**Member and Core Settlement Guarantee Fund Committee**
**("MCSGFC/Committee")**
**of**
**National Stock Exchange of India Limited**
**Exchange Plaza, Bandra Kurla Complex, Mumbai – 400051**
**Held on January 23, 2023**

**In the matter of the Trading Member – SMIFS Limited**

**CORAM:**

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| Ms. Mona Bhide | - Chairperson |
| Mr. K Narasimha Murthy | - Committee Member |
| Mr. Ranganayakulu Jagarlamudi | - Committee Member |
| Mr. S. Ravindran | - Committee Member |
| Mr. Ashishkumar Chauhan | - Committee Member |

**ALSO PRESENT:**

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| Ms. Priya Subbaraman | - Chief Regulatory Officer |
| Dr. Dinesh Kumar Soni | - Sr. Vice President - Regulatory |
| Mr. Suresh Nair | - Vice President - Enforcement |
| Mr. Bireshwar Chatterjee | - Vice President – Investigation |
| Mr. Manish Deo | - Associate Vice President – Investigation |

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## BACKGROUND OF THE CASE AND PRELIMINARY OBSERVATION

1. **M/s. SMIFS Limited** ("**Noticee**") is a registered Trading Member of National Stock Exchange of India Limited ("**NSEIL**"/ "**Exchange**") having SEBI Registration No. INZ000220635 and enabled for trading in the Capital Market ("**CM**") segment since November 1994 and Futures & Options ("**F&O**") segment since July 2001, Currency Derivatives ("**CD**") segment since March 2012 and Commodity Derivative ("**COM**") segment since October 2018.

2. The Exchange during regular monitoring and surveillance of trading activity in the Equity segment observed certain transactions that were executed by the Noticee's clients in the Scrip Ramky Infrastructure Limited (**RAMKY**) & Venus Remedies Limited (**VENUSREM**) as on February 18, 2022, and February 22, 2022. Both the buy side and the sell side clients were trading through the same Noticee. The clients trading through the Noticee in the said scrips for the said transactions were Rajasekhar Guttikonda (PAN: AGFPG9440D; Unique Client Code("**UCC**"): 54428) and Guttikonda Vara Lakshmi (PAN: AELPV6536R; Unique Client Code: 54427). The Noticee's clients executed set of transactions which were matched and reversed with the same counter party. By executing the reversal transactions, the Noticee's clients made a close out difference of

Rs.14,43,565. The scrip wise reversal transactions between these two clients constituted in the range of 16.57% - 28.40% for **RAMKY** and 32.34% - 52.00% for **VENUSREM** of the total traded quantity in the market on the respective trading days as mentioned below. The transactions were synchronized in nature and the time of placement of buy order and sell order was less than or equal to 60 seconds. The orders were placed through a Computer-to-Computer Link ("**CTCL**") terminal and were Non-Algo in nature. The details of reversal transaction are as per the table below:

| Trade date | Scrip | Buy client name | Sell client name | Sum of traded value in lacs (Rs.) | Average of trade price (Rs.) | Sum of traded quantity | Sum of close out difference based on actual trade price (Rs.) | Total Close out Difference (Rs.) |
|---|---|---|---|---|---|---|---|---|
| 18-02-2022 | RAMKY | Rajasekhar Guttikonda | Guttikonda Vara Lakshmi | 108.70 | 217.46 | 49986 | 8,00,392 | 14,43,565 |
| 22-02-2022 | RAMKY | Guttikonda Vara Lakshmi | Rajasekhar Guttikonda | 81.56 | 198.03 | 41187 | | |
| 18-02-2022 | VENUSREM | Rajasekhar Guttikonda | Guttikonda Vara Lakshmi | 81.71 | 296.08 | 27596 | 6,43,173 | |
| 22-02-2022 | VENUSREM | Guttikonda Vara Lakshmi | Rajasekhar Guttikonda | 79.33 | 272.77 | 29081 | | |

3. Based on the observations of the Exchange mentioned in Paragraph 2 above, the Exchange issued a Show Cause Notice ("**SCN**") which was communicated to the Noticee vide the Exchange letter NSE/INVG/2022/112770 dated March 30, 2022.

## RELEVANT REGULATORY PROVISIONS

4. At the outset, it is appropriate to refer to the relevant regulatory provisions alleged to have been violated by the Noticee, extracts whereof are reproduced below:

4.1 **Regulation 4.5.4(c)(i) and Regulation 4.6 of NSEIL Regulations (CM Segment).**

*"4.5.4 General Guidelines (c) Misleading Transactions:*

*A Trading Member shall not - (i) make bids and/or offers for securities with an intention of creating a false or misleading appearance with respect to the market for, or the price of any security or…"*

*"4.6. Unfair Trading Practices:*

*4.6.1. No Trading Member shall execute or cause to be executed or participate in an account for which there are executed purchases of any eligible security at successively higher prices, or executed sales of any such security at successively lower prices, for the purpose of creating or inducing a false, misleading or artificial appearance of activity in such security or for the purpose of unduly or improperly influencing the market price for such security or for the purpose of establishing a price which does not reflect the true state of the market in such security.*

