

National Stock Exchange of India

Circular

Department: INVESTIGATION	
Download Ref No: NSE/INVG/51771	Date: March 25, 2022
Circular Ref. No: 30/2022	

To All NSE Members

Sub: Caution towards dealing with Unsolicited Messages - Update

- 1.** This is with reference to Exchange circular nos. NSE/INVG/36333 dated November 17, 2017 , NSE/INVG/37765 dated May 15, 2018, NSE/INVG/38284 dated July 10, 2018 , NSE/INVG/45431 dated August 20, 2020 and NSE/INVG/45517 dated August 30, 2020 cautioning the market participants on unsolicited messages being circulated by unregistered or unauthorised entities and advising Trading members to carry out necessary due diligence before releasing the pay-out to the clients.
- 2.** The market participants are hereby advised / cautioned not to rely on such unsolicited messages / investment advice circulated through bulk SMSs, websites and social media platforms like WhatsApp, Telegram, etc., Further, Trading members are aware that list of securities in which unsolicited messages are being circulated is published from time to time on trading terminals, Exchange website under head - 'Investors Beware' and Member Portal - ENIT, inter-alia cautioning the market participants against stock recommendations and to do thorough analysis about the company before investing.
- 3.** In this regard, based on the discussions held in the recent meeting of SEBI with Stock Exchanges. It is clarified that the scope of this framework will cover 'securities' as defined in Securities Contracts (Regulation) Act.

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The details of the same is as under:

3.1 Action applicable under 'For Information list'

Based on the references received by the Exchange, pre-defined objective criterion and pursuant to necessary verification including seeking response from the concerned company, the Exchange shall publish the list of securities in the 'For Information' list 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 securities.

Additionally, the trading member shall also carry out due diligence and shall release the pay - out to their client only after carrying out further scrutiny as per Exchange Circular no. NSE/INVG/36333 dated November 17, 2017, inter alia covering the following:

- 3.1.1 Scrutiny of KYC documents to compare income range declared and value of such transaction.
- 3.1.2 Whether the client is directly / indirectly connected to the company / promoters / directors of the company, etc.
- 3.1.3 Method of acquisition of shares by client - whether on-market / off-market / IPO / Preferential allotment; and
- 3.1.4 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.

3.2 Action applicable for 'Current Watch list':

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

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- 3.2.1 Exchange shall intimate the concerned Trading Members having significant selling concentration of clients in the securities and accordingly the Trading Member shall have to withhold the sale proceeds of the shortlisted clients.
- 3.2.2 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 securities into the 'For Information list'.
- 3.2.3 Trading members shall ensure that the clients as identified in point no. 3.2.1, do not transact further in the securities.
- 3.2.4 Sales Proceeds of securities 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.
- 3.2.5 Designated Account details:
 - 3.2.5.1 Trading member shall open designated bank account with any scheduled commercial bank or designated demat account for the aforementioned purpose.
 - 3.2.5.2 Trading member shall submit a confirmation to the Exchanges after transferring the requisite funds to the designated account.
 - 3.2.5.3 Trading member shall submit duly certified letter from designated bank / depository participant confirming the balance on a monthly basis.
 - 3.2.5.4 Trading member shall not be allowed to withdraw funds/securities out of the designated account until further directions.
 - 3.2.5.5 Withholding of sale proceeds may be in form of cash or cash equivalents or in form of securities forming part of NSE 500 or S&P BSE 500 with a haircut of 30% or applicable VAR whichever is higher, shall only be considered as collateral in lieu of funds required to be withheld.
 - 3.2.5.6 Trading Member shall promptly replace the securities in case of any change in the composition of S&P BSE 500 or NSE 500.

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- 3.2.5.7 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.
- 3.2.5.8 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.
- 3.2.6 Funds / securities withheld by the trading members shall be retained up to 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.
- 3.2.7 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.
- 3.2.8 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.
- 4. Verification of unsolicited messages:** Exchange shall be considering references of unsolicited messages that are received at designated email ids or mobile number along with other details as informed on the Exchange website under head 'Investors Beware'. Before updating the 'For Information / Current Watch list', the Exchange shall ascertain the veracity / genuineness of references so received and seek clarification from concerned companies as may be necessary.
- 5.** 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.
- 6.** Members are advised to take note of the above and ensure compliance with aforementioned requirements, as may be applicable.



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In case of any clarification, members may contact on +91 22 2659 8417 / 18.

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

**Sareesh Koroath
Chief Manager**