



STEWART & MACKERTICH WEALTH MANAGEMENT LTD.

CIN: U51109WB1993PLC060987

Vaibhav (5F), 4, Lee Road, Kolkata – 700 020

Tel: (91 33) 4011 5400/ 6634 5400 Fax: (91 33) 2289 3401

Email ID: investors@smifs.com Website: www.smifs.com

SURVEILLANCE POLICY

Policy Approved By:

**Shri Ashiwini Tripathi
Managing Director**

**Shri Rahul Kayan
Chief Executive Officer**

**Rajesh Kumar Kochar
Designated Director**

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1. 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. Trading Members & Depository Participants have the responsibility of monitoring the trading activity of their clients. Trading Members have been advised by the Stock Exchanges, Depository & extant Regulators to set-up monitoring of the Trading Activity and Movement of securities of their clients including intra-day activity and proactively report to the Exchanges/ Depository/ Extant Regulators observations/ findings, if any. In order to achieve this and to create safer markets, Stewart & Mackertich Wealth Management Limited (in short "the Company/SMWML") would have in place adequate surveillance policies and system in order to monitor suspicious/manipulative transactions and curb such activities, if any.

2. Objective:

In order to facilitate an effective surveillance mechanism to monitor the transactions in Cash, Equity – Derivative, Currency Derivative Market Segments and Commodity Derivative Market Segment of the Stock Exchange(s), where the Company is registered as a Trading Member, this Surveillance Policy is being formulated, in compliance and/or as mandated by Securities and Exchange Board of India, The Stock Exchanges & The Depositories.

3. Responsibility:

3.1 The Compliance Officer shall be responsible for the implementation and supervision of this Policy.

3.2 The Risk Management Officer, Settlement Officer & PMLA Officer shall assist and report to the Compliance Officer on a daily basis in respect of the alerts generated for the surveillance mechanism.

3.3 The Compliance Officer shall take all necessary steps to analyze, monitor, document and report the findings to the Board Members as well as the relevant Stock Exchanges and/or regulatory bodies, in a time bound manner, as detailed hereunder and/or as mandated by the Stock Exchanges and/or regulatory bodies.

3.4 The Compliance Officer shall exercise their independent judgment and take adequate precautions to ensure implementation of an effective surveillance mechanism, based on the day-to-day activities of the clients, general market information and the facts and circumstances.

3.5 The Internal Auditor of the Company, shall review the Policy, its implementation, documentation, effectiveness and review the alerts generated during the period of

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audit and shall record the observations with respect to the same in their Internal Audit Reports.

3.6 The Board of Directors shall peruse, review and provide necessary guidance with regard to the “**Surveillance Policy**”, periodically, for strengthening the processes.

4. Policy Procedures for Disposition of Alerts:

4.1 Downloading of Transaction Alerts: The Transaction Alerts provided by the Stock Exchanges and internally generated by the Back Office Software shall be downloaded by “The Risk Management Team” on a regular basis and the same shall be forwarded to the Designated Directors, Compliance Officer and the KYC Officer.

4.2 Client(s) Information: The “KYC– Officer” shall carry out the necessary Due Diligence of the client(s), whose name appears on the Transaction Alerts. The said officer shall ensure that the KYC parameters are updated on a periodic basis as prescribed by Securities & Exchange Board of India (SEBI) and latest information of the client is updated in UCC database of the respective Exchanges. Based on the Client Information, the said officer shall establish Groups/Association amongst clients to identify multiple accounts/ common account/group of clients.

4.3 Documentation: The Risk Management Team in order to analyze the trading activity of the Client(s)/Group of Client(s) or scrips identified based on the Transaction Alerts, shall do the following:

- a) Seek explanation from such identified Client(s)/Group of Client(s) for entering into such transactions.
- b) Seek documentary evidence such as Bank Statement/Demat Transaction Statement or any other documents to satisfy itself.
- c) 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.
- d) In case of Securities, Demat Account Statements of the Client(s)/Group of Client(s) from which Securities pay-in have been met, to be sought.
- e) The period of such statements mentioned in point (c) & (d) 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 to whom the trades were transacted.

4.4 Analysis: Upon receipt of the above mentioned documents, the Compliance Officer and the Risk Management Team shall analyze the documents sought from the Client as well as the KYC & KRA of the Client and shall record the 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.

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Steps to be taken for analysis of each alert by Compliance Team:

Alert Generation System: The Risk Management Team generates alert reports at the end of each day from the Back Office Software – “Sharepro” which are analyzed to identify suspicious transactions. Alerts from Stock Exchanges and Depositories are also collated.