*4.6.2. No Trading Member shall for the purpose of creating or inducing a false or misleading appearance of activity in an eligible security or creating or inducing a false or misleading appearance with respect to the market in such security, (a) enter any order or orders for the purchase of such security with knowledge that an order or orders of substantially the same size, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties, or (b) enter any order or orders for the sale of such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price for the purchase of such security has been or will be entered by or for the same or different parties."*

4.2 **The Exchange circular no. NSE/INVG/39647 dated December 13, 2018 –**

*"Sub: Abnormal/Non-Genuine Transactions – In this regard, Trading Members are advised to refrain from entering into abnormal/ non-genuine transactions executed by the market participants primarily with an objective of transferring profit/loss between the concerned entities or creation of artificial volume in securities/contracts."*

*4.3* **The Exchange circular no. NSE/INVG/2019/40175 dated February 07, 2019** –

*"Sub: Guidance note on Abnormal / Non-Genuine trades - This is in continuation of NSE Circular No. NSE/INVG/39647 dated December 13, 2018 with respect to "Abnormal / Non-Genuine transactions" inter alia advising trading members to refrain from entering abnormal / non – genuine transactions executed by the market participants primarily with an objective of transferring profit / loss between the concerned entities or creation of artificial volume in securities / contracts.*

*In this regard, in order to assist trading members in identifying such type of transactions, certain indicative scenarios have been listed below which may need additional attention and examination by the trading member.*

- *Trading activity of client(s) concentrated in a specific security / contract which is/are not traded very frequently or trading with low volumes with client squaring up its position within a short span of time. Additionally, factors such as clients earning significant profit or incurring losses on account of such transactions, their consistent contribution to daily average volumes of security / contract may also be looked at.*
- *Securities /contracts where the total traded volume of the client vis a vis the average daily traded volumes in that security is significant.*

*Trading Members may please note that these alerts and guidance note is indicative and not exhaustive and hence should exercise necessary caution and due diligence at all times."*

*4.4* **The Exchange circular NSE/INVG/2020/46662 dated December 16, 2020** –

*"Sub: Penalty on Abnormal / Non-Genuine Transactions- The Exchange shall send necessary advice/caution letter to Trading Members and initiate appropriate disciplinary actions against the members concerned in case the activity is observed to be abnormal/non-genuine. Exchange shall levy a penalty of 100% of the traded value/ profit made/ loss incurred as a result of the trades on the trading members for both profit and loss making abnormal / non-genuine transactions after following the due process & providing necessary opportunity to the trading member for clarification in the matter.*

*The decision whether a trade or trades is / are abnormal / non-genuine would be of the Exchange which would be final and binding.*

*The Exchange may also consider taking appropriate disciplinary actions against the member concerned for multiple instances of such abnormal / non-genuine trades as per the Rules, Regulations and Byelaws of the Exchange."*

**RESPONSE OF THE NOTICEE TO THE SHOW CAUSE NOTICE:**

5. The Noticee responded to the show cause notice via its letter dated April 09, 2022. The summarized response of the Noticee is as under:

5.1. The Noticee stated that the clients, namely Rajshekhar Guttikonda (UCC – 54428) and Guttikonda Vara Lakshmi (UCC – 54427) are maintaining their Securities Trading Account with the Noticee since November 11, 2021, and in regular course of business entered in to purchase and sale transactions in various securities through the Noticee.

5.2. The Noticee further stated that in middle of February 2022, the clients approached the Noticee for Margin Trading facility ("**MTF**") on the Portfolio of Securities which the clients had invested through the Noticee, upon payment of the requisite Margin.

5.3. The Noticee submitted that for the clients to avail the Margin Trading Facility, the clients had to undertake fresh purchase and sale of transactions to assign the trades under Margin Trading Facility.

5.4. The Noticee stated that the purchase and sale transactions were executed as per the instructions of the clients as a part of availing Margin Trading Facility, upon maintaining Up Front Margin Collateral with the Noticee.

5.5. The Noticee contended that it has not undertaken to make bids and/or offers for securities with an intention of creating a false or misleading appearance with respect to the market for, or the price of any security. The Noticee has merely acted on the instructions of the client who had intended to shift the portfolio to Margin Trading Facility route.

5.6. The Noticee further contended that it has not executed sale or purchase of any such security at successively lower prices with any malafide intentions. The client wanted to avail Margin Trading Facility and the purchase and sale transactions were executed upon the instructions of the client at the prevailing market rates to facilitate the Margin Trading Facility. The Noticee further contended that none of the transactions were executed for the purpose of creating or inducing a false, misleading, or artificial appearance of activity in such security or for the purpose of unduly or improperly influencing the market price for such security or for the purpose of establishing a price which does not reflect the true state of the market in such security.

## PRESENT PROCEEDINGS BEFORE MCSGFC

6. The Exchange vide email dated January 16, 2023, granted the Noticee an opportunity of personal hearing before the Committee in its meeting held on January 23, 2023.

