Graded Surveillance Measure (GSM)

Frequently Asked Questions (FAQs)

1) What is the purpose for introduction of GSM framework?

In order to enhance market integrity and safeguard interest of investors, Securities and Exchange Board of India (SEBI) and Exchanges, have been introducing various enhanced surveillance measures such as reduction in price band, periodic call auction and transfer of securities to Trade for Trade segment from time to time.

The main objective of these measures are to –

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

In continuation with the various measures already implemented including the ones mentioned above, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with the aforesaid measures there shall be Graded Surveillance Measures (GSM) on securities with price not commensurate with financial health and fundamentals of the company which inter-alia includes factors like Earnings, Book value, Fixed assets, Net worth, P/E multiple, Market Capitalisation etc.

2) When did the GSM framework come into force?

The GSM framework monitoring has come into force with effect from March 14, 2017. The Exchange, in coordination with other Exchanges, had issued a circular on February 23, 2017 having download reference number NSE/SURV/34262 informing the market participants about introduction of GSM framework. Further, the first list of shortlisted securities qualifying for application of GSM was published on March 03, 2017 having download reference number NSE/SURV/34321.

In the Joint Surveillance meeting of Exchanges and SEBI held on November 28, 2019, the GSM framework was reviewed, and the GSM stages were reduced from 6 to 4. Please refer Exchange circular - NSE/SURV/42790 dated November 29, 2019 issued by the Exchange informing the market participants about the updated GSM framework.

Subsequently, the updated list of companies were published as under:

<table>
<thead>
<tr>
<th>Circular No.</th>
<th>Date of Circular</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSE/SURV/35167</td>
<td>June 21, 2017</td>
</tr>
<tr>
<td>NSE/SURV/36130</td>
<td>October 17, 2017</td>
</tr>
<tr>
<td>-----------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>NSE/SURV/36741</td>
<td>January 12, 2018</td>
</tr>
<tr>
<td>NSE/SURV/37218</td>
<td>March 16, 2018</td>
</tr>
<tr>
<td>NSE/SURV/38041</td>
<td>June 15, 2018</td>
</tr>
<tr>
<td>NSE/SURV/38891</td>
<td>September 14, 2018</td>
</tr>
<tr>
<td>NSE/SURV/39659</td>
<td>December 14, 2018</td>
</tr>
<tr>
<td>NSE/SURV/40459</td>
<td>March 15, 2019</td>
</tr>
<tr>
<td>NSE/SURV/41386</td>
<td>June 21, 2019</td>
</tr>
<tr>
<td>NSE/SURV/42135</td>
<td>September 13, 2019</td>
</tr>
<tr>
<td>NSE/SURV/42910</td>
<td>December 13, 2019</td>
</tr>
<tr>
<td>NSE/SURV/43966</td>
<td>March 20, 2020</td>
</tr>
</tbody>
</table>

All securities moving into GSM framework as per Criteria I and II are initially placed in Stage 0 unless stated otherwise.

3) **What are the various criteria for shortlisting of securities under GSM?**

The criteria for shortlisting of securities under GSM framework has been disseminated to the market vide Exchange circular having download reference no. NSE/SURV/38389 dated July 20, 2018.

The detailed criteria for shortlisting & review of securities under GSM Framework is given below:

**Criteria I:**

The following criteria shall be made applicable for inclusion of securities under GSM Framework.

i) Securities with latest available Net worth (Share Capital + Reserves & Surplus – debit balance in P&L) less than or equal to Rs. 10 crores; **AND**

ii) Securities with latest available Net Fixed Assets (Tangible Assets + Capital Work in Progress) less than or equal to Rs. 25 crores; **AND**

iii) Securities with PE greater than 2 times PE of Benchmark Index (Nifty 500) **OR** negative PE.
The following securities shall be excluded from the process of shortlisting of securities under GSM (Criteria I and II):

1. Securities where the price discovery is yet to take place as per the provision of SEBI circulars CIR/MRD/DP/01/2012 and CIR/MRD/DP/02/2012 dated January 20, 2012.
2. Securities already under suspension;
3. Securities on which derivative products are available;
4. Securities as a part of any index (NSE);
5. Public Sector Enterprises and its subsidiaries, if available;
6. Securities listed during last 1 year through Initial Public Offering (IPO);
7. Securities which have paid dividend for each of last three preceding years;
8. Securities with Institutional holding greater than 10% only if following conditions are met:
   • If the promoter entity has not offloaded any share in the last 5 years; AND
   • The current trading price of the security is within the range of High & Low price in last 3 years of the respective security.

