

NOTICES

Notice No.	20210701-30	Notice Date	01 Jul 2021
Category	Compliance	Segment	General
Subject	Surveillance Obligations for Trading Members – Update		
Attachments	Annexure I.pdf		
Content			

Sub: Surveillance Obligations for Trading Members – Update

This is in partial modification of Exchange notice nos. 20130307-21 dated March 07, 2013 and 20190205-54 dated February 05, 2019, [wherein the trading members were advised about surveillance obligations of trading members to facilitate effective surveillance at the members end, inter-alia, covering processing of transactional alerts provided by the Exchange \(list attached as Annexure I\) as well as own alerts generated by the trading members at their end based on their surveillance policy and suitable actions thereof.](#)

In this regard, trading members are hereby informed that, the Exchange has reassessed the on-going framework of surveillance obligations of trading members and has identified enhancements to make the said framework more effective, as under -

1. Obligation of Trading Members to frame Surveillance Policy:

Trading members may have different types of business models and may offer different types and combination of services to different types of clients including retail, institutional, HNI through various modes like Call and Trade, Mobile based trading, Internet based trading, Portfolio Management Services (PMS), in addition to proprietary trading (including Algorithmic trading). For effective monitoring, trading member shall frame a surveillance policy covering all such applicable business models / services they offer. The said surveillance policy shall, inter alia, cover the following:

- 1.1. Generation of suitable surveillance alerts which may be guided by indicative themes (the list is inclusive and not exhaustive) given in Para 2 below as well as for transactional alerts downloaded by the Exchanges. (Transactional alerts downloaded by the Exchange are based on some thresholds or parameters. Trading members may have their own different thresholds or parameters so as to detect any suspicious trading activity). As trading members have closer supervision and are in possession of considerably more information about their clients, they may consider suitable parameters.
- 1.2. Processing of alerts within 45 days from the date of alerts downloaded by the Exchanges as well as alerts generated at member’s end.
- 1.3. Documentation of reasons for any delay in disposition of any of the alerts.
- 1.4. Suspicious / Manipulative activity identification.
- 1.5. Framework of appropriate actions, that can be taken by the Trading member. In addition to the obligations under Prevention of Money Laundering Act (PMLA), actions may include suspension of the trading activity of the suspect client, or any other action as may be deemed appropriate.
- 1.6. Record maintenance for the period as stipulated under applicable statutes.

The surveillance policy of the Trading member shall be approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be.

This policy needs to be reviewed on a periodic basis to keep it in line with the market trends.

2. Obligation of Trading Members to generate additional Surveillance alerts:

It is reiterated that in addition to the transactional alerts downloaded by Exchanges, Trading members are also required to generate appropriate surveillance alerts at their end, to enable them to effectively monitor the trading activity of their clients at their end as per the laid down surveillance policy.

The indicative themes on which trading members may formulate their own alerts are as under. The trading member also needs to analyze patterns and trends with respect to different themes.

- 2.1. The indicative themes applicable to ALL Trading Members.
 - 2.1.1. Client / group of clients, as identified by the trading member, accounting for a significant percentage of the total trading activity in a scrip / contract as compared to the market.
 - 2.1.2. Client / group of clients with new account or clients dealing after a significant time gap, as identified by the trading member, accounting for significant value / percentage of total trading activity in a scrip / contract as compared to the market.
 - 2.1.3. Client / group of clients dealing frequently in small quantities / minimum market lot in a scrip / contract.
 - 2.1.4. Disproportionate trading activity vs reported income / Net worth.
 - 2.1.5. Frequent changes in KYC submitted by clients.
 - 2.1.6. Based on an announcement by a listed company, identify client / group of clients, having possible direct / indirect connection with a listed company, who have undertaken any suspicious trading activity prior to price sensitive announcement by said listed company.
 - 2.1.7. Client / group of clients having significant selling concentration, in the scrips, forming part of ‘For Information list’ or ‘Current Watch list’. For more details, kindly refer Exchange notice no. 20200830-1 dated August 30, 2020.
 - 2.1.8. Consistency in profit / loss at client / group of clients’ levels, rationale for such trading activities. In addition, trading members may also refer details given in Exchange notice no. 20190207-46 dated February 07, 2019.
 - 2.1.9. Significant trading activity in scrips by client who has pledged the shares of same scrip.
 - 2.1.10. In case of concerns of trading activity of a client / group of clients in a scrip, monitoring whether the orders are being placed by respective clients or their authorized representatives and monitoring client’s address as per KYC vis-a-vis the dealing office address.
- 2.2. The indicative themes additionally applicable to Trading Members who are Depository Participants.
 - 2.2.1. Significant trading activity in scrips where client has pledged shares or has significant holding or has frequent off-market transactions.
- 2.3. The indicative themes additionally applicable to Trading Members who have facility of internet-based trading.
 - 2.3.1. Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location).

