Standard Operating Procedure (SOP)

Surveillance Obligation of Depository Participants (DPs) at Indira Securities Private Limited

Purpose

This SOP outlines the surveillance obligations of Indira Securities Private Limited as a Depository Participant (DP) to ensure effective monitoring and reporting of trading activities in compliance with the guidelines issued by Stock Exchanges (NSE, BSE & MSEI), Depository (CDSL & NSDL) and the Securities and Exchange Board of India (SEBI).

Scope

This SOP applies to all employees, officers, and directors involved in the surveillance and monitoring activities at Indira Securities Private Limited.

A. Surveillance Policy Framework

1. Development and Approval of Surveillance Policy

- **Responsibility**: The Compliance Officer is responsible for drafting the surveillance policy.
- **Content**: The policy should cover the following:
    - **Generation of Surveillance Alerts**: Alerts must be generated based on the themes outlined in Section B.
    - **Review and Disposal of Alerts**: All alerts from CDSL and internally generated alerts must be reviewed and disposed of within 30 days.
    - **Reporting Abnormal Activities**: Report any abnormal activities to CDSL and other relevant authorities.
    - **Documentation of Delays**: Document any reasons for delays in alert disposition.
    - **Action Framework under PMLA**: Define actions as per the Prevention of Money Laundering Act (PMLA).
    - **Record Maintenance**: Maintain records as required by applicable statutes.
    - **Annual Policy Review**: Conduct an annual review of the surveillance policy.
- **Approval**: The surveillance policy must be approved by the Board of Directors.

B. Generation of Additional Surveillance Alerts

1. Alert Generation

- **Responsibility**: The IT department will implement systems to generate alerts based on the following indicative themes:
    1. **Multiple Demat Accounts**: Alerts for accounts with identical PAN, mobile number, email, bank account, or address.

2. **Bounced Communications**: Alerts for emails or letters sent to clients' registered details that are returned.
3. **Frequent Changes**: Alerts for frequent updates to account details such as address, email, mobile number, Authorized Signatory, POA holder, etc.
4. **Frequent Off-Market Transfers**: Alerts for numerous off-market transfers within a specified period.
5. **Income/Net Worth Discrepancies**: Alerts for transfers or pledges not commensurate with the client's income/net worth.
6. **High-Value Transfers Post-Modification**: Alerts for significant off-market transfers following account detail changes.
7. **Transfer Reasons vs. Client Profile**: Alerts for transfers with reasons like gifts or donations against the client's profile.
8. **New Accounts with Sudden Activity**: Alerts for new accounts showing a sudden increase in activity, followed by dormancy.
9. **Other Alerts**: Any other alerts to prevent market manipulation.

2. Alert Analysis

- **Responsibility**: The Compliance team will analyze and review these alerts to detect any suspicious transactions.
- **Documentation**: Record all findings and actions taken for each alert.

C. Client Due Diligence

1. Ongoing Due Diligence

- **Responsibility**: The Client Onboarding team is responsible for continuous due diligence on clients.
- **Activities**:
  - Regularly review client information.
  - Update key KYC parameters as required by SEBI guidelines.
  - Ensure the latest client information is updated in the Depository System.

D. Reporting Status of Alerts

1. Maintaining Alert Register

- **Responsibility**: The Compliance team will maintain an electronic/physical register for all alerts.
- **Content**: The register must include:
  - Alert generation date
  - Nature of the alert
  - Client details
  - Actions taken
  - Status of the alert (Verified & Closed / Verified & Reported to Depository)
  - Supporting documentation

2. Review and Documentation

- **Activities**:

- Obtain transaction rationale from the client.
- Verify demat statements.
- Obtain supporting documents as required.
- Record observations and actions taken.

3. Status Updates

- **Timeline**: Update the status of alerts within 30 days.
- **Responsibility**: The Compliance team is responsible for ensuring timely updates.

4. Reporting Adverse Observations

- **Timeline**: Report instances with adverse observations to CDSL within 7 days of identification.
- **Responsibility**: The Compliance team.

E. Compliance Officer and Auditor Obligations

1. Supervision by Compliance Officer

- **Responsibility**: The Compliance Officer oversees all surveillance activities.
- **Reporting**: A quarterly MIS must be submitted to the Board, detailing:
  - Alerts pending at the beginning of the quarter
  - Alerts generated during the quarter
  - Alerts processed and acted upon during the quarter
  - Cases pending at the end of the quarter
  - Reasons for pending alerts
  - Action plan for closure
  - Any exceptions noticed

2. Internal Audit Reviews

- **Responsibility**: The Internal Auditor will:
  - Review the surveillance policy and its implementation.
  - Evaluate the effectiveness of alert handling.
  - Document observations in their report.
  - Verify that the quarterly MIS is prepared and placed before the Board.

F. Quarterly Reporting

1. Submission of Reports

- **Responsibility**: The Compliance team must submit a quarterly status report of alerts to CDSL within 15 days post-quarter end.
- **NIL Report**: Submit a NIL report if there are no alerts.

G. Penalty for Late/Non-Submission

1. Penalties

- **Responsibility**: The Compliance team must ensure timely submission to avoid penalties imposed by CDSL for late or non-submission of quarterly reports.

H. Disciplinary Action for Non-Compliance

1. Inspection Observations

- **Responsibility**: The Compliance team must address any non-compliance observed during CDSL inspections.

2. Delay in Processing Alerts

- **Actions**: Further disciplinary actions may be taken for repeated delays in alert processing and reporting.
- **Responsibility**: The Compliance team.

3. Further Actions

- **Authority**: SEBI/Depository may take additional actions as necessary based on the facts and circumstances.

Review and Amendments

This SOP shall be reviewed annually and amended as necessary to ensure ongoing compliance with regulatory requirements and the effective monitoring of trading activities.

Approved by:

- **Board of Directors, Indira Securities Private Limited**

Date:

- **13 JULY 2024**