9. Securities listed through Scheme of Arrangement involving Merger / Demerger during last 1 year:
   ➢ In case of demerger, the following condition shall be applicable:
     • If the parent company is under purview of GSM, the resultant demerged companies shall also attract GSM.
     • If the parent company is not under purview of GSM, the resultant demerged companies shall not be part of GSM at the time of demerger and shall be considered during the subsequent quarterly review.
   ➢ In case of merger of companies, if any of the securities at time of merger are under the purview of GSM, then the same shall be continued on the resultant entity.

Criteria II:

The following criteria shall be made applicable for inclusion of securities under GSM Framework.

i) Securities with full market capitalization less than Rs. 25 crore; AND
ii) Securities with PE greater than 2 times PE of Benchmark Index (Nifty 500); OR
iii) Securities with negative PE, the following should be considered:

- P/B (Price to Book) value of scrip greater than 2 times the P/B value of Benchmark Index (Nifty 500) OR
- P/B value is negative

Identification / Review of securities for GSM shall be carried out on a quarterly basis. Securities placed under GSM framework shall be reviewed and securities not meeting the inclusion Criteria - I & II shall be moved out of the GSM framework.

The review shall be carried out based on latest available quarterly consolidated / standalone results filed by the companies as per preference opted by companies under the SEBI (LODR) Regulations, 2015, which are submitted within 45 days from end of quarter and in case of annual results, within 60 days from end of their financial year.

Accordingly, tentative time schedule for publication of securities eligible for GSM framework applicable for next quarter(s) is given below:

<table>
<thead>
<tr>
<th>Quarter ended</th>
<th>Date of Circular</th>
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<tbody>
<tr>
<td>March 2020</td>
<td>June 19, 2020</td>
</tr>
<tr>
<td>June 2020</td>
<td>September 11, 2020</td>
</tr>
<tr>
<td>September 2020</td>
<td>December 11, 2020</td>
</tr>
</tbody>
</table>

In case date of circular falls on trading holiday, the circular shall be published on the following working day.

Market participants may note that GSM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the Exchanges from time to time.

**4) What are the various surveillance actions under GSM? And what do they signify?**

The underlying principle behind defining various stages under GSM framework is to alert the market participants that they need to be extra cautious and diligent while dealing in such securities as the need has been felt to place them under higher level of surveillance.

At present, there are 04 stages defined under GSM framework viz. from Stage I to Stage IV. Surveillance action has been defined for each stage. Once the security goes into a particular stage, it shall attract the corresponding surveillance action.
The security shall be placed in a particular stage by the Exchange based on monitoring of price movement and predefined objective criteria.

**Stage wise Surveillance actions are listed below –**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Surveillance Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Applicable margin rate shall be 100% and price band of 5% or lower as applicable</td>
</tr>
<tr>
<td>II</td>
<td>Trade for Trade with price band of 5% or lower as applicable and Additional Surveillance Deposit (ASD) of 50% of trade value to be deposited by the Buyers</td>
</tr>
<tr>
<td>III</td>
<td>Trade for Trade with price band of 5% or lower as applicable and Trading permitted once a week (Every Monday / 1st trading day of the week) and ASD (100% of trade value) to be deposited by the Buyers</td>
</tr>
<tr>
<td>IV</td>
<td>Trade for Trade with price band of 5% or lower as applicable and Trading permitted once a week (Every Monday / 1st trading day of the week) and ASD (100% of trade value) to be deposited by the Buyers with no upward movement.</td>
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</tbody>
</table>

5) **How will the shortlisted securities move to the various stages of GSM?**

The securities shall move to various stages of GSM in a sequential order from initial shortlisting i.e. Stage 0 to Stage I till Stage IV as and when the criteria for the respective stage is satisfied.

6) **Some of the securities which have been identified under GSM are already under various surveillance actions mentioned in the GSM framework. What does this mean?**

As stated, GSM framework shall work in addition to existing actions undertaken by the Exchange on the company’s securities. In case the securities are already attracting any action(s) mentioned in any of the stages of GSM framework, then such action will continue to work in conjunction with appropriate action under GSM framework.

For eg: If a security is in Trade for Trade settlement mode and such a security qualifies for Stage II then transactions in such securities shall not only be in Trade for Trade settlement mode and in 5% price band or lower but shall additionally be liable for Additional Surveillance Deposit (ASD) of 50% of trade value.

7) **Where do I get the complete list of GSM securities?**
A file (List of scrips shortlisted in Graded Surveillance Measure) containing stage wise GSM details is available on our website at the following link:

https://www.nseindia.com/regulations/graded-surveillance-measure

8) Will the identified securities remain under GSM permanently?
A review process based on pre-defined objective criteria for moving securities in / out of GSM framework shall be carried out on a quarterly basis as per schedule given in (3) above.

