

**POLICY**

**ON**

**UNSOLICITED MESSAGES**  
**(SMS STOCKS/SECURITIES)**

**Policy Authored By:**

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**Policy Approved By:**

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**(Designated Director &**  
**Compliance Officer)**



## **1. Introduction**

**SMIFS Limited** (in short “the Company/ SMIFS/ Trading Member”) is a Company registered under the provisions of the Companies Act, 1956 with limited liabilities, having its registered office at 4, Satyajit Ray Dharani (formerly Lee Road/ O C Ganguly Sarani) and registered with Securities and Exchange Board of India (in short “SEBI”) as a Stock Broker and Depository Participant, thus a Securities Market Intermediary as per the various provisions enshrined in the relevant Acts of SEBI.

SMIFS is a Trading Member of National Stock Exchange of India Limited (NSE); BSE Limited (BSE); Multi Commodity of Exchange of India Limited (MCX) and Indian Commodity Exchange Limited (ICEX) with SEBI Registration Number: INZ000220635 (collectively hereinafter referred to as “The Stock Exchanges”).

SMIFS is a Depository Participant of National Securities Depository Limited (NSDL) bearing DP ID – IN301629 and Central Depository Services (India) Limited (CDSL) bearing DP ID – 12016000 with SEBI Registration Number IN-DP-414-2019.

SMIFS is also registered as a Portfolio Manager with SEBI Registration Number INP000004623 and Research Analyst with SEBI Registration Number INH300001474.

SMIFS is also registered with Association of Mutual Funds of India (AMFI) with ARN Code 3060 for the distribution of Mutual Fund Units of various reputed Asset Management Companies.

## **2. Overview:**

In recent past, SEBI and the Stock Exchanges have come across the general menace of the use of Unsolicited Short Messaging Service (SMS) Tips being circulated whereby various securities are being recommended with higher price targets leading to heightened trading activities in such securities, by innocent uninformed clients. Owing to such unethical behavior prevailing in the market, it has become utmost important to exercise caution towards unsolicited emails and messages being circulated by unregistered/unauthorized entities via various medium and also advise clients to buy, sell or hold securities and trade only on the basis of informed decision. Clients must also be advised not to blindly follow such unfounded rumours, tips etc. and invest only after conducting appropriate analysis of respective companies.

### **3. Objective:**

SMIFS, as a matter of Policy profess Investor Protection. Thus, in order to prevent stock manipulation and potential frauds through unsolicited messages and to establish proper internal controls so that proper checks and standards are in place to provide adequate cautionary advice and monitor unsolicited messages and emails being circulated by unregistered/unauthorized entities, this **“Policy on Unsolicited Messages – SMS Stocks/Securities”** is being formulated under the instructions of the Board Members of the Company, in compliance and/or as mandated by SEBI, the Stock Exchanges and Depositories where the Company is a Trading Member and Depository Participant.

This Policy lays down appropriate procedures and measures that shall be followed to identify, control and manage unusual trading patterns by any client based on such Unsolicited Messages and Emails, to ensure market safety and safeguard interest of investors.

### **4. Concepts of Unsolicited Messages – SMS Stocks/Securities:**

4.1 **Unsolicited Messages:** Unsolicited Messages refer to messages, emails and other such modes of communication, based on unsolicited tips/recommendations, being sent to investors advising them to buy, sell or hold securities and trade in securities, which are not established or confirmed from reliable sources.

4.2 **SMS Stocks/Securities:** List of securities in which unsolicited messages are being circulated via various medium.

4.3 **“For Information List”:** Based on the references received by the Stock Exchanges and pre-defined objective criterion, the Stock Exchanges publish the list of securities in the ‘For Information’ list so as to enable the members to conduct proper monitoring and scrutiny in case of unusual trading pattern by any client. In such cases, the Trading Members shall have to carry out adequate monitoring, to check the selling concentration/trading pattern of their clients in such securities.

4.4 **“Current Watch List”:** Based on the references received by the Stock Exchanges and pre-defined objective criterion, the Stock Exchanges publish the list of securities in the ‘Current Watch List’ from time to time.