The above guidelines are illustrative and not exhaustive. Based on circumstances and based on business model and service offered to the clients and for proprietary trading, the trading members are required to exercise their independent judgement and formulate their own alerts and take appropriate actions thereof.

3. Obligation of Trading Members w.r.t. client due diligence:

The following activities required to be carried out by the trading members for client due diligence is being reiterated:

- 3.1. Trading members are required to carry out the Due Diligence of their client(s) on an on-going basis.
- 3.2. Trading members shall ensure that, key KYC parameters of the clients 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 available information, the trading member shall establish groups / association amongst clients, inter-alia, to identify multiple accounts / common account / group of clients.

4. Obligation of Trading Members w.r.t. processing of alerts:

- 4.1. Trading Member shall obtain trading rationale and necessary documentation including bank statements, demat statements for analyzing / processing the alerts.
- 4.2. After analyzing the documentary evidences, Trading member shall record its observations for such identified transactions of its client / group of clients.
- 4.3. With respect to the transactional alerts downloaded by the Exchange, trading member shall ensure that all alerts are analyzed and status thereof (Verified & Closed / Verified & Sent to Exchange) including action taken is updated within 45 days, in the e-BOSS System.
- 4.4. With respect to the alerts generated at the trading members end, trading members shall report instances with adverse observation, along with details of action taken, to the Exchange within 45 days of the alert generation.

5. Obligation of Compliance officer, Designated Director / Partner / Proprietor and Internal Auditor of the Trading Member:

- 5.1. The surveillance activities of trading member shall be conducted under overall supervision of its Compliance Officer.
- 5.2. A quarterly MIS shall be put up to the Designated Director / Partner / Proprietor on the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure. Also, the Designated Director / Partner / Proprietor shall be apprised of any exception noticed during the disposition of alerts.
- 5.3. Designated Director / Partner / Proprietor would be responsible for all surveillance activities carried out by the trading member.
- 5.4. Internal auditor of trading member 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.

6. Obligation of Quarterly reporting of status of the alerts generated by the Trading member:

- 6.1. Trading members are also required to provide duly approved status of the alerts on a quarterly basis, in the following format to the Exchange within 15 days from end of the quarter.

A. Status of Alerts generated by the Trading member:

Name of Alert	No. of alerts under process at the beginning of 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

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

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

Sr. No.	Brief action taken during the quarter

- 6.2. Trading members who do not have anything to report, need to submit ‘NIL Report’ within 15 days from end of quarter.
- 6.3. The above details shall be uploaded by the trading members on the BSE Electronic Filing System (BEFS) within 15 days from end of the quarter.
- 6.4. The aforementioned quarterly system of reporting shall be effective from the quarter ending September 2021.

7. Penalty in case of late / non submission of Quarterly Reporting of status:

In case of late / non submission of quarterly reporting of the alerts generated by the trading member as mentioned in Para 6 above, trading members shall be liable for penalty as given below:

Submission of status report beyond stipulated period	Penalty to be imposed
1st instance	Rs. 10,000 per day till submission of quarterly report
2nd instance onwards	Rs. 20,000 per day till submission of quarterly report

Trading members may note that aforesaid penalty shall be levied on a monthly basis based on slabs as mentioned above and same shall be debited in the monthly bill.

8. Disciplinary Action for non-fulfilment of Surveillance obligation by Trading Members:

- 8.1. Trading members may note that during investigation / inspection, if it is observed that the member has not fulfilled their surveillance obligations, then appropriate disciplinary action shall be initiated against the concerned trading member.
- 8.2. Any non-compliance with respect to surveillance obligations which may inter alia include delay in processing of transactional alerts downloaded by the Exchange and repeated instances of delay in reporting of the status of alerts, may result in further disciplinary action as deemed fit in terms of Rules, Bye-laws and Regulations of the Exchange.
- 8.3. It may further be noted that aforesaid measure does not preclude SEBI / Exchange to take any further action(s), if the facts and circumstances so demand.

Trading members are required to take a note of the above and put in place the modifications in their procedures, policies and processes etc. as may be required. The provisions of the notice shall be effective from August 01, 2021.

In case of any clarifications, kindly contact on 022 2272 8315 / 8852.

For & On behalf of BSE Ltd.

Rajesh Gandhi
Additional General Manager
Surveillance

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Assistant General Manager
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Date: - July 01, 2021.