

National Stock Exchange of India Limited

Circular

DEPARTMENT: INSPECTION	
Download Ref No: NSE/INSP/51770	Date: March 25, 2022
Circular Ref. No: 21/2022	

To All Trading Members,

Sub: Unauthorised Market Practices by Trading Members

Members' attention is drawn to Exchange circular NSE/INSP/49434 dated August 27, 2021, wherein it was reiterated that members are not permitted to undertake any business/activity that is not allowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges.

However, despite various guidelines/ clarifications issued by the Exchange from time to time, certain practices followed by members are not in compliance with the relevant guidelines issued by the Exchange. Below are some of the market practices, that have come to the notice of the Exchange and members are advised to refrain from engaging in such practices.

- a) **Incentives/referral schemes:** It has come to the notice of the Exchange that members are running schemes such as sponsoring/funding ETF units for the opening of trading accounts. Members are also offering cashback to clients acquired through referral by partnering with the third-party digital payment applications as an incentive for opening a trading account with them. Acquisition of clients by offering such incentives/ schemes is against the spirit of guidelines issued by Exchange, and any pattern observed in this regard will be liable for disciplinary action. Members are hereby advised to refrain from such practices, and trading accounts opened through client referral strictly complied with Exchange circular NSE/INSP/43824 dated March 11, 2020.

Client shall not be subjected to any kind of trade inducement (including generating trade calls through the Interactive Voice Response (IVR) system) and shall ensure that all instructions for placement of orders are obtained from the respective client only.

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- b) **Issue of advertisements:** It is noted that Members are increasingly using influencers to promote their business, products/services/brokerage plans etc., including undertaking brand promotion. Members are hereby advised to undertake adequate due diligence to ensure that the content used by the influencer strictly adheres to the code of advertisement prescribed by the Exchange vide circular NSE/COM/49888 dated October 8, 2021. Further, advertisements/promotional campaigns issued by the members should not promote or incentivise trading in specific securities/contracts which will have the effect of inducement to the clients.
- c) **Inactive accounts:** As per Exchange circular NSE/INSP/ 49743 dated September 27, 2021, Members are required to flag the client account as “inactive” if there are no transaction in the client account for a period of one year. It has come to the notice of the Exchange that members are urging clients to execute trades in their account to prevent accounts from being flagged as inactive. Hence, Members should refrain from undertaking any activity including sending oral or written business communications to clients, inducing the clients to execute trades in their account for the sole purpose of keeping the account active.
- d) **Client registration documents:** The current regulatory requirements stipulate mandatory collection of additional documents related to financial details of the clients in case of trading in derivative segments, which includes a copy of the demat account holding statement of the client. In this regard, members are required to ensure adequate due diligence to ensure that the demat account holding statement reflects satisfactory financial position of the client before allowing them to trade in derivatives segment.
- e) **Assured Return Schemes/ Unauthorised Portfolio Management Service:** It has also come to the notice of the Exchange that certain members were engaging in activities/schemes of fixed / periodic payments, which are not permitted under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges. It is reiterated that members are not permitted to undertake any business/activity that is not allowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/ guaranteed/fixed returns/payments etc.

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- f) **Sharing of trading credentials (login id & password):** It has been observed that clients trading in derivatives were lured to share trading credentials – (login id & passwords) with the individuals/persons who had promised assured returns and traded on behalf of these clients. In view of the same, members are hereby advised to carry out surveillance of trading activities of clients, particularly in derivatives. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment is in proportion to their income / networth. Refer to Download Ref No. NSE/SURV/48818 dated July 01, 2021 on ‘Surveillance Obligations for Trading Members’, for indicative themes on which trading members may formulate their alerts.

In view of the above, members are also advised to regularly caution and create awareness amongst their clients/investors to abstain them from dealing in any schemes of unauthorised collective investments/portfolio management, indicative/ guaranteed/fixed returns / payments etc. and sensitise their clients to avoid practices like:

- a) Sharing
 - i. trading credentials – login id & passwords,
 - ii. trading strategies
 - iii. position details
- b) Trading in leveraged products /derivatives without proper understanding, which could lead to losses
- c) Writing/ selling options or trading in option strategies based on tips, without basic knowledge & understanding of the product and its risks
- d) Dealing in unsolicited tips through Whatsapp, Telegram, YouTube, Facebook, SMS, calls, etc.
- e) Trading based on recommendations from unauthorised / unregistered investment advisors

Members are advised to look out for various unsolicited messages being circulated in the market and take appropriate action against the individual/person/entity in case the details such as names, phone numbers, email ids appearing in the said messages are matching with the records of their employees, authorised persons and clients.

Members are advised to refrain from engaging in any practice that is against the spirit of the guidelines issued by SEBI/Exchange. Further, Members are advised to put in place adequate mechanisms to have oversight on the activities of their associates, authorised persons and take necessary action if any irregularity is observed. Non-adherence to the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges will be viewed very seriously. The member will be liable for strict disciplinary action, if the member is

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observed to be engaging in unauthorised market practices either directly or through its Authorised person(s) and/or their Directors/Partners, employees etc.

All Members are advised to take note of the above and strictly comply.

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

**Harinatha Reddy M
Senior Manager - Inspection**

In case of any clarifications, Members may contact our below offices:

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