4.5 Once a stock/security gets shortlisted in the ‘Current Watch List’, the following rules are applicable:

- Stock Exchanges shall intimate the concerned Trading Members of the significant size of transactions in the SMS stocks/securities and accordingly the

Trading Members shall have to withhold the sale proceeds of such shortlisted clients.

- Trading Members shall ensure that the clients identified above do not transact further in the SMS stocks/securities.
- Sale proceeds of such SMS stocks/securities shall be withheld in the form of funds/securities which shall then be transferred to separate designated account, irrespective of whether the client continues to trade with the said Trading Member or not.

## **5. Surveillance Actions by the Stock Exchanges:**

5.1 Stock Exchanges shall also be considering references of unsolicited messages that are received at designated email IDs or mobile numbers, along with other details as informed on the Stock Exchange websites. Stock Exchanges shall ascertain the veracity/genuineness of references before updating the '**For Information/Current Watch List**'.

5.2 Stock Exchanges by their Circulars/Notices dated May 15, 2018 and August 30, 2020, have laid down the following procedures for Trading Members in respect of Transactions in SMS Stocks/Securities:

- a) Trading Member having significant selling concentration of clients in the SMS Stocks/Securities shall withhold the sale proceeds of the clients and transfer the same to the designated Bank Account earmarked for this purpose.
- b) Trading Member shall ensure that the clients as identified in point no (a) above, do not transact further in the SMS Stocks/Securities.
- c) Sale Proceeds of SMS stocks/securities shall be transferred to designated bank account, irrespective of whether the client continues to trade with the said Trading Member or not.
- d) In case the client has closed his trading account, the Trading Member shall make all efforts to bring the funds back from clients else Trading Members shall transfer their own funds to the extent of deficit to the designated bank account.
- e) After transferring the fund to the designated bank account, the Trading Member should exercise the following due diligence:

- ❖ Trading Member shall submit a confirmation letter to the Stock Exchanges after transferring the requisite funds to the designated account, which is to be opened with any scheduled commercial bank.
  - ❖ Trading Member shall submit duly certified letter from designated bank confirming the Exchange wise balance on a monthly basis.
  - ❖ Trading Member shall not be allowed to withdraw funds out of the designated account until further directions by SEBI and/or Stock Exchanges.
  - ❖ Trading Member shall intimate all communications with respect to the above on [investigation@bseindia.com](mailto:investigation@bseindia.com) and [invvg@nse.co.in](mailto:invvg@nse.co.in) from time to time.
  - ❖ 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.
- 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. Upon intimation by the respective Exchange, the withheld funds/securities shall be released by the Trading Members after providing necessary undertaking as guided by the Stock Exchanges.
- g) The Compliance Officer shall submit a compliance status on a monthly basis, w.r.t withholding of sales proceeds (i.e. valuation and details of securities/funds withheld) on the email addresses as mentioned above.
- h) As a surveillance measure to maintain market integrity and safeguard interest of investors, SEBI and Stock Exchanges have decided that, in securities where unsolicited messages have been found to be circulated and thereby resulted in an increased trading activity, an additional surveillance margin of 25% shall be levied on the Trading Members who have a substantial trading activity in such securities. The additional margin shall be applicable in Equity and Equity Derivatives Segment. The Trading Members identified by the Stock Exchanges shall be informed individually about the additional margins.
- i) Any non-compliance in this matter shall be viewed seriously and may attract further action which may inter alia include additional action such as referring the Trading Member for special inspection by the regulatory bodies and other disciplinary actions as deemed fit.

## **6. General Operating Principles for SMS Stocks/Securities, Scrutiny Process and Withholding of Pay-Outs:**

6.1 As a part of surveillance measure to protect investor's interest and maintain market integrity, SMIFS would exercise greater caution with respect to tips / rumours circulated by unregistered/unauthorized entities, via various mediums while dealing in the securities listed on the Stock Exchanges on behalf of its clients and would also advise its clients to avoid transaction in respect of such securities.

