NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all members of the Exchange
Circular No : NCDEX/SURVEILLANCE & INVESTIGATION-002/2025
Date : January 02, 2025
Subject : Measures to instil confidence in securities market - Brokers' institutional mechanism for prevention and detection of fraud or market abuse - update

This has reference to SEBI circular (Reference no. SEBI/HO/MIRSD/MIRSD-PoD-/P/CIR/2024/96 dated July 04, 2024) titled 'Measures to instil confidence in securities market – Brokers' Institutional mechanism for prevention and detection of fraud or market abuse' and Exchange circular NCDEX/COMPLIANCE-051/2024 dated 8 July 2024.

As required in the SEBI circular, a guidance note is placed at **Annexure - A** to:

1. Recommend best practices to be adopted by the Trading Member for effective trade surveillance operations;
2. Describe some common types of market abuse practices and how to identify them; and
3. Provide an accountability matrix for different types of suspicious behaviour.

Members are advised to take note of the above and ensure compliance.

In case of any further queries, members are requested to email us at askus@ncdex.com

For and on behalf of
National Commodity & Derivatives Exchange Limited

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For further information/clarifications, please contact

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Annexure – A Guidance Note

1. The objectives of this guidance note are to:

1.1. Recommend best practices to be adopted by the Stock Broker for effective trade surveillance operations;

1.2. Describe some common types of market abuse practices and how to identify them;

1.3. Provide an accountability matrix for different types of suspicious behaviour.

2. This guidance note is to be read in conjunction with the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 ("PFUTP Regulations") and SEBI (Prohibition of Insider Trading) Regulations, 2015 ("PIT Regulations"), and various circulars issued by SEBI and the Stock Exchanges from time to time, particularly with regard to trade surveillance, and is divided into following three parts:

2.1. Indicative list of some of the most common market abuse practices along with factors to be considered when assessing such practices;

2.2. Indicative list of entities who should be surveilled, controls for monitoring and consequences of potential fraud or market abuse;

2.3. Accountability matrix.

3. The scenarios and factors identified in the guidance note are neither exhaustive nor definitive, and their monitoring and investigation processes should be tailored to be commensurate with the complexity of each case.

4. Trading Members are strongly encouraged to adopt the best practices stated within this guidance note. SEBI/Exchanges will refer to the guidance note in future inspections to evaluate the Stock Brokers' trade surveillance programmes.

5. Implementation standard

This document lay out the implementation measures for carrying out surveillance of client behaviour through analysing the pattern of trading done by clients, detection of any unusual activity being done by such clients, reporting the same to stock exchanges and taking necessary measures to prevent any kind of fraudulent activity in the market in terms of the regulatory requirements prescribed by SEBI and Market Infrastructure Institutions (MIIs).

5.1 Board Approved Policy

The surveillance policy of the Trading member shall be approved by the apex body i.e. 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 at least once in a year by the apex body to keep it in line with the market trends.

5.2 Resources for undertaking Surveillance monitoring and review activity

5.2.1 Human Resource:

5.2.1.1 Depending on the size, nature and complexity of its business, the Trading Member shall adequately staff the surveillance function.

5.2.1.2 "Principal Officer" shall have the same meaning as assigned to it under the Prevention of Money-Laundering (Maintenance of Records Rules), 2005.

5.2.1.3 Mid and Senior level staff of the Trading Member (including the Principal Officer) handling KYC and Surveillance Activity shall mandatorily have the following NISM e-learning Certification:

5.2.1.3.1 Staff handling KYC - AML - KYC and Customer Due Diligence

5.2.1.3.2 Staff handling Transaction Monitoring - AML - Transaction Monitoring and Suspicious Transaction Reporting.

5.2.1.3.3 The Principal Officer - Certified Anti-Money Laundering Manager (CALM)

5.2.1.4 Existing mid and senior level employees handling the above activity shall complete the e-learning Certification within 1 year from the date of issuance of these guidelines.

5.2.1.5 The Trading Member shall have an ongoing employee training programme so that the members of the staff are adequately trained in AML/Surveillance obligations and apprising on the Trading Member's surveillance policy. Such training shall have specific focuses for frontline staff, back-office staff, compliance staff, risk management staff and staff dealing with new clients. The said training shall be conducted at least once in a year.

