

SURVEILLANCE OBLIGATION FOR DEPOSITORY PARTICIPANT

Object:

The policy is framed in accordance with the provision of SEBI Circular No. SEBI/HO/ISD/ISD/CIR/P/2021/22 dated 01.03.2021, CDSL communique No. CDSL/OPS/DP/SYSTEM/2021/309 dated 15.07.2021/ NSDL Circular No.: NSDL/POLICY/2021/0072 dt. July 15, 2021. It is applicable to the depository participant (DP) operations w.e.f. 01.08.2021. The said policy has been approved by the Board of Directors in Board Meeting held at the Registered office of the company on 30.07.2021.

It is aware that Stock Exchanges (NSE, BSE) have issued Circular to the Trading Members regarding surveillance obligation of Trading Members to facilitate effective surveillance of trading activities of clients.

In order to further strengthen the Surveillance framework for the Securities Market, all Participants are hereby advised to put in place a surveillance framework, which shall cover the following:-

Obligation of Depository Participants:

ISF Securities Ltd. (hereinafter referred to as ISF) has framed a surveillance policy based on nature of depository business, type of clients, number of demat accounts, number of transactions etc. which, inter alia, cover the following: -

- a. Framework of appropriate actions to be taken by the Participant as per obligations under Prevention of Money Laundering Act (PMLA).
- b. Generation of suitable surveillance alerts.
- c. Disposal of alerts within 30 days from the date of alerts generated at Participants end and alerts provided by NSDL/CDSL. Documentation of reasons for delay, if any, in disposal of alerts.
- d. Reporting to NSDL/CDSL and other authorities as applicable in case of any abnormal activity.
- e. Review and disposal of transactional alerts provided by NSDL/CDSL. However, ISF may describe its own parameters to generate additional alerts of their own.
- f. Record maintenance for the period as stipulated under applicable statutes.
- g. The surveillance policy of the Participants shall be reviewed once in a year.

Generation of Surveillance Alerts:

ISF will generate appropriate surveillance alerts at its end, to enable them to effectively monitor the transactions of its clients as per the surveillance policy with the indicative themes on which Participants may formulate their own alerts. ISF shall put in place system to generate these alerts with effect from October 01, 2021 and obtain the approval of its Board in its next meeting. The indicative themes will be as below:-

- a. Alert for communication (emails/letter) sent on registered Email ID/address of clients are getting bounced.
- b. Frequent changes in details of Demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.
- c. Alert for multiple Demat accounts opened with same demographic details: Alert for accounts opened with same PAN /mobile number / email id/ bank account no. / address considering the existing Demat accounts held with the Participant.
- d. Frequent Off-Market transfers by a client in a specified period.
- e. Off-market transfers not commensurate with the income/Networth of the client.
- f. Off-market transfers (High Value) immediately after modification of details in Demat account.
- g. Pledge transactions not commensurate with the income/Networth of the client.
- h. Alert for 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 time.
- i. Review of 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.
- j. Any other alerts such as relating to illiquid scripts or other categories and mechanism in order to prevent and detect any type of market manipulation activity carried out by its clients.
- k. Participants will review these alerts based on facts and verification of relevant documents including income/networth as provided by Client. Further, Participants will exercise their independent judgment and take appropriate action in order to detect any abnormal or suspicious transactions.

Client due diligence (CDD):

The CDD measures comprise the following:-

- a. Obtaining sufficient information in order to identify persons who beneficially own or control the securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

- b. Verify the client's identity using reliable, independent source documents, data or information;
- c. Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted;
- d. Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c);
- e. Understand the ownership and control structure of the client;
- f. Conduct ongoing due diligence and scrutiny, i.e. Perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds;
- g. Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.
- h. Participant will carry out the Due Diligence of their client(s) on an on- going basis.
- i. Participant 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 Depository System.

Reliance on third party for carrying out Client Due Diligence (CDD)

- i. ISF should rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.
- ii. Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. Further, it is clarified that the registered intermediary shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

Safeguards on Acceptance of clients

The following safeguards are to be followed while accepting the clients:-

No account is opened in a fictitious / benami name or on an anonymous basis. To ensure this we must insist the client to fill up all the necessary details in the KYC form in our presence and obtain all the necessary documentary evidence in support of the information filled in KYC. We identify the client whether he is debarred entity or not?