Employees/Temporary Staff/Voluntary Workers etc. employed/working with SMIFS shall NOT circulate tips or any unverified information obtained from any source without proper verification. Any violation of the same by any Employees/Temporary Staff/Voluntary Workers etc., shall be subject to strict disciplinary actions, but not limited to Legal Actions.

Use of Blogs/Chat/Forums/Messenger sites shall be done with the permission of Compliance Officer, which must be under supervision at all times.

Logs for any usage of use of any Blogs/Chat/Forums/Messenger site shall be maintained by the IT – Systems Department and shall be reviewed by the IT Manager/ Compliance Officer on a Concurrent basis. Misuse/Non-Compliance shall be reported to the Compliance Officer promptly for necessary action.

Employees shall communicate to the Compliance Officer any market related news received by them either in their official mail/personal mail/blog or in any other manner, for necessary approval before providing the same to the Clients.

6.2 SMIFS shall always keep track of the list of securities in which unsolicited messages are being circulated ("**SMS Stocks/Securities**"), that are published from time to time on trading terminals, Stock Exchange websites under head '**Investors Beware**'- '**For Information/Current Watch List**', cautioning the market participants against stock recommendations and to do thorough analysis about the company before investing.

The Securities identified by Exchange(s) in which unsolicited messages and emails are circulated shall be kept suspended and barred from further buying & selling by SMIFS and shall be monitored on regular basis.

6.3 SMIFS is duty bound with the mandatory procedures laid by the Stock Exchanges and the extant Regulators. Thus, in compliance of the Circulars on SMS Stocks/Securities,

SMIFS shall educate clients about the vagaries of SMS Stocks/Securities and restrict and dissuade/discourage clients from executing transactions in SMS Stocks/Securities.

However, if a client still desires to transact in SMS Stocks/Securities (i.e. both Buy and/or Sell) inspite of the consequences mentioned herein above and the provisions of the Circulars/Notices laid by the Stock Exchanges and/or the extant Regulators in respect of SMS Stocks/Securities, SMIFS may allow in its sole discretion, upon a written application by the client addressing the Risk Management Department of SMIFS. The decision to allow to transact shall be after conducting due diligence by the Compliance Department of SMIFS Limited and it may take substantial time period for reaching at a decision. The client shall have to agree and bear with such time period and SMIFS shall not be responsible for any adverse price fluctuations while the due diligence process is in progress.

Upon receipt of such written application from the client, purchase transaction may be allowed, if the client provides upfront full consideration value in case of the purchase transaction. In so far as the sale transaction in SMS Stocks/Securities is concerned, the transaction shall be allowed, if such securities were bought from SMIFS Limited only and the same has been delivered to the designated Clearing Member Depository Pool Account of SMIFS Limited, for early pay-in of securities for the correct market settlement.

6.4 It has been mandated that in case the Trading Member suspects that there is an unusual trading pattern by any client, then SMIFS shall carry out due diligence and release payout to the client only after carrying further scrutiny, in compliance of various Circulars of the Stock Exchanges/SEBI, covering the following:

- Scrutiny of KYC documents to compare income range declared and value of such transaction.
- Whether the client is directly/indirectly connected to the company/promoters/directors of the company, etc.
- Method of acquisition of shares by the client.
- Whether source of funds and period of holding is in line with the client's usual behaviour.

6.5 It has been mandated upon the Trading Members to intimate their decision to withhold the pay-out of the client along with their rationale to the respective stock exchanges within three days of withholding of pay-out. In case SMIFS is of the opinion that there is unusual trading pattern observed in respect of the transactions in SMS Stocks/Securities by the client, the decision to withhold the pay-out of the client shall be



exercised and the same shall be intimated to the Stock Exchange, under intimation to the client.

6.6 The pay-out withheld shall be dealt in the manner as per the provisions laid in the Circular/Notice dated 30<sup>th</sup> August 2020 of the Stock Exchanges.