Summary:

Small **Active UCCs <2,000 as on 31-Mar of the previous year**	**Medium** **Active UCCs between 2,000 and 50,000 as on 31-Mar of the previous year**	**Large** **Active UCCs >50,000 as on 31-Mar of the previous year (Other than QSBs)**	**Huge** **Qualified Stock Brokers (QSBs)**
▪ Any of the Principal Officer (PO) / Designated Director (DD) / Compliance Officer (CO) can additionally handle the Surveillance Activities.	▪ Set up a separate Surveillance Department / Team ▪ Any of the Principal Officer (PO) / Designated Director (DD) / Compliance Officer (CO) can additionally handle the Surveillance Activities. ▪ All mid and senior level Surveillance Team members should have mandatory / relevant certification from NISM.	▪ Set up a separate Surveillance Department / Team ▪ Appoint any of the Principal Officer (PO) / Designated Director (DD) / Compliance Officer (CO) as Chief Surveillance Officer (CSO) ▪ The surveillance Team should be adequately staffed / resourced. ▪ All mid and senior level Surveillance Team members should have mandatory / relevant certification from NISM.	▪ Set up a separate Surveillance Department / Team ▪ Appointing a Chief Surveillance Officer (CSO) whose job is only Surveillance (can be PO / DD / CO) ▪ The surveillance Team should be adequately staffed / resourced. ▪ All mid and senior level Surveillance Team members should have mandatory / relevant certification from NISM.

5.3 Systems for alert generation:

5.3.1 Considering the requirement that the Trading Member need to ensure that they have adequate surveillance systems in place, the following is to be ensured depending on the size of their clientele business:

Sr. No.	Number of active UCCs with Trading member	Automated System Driven (In-house or Vendor based) Alert Generation System
1.	2,000 and above	Mandatory
2.	<2000*	Optional. They may have manual process of generating the alerts.

* At the end of each Calendar Year, the Trading Member shall evaluate whether they have crossed the given threshold, then within next 1 year, they shall implement Automated System.

5.3.2 The Trading Members shall customize its surveillance systems and internal controls in a manner that is commensurate with the complexity of the transactions being undertaken by it and its business activities.

5.3.3 Exchanges may empanel vendors for surveillance software similar to back-office software in order to ensure that the solutions used by members cover the requirements prescribed by MII (since such a system is mandatory for brokers with more than 2000 clients as per proposed guidelines).

Summary:

Small **Active UCCs <2,000 as on 31-Mar of the previous year**	**Medium** **Active UCCs between 2,000 and 50,000 as on 31-Mar of the previous year**	**Large** **Active UCCs >50,000 as on 31-Mar of the previous year (Other than QSBs)**	**Huge** **Qualified Stock Brokers (QSBs)**
▪ Can have a manual process for alert generation	▪ Mandated to have an alert generation system (in house or vendor based)	▪ Mandated to have an alert generation system (in house or vendor based)	Mandated to have an alert generation system (in house or vendor based)

5.4 Client Screening and Due Diligence

5.4.1 The Trading Member shall strictly adhere to the KYC guideline as prescribed by SEBI, Exchanges, KRA and CKYC.

5.4.2 They shall not allow any client to trade unless they have complied with the KYC Guidelines.

5.4.3 The Trading Member shall follow SEBI Master circular on AML on client screening and due diligence.

5.4.4 Summary:

Small **Active UCCs <2,000 as on 31-Mar of the previous year**	**Medium** **Active UCCs between 2,000 and 50,000 as on 31-Mar of the previous year**	**Large** **Active UCCs >50,000 as on 31-Mar of the previous year (Other than QSBs)**	**Huge** **Qualified Stock Brokers (QSBs)**
▪ Adherence to Know Your Client (KYC) Norms ▪ Compliance with KYC Registration Agency (KRA) ▪ Adherence to SEBI Master Circular w.r.t Anti-Money Laundering (AML) ▪ Compliance with Prevention of Money Laundering Act (PMLA) requirements	▪ Adherence to Know Your Client (KYC) Norms ▪ Compliance with KYC Registration Agency (KRA) ▪ Adherence to SEBI Master Circular w.r.t Anti-Money Laundering (AML) ▪ Compliance with Prevention of Money Laundering Act (PMLA) requirements	▪ Adherence to Know Your Client (KYC) Norms ▪ Compliance with KYC Registration Agency (KRA) ▪ Adherence to SEBI Master Circular w.r.t Anti-Money Laundering (AML) ▪ Compliance with Prevention of Money Laundering Act (PMLA) requirements	▪ Adherence to Know Your Client (KYC) Norms ▪ Compliance with KYC Registration Agency (KRA) ▪ Adherence to SEBI Master Circular w.r.t Anti-Money Laundering (AML) ▪ Compliance with Prevention of Money Laundering Act (PMLA) requirements

