

## SURVEILLANCE POLICY

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## SURVEILLANCE POLICY

### Introduction

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 and regulatory guidelines. It conducts day-to-day monitoring by requesting detailed transaction reports from clients and collecting relevant materials. It prevents manipulation, price distortion, and other market abuses.

In order to facilitate effective surveillance mechanisms, we follow a very well defined and structured Surveillance policy. The policy is applicable to transactions (without any threshold limits) done by various categories of clients i.e. Corporate Clients, and Institutions & Retail Investors.

While the various surveillance functions listed hereunder are already undertaken by various departments as part of their day to activities and reporting functions, it has become imperative to document these policies and guidelines and functional responsibilities at one place as required under recent circulars of the exchanges. This document shall constitute the documented Surveillance Policy as required under NSE Circular No. 831/2003 dated 7th March 2013, BSE Circular No. 20130307-21 dated 07 Mar 2013.

In order to keep the surveillance policies in sync with the market standards and regulatory guidelines, the policy is reviewed periodically by Compliance Officer and Operations team and necessary revisions are initiated from time to time depending up on the market volatility.

### Scope

- **Trading:**  
All orders/trades in equity & derivatives (client and proprietary), across all channels (dealer, IBT, API/algo, mobile/web).

### Governance & accountability

- **Board approval & annual review:** The Board approves this policy and reviews it **at least annually**.
- **Structure:** A dedicated **Surveillance Function** led by the Compliance Officer, with adequate staffing, tools, and independence from dealing/ RMS.
- **Three lines:**
  1. Operations (front office/RMS)
  2. Surveillance/Compliance
  3. Internal auditor will review policy effectiveness and alert handling each cycle.

### Key Features of Surveillance policy

The purpose of the policy is to identify the following important activities / events in order to do further investigation and take suitable actions, if required.

- Identifying Exceptional Trading Activities
- Determining the range of normal trading activity
- Customized alerts on accounts having significant increase in client activity
- Customized alerts on accounts having sudden activity in dormant account

- Alerts on clients /group of clients deal in common scrips, illiquid scrips
- Alerts on clients /group of clients deal in concentrated in a few scrips
- Maintain robust monitoring, record-keeping, reporting, and escalation mechanisms.
- Circular trading\*<sup>i</sup>
- Wash Sales\*<sup>iii</sup>
- Reversal of Trades
- Front running\*<sup>iv</sup>
- Money Laundering and adherence to the Prevention of Money Laundering Act (PMLA) action framework.

### Trading surveillance – Alert Library

We maintain rules (with thresholds justified/documentated) for, inter alia:

- **Abnormal trading patterns:** price/volume spikes; **self-trades**, wash/circular/reversal trades; spoofing/layering; misleading appearance; long-dated options/illiquid contracts.
- **Client behaviour:** dormant account reactivation surges; client/related-client concentration vs market volume/OI; trading inconsistent with income/net-worth; activity in ASM/GSM/ESM/rumour-hit “SMS stocks”.
- **Terminal/device risks:** multiple UCCs from same IP/device; AP-level scrip concentration; password sharing; unusual dealer error-trade patterns; voice/email monitoring risk flags.
- **Operational/market controls:** pre-trade blocks for restricted/illiquid scrips, additional margins/price bands, trade execution ranges; **OTR** and **Algo-ID tagging** monitoring as per NSE circulars.

### Monitoring & Reporting

Following are the detailed parameters for analyzing generating alerts:

- Engaging in a series of transactions that create the impression of activity or influence price movement in a security.
- Sudden jump or spurt in volumes traded by the client compared to previous history, especially when there is no genuine change in ownership.
- Simultaneous buy and sell orders at the same price and quantity by different but colluding parties to create artificial activity or influence price.
- Orders placed away from the market price indicating abnormality in price or volume.
- Regular trading in securities classified as illiquid by the Exchanges.
- Client trading involved in synchronized transactions.
- Trading concentrated in a single scrip or a group of scrips, often in huge quantities or minimum lot sizes.
- Concentrated positions in open interest or high turnover concentration in specific scrips.
- Order book spoofing characterized by large orders placed away from market price.
- Placement of huge orders by clients who consistently maintain debit balances and incur late payment charges.
- Sudden shift from investment-based trading to-day trading or speculative trading.
- Clients requesting sudden exposure limit enhancements by bringing in additional funds or through influence, without actual capital infusion.
- Sudden spurt in trading activity in thinly traded illiquid scrips, particularly near the end of the financial year.
- Unusual financial transactions disproportionate to the client’s declared income, net worth, financial standing, or prior history.
- Alerts generated based on transactional patterns and demographic linkages such as multiple accounts linked by common PAN, email, mobile, bank accounts, or address.

