NAM SECURITIES LIMITED

SURVEILLANCE SYSTEM

Nam Securities Ltd. (NSL) is a professional broking house having more than 400 clients on its rolls doing transactions in the cash and futures segment and in both Exchanges, NSE & BSE. With such a large clientele base, it is imperative that a proper risk management service is in place to prevent untoward losses for both the Clients as well as the Broking entity. In order to avert the risk of client's default, presently, following system is followed.

Admission of Client

NSL has a policy of admitting the client only upon completion of Know Your Client requirement and personal identification of client. The clients are admitted after due verification and reference of antecedents and information submitted in the Client Registration Form. No Clients are admitted 'off the streets'. All are through references from existing clients or management.

Collection of Margin

The stock market in India have undergone into tremendous changes and one of the important change which has instilled greater confidence among investor in India and abroad is reduction of settlement period to one day and introduction of Depository System to eliminate the risk of bad paper. These changes have reduced the risk of default on broker.

In spite of these changes, NSL makes it a point to determine and fix exposure limits to each client, based on his financial and risk taking ability. This is determined from the financial documents collected from and the background of the clients. For the Cash Market segment, since, the settlement period is shortened to one day, NSL collects full payment for purchases from client or full delivery of shares for sales on T+1 basis. Shares or payments are held back till the payment of cash or shares have been made by the client. For clients who trade on daily basis, margin is collected in the form of cash and securities as per the list of accepted securities put out by NSE on a monthly basis. In the derivatives segment, cash/securities as per the List, is collected upfront from the client. MTM losses are collected on T+1 basis else the collateral margin is reduced to that extent and therefore their exposure limit.

These limits are set in the NOW trading system of the NSE which immediately stops further trades of any client once the limits are exceeded. The Front End trading software has a sophisticated system of setting limits based on exposure, number of trades, value of trades, scrips allowed to trade in, quantity per order, etc. Scrips can be excluded from trading if they are on ban list or upon the discretion of the Management based on risk perception.

Online surveillance is carried out to see whether mark to market loss of client is crossing a set limit or if it is exceeding the credit balance in our account. In such cases, additional margins are called for from the clients or clients are advised to reduce the exposure.

While allowing trades in Odd lot and Z category shares, necessary permissions are obtained by Risk Management Department/Compliance Officer to avert the possibility of synchronized / circular trading. The client's trading track record regard to his financial capability and dealing in such scrip is looked into.

Surveillance at NSL

To aid in the task of Risk Management, it is essential to have an online mechanism that would alert us of the change in the Clients position, on a real time basis, as transactions take place. For this purpose, we have installed a state of the Art surveillance program, called Protector, specifically developed for the Broking environment by Financial Technologies, a leader in this field. The software tracks the trades of each client, as and when they happen, and calculates his margin, using the NSE's SPAN margining software, and alerts us if his position exceeds the limit set for him. This is monitored by a team of 2 people who then instruct the Dealers to take appropriate action against the Client.

Scrip-wise Surveillance

A. *Online Surveillance.*
   1. The surveillance team watches the online trades as they are executed, and extra ordinary volume in the particular scrip or client is immediately investigated by calling up the sub broker / branch and asking for details of clients and as per the details made available, the clients previous purchase or sales transactions are looked into, by viewing the ledgers.
   2. We have allocated group limit for A, B1, B2, T, TS and Z group. The Surveillance Team gives limit in a very conservative manner, especially, illiquid scrips. Trading in such scrips are discouraged and allowed on a case to case basis, based on the level of confidence in the client. Any limit accretion requests are first investigated and then upon being satisfied with the bonafide of the trade as well as the client, limits are accordingly increased.
   3. Since the same staffs are monitoring the trades daily, any pattern in trading / limit enhancement is reported once a week to the director for further investigation.

B. *Offline Surveillance*
   1. Unusually large volume is checked especially if the client has incurred a loss, or unusually high profits.
   2. Where volumes are unusually high, they are compared with the total volume in the exchange for the day in that particular scrip, and such reporting is done to the CEO.
   3. Price movement over a 3 / 6 months period is also tracked.
   4. After due investigation (which normally takes two weeks), Surveillance Team reports to the Director its finding and thereafter such scrip is disabled for trading for that client / branch and in some cases on the whole network.

Client-wise Surveillance

   1. All the clients who have traded in the scrip placed in where there is unusual volume vis-a-vis average volume are scrutinized for their other scrip dealings.
   2. Looking at the general quality of scrips that they are dealing in, Surveillance Manager reports to the CEO/Director for further action on whether we want to continue to deal as a broker for that client or not.
   3. Intra-day Scrip Wise Volume:-Our back office software has a module which offline tracks the intra-day loss of all clients. The Surveillance Team prepares & scrutinizes the statement to look at any unnatural volumes happening without delivery.