5.5 Type of Alerts to be generated and/or reviewed

5.5.1 The Trading Members shall generate transactional alerts based on the criteria/red flag indicators provided by the Exchanges from time to time, carry out review of the same and take the necessary action, wherever required.

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

5.5.3 The indicative themes applicable to ALL Trading Members.

5.5.3.1 Client / group of clients, as identified by the trading member, accounting for a significant percentage of the total trading activity in a commodity / contract as compared to the market.

5.5.3.2 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 commodity / contract as compared to the market.

5.5.3.3 Disproportionate trading activity vs reported income / Net worth.

5.5.3.4 Frequent changes in KYC submitted by clients.

5.5.3.5 Consistency in profit / loss at client / group of clients' levels, rationale for such trading activities.

5.5.3.6 In case of concerns of trading activity of a client or a group of clients in a commodity, 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.

5.5.3.7 Trading activities of accounts of relatives* of entity to identify any sort of synchronized / coordinated trading.

5.5.4 The indicative themes additionally applicable to Trading Members who have facility of internet-based trading.

5.5.4.1 Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location)

5.5.4.2 The Trading Members are also required to review and take the necessary action on the transactional alerts provided by the Exchanges.

5.5.4.3 Alerts as specified above to be monitored by the Trading Member on a monthly/daily basis.

5.5.4.4 The Trading Member shall review and recalibrate, wherever required, the threshold set at least once in a year to ensure adequacy of the same.

5.5.5 Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs) - Comprehensive Operating Guidelines (Refer Exchange Circular - NCDEX/COMPLIANCE-056/2023 dated June 02, 2023)

5.5.5.1 QSBs shall over and above transaction alerts as provided by Exchanges monitor the following alerts on a monthly basis:

5.5.5.1.1 Clients having significantly higher Pay-in obligation compared to Income declared or Net Worth uploaded in the UCC system of the Exchange.

5.5.5.1.2 Unrelated clients having common Mobile Numbers or Email Ids.

5.5.5.1.3 Unrelated clients having used common devices for trading. (Using device identifiers data)

5.5.5.1.4 Monitor client activity specifically in deep OTM contracts where clients are incurring losses.

5.5.5.1.5 Regular campaigns with respect to password sharing.

5.5.5.1.6 Repeated delivery default by a client wherein a default on delivery obligations takes place 3 times or more during a six-month period on a rolling basis.

5.5.5.2 Further, QSBs shall monitor the following alerts on daily basis:

5.5.5.2.1 Close monitoring to client onboarding process including factors like clients on-boarded from same location, after on-boarding either no trading or trading with very less trades and trade value.

5.5.5.2.2 Regular interaction with retail clients trading only in options from a product suitability perspective.

5.5.5.2.3 Orders/trades resulting into artificial boost in the price of a commodity. Patterns such as Pump and Dump and vice versa.

5.5.5.2.4 Client placing large orders and cancelling such orders without intention to execute a trade and creating a false impression of artificial demand in the contracts.

5.5.5.2.5 Order spoofing client activity.

5.5.5.2.6 Client/Related client's concentration in commodity to Exchange volumes.

5.5.5.2.7 Circular trading/Reversal pattern

5.5.5.2.8 Maintenance of client watchlist based on historical market manipulations observed at TM end. Monitoring of such clients.

5.5.5.2.9 Front Running by Dealers/Clients to large trades of TM.

5.5.5.2.10 Compliance of Surveillance Obligation circular - NCDEX/SURVEILLANCE & INVESTIGATION-081/2020. Monitoring of themes enumerated by Exchange in point 2.

