

Graded Surveillance Measure (GSM)

FREQUENTLY ASKED QUESTIONS (FAQs)

1) What is the purpose behind introduction of GSM FRAMEWORK

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors have introduced GSM

The main objective of these Measures is 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.

SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with other Measure there shall be Graded Surveillance Measure (GSM) 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, Market capitalization etc.

2) What are the various criteria for shortlisting of securities under GSM

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 OR negative PE.

The following securities shall be excluded from the process of shortlisting of securities under GSM:

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 or BSE);
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 directly under GSM – Stage I.

i) Securities with full market capitalization less than Rs. 25 crore; AND

ii) Securities with PE greater than 2 times PE of Benchmark Index 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 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.

Securities shortlisted under both the Criteria shall be placed in Stage 0 upon shortlisting and shall be monitored for Stage movement based on the framework.

3) 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 IV 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 –

Stage	Surveillance Actions
I	Applicable margin rate shall be 100% And 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 50% of trade value to be deposited by the Buyers
III	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
IV	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.

- Securities shortlisted under both the Criteria shall be placed in Stage 0 upon shortlisting and shall be monitored for Stage movement based on the framework
- The retention period of Additional Surveillance Deposit (ASD) shall be reduced to 1 month
- With respect to the listed shell companies which are presently under GSM Stage VI, the provisions of existing GSM framework shall continue to apply.
- Additional Surveillance Deposit (ASD) collected for the month of September, October and November 2019, shall be released on 2nd Monday of the month i.e. January 13, 2020

4) 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.

5) 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.

6) Where do I get the complete list of GSM securities?

A file ([List of securities in different stages of GSM](#)) containing stage wise GSM details is available on our website at the following link:

<https://www.msei.in/GSMLink>

7) 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.

8) 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 predefined 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.

9) 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 circulars 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.

10) 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.

11) 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.

12) 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). 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.

13) 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).

14) 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 3 months and shall be released as per the schedule given below.

ASD Collected in the month of	Will be Released on 2nd Monday (As per calendar)
July 2019	November 2019
August 2019	December 2019
September 2019	January 2020
October 2019	February 2020
November 2019	March 2020
December 2019	April 2020
January 2020	May 2020
Februray 2020	June 2020
March 2020	July 2020

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.

15) 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.

16) 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.