6.7 The release of the pay-outs shall be in accordance to the provisions laid in the Circular dated 30<sup>th</sup> August 2020 of the Stock Exchanges. While releasing the pay-out, the client shall be obliged to provide undertakings in the formats provided by the Stock Exchanges/SMIFS/extant Regulator.

6.8 SMIFS shall have the right to debar the client from undertaking any further transactions in SMS Stocks/Securities as per the provisions laid in the Stock Exchange Circulars/Notices.

6.9 SMIFS shall have the right to bring back from clients the pay-out proceeds, which may stand released to the client in respect of the sale proceeds of SMS Stocks/Securities as laid in Circular/Notice dated 15.05.2018 and 30.08.2020. SMIFS may initiate Arbitration proceedings as per Stock Exchange Byelaws and Regulations, in case the clients fail to adhere to the provisions of the Stock Exchange Circulars/Notices, which mandates return of pay-out proceeds in respect of transactions in SMS Stocks/Securities. SMIFS shall be entitled to interest at the rate of 24% per annum, for such period, on the amounts which SMIFS has to arrange and deposit with the Designated Bank Account and any Additional Margin as mandated under Stock Exchange Surveillance Actions, upon the failure of the client to return back the pay-outs which it enjoyed in respect of the transactions in SMS Stocks/Securities.

## **7. Responsibility:**

7.1 The Compliance Officer shall be responsible for the implementation and supervision of this Policy.

7.2 The Risk Management Team Members shall ensure utmost caution while allowing/disallowing a client to transact in such securities which are in Information List/Current Watch List as defined in Point 4.3 and 4.4 herein above. They shall also assist and report to the Compliance Officer, if any non-compliance of this policy is observed.



7.3 The Compliance Officer shall take all necessary steps to monitor, document, analyze and report the findings to the Board Members as well as the relevant Stock Exchanges and/or extant Regulatory Bodies, in a time bound manner, as detailed hereunder and/or as mandated by the Stock Exchanges and/or regulatory bodies.

7.4 The Compliance Officer shall exercise his/her independent judgment and take adequate precautions to ensure implementation of an effective monitoring and scrutiny mechanism, based on the day-to-day activities of the clients, general market information and the facts and circumstances.

In case SMIFS suspects that there is an unusual trading pattern by any of its clients, then SMIFS shall not release payout to the client, in compliance of various Circulars/Notices of the Stock Exchanges/SEBI.

7.5 The employees shall share their knowledge or evidence of systemic wrongdoing, potential frauds or unethical behavior through the anonymous portal facility provided on Exchange websites and mail at the following addresses to intimate about the same:

- [invg@nse.co.in](mailto:invg@nse.co.in)
- [investigation@bseindia.com](mailto:investigation@bseindia.com)

7.6 The Company shall also educate its Clients/Market Participants on the menace of Unsolicited Messages/Investment Tips and advise them to share their knowledge with Stock Exchanges as per the procedure laid in Point 7.5.

7.7 The Compliance Officer shall recommend for Disciplinary Actions to the Board of Directors in respect of the employees who violates the Code of Conduct of this Policy.

7.8 The Compliance Officer shall be responsible for the record maintenance of the above-mentioned activities.

7.9 The Compliance Officer shall be assisted by the Associate Compliance Officer and shall have the discretion to take assistance/help from any professionals and/or software for the better Monitoring of this Policy, with prior approval of the Board of Directors, without diluting the accountability and responsibility of the Compliance Officer.

## **8. Management Information System (MIS) and Internal Audit Process:**

8.1 A Detailed MIS Report shall be submitted by the Associate Compliance Officer to the Compliance Officer where any unusual trading pattern or systemic wrongdoing by any client has been identified. The Compliance Officer shall apprise the Designated Director of the Actions taken by him/her in this regard.



8.2 The Internal Auditor of the Company, shall review the implementation, documentation, effectiveness and review the actions taken during the period of audit and shall record the observations with respect to the same in their Internal Audit Reports.

8.3 The Board of Directors shall peruse, review and provide necessary guidance with regard to the “**Policy on Unsolicited Messages – SMS Stocks/Securities**”, periodically, for strengthening the processes.

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