5.5.5.2.11 Pro-actively identifying manipulative/error trades/fat finger by placing adequate preventive/detective controls.

5.5.5.2.12 Monitoring of trading activity of clients in Long dated option contracts.

5.5.5.2.13 Effective monitoring of trading activity of clients in stocks forming part of Surveillance actions (ASM, GSM, unsolicited messages framework).

5.5.5.2.14 Effective monitoring of other market abuse practices covered under SEBI (FUTP) regulations and SEBI (PIT) regulations.

5.5.5.2.15 Linked clients being on the same side i.e., Long or Short and cumulatively controlling substantial proportion of the market open interest in a particular commodity/ contract.

5.5.5.3 Any of the Principal Officer (PO) / Designated Director (DD) / Compliance Officer (CO) / Chief Surveillance Officer (CSO), as applicable will decide the thresholds along with documented rationale.

5.5.5.4 The review report of thresholds to be submitted to the apex body at least once a year.

5.5.6 Factors to be considered for generating alerts:

Alert #	**Short description of the alert (based on alerts listed by exchanges in their circulars from time to time)**	**Factors to be taken into account for generating alerts ***
1	Client / related group of clients has a large share of traded volume in contracts of a particular underlying	1. Volume as % of daily exchange volume 2. Volume as % of the last 30 days exchange average volume (for QSBs only)
2	Client / related group of clients dealing in illiquid contract near the price bands in small quantities	Frequency of such trades
3	Margin obligations disproportionate to declared income / Networth (peak of the month)	If more than max (x times n/w or y times income)
4	Net funds pay-in/ pay-out during a period (one month) disproportionate to declared income/ Networth	If more than max (x times n/w or y times income)
5	Frequent changes in any element of KYC (for mule accounts)	Frequency of such changes of same element

Alert #	Short description of the alert (based on alerts listed by exchanges in their circulars from time to time)	Factors to be taken into account for generating alerts *
6	Clients making net profit/ losses over a period which is a significant amount as compared to their income/ Networth in cash segment beyond a particular threshold	If more than max (x times n/w or y times income)
7	Order placed by multiple unrelated clients from the same IP/ device in case of internet-based trading clients	If more than x clients
8	Repeated delivery default by a client	If more than x times in half year
9	Multiple unrelated clients (more than X) being onboarded online from the same device (for QSBs only) (other than permitted e.g. whitelisted employees/ Authorised Persons (APs)	If more than x clients
10	Circular trading/Reversal pattern at same TM above a threshold over a period of 1 month	Where profit loss is more than x
11	Front Running by Dealers/Clients to large trades of the Trading Member	Repeated trades by dealer in same security and before order of more than x crores done in the firm
12	Substantial proportion of the market open interest in a particular commodity / contract	If more than x%

* Thresholds to be determined by brokers as per their business size.

Every Internal / Exchange alert should be reviewed periodically by the stockbroker at least every 30 days till such time the alert is open.

5.6 Obligation of Trading Members and its Employees, Internal Controls

5.6.1 The Trading Member shall have adequate systems in place to ensure that its proprietary accounts are used only for the purpose of carrying out proprietary trades and that its operations are in accordance with the requirements as may be specified by the Board or the stock exchanges from time to time.

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▪ All proprietary operations to be reviewed by Principal Officer (PO) / Designated Director (DD) / Compliance Officer (CO) / Chief Surveillance Officer (CSO), as applicable and report submitted to its apex body at least once a year.	▪ All proprietary operations to be reviewed by Principal Officer (PO) / Designated Director (DD) / Compliance Officer (CO) / Chief Surveillance Officer (CSO), as applicable and report submitted to its apex body at least once a year.	▪ All proprietary operations to be reviewed by Principal Officer (PO) / Designated Director (DD) / Compliance Officer (CO) / Chief Surveillance Officer (CSO), as applicable and report submitted to its apex body at least once a year along with recommendatory internal auditor report on this topic.	▪ All proprietary operations to be reviewed by Principal Officer (PO) / Designated Director (DD) / Compliance Officer (CO) / Chief Surveillance Officer (CSO), as applicable and report submitted to its apex body at least once a year along with recommendatory internal auditor report on this topic.

