group of Client(s) who have been dealing in small quantities/value suddenly significantly increase their activity over a period of time say fortnight/month/quarter and this increases by certain threshold limit of more than 50% as compared to the earlier period of same duration, we have review and conduct an analysis on parameters such as;

1. Whether such volume is justified give the background of the client and his past trading activity.
2. Amount of funds that was brought in by the Client(s)/Group of Client(s) for the purchases made during the period.
3. Whether such inflow of funds is in line with the financial status of the client.
4. Whether the transactions of such Client(s)/Group of Client(s) are contributing to concentration or impacting the price and or volumes.

**2. Sudden trading activity in dormant accounts-** An inactive client resumes trading starts/resumes trading and additionally the client start trading illiquid stocks or low market capitalized scrips or enters into huge transactions not to commensurate with the financial strength of the client, we have to review and examine the following;

1. Reasons for trading in such scrips/contracts.
2. Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices.
3. Whether there is any concerted attempt by a Client(s)/Group of Client(s) to indulge in movement of profit/loss from one client to another account.

**3. Clients/Group of Client(s), deal in common scrips/contracts contributing significant to the volume of the scrip/contract at the Trading Member level and at the stock exchange level.** We need to review and examine the following;

1. Reasons for trading in such scrips/contracts.
2. Whether there is any concerted attempt by to impact the prices.
3. Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.

**4. Activity of Client(s)/Group of Client(s) is concentrated in a few illiquid scrips/contracts or there is a sudden activity by Client(s)/Group of Client(s) in illiquid securities/contracts manifested in terms of volume as compared to the volume of the exchange or that of the Trading Member.**

We need to review and examine the following;

1. Reasons for trading in such scrips/contracts.

2. Whether there is any concerted attempt to impact the prices.
3. Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.

**5. Client(s)/Group of Client(s) dealing in scrip in quantity of one share or trade in minimum lot size.**

We need to review and examine the following

1. Reasons for such trading behavior.
2. Trading pattern and repeated instances.

**6. In accordance to the list of illiquid scrips/contracts provided by exchanges, we need to review and examine the following;**

1. Whether there trading is sudden trading
2. Whether there is any concerted attempt to impact the prices of such scrips/contracts.
3. Whether there is any concerted attempt to indulge in movement of profit/loss from one client to another.
4. Probable matching of transactions with another client.
5. Apparent loss booking transactions in illiquid contract/securities
6. Whether the transactions of are contributing to concentration or impacting the price.

**7. Circular Trading:**

1. Continuous trading of client/group of clients in particular scrip over a period of time.
2. Client/group of clients contributing significant volume (broker and exchange level) in a particular scrip – especially illiquid scrip and /or illiquid contracts
3. Possible matching of trades with a specific group of clients (like same trade number on both buy and sell side of a member and/or immediate execution of order in illiquid scrip etc.)
4. Possible reversal of trades with the same group of clients (like same trade number on both buy and sell side of a member and/or immediate execution of order in illiquid scrip)

**8. Pump and Dump:**

1. Activity concentrated in illiquid scrips/contracts.
2. Sudden activity in illiquid securities/contracts.
3. Percentage of activity to total market in the scrip/contract is high.
4. Trades being executed at prices significantly away from the market and later on squaring off to earn significant profits.

**9. Wash Sales or Reversal of Trades:**

1. Same Client) on both sides of the transaction. (i.e. same trade number on both the buy and sell side with us)



2. Reversal of transactions by same Client(s) or within same Group of Client(s) at significantly different trade prices within a short period of time says 3-4 days.

3. One client makes significant profit and other suffers a loss or apparent loss booking transactions in illiquid contract/securities including options

#### **10. Front Running:**

1. Trading, by Client employees, ahead of large buy/sell transactions and subsequent square off has to be identified and such transactions have to be reviewed for determining front running

2. There is a consistent pattern of Client employees trading ahead of large buy/sell transactions.

#### **11. Concentrated position in the Open Interest/high turnover concentration:**

1. Client having significant position in the total open interest of a particular scrip.

2. Client not reducing/closing their positions in spite of the scrip being in ban period.

3. Client activity accounts for a significant percentage of the total trading in the contract/securities at member and exchange level.

4. Monitor the trading pattern of Client(s) who have Open Interest positions/concentration greater than equal to the thresholds prescribed.

#### **12. Order book spoofing i.e. large orders away from market :**

1. Consistent placement of large orders significantly away from the market with low trade to order trade ratio or cancelling orders within seconds after placing them thereby creating a false impression of depth in a particular scrip/contract.

