

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

Download Ref No: NSE/INVG/45517

Date : August 30, 2020

Circular Ref No: 138/2020

To
All Trading Members / Market Participants,

Sub: Caution towards dealing with Unsolicited Messages – Update

This is with reference to circular NSE/INVG/36333 dated November 17, 2017, NSE/INVG/37765 dated May 15, 2018, NSE/INVG/38284 dated July 10, 2018 and NSE/INVG/45431 dated Aug 20, 2020 cautioning the trading members on unsolicited messages being circulated by unregistered/unauthorised entities and advising trading members to carry out necessary due diligence before releasing the pay-out to their clients.

Further, trading members are aware that list of securities in which unsolicited messages are being circulated (“SMS Stocks”) are published from time to time on trading terminals, Exchange website under head ‘Investors Beware’ & Member portal (ENIT), inter alia cautioning the market participants against stock recommendations & to do thorough analysis about the company before investing.

In this regard, based on the discussions held in the recent meeting of SEBI with Stock Exchanges, the following is being clarified for the benefit of the trading members/market participants:

1. Action applicable under ‘For Information list’:

Based on the references received by the Exchange and pre-defined objective criterion, the Exchange publishes the list of stocks in the ‘For Information’ list so as to enable the members to conduct proper due diligence in case of unusual trading pattern by any client. In such cases the trading member shall have to carry out adequate monitoring, to check the selling concentration/trading pattern of their clients in such Stocks.

Additionally, the trading member shall also carry out due diligence and shall release the payout to their client only after carrying out further scrutiny as per Exchange Notice viz. NSE/INVG/36333 dated November 17, 2017 inter alia covering the following:

- i) Scrutiny of KYC documents to compare income range declared and value of such transaction,
- ii) Whether the client is directly/indirectly connected to the company/ promoters/ directors of the company, etc.
- iii) Method of acquisition of shares by client - whether on-market/off-market/IPO/Preferential allotment,
- iv) Whether source of funds and period of holding is not in line with the client’s usual behaviour.

The trading member shall intimate his decision to withhold the pay-out to the client along with his rationale to the stock exchange within three days of withholding of pay-out. The intimation shall be sent on the email address, invg@nse.co.in.

2. Action applicable for 'Current Watch list':

Based on the references received and pre-defined objective criterion the Exchange publishes the list of stocks in the 'Current Watchlist' from time to time. Once a stock gets shortlisted in the Current Watchlist, the following shall be applicable:

- a) Exchange shall intimate the concerned Trading Members having significant selling concentration of clients in the SMS Stocks and accordingly the Trading Member shall have to withhold the sale proceeds of the shortlisted clients.
- b) Such withholding of funds shall be applicable for the transactions executed for a period of past 7 calendar days (on retrospective basis) from the date of entry in Current Watchlist. Such 7 calendar days may also be prior to date of entry of stock into the 'For Information list'.
- c) Trading members shall ensure that the clients as identified in point no 2(a), do not transact further in the SMS Stocks.
- d) Sales Proceeds of SMS stocks shall be withheld in the form of funds/securities which shall be transferred to separate designated account, irrespective of whether the client continues to trade with the said Trading Member or not.
- e) Designated Account details:
 - I. Trading member shall open designated bank account with any scheduled commercial bank or designated demat account for the aforementioned purpose.
 - II. Trading member shall submit a confirmation to the Exchanges after transferring the requisite funds to the designated account.
 - III. Trading member shall submit duly certified letter from designated bank / depository participant confirming the balance on a monthly basis.
 - IV. Trading member shall not be allowed to withdraw funds/securities out of the designated account until further directions.
 - V. Withholding of sale proceeds may be in form of cash or cash equivalents or in form of securities forming part of S & P BSE 500 or NSE 500 with a hair-cut of 30% or applicable VAR whichever is higher, shall only be considered as collateral in lieu of funds required to be withheld.
 - VI. Trading Member shall promptly replace the securities in case of any change in the composition of S&P BSE 500 or NSE 500.
 - VII. Trading Member shall ensure that any fall in value of securities shall have to be compensated by bringing in additional eligible securities from time to time and shall maintain audit trail of such changes.
 - VIII. Compliance officer of the trading members on a monthly basis shall submit a compliance status w.r.t withholding of sales proceeds (i.e. valuation and details of stocks/ funds withheld) on the email address invg@nse.co.in
- f) Funds/securities withheld by the trading member shall be retained for a period of 1 year or till completion of examination whichever is earlier. Post elapse of such period as referred above, upon intimation by the Exchange the withheld funds/securities shall be released by the trading members after providing necessary undertaking as guided by the Exchange. Trading member shall make all efforts to bring the funds back from clients else Trading member shall transfer his own funds/securities to the extent of deficit to the designated bank/demat account.
- g) Any non-compliance in the matter shall be viewed seriously and may attract further action which may inter alia include additional action such as referring trading members for special inspection, levy of additional margins, other disciplinary actions as deemed fit.

3. References of unsolicited messages: Exchange shall be considering references of unsolicited messages that are received at designated email-ids or mobile number alongwith other details as informed on the Exchange website under head 'Investors Beware '. Exchange shall ascertain the veracity /genuineness of references before updating the 'For Information/Current Watch list'. The aforesaid measure is without prejudice to the rights of SEBI and Exchanges to take any further actions, in any manner, as may be warranted.

Members are advised to take note of the above and ensure compliance with aforementioned requirements, as may be applicable.

In case of any further queries, members are requested to contact the following officials: Ms. Saba Curtay, Ms. Sheetal More, Mr. Ronak Rajgor (Extn: 25187)
Direct No: 022-26598417/18

**For and on behalf of
National Stock Exchange of India Limited**

**Binoy Yohannan
Chief Manager**