We must verify all the documents submitted in support of information filled in the KYC form with the originals and in-person verification should be done by our own staff.

In case we have any doubt that in-complete / fictitious information is submitted by the client, we must ask for such additional information so as to satisfy ourselves about the genuineness of the clients.

We should not continue to do business with such a person and file a suspicious activity report. We should also evaluate whether there is suspicious trading in the account and whether there is a need to freeze or close the account.

We should be careful while accepting clients of special category like NRIs, HNIs, Trust, Charities, NGOs, Politically Exposed Persons (PEP), persons of foreign origin, companies having closed share holding/ownership, companies dealing in foreign currency, overseas in high risk countries, non face to face clients, clients with dubious background. Current/ Former senior high profile politician, Companies offering foreign exchange, etc.) or clients from high-risk countries or clients belonging to countries where corruption/fraud level is high. Scrutinize minutely the records/documents pertaining to clients belonging to aforesaid category.

Processing of Alerts:

ISF will process the Alerts in the following manner:-

- a. ISF will maintain register (electronic/physical) for recording of all alerts generated.
- b. While reviewing alerts, Participants shall obtain transaction rationale, verify demat account statement and also obtain supporting documents as required from the client.
- c. After verifying the documentary evidences, Participants shall record its observations for such identified transactions of its Client.
- d. Transactional alerts to be provided by Depository Participants shall ensure that all alerts are reviewed and status thereof (Verified & Closed/Verified & Reported to

Depository) including action taken is updated within 30 days, on the NSDL e-PASS portal. The procedure w.r.t sharing of alert by NSDL /CDSL with Participants and report submission by Participants in this regard will be provided separately.

- e. With respect to the alerts generated at the Participant end, Participant shall report instances with adverse observation, along with details of action taken, to NSDL/CDSL within 7 days of the date of identification of adverse observation.
- f. The designated officials who are tasked to review the alerts on daily basis shall review the same.
- g. If the designated official finds after review and due diligence that the alert is required to be closed, the official shall close the same with appropriate remarks.
- h. The records of alerts generated, disposed of as closed and details of action taken wherever applicable shall be maintained with such security measures as would make such records temper proof and the access is available on to designated officials under the supervision of the Compliance Officer.
- i. The Compliance Officer, after review of the alerts along with the submitted comments of the designated official, decides to close the alert, he/sheshall close it with appropriate remarks. If the Compliance Officer finds that action in respect of such alert is warranted, he/she shall take such actions including filing STR with FIU-India, informing NSDL/ CDSL and/or discontinue the relationship with the client.

Obligation of Compliance officer and Internal Auditor/Concurrent Auditor of the Participants:

- a. The surveillance activities of DP operations shall be conducted under overall supervision of the Compliance Officer.
- b. The policy implemented in accordance with the provisions of Prevention of Money Laundering Act, 2002 and rules made thereunder as Reporting Entity.
- c. A quarterly MIS shall be put up to the Board 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 Board shall be apprised of any exception noticed during the disposal of alerts.
- d. Internal auditor of Participant 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.
- e. Internal Auditor shall verify that the quarterly MIS is prepared and placed before the Board of the Participant.

Obligation of Quarterly reporting of status of the alerts generated for Depository Participant Operations:

A quarterly statement providing duly approved status of alerts in respect of stock broking operations on quarterly basis shall be submitted to BSE and NSE in the following format within 15 days after the 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 Exchanges) if any during the quarter

Sr. No.	Brief action taken during the quarter

In case "ISF" does not have anything to report, a "NIL Report" shall be filed within 15 days from the end of the quarter.

The above details shall be uploaded by the Participants on NSDL e-PASS Portal and with CDSL on its respective portal. The aforementioned quarterly system of reporting shall be effective from the quarter ending December 2021.

Review of Policy:

The Surveillance Policy shall be reviewed on periodic basis and at least once a year by the Compliance Officer to ensure that the same is updated in line with market trends, updated regulations and practices.

In case any further information/ clarification is required in this regard, the Compliance Office may be contacted as follows :-

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