# Case Study
# Surveillance and Anti Money Laundering

# Case Reference

Case: Study on AML and Surveillance-Match and Self Trades

Due Diligence issue of Broker (Noticee) w.r.t trading of a client and self- trades

Dated 6th Nov, 2017

Investigation period: July 12, 2010 to January 09, 2012

# Snapshot

1. Noticee placed orders on behalf of client.
2. Resulted in self-trades- same client both buyer and seller and the Self trades do not result in change of beneficial ownership and creates false and misleading appearance of trading in the market
3. Noticee acted as the buying broker and counterparty broker in respect of :
    - 38 trades
    - 10,718 shares
    - 24 days

# Broker Member(Noticee) View point

1. Self-trades of client was meager compared to the clients's and exchange's total traded quantity in the scrip
2. Time difference between buy and sell orders which resulted in self-trades was substantial.
3. No alerts generated for self-trades , by their surveillance system, which did not lead to any suspicion of irregular activity by client
4. Self-trades were effected by the client using the internet trading facility provided by Noticee and not by any personnel of Noticee

# Case Findings from referred SEBI order

**why did it go wrong?**

# Reference to past cases-Hon'ble SAT View

1. Self-trades are, admittedly, fictitious and create artificial volumes in the traded scrip.
2. Self-trades were fictitious because the buyer and seller were the same.
3. Further such  trades, "beneficial ownership is not transferred and hence are admittedly manipulative in nature."

# Hon'ble Supreme Court interpretation on Due Diligence

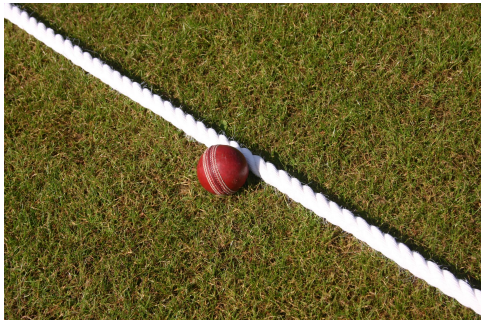
1. In the matter of Chander Kanta Bansal V. Rajinder Singh Anand (2008) 5 SCC 117:
2. "diligence" means careful and persistent application or effort. "Diligent" means careful and steady in application to one's work and duties, showing care and effort.
3. "Due Diligence" means reasonable diligence; it means such diligence as a prudent man would exercise in the conduct of his own affairs….."

# SEBI Adjudication Order View

1. As Self-trades imply same entity is both the buyer and the seller. Such trades do not represent a real change in beneficial ownership of the security
2. Hence post trade, brokers is required to monitor all such trades irrespective of number of such trades and corresponding volumes.
3. It gives vital clue to brokers regarding the trading pattern of its clients and enables them to take preventive steps and / or exercise greater due diligence in respect of such clients.
4. Citing SAT: Monitoring of such trades only beyond threshold limits, indirectly justifies execution of self-trades and concomitant artificial volumes created by such trades.
5. Hence noticee by not generating alerts of self-trades for client has failed to exercise due diligence as expected of a broker

Signs of Surveillance and AML Integrated

# SOS-Sigs of Surveillance and AML is based on "Type of risk should determine threshold and not vice versa"



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