AAA INSTITUTIONAL SECURITIES PVT LTD

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CIN: U66120DL2026PTC464792

# SURVEILLANCE POLICY

# FOR

# DEPOSITORY OPERATIONS

# OF

# AAA INSTITUTIONAL SECURITIES PRIVATE LIMITED

## BACKGROUND

In order to strengthen the surveillance framework for the securities market and depository operations, **NSDL and CDSL**, vide their Circular No. **NSDL/POLICY/2021/0072** and **CDSL/OPS/DP/SYSTM/2021/309**, both dated **15th July 2021**, respectively directed all Depository Participants ("DPs") to put in place an appropriate surveillance framework/mechanism to generate automated alerts whenever suspicious transactions are detected in the demat accounts of their clients.

In view of the above requirements, **AAA Institutional Securities Private Limited** ("AAA" or "the Company"), in its capacity as a Depository Participant of NSDL and/or CDSL, has framed this Surveillance Policy for the systematic generation, monitoring, review and disposal of surveillance alerts.

## POLICY OBJECTIVE

The objective of this Policy is to establish an effective mechanism for identification, monitoring, investigation, documentation and reporting of suspicious or unusual transactions in clients' demat accounts.

The surveillance and disposal of alerts shall be undertaken on the following grounds:

1. Receipt of transaction alerts from the Depositories, i.e. NSDL and CDSL.
2. Receipt of transaction alerts generated at the Depository Participant's end.
3. Prescribed timelines for disposition of alerts and maintenance of appropriate documentation.
4. Identification of suspicious activities and the applicable reporting process.
5. Maintenance and preservation of records relating to surveillance alerts.

## OBLIGATION FOR GENERATION OF SURVEILLANCE ALERTS

AAA shall maintain an appropriate surveillance system under which alerts shall be generated at the DP's end and monitored in accordance with this Policy and applicable requirements prescribed by SEBI, NSDL, CDSL and other relevant regulatory authorities from time to time.

The system-generated alerts shall cover, inter alia, the following indicative scenarios:

| Sr. No. | Indicative Surveillance Scenario |
|---|---|
| 1. | Multiple demat accounts opened with the same demographic details. |
| 2. | Communication sent to the registered email ID/address of clients being returned/bounced. |
| 3. | Frequent changes in Client Master details. |
| 4. | Frequent off-market transfers by a client. |
| 5. | Off-market transfers not commensurate with the income/net worth of the client. |
| 6. | Pledge transactions not commensurate with the income/net worth of the client. |
| 7. | High-value off-market transfers immediately following modification of details in the demat account. |

| | |
|---|---|
| 8. | Frequent transfers with reason codes such as Gift/Donation/Off-Market Sale to unrelated parties. |
| 9. | Newly opened accounts where the demat account holding suddenly becomes zero. |
| 10. | Off-market transfers to unrelated accounts. |
| 11. | Suspicious off-market credits and debits. |
| 12. | Off-market delivery in unlisted scrips. |
| 13. | Gift/Donation-related off-market transfers. |
| 14. | Off-market transfers at variance with market value. |
| 15. | Off-market transfers involving suspicious scrips. |
| 16. | Suspicious closure of demat accounts. |

The above scenarios are **indicative and not exhaustive**. AAA shall analyse and review alerts based on the facts and circumstances of each case and, wherever necessary, verify relevant documents and information, including the client's income and net worth, as provided by the client.

## CLIENT DUE DILIGENCE

1. AAA shall carry out due diligence of its clients on a continuous basis in accordance with applicable regulatory requirements.

2. AAA shall ensure that key KYC parameters are updated on an ongoing basis as prescribed by SEBI and that the latest available information relating to the client is appropriately updated in the Depository System.

3. Where required, AAA may obtain additional information, clarification or supporting documents from the client for the purpose of reviewing suspicious or unusual transactions.

## REPORTING AND DISPOSAL OF SURVEILLANCE ALERTS

AAA shall maintain an appropriate **Surveillance Alert Register**, either electronically or physically, for recording and monitoring all alerts generated.

While reviewing surveillance alerts, AAA shall, as applicable:

1. Obtain the rationale/explanation for the transaction from the client.

2. Verify the client's demat statement and relevant transaction details.

3. Obtain supporting documents and information from the client wherever required.

4. Examine the transaction in light of the client's profile, KYC details, income/net worth and other relevant information.

5. After verification of the documentary evidence and other relevant information, record appropriate observations and conclusions in respect of the identified transaction.

6. Determine whether the alert may be **Verified & Closed** or requires further action, including reporting to the Depository, wherever applicable.

## Alerts Received from Depositories

With respect to transactional alerts received from NSDL/CDSL, AAA shall ensure that all alerts are duly reviewed and that the status thereof, including **"Verified & Closed"** or **"Verified & Reported to Depository"**, along with the action taken, is updated **within 30 days**, in accordance with the prescribed procedure.

## Alerts Generated at DP End

With respect to alerts generated internally by AAA, instances having adverse observations shall be reported to the concerned Depository, along with details of the action taken, **within 7 days from the date of identification of the adverse observation**, in accordance with the prescribed procedure.

## RECORD MAINTENANCE

AAA shall preserve the records and documents relating to surveillance alerts, investigations, supporting documents, observations and actions taken in accordance with its PMLA/AML Policy and applicable regulatory requirements.

Records shall be preserved for a minimum period of **8 years**, or for such longer period as may be prescribed under applicable law or regulatory requirements.

This requirement is also subject to the provisions referred to in **SEBI Circular No. SEBI/HO/MRD2/DDAP/CIR/P/2020/153 dated 18th August 2020**.

## MAINTENANCE OF MIS

A **quarterly Management Information System (MIS)** shall be placed before the Board of Directors covering, at a minimum:

- Number of surveillance alerts generated during the quarter;
- Number of alerts disposed of during the quarter;

- Number of alerts pending at the end of the quarter; and
- Such other relevant information or observations as may be considered necessary.

The MIS shall facilitate effective oversight by the Board and monitoring of the implementation of this Surveillance Policy.

## REVIEW OF POLICY

This Surveillance Policy shall be subject to review by the **Internal Auditor of the Company**.

The Internal Auditor shall verify, as part of the audit process:

- Implementation of the Surveillance Policy;
- Effectiveness of the surveillance mechanism;
- Review and disposal of alerts generated during the relevant audit period; and
- Compliance with applicable timelines and documentation requirements.

The Internal Auditor may record observations, deficiencies and/or recommendations relating to the surveillance mechanism and implementation of this Policy in the audit report.

The Policy shall also be reviewed and updated from time to time, wherever necessary, to incorporate changes in applicable SEBI, NSDL, CDSL and other regulatory requirements.

## POLICY APPROVAL

This Policy was approved by the Board of Directors of **AAA Institutional Securities Private Limited** at its meeting held on **[●]** and shall come into effect from the date of approval.