- Frequent and high-value off-market transfers, including pledge transactions that are disproportionate to client's financial profile.
- Sudden trading pattern shifts from investment to speculative or day trading styles.
- Consideration of client financial data (net worth, income, business nature), trading history, margin utilization, delivery patterns, fund movements, and other external information during alert generation.

### Standard Operating Procedures (SOP) for Surveillance

- SOP documents govern processing surveillance alerts, including:
  - Alert generation parameters and thresholds.
  - Timelines for response and disposal (including 30-day rule).
  - Escalation matrix and reporting workflows.
  - Maker-Checker control framework.
- The SOP and alert generation parameters are reviewed and updated periodically by the Compliance Officer.

### Reporting Requirements

- A quarterly MIS report inclusive of:
  - Alerts are pending at the beginning of the quarter.
  - Alerts generated during the quarter.
  - Alerts closed during the quarter.
  - Alerts reported to FIU.
  - Alerts pending at quarter end, with ageing analysis (<1 month, 1-2 months, 2-3 months, 3-6 months, > 6 months) and reason for pendency.
  - Details of any major surveillance actions taken.
- The report pursuant to the alerts, if any during the quarter, is to be intimated to the Board of Directors within 15 days of quarter-end in the prescribed format.

### Escalation Procedures and Alert Handling

- 1. Initial Review:** All alerts generated shall be reviewed by the Surveillance Officer and categorized as Low, Medium, High, or Critical.
- 2. Escalation Levels:**
  - Level 1: Surveillance Officer (initial check)
  - Level 2: Compliance Officer (unresolved/medium risk)
  - Level 3: Senior Management (high risk/repetitive alerts)
  - Level 4: Principal Officer/Board and Regulator (critical/red flag alerts)
- 3. Documentation:** All actions, if any alerts are generated, reasons for pendency, and closure details must be recorded and reported to the Board of Directors.
- 4. Review:** Escalation procedures will be reviewed annually for effectiveness and compliance.

### Record Maintenance

All surveillance records, including alerts, investigation documents, reports, and communication logs, are maintained for a period of 8 years or as stipulated by applicable statutes, ensuring availability for audits and regulatory inspections.

## Roles and Responsibilities

The Compliance Officer is responsible for the overall supervision of surveillance activities, conducting periodic reviews of the policy, escalating issues as necessary, ensuring compliance with all regulatory obligations, and certifying compliance.

The Operations Team handles day-to-day monitoring, generates alerts, conducts investigations, and prepares reports. The Internal Auditor reviews and reports on the effectiveness of the surveillance framework, adherence to the policy, and the accuracy of the quarterly MIS. The Board of Directors holds the responsibility for approving the surveillance policy, reviewing the quarterly MIS reports, and providing governance oversight.

**NOTE:** This Surveillance Policy is placed before the Board of Directors Meeting and approved by them. Any revisions to this policy need to be updated to the Board from time to time.

*i Definition of Circular Trading: "A fraudulent trading scheme where sell orders are entered by a broker who knows that offsetting buy orders, the same number of shares at the same time and at the same price, either have been or will be entered."*

*ii Definition of Pump and Dump: "A scheme that attempts to boost the price of a stock through recommendations based on false, misleading or greatly exaggerated statements. The perpetrators of this scheme, who already have an established position in the company's stock, sell their positions after the hype has led to a higher share price."*

*iii Definition of Wash Sales: "A transaction where an investor sells a losing security to claim a capital loss, only to repurchase it again for a bargain. Wash sales are method investors employ to try and recognize a tax loss without changing their position."*

*iv Definition of Front Running: "The unethical practice of a trading equity based on information from the analyst department before his or her clients have been given the information."*