

SW CAPITAL PRIVATE LIMITED

POLICIES AND PROCEDURES SURVEILLANCE POLICY

Exchange(s) has/have notified to all its members to make policy on Surveillance Obligations of Trading Members in order to facilitate effective surveillance mechanisms at the Member level, the Exchange has facilitated to download the below mentioned alerts based on the trading activity of the client.

Transactional Alerts to be provided by the Exchange(s):

1. Significantly increase in client activity(Cash Segment):

This alert shall be generated, if the client(s) or group of clients traded turnover significantly increases from its turnover in last month. On receipt of such alerts, the member shall verify the following:

- Check Ledger statement of the client to verify the client has met timely his pay-in obligation or not
- The fund/securities received from the client, from his registered Bank/DP A/c only
- The traded turnover is in the line with his financial position declared by the client.
- If the aforesaid turnover is not in the line with the client(s) financial position recorded with the member, then member shall ask from the client to submit his latest financial statement along with declaration in specified format.
- The client shall declare his financial sources for the aforesaid trades. If the client has taken financial assistance from the Financial Institution(s) or Bank(s) or any other means, he shall disclose it to the member along with its full details.

2. Sudden trading activity in dormant account (Cash Segment):

If the client has not executed trades in a year, then his trading account shall be treated as dormant account. If the client wants to execute trades in his account, he shall do the necessary formalities to reactivate his trading account, and then, he shall be allowed to trade. Further, if the aforesaid alert received from the exchange, the member shall ask from the client to give reason for sudden trading activity and documentary evidence of the latest financial position of the client. The client shall submit declaration in specified format. The client shall submit the documents/details asked by the member within the specified period stated in the notice/e-mail issued/send to the client.

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3. Clients/Group of Client(s), deal in common scrips (Cash Segment):

- On receipt of the aforesaid alerts, the member broker shall ask from the client(s), the reason for executing trades in the scrip(s).
- The client shall declare that he is not associated with the company or its management
- If he is associated, then he shall disclose the type of relation/association he has with the company, in writing along with the documentary evidence.
- The client shall declare that he is not indulged in insider trading or fraudulent trade or unfair trade practice(s).
- The client shall declare that he is not using his trading account to manipulate the market or to channelize unauthorized funds in the market.
- All the aforesaid details/documents shall be submitted by the client with the member broker.

4. Client(s)/Group of Client(s) is concentrated in a few illiquid Scrips (Cash Segment):

- On receipt of the aforesaid alerts, the member broker shall ask from the client(s), the reason for executing trades in the scrip(s) by them.
- The client shall declare that he shall not be associated with the company in to which he is traded or the management thereof, directly or indirectly.
- If he is associated, then he shall declare the type of relation/association with the company he has with the company, in writing.
- The client shall declare that he is not indulged in insider trading or fraudulent trading or unfair trade practice(s).
- The client shall declare that he is not using his trading account to manipulate the market or to channelize unauthorized funds in the market.
- The member broker shall verify the fund/securities received from the client, from his registered Bank/DP A/c only.
- If the aforesaid turnover is not in the line with the client(s) financial position recorded with the member, then member shall ask from the client to give reason for such increase in his trades.
- The client shall declare his financial sources for the aforesaid trades. If the client has taken financial assistance from the Financial Institution(s) or Bank(s) or any other means, he shall disclose it to the member along with its full details. The client shall submit the bank statement for the specified period, to the member broker..

5. Client(s)/Group of Client(s) dealing in scrip in minimum quantity size (Cash Segment):

- The trading member shall ask reason from the client for executing trades in the scrip in such manner.
- The client shall also declare his relation with the clients traded in the security, if any.
- The client shall undertake that he is indulged in unfair trade practices or circular trading or the like manner.
- On receipt of the aforesaid declaration/confirmation/documents, the trading member shall check the client's clarification, if it is satisfactory and supported by the necessary evidence to prove his contentions.

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6. Client / Group of Client(s) Concentration in a scrip(Cash Segment):

- On receipt of the aforesaid alerts, the member broker shall ask from the client(s), the reason for executing trades in the scrip(s) by them.
- The client shall declare that he is not associated with the company in to which he is traded or the management thereof, directly or indirectly.
- If he is associated, then he shall declare the type of relation/association in writing.
- The client shall declare that he is not indulged in insider trading or fraudulent trading or unfair trade practice(s).
- The client shall declare that he is not using his trading account to manipulate the market or to channelize unauthorized funds in the market.
- The member broker shall verify the fund/securities received from the client, from his registered Bank/DP A/c only.
- The traded turnover in the line of his financial position declared by the client along with the documentary evidence.
- If the aforesaid turnover is not in the line with the client(s) financial position recorded with the member, then member shall ask from the client to give reason for such increase his trades.
- The client shall declare his financial sources for the aforesaid trades. If the client has taken financial assistance from the Financial Institution(s) or Bank(s) or any other means, he shall disclose it to the member along with its full details. The client shall submit the bank statement for the specified period, with the member broker.

