

SURVEILLANCE POLICY FOR DP

INNOVATE SECURITIES PRIVATE LIMITED (33800)

(A) Objective:

The objective of this policy is to have effective surveillance framework for Depository Participant.

To identify suspicious transactions and report any abnormal activity to the authority and ensure effective implementation of PMLA measures.

To ensure that the key KYC parameters of the clients are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in Depository System.

(B) Scope & Overview:

Presently, CDSL provides transactional alerts based on certain thresholds on fortnightly basis. This file is sent to PMLA division of the DP for further scrutiny and if anything suspicious is identified, the same is reported to FIU.

Now apart from CDSL alerts, the DP shall generate its own alerts manually or electronically based on their own predefined different thresholds and parameters.

The DP is required to dispose off all the alerts within 30 days from the date of alerts generated (DP end) or alerts provided by CDSL, as the case maybe. If there is delay in disposal of alerts, the DP will have to document reasons for delay.

The DP shall take appropriate actions as deemed necessary in accordance with PMLA provisions.

In case of any abnormal activity, the DP shall report the same to CDSL or other authorities.

(C) Obligation of DP to generate Surveillance Alerts:

The DP shall put in place system to generate appropriate surveillance alerts for effective monitoring of transactions done by client. **(w.e.f October 1, 2021)**

The alerts will be generated based on the following parameters:

1. Client has opened several multiple accounts (five or more demat accounts) with the same PAN /mobile number / email id/ bank account no. / Address Etc.
2. Communication (emails/letter) sent on registered Email id/address of clients are getting bounced.

3. If client makes frequent modification request in details of demat A/C i.e. changes in address, email, mobile no., authorized signatory details etc. within tenure of 6 months.
4. Frequent Off market transfer by a client within a specified period.
5. Off market transfer does not commensurate with the annual income/ Networth of the client.
6. Pledge transaction does not commensurate with the annual income/ Networth of the client.
7. Off market transfers of high value immediately after modification of details in demat account.
8. Reasons of off-market transfers provided by client for off-market transfers does not match with the profile of the client especially transfers with reason code Gifts with consideration, frequent transfers with reason code Gifts/Donation to unrelated parties, frequent transfers with reason code off-market sales.
9. Alert for newly opened accounts wherein sudden increase in transactions activities in short span of time and suddenly holding in demat account becomes zero or account becomes dormant after some time.

The DP will take independent judgement on the alerts generated based on facts and verification of relevant documents including income/networth as provided by client and will take appropriate action in order to detect any abnormal or suspicious transaction.

(D) Client due diligence:

To carry out the Due Diligence of their client(s) on an on-going basis.

Furthermore, DP will ensure KYC parameters of the clients are updated and the same gets reflected in the Depository System.

(E) Processing of alerts:

1. DP will identify alerts based on the predefined thresholds and parameters as stated above.
2. DP will review alerts on the basis of transaction rationale, customer profile and will verify demat account statement and shall obtain supporting documents if required.

3. After verifying all aspects mentioned in above Pt. 2, DP will record its observation.
4. Depository (CDSL) will also provide transaction alerts. The DP will review the same and status thereof (Verified and Closed or Verified and Reported to Depository) and action taken will be updated within 30 days. **The procedure for reporting the alerts will be updated as and when communicated by CDSL.**
5. With respect to alerts generated by DP, any adverse observations along with details of action taken will be reported to CDSL within 7 days of the date of identification of adverse observation. **The detailed procedure for reporting will be updated as and when communicated by CDSL.**

(F) Obligation of Compliance Officer:

1. The surveillance activities shall be conducted under overall supervision of Compliance officer.
2. Compliance officer will put a quarterly MIS report before the Board stating the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and action taken during quarter and pending cases at the end of quarter with reasons for pendency and further action plan for closure. Also, the Board shall be apprised of any exception noticed during the disposal of alerts.

(G) Obligation of Internal Auditor/Concurrent Auditor

1. Internal auditor shall review the policy, its implementation, effectiveness and also review alerts generated during the audit period. Internal auditors shall record their observation with respect to the same in their report.
2. Internal auditor shall verify that the quarterly MIS is prepared and placed before the board.

(H) Quarterly reporting of status of the alerts generated by the DP (W.e.f Quarter ending December 2021)

The DP is required to report the status of the alerts on a quarterly basis within 15 days from the end of the quarter in the format prescribed by CDSL.

The DP will also inform CDSL of any major additional surveillance action taken during the quarter (other than alerts reported to Depository).

If there is nothing to report, the DP shall submit "NIL" report to CDSL.

(I) Record Maintenance

DP will maintain electronic or physical register for recording the alerts generated.

Record maintenance of the alerts generated will be kept as stipulated under applicable statutes.

(J) Penalty and Disciplinary action

CDSL may levy penalty for late/non - submission of quarterly report.

During the CDSL inspection, if it is observed that surveillance obligations have not been fulfilled by the DP then appropriate disciplinary action shall be initiated by CDSL.

Delay in processing of alerts and repeated instances of delay in reporting will also result in further disciplinary action.

(K) Review

The DP shall review the policy once in a year.