

Aionion Capital Market Services Private Limited

Surveillance Policy for Stock Broker

DOCUMENT VERSION CONTROL

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05/03/25	1.0	Compliance Officer	Kumar Mahlingam Iyer	Board of Directors

Document Definition: This document is designed to assist departments in managing software assets. Proper software management includes establishing responsibility, maintaining an accurate inventory, ensuring license compliance, and effectively allocating the use of software applications. Adoption and use of this policy is strongly encouraged in order to manage software assets efficiently and avoid consequences associated with illegal software use.

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Background:

Surveillance is the process of collecting and analyzing information concerning markets in order to detect unfair transactions that may violate securities related laws, rules and regulations.

Leading Stock Exchanges, Bombay Stock Exchange Limited ("BSE") and National Stock Exchange of India Limited ("NSE") have put in place a mechanism that will generate automated alerts for Stock Brokers & Trading Members whenever suspicious transactions are detected in their clients' accounts. The alerts will be generated in case of unusual changes in the trading pattern of the clients, sudden trading in dormant accounts as also in suspected cases of circular trading, 'pump-and-dump', 'front running' and 'wash-sale' activities etc.

In light of the above and to create safer markets, **Aionion Capital Market Services Private Limited** would have in place adequate surveillance policies and system in order to monitor suspicious/manipulative transactions and curb such activities, if any.

Scope:

This policy applies to all lines of business and services (as on date or in future) offered by the Trading Member, including but not limited to:

- Retail clients
- HNI clients
- Institutional clients
- Internet-based trading (IBT)
- Mobile-based trading
- Call-and-trade
- PMS clients
- Proprietary and Algorithmic trading

Objective:

This surveillance policy covers the following:

- Generation of suitable surveillance alerts which may be guided by indicative themes (the list is inclusive and not exhaustive) as well as for transactional alerts downloaded by the Exchanges.
- Processing of alerts within 45 days from the date of alerts downloaded by the Exchanges as well as alerts generated at member's end.
- Documentation of reasons for any delay in disposition of any of the alerts.
- Suspicious / Manipulative activity identification.
- 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.
- Record maintenance for the period as stipulated under applicable statutes.

Exchange Alerts

1. 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 a 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 in 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 canceling 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.

Additional Monitoring

1. Not allowing trades of entities which are banned by SEBI/Exchange/other regulators. This database is 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/branches/AP's 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.

Indicative Themes

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. 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.
3. Client/ group of clients dealing frequently in small quantities/minimum market lot in a scrip/ contract.
4. Disproportionate trading activity vs reported income/ Net worth.
5. Frequent changes in KYC submitted by clients.
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.
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 circular no. NSE/INVG/45517 dated August 30, 2020.
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 circular no. NSE/INVG/2019/40175 dated February 07, 2019.
9. Significant trading activity in scrips by client who has pledged the shares of same scrip.
10. In case of concerns of trading activity of a client or a 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.
11. Significant trading activity in scrips where client has pledged shares or has significant holding or has frequent off-market transactions.

Obligation regarding Client due diligence:

The following activities shall be carried out by Stock Broker for client due diligence.

Stock Broker shall to carry out the Due Diligence of their client(s) on an on-going basis.

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 Stock Broker shall establish groups / association amongst clients, inter-alia, to identify multiple accounts / common account / group of clients.

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

Trading Member shall obtain trading rationale and necessary documentation including bank statements, demat statements for analysing/ processing the alerts.

After analyzing the documentary evidences, Trading member shall record its observations for such identified transactions of its Client/ Group of Clients.

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 Member Surveillance Dashboard.

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.

Obligation of Compliance officer and Internal Auditor/Concurrent Auditor:

The surveillance activities of Stock Broker shall be conducted under overall supervision of Compliance Officer

A quarterly MIS shall be put up to the Designated Director 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 shall be apprised of any exception noticed during the disposition of alerts.

Designated Directors would be responsible for all surveillance activities carried out by the Trading member.

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.

Obligation of Quarterly reporting of status of the alerts generated:

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.

Record Maintenance & Reporting:

The Compliance Officer shall be responsible for all surveillance activities carried out by the Company and for the record maintenance of such activities.

The Compliance Officer shall be assisted by the Operations team and the Risk Management Team for the surveillance activities and shall have the discretion to take assistance/help from any professionals and/or software for the better implementation of the surveillance activities, without diluting the accountability and responsibility of the Compliance Officer.

Each alert received from the Depository shall be backed by necessary supporting documentary evidence collected from clients, any other additional details as may be deemed fit may be captured and placed before the Board of Directors & designated directors.

In case the matter prolongs beyond prescribed limits the same should be reported to the Designated Director, by the Compliance Officer, citing reasons for such delay. The Compliance Officer may seek extension of the time period from the Depositories, whenever required, under intimation to the Board of Directors & designated directors.

Further, the records mentioned in above have to be maintained and preserved for a period of at least seven

years from receiving submission of reports to the exchange.

Framework of appropriate actions as per obligations under Prevention of Money Laundering Act (PMLA):

Stock Broker activity involves transfer of securities which have monetary value. As such, KYC norms for opening accounts shall be followed in Stock Broker. Thus following activities shall require special attention and appropriate action as may be deemed fit by the authorized person(s) in this regard:

- Clients whose identity verification seems difficult.
- False identification documents.
- Identification documents which could not be verified within reasonable time.
- Doubt over the real beneficiary of the account
- Client appears not to co-operate.
- Sudden activity in dormant accounts.
- Client having suspicious background or links with known criminals.

Review Procedure:

In order to ensure the effectiveness of the policies and procedures on the Surveillance Obligations, it shall be reviewed once in every year and as and when required to incorporate the additions, changes, modifications etc., as directed by regulator and such changes shall take place from their effective date.

The Compliance Officer shall be responsible to ensure that as and when the policy is reviewed or updated, the same is consistent with the applicable laws and rules of the exchanges and to bring all the significant changes in the said policy to the notice of Designated Director / Partner / Proprietor and place the reviewed policy before the Board for its adoption.