5.6.2 The Trading Member shall ensure that

5.6.2.1 Its trading terminals are used only by its employees (including employees of holding / subsidiary companies) and / or Authorised Persons and

5.6.2.2 only at locations approved by the Stock Exchanges and

5.6.2.3 that such terminals shall not be used by its clients in any form or manner.

Small Active UCCs <2,000 as on 31-Mar of the previous year	Medium Active UCCs between 2,000 and 50,000 as on 31-Mar of the previous year	Large Active UCCs >50,000 as on 31-Mar of the previous year (Other than QSBs)	Huge Qualified Stock Brokers (QSBs)
▪ Exercise Caution during allotment of trading terminals and upload details to the Market Infrastructure Institutions (MIIs) ▪ Maintain attendance sheet or webcam / CCTV etc.	▪ Exercise Caution during allotment of trading terminals and upload details to the Market Infrastructure Institutions (MIIs) ▪ Maintain attendance sheet or webcam / CCTV etc. ▪ Recommendatory surprise visits / random inspections	▪ Exercise Caution during allotment of trading terminals and upload details to the Market Infrastructure Institutions (MIIs) ▪ Maintain attendance sheet or webcam / CCTV etc. ▪ Mandatory surprise visits / random inspections	▪ Exercise Caution during allotment of trading terminals and upload details to the Market Infrastructure Institutions (MIIs) ▪ Maintain attendance sheet or webcam / CCTV etc. ▪ Mandatory surprise visits / random inspections

5.6.3 The stock broker shall establish and maintain documented processes and systems to detect potential mule accounts or suspicious activity. All categories of stock brokers are required to make a Standard Operating Procedure (SOP) as under:

5.6.3.1 For Individual Clients - Authority to operate trading account given to other than family members defined under Companies Act, 2013 or SEBI registered entities.

5.6.3.2 For Non-Individual Clients - Authority to operate trading account other than employees (including group company employees), apex body members (directors, partners, trustees, etc.) and promoter/ promoter group.

5.6.4 Any employee of the stock broker, upon having knowledge of any fraud, market abuse or suspicious activity shall forthwith inform the same to the senior management.

5.6.4.1 Every year, broker to send appropriate communication to all the employees on this reminding the above obligations. This requirement shall be recommendatory in case of Small TMs and mandatory in case of Medium TM, Large TM and QSBs.

5.7 Escalation and reporting mechanisms.

5.7.1 The apex body i.e. Audit Committee or the Board of Directors or persons of other equivalent or analogous rank of the stockbroker, shall review the compliance with the provisions of the framework under this Chapter of these regulations not less than once in a quarter and shall verify the adequacy and efficiency of the systems for internal control and reporting by analysing the relevant data.
Quarterly MIS is required to be submitted to the apex body on a quarterly basis.

5.7.2 The Trading Members shall on the detection of any suspicious activity, inform the same along with the details to the stock exchanges, as soon as reasonably possible, but in any case not later than forty eight hours from such detection, in such manner as may be specified by the Board or the Stock exchanges from time to time. Trading Members are required to inform the details of suspicious activity via email within 48 hours of the detection of suspicious activity.

5.7.3 The Trading Members shall submit a summary analysis and action taken report on instances of suspicious activity, fraud and market abuse or a 'nil report' where no such instances were detected, on a half-yearly basis to the stock exchanges.

Trading Members shall communicate to the Exchange with respect to any suspicious activity in a manner provided in NCDEX circular NCDEX/SURVEILLANCE & INVESTIGATION-081/2020 dated October 26, 2020

5.7.4 Any deviation in adherence to internal controls, risk management policy, surveillance policy, policy for onboarding of clients along with the proposed corrective actions for such deviation shall be placed before the appropriate Committee, Board of Directors or such other equivalent or analogous bodies of the stock broker at regular intervals and such deviations shall also form a part of the report to be submitted by the stock broker to the stock exchanges in terms of sub-regulation (3) of this regulation.

Principal Officer (PO) / Designated Director (DD) / Compliance Officer (CO) / Chief Surveillance Officer (CSO), as applicable are required to submit a deviation report to its apex body and Stock Exchanges.