7. Circular Trading (Cash Segment):

- On receipt of such alerts, the member shall verify the KYC of the client to establish the relation between the client(s) traded in the scrips.
- The client shall submit the undertaking to the member broker that he shall not involved in circular trading or insider trading or fraudulent trade or unfair trade practices.
- The member shall ask from the client to submit his bank statement and DP statement for the specified period.
- The member shall verify that the client have met his pay-in obligation of fund/securities from his own funds/securities. If not, the client shall give reason for it along with the supporting documents.
- The member shall verify in the light of the documents received from the client and the documents having in their possession that the client has not involved in circular trading. If any adverse observation is found, the trading member shall report to the surveillance department of the exchange.

8. Pump and Dump (Cash Segment):

If a person has taken position on continuous basis in particular scrip in price incremental manner and on peak, he has dumped his entire consolidated position for sale to book maximum profit on boosted/pumped price.

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The member broker shall verify the followings;

- The member broker shall ask from the client or group of the client for executing trade in such manner.
- The client shall submit the reason along with the documentary evidence in supporting to his contention.
- If the reason given by the client is not satisfactory, then the trading member shall report it to the exchange and close the alert.

9. Wash Sales(Cash & FNO Segment):

If the client has executed trades in a security in to which he was buyer as well as the seller of the security for the trade., such trades shall be considered as wash sales.

On receipt of aforesaid alerts, the trading member shall ask reason from the client for executing trade in such manner. The client shall give proper reason supported by documentary evidence, if any. If the client was unable to give reason or the reason given by the client is not satisfactory, then the member shall report to the exchange and close the alert. The member shall de-activate the client's account on temporary basis. It shall be activated, when the exchange's verification will ensure that the client was not involved in unfair trade practices.

10. Reversal of Trades (Cash, FNO & CD):

If the client has purchased/sold a security from/to his group and thereafter, the client has sold/purchased the security to/from his group. Such trades or the like trades are considered as reversal of trades.

On receipt of the aforesaid alert, the member broker shall check relation between the clients traded in the securities and establish between them, if any. The trading member shall ask reason from the client for executing trades in such manner and his relation with the clients traded therein. The client shall give reason along with his bank statement or DP statement, as the case may be, for the specified period. On receipt of the aforesaid documents/details, the trading member shall check the clarification/ contention of the client(s) is/are satisfactory or not. Accordingly, if the member finds any adverse observation, he shall report to the exchange for such alert and close the alert.

11. Front Running (Cash Segment)

- Front running as a securities malpractice/ crime is recognised and regulated by SEBI under the SEBI (Prohibition of Fraudulent and Unfair Trading Practices Relating to Securities Market) Regulations, 2003.
- Front Running has not been defined by SEBI in a uniform manner, however, the concept has been elaborated upon vide various regulations, circulars and judgments of SEBI.
- One such example is the SEBI Circular on Consent Orders as amended by Circular CIR/EFD/1/2012) dated 25th May 2012 ("Consent Order Circular") which has defined "front running" as under:
- *"Front running; for the purpose of this circular, means usage of non-public information to directly or indirectly, buy or sell securities or enter into options or futures contracts, in advance of a*

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substantial order, on an impending transaction, in the same or related securities or futures or options contracts, in anticipation that when the information becomes public; the price of such securities or contracts may change;”

- What does this mean? we want to buy 30,00,000 shares of Reliance Industries Limited. The order being substantial would mean that the prices of the Share would shoot up. Someone who knows what we want to do, takes position in Reliance Industries Limited and take advantage of the price movement for the aforesaid trade.
- Front running can also be a situation where a broker releases a research report, which would have an impact on the prices of a scrip, but has directly or indirectly taken positions before that report is made public.
- Front running can also happen when huge orders are placed by mutual funds and FII's with brokers. Brokers may directly or indirectly take positions in the scrips before inputting the order in the system.
- SEBI has taken a strong stand against front running in Re: Shri Sujit Karkera, Shri Purushottam Karkera and Smt Shilpa Kotak and Trading Activity of Sujit Karkera and Group (MANU/SB/0115/2012) (in paragraph 26) whereby it has considered the evils of front running on the investor community and elaborated on the same as follows:
- *“Front running is one of the most heinous crimes in the securities markets. It has the potential of eroding the faith of the investors in the securities market. It amounts to defrauding an innocent and unsuspecting investor who blindly repose trust in the entity to transact on his behalf in the securities market. Once this trust is played truant with, one would run the risk of losing the investor, not only for the loss it would have suffered but also for the loss of confidence. It is of utmost importance that a sense of fair play be maintained in the market so that innocent investors do not find themselves at the receiving end of irregular conduct by entities in the market. Thus, I have considered it critical that the penalty in the matter should be seen not only disgorgement in nature but also deterrent in effect. Given this consideration I am imposing a penalty with a multiple of 3 of the profit made for deterrent effect. With regard to repetitive nature, I find that the default was repetitive in nature.”*
- The touch point for front running is the place where non public information is confided and shared.
- Employees in mutual fund organisations
- Brokers with whom huge orders are placed.
- Merchant bankers during potential transactions
- In all touchpoint – intermediary regulations, including broker regulations, merchant banker regulations,
- To monitor the compliance that means to watch and check and conduct scrutinizes to see that nobody is front running

On receipt of such alert, the member broker shall ask reason from the client for such trades.

