



Circular no.: MCX/INSP/418/2022

July 11, 2022

Precautions for clients dealing in Options

This has reference to Exchange circular no. MCX/INSP/193/2022 dated March 31, 2022, wherein it was highlighted that certain practices followed by members are not in compliance with the relevant guidelines issued by the Exchange.

Members' attention is drawn to Exchange circular nos. MCX/INSP/325/2016 dated September 29, 2016, MCX/INSP/244/2017 dated July 21, 2017 and MCX/INSP/421/2017 dated November 15, 2017, wherein it is stated that, clients who wish to trade on commodity exchange shall mandatorily sign the "trading preference" in the client registration form against the commodity exchange name mentioned. Further, that Members shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process. Also, in terms of Know Your Client (KYC) norms, Members are required to obtain financial details of the clients at the time of registration and update it periodically (i.e. at least once in a financial year)

However, it has been observed that trading members are not performing adequate due diligence to ensure that documentary evidence for income submitted by the client reflects the satisfactory financial position of the client before allowing them to trade in derivatives. It has also been observed that certain members are availing the services of influencers to promote "Options" trading, thereby inducing the clients to trade in "Options" without considering the product suitability/knowledge and trading experience of the clients.

In view of the same, members are hereby advised to carry out due diligence to ensure that evidence of financial information / income details reflecting the satisfactory financial position of the client are collected before onboarding the clients for trading in derivatives. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment, particularly in Options, is in proportion to their income / networth.

Further, Trading members are also advised to regularly caution and create awareness amongst their clients/investors at least once in a fortnight through email and also display the same on their websites to sensitise them to avoid practices like:

- a) Sharing of trading credentials – login id & passwords including OTP's.
- b) Trading in leveraged products like options 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 in “Options” based on recommendations from unauthorised / unregistered investment advisors and influencers.

Members are advised to regularly look for various unsolicited messages/unauthorised practices 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 also advised to take appropriate actions on the individuals/entities using their name/brand/logo and engaging in unauthorised market practices.

Members are advised to refrain from engaging in any practice that is against the spirit of the guidelines issued by SEBI/Exchange.

Members are advised to comply with the above regulatory requirements.

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(Inspection & Audit)

Kindly contact Inspection & Audit Team on 022-66494150 or send an email at Inspection@mcxindia.com for further clarification.

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