5.7.5 The Trading Members shall obtain guidance from the stock exchanges on any suspicious activity which were identified by it, but the violation of the provisions of any applicable law in respect of such activity could not be ascertained due to the limited information available with the Trading Members.

Trading Members shall communicate to the Exchange with respect to any suspicious activity.

6. Guidance on factors to be assessed while reviewing the alerts

Some of the factors which should be considered when assessing suspicious trading activities for potential fraud or market abuse are listed below:

Type of activity	**Factors to be assessed (indicative)**
Creation of misleading appearance of trading: Trading of a security that occurs at specified prices, volumes and time in a manner agreed upon by the market participants in an attempt to match each other's trades. It may involve a group of clients and/or 'Authorised Persons' acting in concert. Such trading behaviour has the effect of creating a false or misleading appearance of active trading in the security.	• Potential connections and relations between clients, based on KYC • Frequency of occurrence and quantity of matched trades that suggest pre-arranged, wash, or circular trading • Market impact, trades of disproportionate volumes Time proximity of order entries • Thresholds to be determined by brokers as per their business size.
Price manipulation: Trades that have the effect of artificially raising or lowering the market price of a security may create a false market. Such trades which cause significant price movements warrant greater scrutiny on the stock broker's part.	• Unusual price movements • Timing of trades near sensitive periods, such as end of month, quarter, before announcements • Timing of orders concentrated within a short time which causes price movement • Trades causing significant price movements • Thresholds to be determined by brokers as per their business size.

Type of activity	Factors to be assessed (indicative)
Front Running: Trade practice undertaken by a person in possession (directly or indirectly) of non-public information regarding a substantial impending transaction. Normally, this would apply to a person who trades while being privy to a Big Client Order.	• Time proximity of front running order and big client's order • Same or better price of front running order • Frequency and repeated patterns of occurrence • Abnormal profit pattern
Unauthorised Trading: Occurs when a stock broker or an 'Authorised Person' trades in a client's account taking instructions on orders from a third party (including the 'Authorised Person' himself) with or without the client's prior authorisation empowering the third party to trade on his behalf. This is done to hide the true identity of the person operating the account.	• 'Authorised Person' with unusual or high volume of error account activities. • Same mobile number tagged to different client accounts. • Brokers shall exercise due diligence in case of same mobile number tagged to different client accounts. • Unusually high number of trading accounts opened / managed under the same person. • Unusually high number of clients executing trades from the same device.
Mule Accounts	• Payin obligation / Margin obligation which is disproportionate to reported income / Networth. • Brokers shall exercise due diligence in case Pay in obligation / Margin obligation is found to be disproportionate to reported income / Net worth. • Same mobile number / email id tagged to different client accounts. • Potential connections and relations between clients, based on KYC.
Pump and dump of securities: A manipulative scheme in which a person or group of persons tries to increase the price of a security using fake information. They do this by using social media and online forums to create	• A marked increase in anomalous price moves in the market • Elevated trading activity in illiquid commodity

Type of activity	Factors to be assessed (indicative)
a sense of excitement in a security or spread false news. They then sell (or 'dump') their securities and take a profit, and other security holders suffer as the security price falls.	• MIIs and brokers shall have organised social media campaigns with regard to certain securities. • Aggressive purchasing by one or several accounts to have a significant impact on price and encourage other traders to participate in the buying activity. This activity further impacts the price of the underlying commodities.
Order Spoofing: A person submits a large (non-bonafide orders) but not marketable limit order that raises the bid price of a security (or depresses the offer price of a security in case of a large sell order) and/or greatly increases the quoted size at or around the current best bid price (best offer price in case of non bonafide sell order). The large order causes market participants to match or better the price of the order. The person then cancels the large order and enters (virtually at the same time or just before the cancellation of the large non-bonafide orders), a sell order (buy order in case of non-bonafide large sell order) that matches the buy order of other investors at a higher price (sell order of other investors at a lower price).	• Frequent cancellation or cancellation of large number of orders. • Placement of large orders above or below the prevailing price.
Acting in Concert in a particular Commodity Derivatives for the purpose of circumventing the position limit	Additional Relationships / Criteria to ascertain whether persons are acting in concert: a) (i) Relatives / Immediate Relatives for individual as defined in Companies Act (ii) Promoters of the company as

Type of activity	Factors to be assessed (indicative)
	provided in Annual return filed under the Companies Act (iii) Co-parceners of HUF (iv) Clients having same/ similar postal address, e-mail address, bank accounts, website domain name or contact numbers b) Linked clients being on the same side i.e. Long or Short and cumulatively controlling substantial proportion of the market open interest in a particular commodity/ contract, c) Orders being placed at or around the same time at relatively near prices by group of clients, d) Such clients take substantial position in a commodity.