The client shall give proper reason along with the necessary supporting documents.

If the client have sold shares with respect to which the alert is received, then the client shall submit his DP Statement for the specified period.

If the client has purchased shares with respect to which the alert is received, then the client shall submit Bank Statement for the specified period.

The member shall verify the details/documents received from the client, if it is proper, then the member shall close the alert.

If any adverse finding is observed, the member shall report to the exchange.

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12. Concentrated position in the Open Interest / High Turnover concentration (Derivatives /Currency Derivatives Segment):

- The Trading Member shall check the inter relation between the clients traded in the contracts.
- The trading member shall ask from the client reason for executing such trades in the scrip.
- The client shall submit the reason in writing with the trading member. The client shall undertake that he shall not indulge in unfair trade practices or fraudulent trades or insider trading.
- The client shall also undertake that he shall not violate the law regulating the securities market and the regulation/guidelines made/issued there under.

On receipt of the aforesaid details/documents, trading member shall check the contention of the client and if there is any adverse finding(s) observed, then, the trading member shall report to the concerned exchange(s),

13. Order book spoofing i.e. large orders away from market (Cash):

The trading member shall ask reason from the client for the order book spoofing by the client. The client shall submit his explanation in writing with the trading member. The trading member shall check the contention of the client in the light of documentary/circumstantial evidence available with it. If there is any adverse observation, the trading member shall report to the exchange and record it in writing with it.

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 is required to :

- i. Seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.
- ii. Seek documentary evidence such as bank statement / demat transaction statement or any other documents to satisfy itself including undertaking or declaration, as the case may be.

In case of funds, Bank statements of the Client(s) / Group of Client(s) from which funds pay-in have been done, 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 done, to be sought. The compliance officer may ask from the client to submit his clarification in writing for the receipts of funds/securities in his bank/demat account to meet pay-in obligation. The client shall give satisfactory clarification/reply authenticated by supporting documents to the compliance officer within 7 days from the issue of letter by the compliance officer to do so.

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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.

Monitoring and reporting:

- The designated officer shall check/monitor the aforesaid alerts received from the exchange/generated at members end, on regular basis. The officer shall analysis the alerts in following manner:
 - i. Type of alert downloaded by the Exchange/generated at member's end
 - ii. Financial details of the client
 - iii. Past Trading pattern of the clients/ client group
 - iv. Bank / Demat transaction details (The period for such statements may be at least +/- 15 days from the date of transactions)
 - v. Other connected clients in Trading Member's UCC (common email/ mobile number/ address, other linkages, etc.)
 - vi. Other publicly available information
- The designated officer shall analysis the alerts and prepares a report to present before the compliance officer.
- The compliance officer shall check the report and issue a letter/e-mail to the client to ask to submit the reason for entering such transaction(s)/trade(s).
- The client shall give explanation/clarification supported by documentary evidence and if any other documents asked by the officer within 7 days from the date of issue of letter.
- On receipt of reply from the client, the compliance officer shall satisfy himself that the reason given by the client is genuine or not, in the light of documentary evidences provided by the client and documents available with the officer. If the compliance officer found it proper, he shall close the alert writing the reason believing to do so.
- If the client has not responded within aforesaid period or such extended period which has been granted to the client but not later than 15 days from the date of issue of the letter to the client, the compliance officer shall inform to the surveillance department of the exchange or FIU, as the case may be, supported by his report and the necessary evidences available with him and close the alert.
- The alerts received from the exchange/generated at members end shall be deposed off within 30 days from the date of receipt alerts or its generation and if there is any delay in disposition, reason shall be recorded and presented before the compliance officer. The compliance officer shall check the reason and take necessary steps to dispose off the alerts.
- All the records/report shall be kept under the supervision of the compliance officer. There shall be a log of every alert(s) containing the client code, client name, type of alerts, date of receipt of alerts, disposition of alerts and reason for delay in disposition, if any.
- A quarterly MIS shall be put up before the Board 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

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action taken. Also, the Board shall be apprised of any exception noticed during the disposition of alerts.

- The surveillance process shall be conducted under overall supervision of the Compliance Officer.
- Designated directors / 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.

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.

This policy shall be presented before the board and it shall be approved by the board to become effective.

**Thanking You,
For SW Capital Pvt. Ltd.**

**SD/-
Director**