

National Stock Exchange Of India Limited**Department : SURVEILLANCE**

Download Ref No: NSE / SURV /46161

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Circular Ref. No: 641 / 2020

To All NSE Members

Sub: Surveillance Obligations for Trading Members - Commodity Derivatives Segment

In terms of provisions of the Rules, Bye-Laws and Business Rules of the Exchange and in partial modification to Exchange circular no. NSE/SURV/39138 dated October 11, 2018, the Members of the Exchange are notified as under-

With a view to facilitate effective surveillance at the Member level, the Exchange has been providing following transactional Alerts to Members in accordance with above referred Exchange circulars, so as to enable the Members to detect any abnormality (if any) w.r.t. Client trading activity at the initial stage itself.

(1) Transactional Alerts

Sr. No.	Transactional Alerts	Periodicity of Alerts
1	Significant increase in Client Activity	Monthly
2	Sudden trading activity in dormant account	Monthly
3	Concentrated position in the Open Interest / High Turnover concentration	Daily

In addition to the above transactional alerts, the Exchange shall be providing the following two additional alerts, **w.e.f. November 02, 2020:**

Sr. No.	Transactional Alerts	Periodicity of Alerts
1	Large Trade	Daily
2	Order Spoofing	Daily

The Exchange shall continue to provide these alerts to the Trading Members on Member Portal, a web-based facility, through ENIT-Trade (Others => Transactional Alerts).

Members are requested to analyse these alerts and revert in case of adverse observations, if any, to the Exchange at DL-SURV-COMM@nse.co.in.

Trading Members may please note that the above-mentioned transactional alerts are an indicative list. Members may formulate their own alerts, in addition to the above-mentioned type of alerts, as per their surveillance policy. Further, the Members are required to carry out the following activities:

A) Client(s) Information:

Trading Members are required to carry out Due Diligence of its client(s) on a continuous basis. Further, Members shall ensure that key KYC parameters are updated on a periodic basis as prescribed by SEBI including the following:

- i. Income / Net worth details
- ii. Contact details
- iii. Directors / Partners / Trustees / Karta in case of non-individual clients

Further, the latest information of the client shall also be uploaded in UCC database of the Exchange. Based on this information, the Trading Member shall establish groups / association amongst clients to identify multiple accounts / common account / group of clients. In case of any groups identified / detected based on the grouping criteria as mentioned in the above-referred Exchange circular for Guidelines on Clubbing of Open Positions to monitoring of position limits, the information about such group of connected entities shall also be required to be informed to the Exchange containing including details like name, PAN, relationship, etc.

B) Maintain and Monitor:

Trading Members be advised to maintain profile of the clients participating in commodity derivatives, which may include client category (for e.g. VCP, Trader, Hedger etc.) as well. Further, any sudden change in the trading pattern of the client which is not in line with the profile of client maybe monitored. Also, Members are required to keep a watch on the trading behaviour of their clients and monitor the same in view of their financial soundness / income / net-worth and business background.

C) Analysis:

In order to analyze the trading activity of the Client(s)/ Group of Client(s) or Commodity identified based on above alerts, the Trading Members are required to:

- 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/ warehouse receipt (for commodities with compulsory delivery) or any other documents to satisfy itself.
 1. 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. In case of commodities with compulsory delivery, documentary evidence including warehouse receipt of the Client(s)/ Group of Client(s) for which commodities pay-in have been met, to be sought.
 2. The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the funds for the settlement of such trades actually belongs to the client for whom the trades were transacted.
- c. After analyzing the documentary evidences, including the bank statement / warehouse receipt, the Trading Member shall record its observations for such identified transactions for Client(s) / Group of Client(s). In case where adverse observations are recorded, the Trading Member shall report all such instances to the Exchange within 45 days of the alert generation. The Trading Member may seek extension of the time period from the Exchange, wherever required.

D) Additional Analysis:

Additionally, Members are also advised to take into consideration the following aspects in their analysis

- i. Conduct periodic analysis of trading behaviour of clients who appear repeatedly in the transactional alerts and/or have been repeatedly found to be breaching the norms prescribed by SEBI/Exchange;
- ii. Monitor any sudden trading activity in dormant account and to inform such abnormality to the Exchange;

E) Monitoring and reporting:

- a.** For effective monitoring, Trading Member shall:
1. Frame a surveillance policy covering:
 - a) Receipt of Alerts from Exchange/ generated at member's end.
 - b) Time frame for disposal of alerts and if there is any delay in disposal, reason for the same shall be documented.
 - c) Suspicious/ Manipulative activity identification and reporting process
 - d) Record Maintenance
 2. The surveillance policy of the Trading Member shall be approved by its 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.
 3. 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) on the number of alerts pending at the beginning of the quarter, generated during the quarter, disposed of during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed and appropriate action taken. Also, 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 any exception noticed during the disposal of alerts.
 4. The surveillance process shall be conducted under overall supervision of its Compliance Officer.
 5. Designated Directors / Partners / Proprietor / Compliance Officer would be responsible for all surveillance activities carried out by the Trading Member and for the record maintenance and reporting of such activities.
- b.** 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. This will be effective as and when the internal audit guidelines become applicable for trading members.

F) Details to be Provided Quarterly Basis:

Trading Members are also required to provide the status of the alerts forwarded to them on a quarterly basis, in the following format to the Exchange.

Name of Alert	No. of alerts under process at the beginning of quarter	No. of new alerts received in the quarter	No. of alerts closed in the quarter	No. of alerts pending / under process at the end of quarter

The above details shall be mailed to DL-SURV-COMM@nse.co.in for the previous quarter within 15 days from last trading day of the quarter starting from the quarter end, i.e., starting from quarter ended December 2020.

The above guidelines are illustrative and not exhaustive. Based on facts and circumstances, the Members are required to exercise their independent judgment and take adequate precautions while handling the processing of transactional alerts.

Trading Members are required to take a note of the above and put in place the required modifications in their procedures, policies and processes etc. as may be required.

For National Stock Exchange of India Limited

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