

MUNOTH FINANCIAL SERVICES LIMITED SURVEILLANCE POLICY

INTRODUCTION:

National Stock Exchange of India Limited (NSE) vide its circular Download ref.no NSE/INVG/22908 dated 07th March 2013 has directed the trading members to frame the a surveillance policy for effective monitoring of Trading Members and monitoring the alerts based on trading activity on the Exchange. Trading members are directed to have proper mechanisms and to ensure that proper checks and balances are in control and MFSL is framing this policy accordingly.

SCOPE:

MFSL shall implement the following policy:-

A) Transactional Alerts to be provided by the exchange:

In order to facilitate effective surveillance mechanisms, MFSL would download the below mentioned alerts based on the trading activities on the exchanges

Transactional Alerts

- 1 Significantly increase in client activity in Cash
- 2 Sudden trading activity in dormant account in Cash
- 3 Clients/Group of Client(s), deal in common scrips in Cash
- 4 Client(s)/Group of Client(s) is concentrated in a few illiquid scrips in Cash
- 5 Client(s)/Group of Client(s) dealing in scrip in minimum lot size in Cash
- 6 Client / Group of Client(s) Concentration in a scrip in Cash
- 7 Circular Trading in Cash
- 8 Pump and Dump in Cash
- 9 Wash Sales in Cash & Derivatives
- 10 Reversal of Trades in Cash & Derivatives
- 11 Front Running in Cash
- 12 Concentrated position in the Open Interest / High Turnover concentration in Derivatives
- 13 Order book spoofing i.e. large orders away from market in Cash

MFSL may formulate its own alerts in addition to above mentioned type of alerts.

2) Clients Information:

MFSL will carry out the Due Diligence of its client(s) on a yearly basis. Further, MFSL shall ensure that key KYC parameters are updated on a yearly basis and latest information of the client is updated in Unique Client Code (UCC) database of the Exchange. Based on this information MFSL shall establish groups / association amongst clients to identify multiple accounts / common account / group of clients.

3) Analysis:

In order to analyze the trading activity of the Client(s) / Group of Client(s) or scrip's identified based on above alerts, MFSL will carry out the following procedure:

a. To seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.

b. To Seek documentary evidence such as bank statement / demat transaction statement or any other documents as below:

1. In case of funds, Bank statements of the Client(s) / Group of Client(s) from which funds pay-in have been met, 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 met, to be sought.

2. 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.

c. MFSL shall review the alerts based upon:

1. Type of the alerts downloaded by the exchange.

2. Financial details of the clients

3. Past Trading pattern of the clients/ client group

4. Bank /Demat transaction details

5. Other connected clients in UCC (common email/mobile number/address, other linkages, etc)

6. Other publicly available information.

d. After analyzing the documentary evidences, including the bank / demat statement, MFSL will record its observations for such identified transactions or Client(s) / Group of Client(s). In case adverse observations are recorded, the Compliance Officer shall report all such instances to the Exchange within

45 days of the alert generation. MFSL may seek extension of the time period from the Exchange, wherever required.

4) Monitoring and reporting:

For effective monitoring, MFSL;

1. After analysing the alerts if the adverse observations are recorded, the entire details of transactions with the reason for the recording the alert same shall be documented and reported to compliance officer

2. In case of any Suspicious or any Manipulative activity is identified, the same will be mentioned in the Register to be maintained for the purpose and will be reported to the Stock Exchanges within 45 days of the alert generation.

- The surveillance process shall be conducted under overall supervision of its Compliance Officer. Compliance Officer would be responsible for all surveillance activities carried out by MFSL and for the record maintenance and reporting of such activities.

- Internal auditor of MFSL 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.