7. Indicative list of entities who should be surveilled, controls for monitoring, and consequences of potential fraud or market abuse covered are as follows:

Entity being surveilled	Controls for Monitoring	Consequences of potential fraud or market abuse
Client / relatives of client	Trade Surveillance alerts to trace matched trade with the same Trading Member volume creation, activity in illiquid contract, trading around unusual price movements, frequent cancellation or cancellation of large number of orders etc.	• Unauthorised trading • Order Spoofing • Price Manipulation • Disproportionate trading activity vis-à-vis reported income/net worth • Sudden surge in dormant account • Sudden surge in client trading activity • Client concentration in particular commodity
	As per Surveillance Policy of the Trading members, Pre-trade controls like, additional margins in volatile commodity/contracts, trade execution range, etc either at client level or at the commodity level.	

Entity being surveilled	Controls for Monitoring	Consequences of potential fraud or market abuse
	Monitoring for disproportionate trading activity vis-à-vis reported income/net worth, sudden surge in Dormant account / client trading activity/ / Client concentration in particular commodity etc. As a preventive measure Trading Member may consider implementing online alerts / nudges.	
	IP address / Device Identification of multiple client codes trading from the same location/device.	• Mule accounts that attempt to conceal malpractices.
	Monitoring of Trading activity with the declared income / Networth.	• Disproportionate trading activity vis-à-vis reported income/net worth • Brokers shall exercise due diligence in case Pay in obligation / Margin obligation is found to be disproportionate to reported income / Net worth.
	Calling and verifying clients on sample basis based on stock broker's internally defined scenarios	• Unauthorised trading or mis-selling
	Email alert on old contact details on change in email id of retail clients	• Fraudulent contact details updation • Fraudulent Account opening
	Internal alert for same name and DOB with Multiple PAN at the time of Account opening.	
	Internal Alert for same bank account mapped to multiple clients, controls during account opening to scrub	• Monitoring for frequent changes in KYC details / account opening details

Entity being surveilled	Controls for Monitoring	Consequences of potential fraud or market abuse
	against existing bank details, In-person verification.	
	Same email/phone number mapped to multiple non-family accounts Unusual trading pattern	• Mule accounts
Employees	Listening to dealer calls (voice surveillance)	• Unauthorized trading • Password Sharing • Front running • Fraud • Data misuse
	Email surveillance, coverage to be based on internal policy of stock brokers	
	Surprise visit of dealing rooms	
	Access to trading floor should be access controlled and subject to approvals by designated approvers and needs to be implemented across all the brokers.	
	IP analysis to track internal IPs for self-trading client. For eg IBT clients trading using IP of the TM.	
	Restriction on mobile and smart watch or any other device capable of communication both incoming and outgoing in dealing room and needs to be implemented across all the brokers.	
	Having suitable internet access policies to restrict social networking sites on office network except for legitimate official purposes and to protect data upload on third party websites.	

Entity being surveilled	Controls for Monitoring	Consequences of potential fraud or market abuse
	Code of Conduct for Dealers / Front running Policy	
	Reporting of employee misconduct/frauds to senior management/committee	
	Access to drives/folders having Unpublished Price Sensitive Information (UPSI) restricted to relevant employees only	
	Access control mechanism by giving access to client data on a need to know basis	
	Background screening checks at the time of hiring	
	Whistle blower policy to report any fraudulent activity	• Internal fraud or wrongdoing
	Monitoring email sent outside organisation for senior employees	• Data protection or any wrongdoing
Authorised Persons	Surprise visit at Authorised Person's office posing as a client	• Unauthorized trading • Fraudulent trading activity • Offering assured returns • Unauthorized use of terminal • Opening mule accounts
	Social media monitoring to check if Authorised Persons are misusing stock broker's logo or promising any assured return	
	'Authorised Person' level pattern of trading, deviations from normal pattern	
	Recorded call verification on sample basis	
	'Authorised Person' screening against negative databases	
	Calls to clients mapped to 'Authorised Person's on sample basis	