(i) Quality of Dealing:

- Identify scrips in BE, T and TS having 50 % of Exchange volume.
- Segregate the scrip volume based on the security category (e.g. EQ and BE in case of NSE and A, B, T, etc., in case of BSE).
- Identify the clients and check the bonafide of transactions.

(ii) High Value Deals:

- Review the deals above Rs. 25 Lacs in single scrip.
- In case of buy deals, check whether sufficient margin is available.
- In case of sale deal, check whether the shares are available.
- Identify scrips where deals are persistently contributing higher volumes.
- Identify clients, who have taken high value positions, review their ledger accounts in order to verify whether there is sudden increase in.

(iii) Significant increase in client activity: Client(s)/Group of Client(s) who have been dealing in small quantities/value suddenly significantly increase their activity. In such cases the following shall be examined:

- Transaction Turnover more than Rs. 10.00 Lacs.
- Delivery Turnover more than Rs. 1.00 Lacs.
- Deal size more than 2 times of the average deal size.
- Whether such volume is justified given the background of the client and his past trading activity.
- Cumulative amount of funds that was brought in by the Client(s)/Group of Client(s) for the purchases made during the period.
- Whether such inflow of funds is in line with the financial status of the client.
- Whether the transactions of such Client(s)/Group of Client(s) are contributing to concentration or impacting the price.

(iv) Sudden trading activity in dormant accounts: This refers to such cases where the client has not traded more than 3 months and suddenly starts/resumes trading in stocks or low market capitalized scrips or enters into transaction which is not in line with his financial strength. In such cases following shall be reviewed and examined:

- Trade Gap Analysis for more than 90 days.
- Reasons for trading in such scrips/contracts.
- Whether the client is only placing the order or is it some third party.

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- Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices of such scrips/contracts through use of such dormant accounts.
- 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 through use of such dormant accounts.

(v) Clients/Group of Client(s), dealing in common scrips: Such dealing is contributing significantly to the volume of the scrip at SMWML level and at the Stock Exchange level. The following shall be reviewed and examined:

- Reasons for trading in such scrips.
- Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices of such scrips.
- 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.
- In case a client/ group of clients contributed more than 40% volume at Exchange level, repeatedly in the same scrip in last fifteen day, client(s) is / are accumulating the scrip.
- Check if client(s) is/ are transferring the same to third party Demat accounts through off-market transactions.

(vi) Client(s)/Group of Client(s) concentrated in a few illiquid scrips: The following shall be reviewed and examined:

- Typically the Risk Management Team shall block trading in scrips which are listed as Illiquid Scrips by the Stock Exchanges through its circulars.
- Any trading in such scrips are done on specific request by client, and the same is allowed by the Compliance Officer only upon scrutiny of the beneficial ownership of the selling, pre-pay-in of funds by the buying client and trades are executed at the last traded price.
- Activity concentrated in illiquid scrips.
- Sudden activity in illiquid securities.
- Reasons for trading in such scrips.
- Whether there is any concerted attempt by a Client(s)/Group of Client(s) to impact the prices of such scrips.
- 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.
- Percentage of Client(s)/Group of Client(s) activity to total market in the scrip/contract is high.
- Identify clients who have traded in these scrips more than 25% of Exchange volume.

(vii) Client(s)/Group of Client(s) dealing in scrip in minimum lot size/Concentration in scrip: The following shall be reviewed and examined:

- Reasons for such trading behavior.
- Whether the transactions of such Client(s)/Group of Client(s) are contributing to concentration or impacting the price.

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- Whether such transactions indicates towards probability of illegal trading at the clients' end.

(viii) Synchronized Trades/Cross Trades/Circular Trading:

- Scrutinize Synchronized/Cross Trade Report generated by the system as well as the data published by the Stock Exchanges on their official website. Identify clients having cross or synchronized trades.
- Typically any request for Block Deal is to be handled by the Risk Management Team directly under the guidance of Compliance Officer at the Head Office Level. Trades are to be executed only upon scrutinizing/ obtaining - proof of beneficial ownership of the selling client, proof of availability of funds by the buying client, pre-pay-in of shares of the selling client, pre-pay-in of funds by the buying client. Upon complying the same, trades are to be executed at the last traded price to avoid any price distortion. The executions of such trades are to be reported to the Designated Director as a routine compliance.
- Continuous trading of client/group of clients in particular scrip over a period of time.
- Client/group of clients contributing significant volume (broker and exchange level) in particular scrip – especially illiquid scrip.
- Possible matching of trades with a specific group of clients (like same trade number on both buy and sell side and/or immediate execution of order in illiquid scrip etc.).
- Possible reversal of trades with the same group of clients (like same trade number on both buy and sell side and/or immediate execution of order in illiquid scrip)

(ix) Pump and Dump:

- Risk Management Team to disallow trades for being executed at prices significantly away from the market and later on squaring off to earn significant profits.

