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**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**

Circular to all members of the Exchange

Circular No. : NCDEX/COMPLIANCE-019/2022

Date : April 01, 2022

Subject : Unauthorised Market Practices by the Members

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Members' attention is drawn to the Exchange Regulation 6: Conduct of Business by Members and other provisions of the Exchange Bye-Laws, Rules & Regulation, wherein it is stated that members are not permitted to undertake some business/activities.

Members are advised to refrain from engaging in below mentioned practices.

- a) **Incentives/referral schemes:** Members are advised not to engage in running schemes such as sponsoring/funding ETF units for opening of trading account. Members are also advised not to offer 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. Members are hereby advised to refrain from such practices and trading account opened through client referral should strictly comply with the Exchange/SEBI circulars/guidelines.

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

- b) **Issue of advertisements:** Members are advised not to use celebrities to promote their business, products/services/brokerage plans etc., including undertaking brand promotion. Members are hereby advised to refer Exchange circular no. NCDEX/ENFORCEMENT-002/2017/146 dated June 19, 2017 regarding Games/Leagues/Schemes/Competition launched by Registered Stock Brokers and Code of Advertisement for Stock Broker. Further, advertisements/promotional campaigns issued by the members should not promote or incentivize trading in specific securities/contracts which will have the effect of inducement to the clients.
- c) **Inactive accounts:** As per Exchange circular no. NCDEX/COMPLIANCE-077/2020 dated December 03, 2020, Members are required to flag the client account as 'inactive' in case there are no transaction in the client account for a period of 12 months. Members shall not urge clients to execute trades in their account to prevent accounts from being flagged as inactive. Also, 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 copy of the demat account holding statement of the
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client. In this regard, members are required to ensure adequate due diligence to ensure that the demat account holding statement reflect a satisfactory financial position of the client before allowing them to trade in the derivative segment.

- e) **Assured Return Schemes/ Unauthorised Portfolio Management Service:** Members are advised not to get involved in activities/schemes of fixed / periodic payments, which are not permitted under the Bye-Laws, 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 Bye-Laws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/ guaranteed/fixed returns/payments etc.
- f) **Sharing of trading credentials (login id & password):** Members are advised that clients trading in derivatives should not be lured to share trading credentials – (login id & passwords) with the individuals/persons who promise assured returns and trade on behalf of these clients. In view of the same, members are hereby advised to carry out surveillance of the trading activities of clients. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment is in proportion to their income / network.

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 sensitize their clients to avoid practices like:

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

Members are advised to lookout 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 Bye-Laws, Rules &

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Business Rules and circulars of SEBI/Exchanges will be viewed very seriously. The member will be liable for strict disciplinary action, if the member is observed to be engaging in unauthorised market practices either directly or through its Authorised person(s) and/or their Directors/Partners, employees etc.

Members are requested to take note of the contents of the circular and comply.

For and on behalf of  
**National Commodity & Derivatives Exchange Limited**

Pranesh Shetty  
Vice President – Audit & Inspection

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For further information / clarifications, please contact

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