Entity being surveilled	Controls for Monitoring	Consequences of potential fraud or market abuse
CEO / MD / KMPs	Whistle blower policy to report any fraudulent activity.	Internal or market fraud or wrongdoing
	Monitoring email sent outside organisation for senior employees (scope to be discussed in ISF and SEBI)	Data protection or any wrongdoing
Promoters	Whistle blower policy to report any fraudulent activity.	Internal or market fraud or wrongdoing

8. Reporting of status of the alerts generated by the Trading Member or received from the Exchanges:

8.1 To the Board of Directors or any Board appointed Committee

A quarterly MIS shall be put up to the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) in the following format:

Type of Alert	At the beginning of the quarter	Received / Generated during the quarter	Closed during the quarter	Pending at end of the quarter	No. of Exception Case observed

Reasons for pendency shall be discussed and appropriate action taken. The Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) shall be apprised of reasons for pendency and any exception noticed during the disposition of alerts (if any).

8.2 To the Exchanges

Trading Members are required to submit the status of the alerts on a quarterly basis to the Exchange within 15 days from end of the quarter.

Trading members who do not have anything to report, need to submit 'NIL Report' within 15 days from end of the quarter.

8.3 Trading members shall put in placed adequate mechanisms to ensure that the information on the alerts generated, and/or their transactions are under scrutiny, should be not passed on to the investors unless it is explicitly stated by Exchange or SEBI.

9. Accountability matrix

In addition to the above, the stock broker shall have an accountability grid for different types of suspicious behaviour. A model accountability grid is as under:

Who is being surveilled	**Responsibility of trade surveillance on**
CEO/Executive Director(s)/Senior Management / Key Managerial Personnel	Board of Directors in case of or Audit Committee
Promoters	Board of Directors or Audit Committee
Employees	Senior Management /Key Managerial Personnel, Designated Director* and CEO
Clients	Official heading the trade surveillance function under supervision of senior management, Compliance Officer of the stock broker and Designated Director* and CEO
Authorised Persons	Official heading the trade surveillance function under supervision of senior management, Compliance Officer of the stock `broker and Designated Director* and CEO

*"Designated Director" shall have the same meaning as assigned to it under the Prevention of Money-Laundering (Maintenance of Records Rules), 2005.

10. Obligation of Designated Director / Partners / Proprietors and Internal Auditor of the Trading Member:

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

10.2 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.

11. Conflict of Interest

In case of Trading Member who are having more than 2000 active UCC shall identify surveillance department as critical and physically protected to allow only authorised access. The Trading Member to adopt Chinese Wall policies and procedures to prevent unauthorized exchange of information between critical and non-critical departments.

12. Whistle Blower Policy shall define, inter alia,

12.1. Formation of the Whistle Blower Committee which should be consisting of at least two senior members.

12.2. Appointment of Whistle Blower Redressal Head to be appointed who shall be responsible for reviewing the complaints and working under the guidance and instruction of Whistle Blower Committee.

12.3. Dedicated email Id to register/raise concern/complaint.

12.4. Approval of the Policy by the apex body i.e. Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) and conduct annual review of the same.

12.5. The policy should establish procedures to ensure adequate protection of the whistle blowers viz. not disclosing the identity of the whistle blowers and ensuring normal treatment.

12.6. The complaints under this regulation against the Board of Directors including those against the Managing Director, Chief Executive Officer, key managerial personnel, Designated Directors or Promoter shall be addressed to the Audit Committee or other analogous body of the stock broker and the complaints against other employees shall be addressed to the Compliance Officer and shall be a part of the Whistle Blower policy.

13. Annual Policy Compliances

In order to avoid a situation of member changing the policy ex-post facto, it is suggested that members must submit their policy (like RMS policy) to the Exchanges as part of annual compliances and same can be validated during inspection by the Exchanges. It will also act as a repository of best practices in the market which Exchanges can use to not only monitor the surveillance actions but also use the same to enrich the standards for best practices in the market.