(x) Wash Sales or Reversal of Trades:

- Same Client(s)/ Group of Client(s) on both sides of the transaction. (i.e. same trade number on both the buy and sell side).
- 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.
- One client makes significant profit and other suffers a loss or apparent loss booking transactions in illiquid contract/securities including options

(xi) Front Running:

- Trading, by Client(s)/ Group of Client(s)/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.
- There is a consistent pattern of Client(s)/ Group of Client(s)/employees trading ahead of large buy/sell transactions.

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(xii) Concentrated position in the Open Interest/high turnover concentration:

- Client(s)/Group of Client(s) having significant position in the total open interest of a particular scrip.
- Client(s)/Group of Client(s) not reducing/closing their positions in spite of the scrip being in ban period.
- Client(s)/Group of Client(s) activity accounts for a significant percentage of the total trading in the contract/securities at the Trading member and exchange level.
- Monitor the trading pattern of Client(s)/Group of Client(s) who have Open Interest positions/concentration greater than equal to the thresholds prescribed.
- Identify the scrips where there is sudden increase in volume or rate by comparing the Exchange volume.
- Check whether SMWML has contributed substantial volume (more than 25 %) in such scrips. Identify clients who have contributed more than 25 % of the volume at the Exchange. Check for intimation letter uploaded by the Stock Exchange for the purpose of Additional Margin.
- Identify the clients who are trading frequently in the scrips (more than 3 times in last five days).

(xiii) Order book spoofing i.e. large orders away from market

- 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
- 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.

(xiv) Impact of Trading Pattern on Price and Volume of the Scrip

- Identify the days on which the client has taken concentrated positions in the scrip and Compare price and volume on the Exchange on said dates to ascertain whether:
 - ✓ Increase in price or volume beyond 20%.
 - ✓ Client has taken positions at day's high or low rates.

(xv) Review of Client Receipts / Payments

Review of Receipts/Payment details of the Client in SMWML having unusual pattern of funds movement. Analyze the Receipts & Payments of the client on daily basis and on Q-to-Q basis. Daily Bank Reconciliation on a Maker-Checker basis to be conducted to scrutinize Dishonour of Cheques.

(xvi) Relation of Client with the Management/ Promoters of the Company

- Check whether the client is related to management or promoters of the company in whose scrip client is trading.

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- Also check whether the client is holding more than 1% of the shares of the company.

(xvii) Review of KYC & Turnover Vis-à-vis Financial Income Submitted by Client

- Review the KYC and supporting documents submitted by the client.
- Validate volume done by the client with his financial net worth and margin provided.
- Identify the clients whose turnover is disproportionate with the Annual Income provided in KYC.
- Review the Risk categorization of the client and categorize the client based on the validation done.
- Scrutinize the Transactions of the clients and follow up with the concerned branches for collection of the latest financials. Seek details from Branch on the occupation, social and financial status of client. If Branch feedback on client is not satisfactory, refer the case to the Principal Officer.

(xviii) Graded Surveillance Measures (GSM):

In continuation with the various measures implemented above to enhance market integrity and safeguard interest of investors, the Compliance Officer and Risk Management Team shall also implement the Graded Surveillance Measures (GSM) on securities that witness an abnormal price rise that is not commensurate with financial health and fundamentals of the company.

At present, there are 6 stages defined under GSM framework viz. from Stage I to Stage VI. Surveillance action has been defined for each stage. Once the security goes into a particular stage, it shall attract the corresponding surveillance action. Stage wise Surveillance actions are listed below –

Stage	Surveillance Actions
I	Transfer to Trade for Trade with price band of 5% or lower as applicable.
II	Trade for Trade with price band of 5% or lower as applicable and Additional Surveillance Deposit (ASD) of 100% of trade value to be collected from Buyer.
III	Trading permitted once a week (Every Monday) and ASD of 100% of trade value to be collected from Buyer.
IV	Trading permitted once a week (Every Monday) with ASD of 200% of trade value to be collected from Buyer.
V	Trading permitted once a month (First Monday of the month) with ASD of 200% of trade value to be collected from Buyer.
VI	Trading permitted once a month (First Monday of the month) with no upward movement in price of the security with ASD of 200% of trade value to be collected from Buyer.

The Risk Management Team has to be extra cautious and diligent while dealing in such securities as they have been placed under higher level of surveillance. A file

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containing stage wise GSM details is available on the website of NSE and BSE at the following link:

- https://www.nseindia.com/invest/content/equities_surv_actions.htm
- https://www.bseindia.com/markets/equity/EQReports/graded_surveil_measure.aspx

GSM framework shall work in addition to existing actions undertaken by the Exchange on the company's securities.

