

NATIONAL STOCK EXCHANGE OF INDIA LIMITED

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| DEPARTMENT : SURVEILLANCE | |
| Download Ref. No.: NSE/SURV/34262 | Date: February 23, 2017 |
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To All NSE Members

Sub: Introduction of Graded Surveillance Measure (GSM)

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, have been introducing various enhanced pre-emptive surveillance measures such as reduction in price band, periodic call auction and transfer of securities to Trade to Trade category from time to time. The main objective of these measures is to;

- alert and advice investors to be extra cautious while dealing in these securities and
- advice market participants to carry out necessary due diligence while dealing in these securities.

In continuation to various surveillance measures already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with the aforesaid measures there shall be additional Graded Surveillance Measures on securities which witness an abnormal price rise not commensurate with financial health and fundamentals like Earnings, Book value, Fixed assets, Net-worth, P/E multiple, etc.

The list of such securities identified under GSM shall be informed to market participants separately and shall be available on exchanges website.

Further, GSM framework shall come in to action one week from the publishing of the list.

1. All market participants dealing in identified securities have to be extra cautious and diligent as, Exchanges and SEBI may at an appropriate time subject to satisfaction of certain criteria lay additional restrictions such as;
 - placing / continuing securities in trade to trade category,
 - Requirement of depositing additional amount as Surveillance Deposit, which shall be retained for an extended period.

- once in a week trading,
 - once in a month trading and
 - Freezing of price on upper side of trading in securities, as may be required.
 - Any other surveillance measure as deemed fit in the interest of maintaining the market integrity
2. All the aforesaid actions shall be triggered based on certain criteria and shall be made effective with a very short notice.
 3. The above surveillance actions are without prejudice to the right of Exchanges and SEBI to take any other surveillance measures, in any manner, on a case to case basis or holistically depending upon the situation and circumstances as may be warranted.
 4. The members trading in the identified securities either on their own account or on behalf of clients shall be kept under close scrutiny by the exchange and any misconduct shall be viewed seriously.
 5. Further details of this framework are given in Annexure I.

This circular is being issued by the Exchange as a surveillance measure with a view to ensure market safety & safeguard interest of investors.

Annexure I

Graded Surveillance Measures (GSM) - shortlisting of Securities–

1. Securities shall be shortlisted based on the pre-defined objective criteria.
2. List shall be periodically reviewed & published by the exchanges in a coordinated manner
3. Identification / review of securities for Graded surveillance measures shall be carried out twice a year.
4. In addition to existing Surveillance action being imposed from time to time, it may be noted that these securities shall be monitored for the price movement and based on the pre-determined objective criteria shall attract following additional graded surveillance measures:

| Stage | Surveillance Actions |
|--------------|---|
| I | Transfer to trade for trade with price band of 5 % or lower as applicable. |
| II | Trade for trade with price band of 5 % or lower as applicable and Additional Surveillance Deposit (ASD) of 100% of trade value to be collected from Buyer |

| Stage | Surveillance Actions |
|-------|--|
| III | Trading permitted once a week trading and ASD 100% of trade value to be deposited by the buyers (Every Monday) |
| IV | Trading permitted once a week trading with ASD 200% of trade value to be deposited by the buyers (Every Monday) |
| V | Trading permitted once a month trading with ASD 200% of trade value to be deposited by the buyers (First Monday of the month) |
| VI | Trading permitted once a month with no upward movement in price of the security with ASD 200% of trade value to be deposited by the buyers (First Monday of the month) |

Notes: -

- a) The list of securities moving from higher stage of Graded Surveillance Measures shall be informed to the market, vide notice time to time.
- b) Additional Surveillance Deposit (ASD) shall be paid only in form of cash and to be retained till review of the Graded Surveillance stages i.e. Quarterly review.
- c) This ASD shall not be refunded or adjusted even if securities purchased is sold off at the later stage within a quarter and also shall not be considered for giving further exposure.
- d) ASD shall be over and above existing margins or deposits levied by the Exchanges on transactions in such companies and shall be interest free.
- e) In case of default in payment of ASD, penal actions may be initiated against the trading member.
- f) In case the scheduled trading day is falling on a trading holiday, the trading shall be permitted on the next trading day.

Review of Graded Surveillance Measures for Relaxation:

5. A periodic review of securities under GSM framework, to assess relaxation of surveillance action, if any, shall be carried out on a quarterly basis. The review shall be done based on the objective criteria and only securities under Stage II onwards shall be eligible for the quarterly review. For example, a company in stage III of GSM can be moved back to stage II if qualified based on the said objective criteria.

In case of any further queries, members are requested to contact the following officials:

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