9) Will a security identified under GSM remain in the same stage permanently?
A monthly review of securities (under Stages I & above of GSM) based on a pre-defined objective criteria shall be carried out to assess relaxation of surveillance action. If qualified, the applicable securities can be moved back from a higher stage to a lower stage in a sequential manner, say from Stage III to Stage II.

10) How will the market participants be made aware of various graded surveillance measures undertaken by the exchanges on securities on short notice?
The Exchange has already published various circular(s) giving information to market participants on GSM framework, list of companies and their corresponding stages. Going forward as well, the Exchange shall continue to publish such circulars. All surveillance actions shall be triggered based on certain criteria and shall be made effective, in a coordinated manner across the Exchanges, with a very short notice issued after market hours typically one trading day before the effective date.

Further, while placing an order on a security which is under Graded Surveillance Measure (GSM) /Additional Surveillance Measure (ASM) / Insolvency Resolution Process (IRP) as per Insolvency and Bankruptcy Code (IBC) an alert message “Security is under Surveillance Measure / Insolvency Resolution Process, would you like to continue?” shall be displayed on NEAT/NEAT+.

11) What will be the price bands of securities identified under GSM?
The securities under GSM Framework shall attract price bands as per existing price band framework of the Exchange.
12) Besides the actions stated in GSM framework, can there be any other regulatory action against the companies identified therein?

Surveillance actions under GSM framework are without prejudice to the right of Exchanges and SEBI to take any other surveillance measures, in any manner, on case to case basis or holistically depending upon the situation and circumstances as may be warranted.

13) When does the Additional Surveillance Deposit (ASD) become applicable?

ASD is applicable when securities of the company move to Stage II of the GSM framework and above.

14) Who is liable to pay the ASD?

The ‘buyer’ of the security is liable to pay the ASD for securities shortlisted under Stages II and above under GSM and shall be collected from the ‘buying’ Trading Member(s). ASD will be debited on a T+1 basis from the primary clearing account for the capital market segment of the aforesaid Trading Member(s) by NSE Clearing Limited. It shall be paid in the form of cash only.

ASD shall be over and above existing margins or deposits levied by the Exchanges on transactions in such companies and shall be interest free.

15) Is ASD applicable to Institutional investors?

ASD shall be applicable on all category of Client(s) and Exchange shall collect the amount from the ‘buying’ Trading Member(s).

16) When shall the ASD be refunded?

Additional Surveillance Deposit (ASD) collected on securities retained under Stages II and above of GSM framework shall be retained for a period of 1 month and shall be released as per the schedule given below:

<table>
<thead>
<tr>
<th>ASD Collected in the month of</th>
<th>Will be Released on 2\textsuperscript{nd} Monday (As per calendar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar 2020</td>
<td>May 2020</td>
</tr>
<tr>
<td>Apr 2020</td>
<td>Jun 2020</td>
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<tr>
<td>----------</td>
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</tr>
<tr>
<td>May 2020</td>
<td>Jul 2020</td>
</tr>
<tr>
<td>Jun 2020</td>
<td>Aug 2020</td>
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<tr>
<td>Jul 2020</td>
<td>Sep 2020</td>
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<tr>
<td>Aug 2020</td>
<td>Oct 2020</td>
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<tr>
<td>Sep 2020</td>
<td>Nov 2020</td>
</tr>
<tr>
<td>Oct 2020</td>
<td>Dec 2020</td>
</tr>
<tr>
<td>Nov 2020</td>
<td>Jan 2021</td>
</tr>
<tr>
<td>Dec 2020</td>
<td>Feb 2021</td>
</tr>
</tbody>
</table>

Further, date of release of ASD collected w.r.t. securities moving out of GSM framework during the quarterly review process shall be intimated separately.

**17) Can Additional Surveillance Deposit (ASD) be utilized towards further exposure in trading?**

ASD shall not be considered for giving further exposure. ASD shall be over and above the existing margins or deposits levied by the Exchanges on transactions in such securities.

**18) Are there any charges levied in case of default in ASD?**

In case of default in payment of ASD, appropriate penal actions may be initiated against the concerned trading member.

**19) What is the mode of intimation of ASD payable to Trading members?**

The following file(s) shall be sent to the Trading member(s) through extranet on an end of day basis:

- **TM Code_GSM_DD-MMM-YYYY.csv** containing client wise / scrip wise details of all ‘Buy’ transactions pertaining to ‘all’ securities shortlisted under GSM.

- **TM Code_GSM_ASD_DD-MMM-YYYY.csv** containing client wise / scrip wise details of all ‘Buy’ transactions pertaining to securities shortlisted under GSM Stage II and above i.e. on which ASD is payable.
The above file(s) shall be available for download at the following location under TM Code folder: /Surveillance/Dnld

In case of any further queries, you may write to us at surveillance@nse.co.in or call on +91-22-26598129/8166.

*** End of Document ***

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