(xix) Additional Surveillance Measure (ASM)

The Compliance Officer and Risk Management Team shall also implement Additional Surveillance Measure along with the aforesaid measures on securities with surveillance concerns based on objective parameters viz. Price variation, Volatility etc.

The shortlisting of securities for placing in ASM is based on objective criteria covering the following parameters:

- High Low Variation
- Client Concentration
- No. of Price Band Hits
- Close to Close Price Variation
- PE ratio

The surveillance actions applicable for the shortlisted securities are as under:

- Securities shall be placed in Price Band of 5% or as directed by the Stock Exchange(s) from time to time
- Margins shall be levied at the rate of 100%.

ASM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

5. Unsolicited Messages (SMS Stocks):

5.1 Clients are advised to remain cautious on the unsolicited emails and SMS advising investor to buy, sell or hold securities and trade only on the basis of informed decision.

5.2 Investors are also requested to share their knowledge or evidence of systemic wrongdoing, potential frauds or unethical behavior through the anonymous portal facility provided on Exchange website and mail at the following addresses:

- invg@nse.co.in
- investigation@bseindia.com

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5.3 In recent past, Exchange has come across SMS tips being circulated whereby as a festive bonanza, various stocks are being recommended with higher price targets leading to heightened trading activities in such stocks.

5.4 Stewart & Mackertich advises their clients to exercise caution towards unsolicited emails and SMS and also request their clients to buy, sell or hold securities and trade only on the basis of informed decision. Clients are further requested not to blindly follow these unfounded rumours, tips etc. and invest after conducting appropriate analysis of respective companies.

5.5 In view of above & as a part of surveillance measure to protect investor's interest and maintain market integrity, Exchange has advised members to exercise greater caution with respect to tips / rumours circulated via various mediums such as analyst websites, social networks, SMS, WhatsApp, Blogs etc. while dealing in the securities listed on the Exchange on behalf of their clients.

5.6 The Securities identified by Exchange(s) in which unsolicited SMS are circulated shall be kept suspended and barred from further buying & selling by Stewart & Mackertich and shall be monitored on regular basis.

5.7 The Clients shall remain cautious on the unsolicited emails and SMS advising to buy, sell or hold securities and trade only on the basis of informed decision.

5.8 Stewart & Mackertich may in exceptional circumstances, where the Client has dealt in "SMS Stocks, shall withhold the pay-out of funds and/or securities of the Client and/or suspend the Demat Accounts for Debits, without assigning any reasons, to adjust the Traded Value of Trades in such SMS Stocks with retrospective effect and transfer the same to the Designated Bank Account earmarked for this purpose as mandated by Stock Exchange(s)/SEBI from time-to-time and retain the same till directed by the Stock Exchange(s)/SEBI for such release.

6. Time Frame for Disposition of Alerts:

The above procedure should be completed within 15 calendar days from the last trading day of the month. In case the matter prolongs beyond 15 days the same should be reported to the Board of Directors, by the Compliance Officer, citing reasons for such delay. The Compliance Officer may seek extension of the time period from the Exchange, whenever required, under intimation to the Board of Directors.

7. Management Information System (MIS):

7.1 A Monthly MIS Report shall be put up by the Compliance Officer to the Board of Directors on the number of alerts pending at the beginning of the month, generated

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during the month, disposed off during the month and pending at the end of the month.

7.2 Internal Auditor shall verify and submit separate report with regard to “Surveillance Policy” on a monthly basis and the actions taken in respect of the Compliances made and pending actions, if any.

8. Record Maintenance & Reporting:

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

7.2 The Compliance Officer shall be assisted by the Risk Management Team and the KYC & KRA Officer 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.

7.3 Each alert received from the exchange 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 for review.

9. Relevant Stock Exchange Circulars:

Exchange	Date	Circular Reference
National Stock Exchange of India Limited	07-Mar-2013	NSE/INVG/22908
	17-Nov-2017	NSE/INVG/36333
	21-Feb-2018	NSE/SURV/37024
	15-May-2018	NSE/INVG/37765
	07-Jul-2018	NSE/INVG/38270
	10-Jul-2018	NSE/INVG/38284
	05-Feb-2019	NSE/SURV/40148
BSE Limited	20-Feb-2013	20130220-23
	07-Mar-2013	20130307-21
	17-Nov-2017	20171117-18
	15-May-2018	20180515-39
	06-Jul-2018	20180706-45
	10-Jul-2018	20180710-22
	05-Feb-2019	20190205-54