2. Repeated pattern of placement of large buy orders which are away from the market price and simultaneous placement of sell orders to benefit from price rise or vice-versa.

## **II. IN-HOUSE ALERTS**

**1) CASH Excess Volume (more than 5% of market volume) (equity segment)** Trades in equity segment contributing to more than 5% of the exchange volume shall be generated.

1. The records so generated shall be analysed vis-a vis exchange volume, repeated days of the trading and price volatility, company financials etc.

2. In case of any repeated days of trading, contributing to significant exchange volumes and or price volatility or concentrated trading among selective group of client is observed, then in such instances after analysis appropriate steps shall be taken.

**2) Illiquid scrip (equity segment)** Trades in equity segment for the illiquid scrips (which have been identified as illiquid by exchange) shall be generated.

1. The records so generated shall be compared visa vis. exchange volumes, repeated days of trading, price volatility in the scrip.

2. Additionally the financials of the company shall also be analyzed to ascertain whether the trading volumes and price movements are justified.



**3) F&O Profit/Loss & Futures Rate Fluctuation (equity derivatives)** Trades in equity derivatives for the above referred parameter which shall be generated in case of clients executing trades at price above 20% of the previous closing price and or incurring huge profits or losses are generated.

1. For the records generated under this alert shall be evaluated in case of any un-usual pattern clarification from the client shall be sought.

**4) F&O Excess Volume (more than 5% of market volume) (equity and commodity derivatives)** Trades in derivatives and commodity derivative shall be generated in trades which are more than 5% of market volumes

1. For the records generated under this alert shall be evaluated visa-vis the strike price, maturity date of the contract, type of derivative contract, underlying etc shall be analyzed and evaluated.

2. In case if the name of any new client appears in this report and / or the name of the client comes again in the report after a period of 15 days to one month, then compliance team shall inform about the said trade details to the RMS team.

3. Thereafter RMS team shall do the trade/ledger confirmation with the end client and accordingly updates the compliance team.

**5) Matching of Trades – all segments (equities and commodities)** The trades which get matched (applicable for all segments) at member level and or client level are generated under this alert.

1. The records so generated, comparison shall be done to ascertain whether they have been carried out from the same trading terminal or same location or for group of same family codes.

2. In case of illiquid scrip/contracts or significant volumes or price volatility observed, explanation shall be sought and or warning shall be issued to the client.

### **III. ADDITIONAL MONITORING**

1. Not allowing trades of entities which are banned by SEBI/Exchange/other regulators. This database shall verified by the KYC team before client account is activated.

2. Trading is allowed to commence only after execution of the client registration form and all the mandatory Unique Client Code (UCC) parameters such as Name, Address, PAN No. etc., have been uploaded by us to the Exchange portal.

3. Likewise, demat account numbers are provided to the demat account holders only after obtaining the Client registration forms and activating the same into the DP system.

4. Clients who have debit balance in their ledgers continuously for a certain period of time or who default in making payment/delivery. This is monitored by our RMS team who dedicated does follow up with the clients and also restricts from further trading.

5. Bulk deals have been disclosed/reported; illiquid scrips/contract or derivatives scrips which are in ban period. Trading activity in such scrips may be analyzed for Client.

We need to correlate the transactional alerts with the information of client(s) available with them. The correlation of alerts with information of Client(s)/Group of Client(s) would help Trading Members to identify, mitigate and manage such transactions as well as minimizing business risk.

#### **IV. ANALYSIS**

In order to analyze the trading activity of the Client scrips identified based on above alerts, we can do the following:-

1. Shortlist Client for further analysis.
2. Seek explanation from such identified Client
3. Seek documentary evidence such as bank statement/demat transaction statements of last 6 months to 12 months period, to satisfy itself.
4. On the basis of information received from the client and after proper evaluation and analysis, we decide our steps for suspending code and or the scrip from further trading.

#### **V. REPORTING**

All action/analysis with respect the alerts generated should be completed within a reasonable time frame

The surveillance process to be conducted under overall supervision of its Compliance Officer/Principal Officer.

Principal Officer under the PMLA directives/ Compliance Officer of the Company and their team would be to be responsible for all surveillance activities carried out for the record maintenance and reporting of such activities under the supervision of the Designated Director.

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.

This policy would be made available to the internal auditors and regulators during the course of audits or as and when demanded.