7. The Noticee was represented through Mr. Sudipto Datta – Designated Director, Chief Financial Officer & Compliance Officer, Mr. Bajrang Lal Agarwal – Head of Operations, Mr. Amit Roy – Head of Risk & Compliance, Ms. Kathakali De – Assistant Company Secretary and Ms. Sreerupa Das – Assistant Manager of Risk Management. The officials of the Noticee attended the meeting via video conferencing from Kolkata Regional office and reiterated the submissions made in its reply dated April 09, 2022.

## OBSERVATIONS, CONSIDERATIONS AND FINDINGS OF THE COMMITTEE

8. After duly considering the oral and written submissions made by the Noticee with regards to the charges mentioned in the SCN dated March 30, 2022, the Committee finds as under:

8.1 The Noticee is the Trading Member on both the sides of the reversal trades executed in a synchronized manner.

8.2 The clients on both the sides of the transaction are related with each other.

8.3 Upon verification of Unique Client Code ("**UCC**") records of the Exchange, it is observed that Guttikonda Vara Lakshmi and Rajasekhar Guttikonda have common address (Plot No 224, A H No 501, road No 10, Near Church Western Hills kukatpally, Rangareddy Road No 10, Hyderabad 500072 Telangana India), common Mobile Number (9246275759) and common email address (vl82005@gmail.com).

8.4 The transactions were executed in a synchronized manner i.e., both buy client and the sell client had placed buy and sell orders within 60 seconds of each other.

8.5 The scrip wise reversal transactions between these two clients constituted in the range of 16.57% - 28.40 for **RAMKY** and 32.34% - 52.00% for **VENUSREM** of the

total traded quantity in the market on the respective trading days as mentioned below.

8.6 The reversal traded value to total traded value on the respective trading days were 92.34% and 92.84% respectively for Guttikonda Vara Lakshmi and Rajasekhar Guttikonda.

8.7 82.40% of the traded quantity in the first leg of the transaction was reversed with the same counter party in the second leg for scrip RAMKY, whereas 94.89% of the traded quantity in the first leg of the transaction was reversed with the same counter party in the second leg was observed for scrip VENUSREM.

8.8 As per the response of the Noticee in Paragraph 5.3 & 5.4 hereinabove, the Noticee was aware that the reversal trades were being executed and the purpose was for availing MTF facility.

8.9 The above act tantamounts to creating a false or misleading appearance with respect to the market activities thereby violating the **Exchange Regulation 4.5.4(c)(i)** and *also tantamounts to artificial appearance of activity in such security thereby violating the* **Exchange *Regulation 4.6.1***.

8.10 The above act has resulted into entering any order or orders for the purchase of such security with knowledge that an order or orders of substantially the same size, and at substantially the same price, for the sale of any such security, has been or will be entered which is prohibited as per the **Exchange Regulation 4.6.2**.

*8.11* The trading system of the Exchange cannot be a medium for executing Trade Reversals for any purpose including the so called availing MTF facility and such transactions are abnormal/ non-genuine in nature *(**NSE/INVG/2020/46662 dated December 16, 2020**).*

8.12 The Noticee by executing such trades has violated the provisions of Regulation 4.5.4(c)(i) and Regulation 4.6. of NSEIL Regulations (CM Segment). Further, the transactions executed are non-genuine transactions as per the Exchange Circular Nos. NSE/INVG/39647 dated December 13, 2018, NSE/INVG/2019/40175 dated February 07, 2019, and NSE/INVG/2020/46662 dated December 16, 2020. In accordance with the Rules/Regulations and Bye-laws of the Exchange, the Committee holds that the Noticee has facilitated non-genuine trades and violated legal provisions as mentioned above. Therefore, in the facts and circumstances of the case, the Committee is of the view that appropriate penalty in terms of the Exchange Circular No *NSE/INVG/2020/46662 dated December 16, 2020,* is attracted. As the close out difference is Rs. 14,43,565, since the Noticee is on both sides of the transaction, the amount of 100% penalty amounts to Rs. 28,87,130/-.

**MCSGFC DECISION**

9. Accordingly, a penalty of Rs. 28,87,130/- rounded off to **Rs. 28,87,100/-** (Twenty-Eight Lakhs Eighty-Seven Thousand One Hundred) (being 100% of profit earned / loss incurred for both profit and loss making abnormal / non-genuine transactions) is levied on the Noticee in terms of the Exchange Circular No. *NSE/INVG/2020/46662 dated December 16, 2020*.

10. The Noticee is also directed to take adequate measures / put in place effective systems and controls to comply with the provisions of the Exchange Regulation 4.5.4(c)(i) and Regulation 4.6. of NSEIL Regulations (CM Segment) and the Exchange Circulars NSE/INVG/39647 dated December 13, 2018, NSE/INVG/2019/40175 dated February 07, 2019, and NSE/INVG/2020/46662 dated December 16, 2020.

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|---|---|---|
| Sd/- | Sd/- | Sd/- |
| Mona Bhide | K Narasimha Murthy | Ranganayakulu Jagarlamudi |
| (Chairperson) | (Committee Member) | (Committee Member) |

| | |
|---|---|
| Sd/- | Sd/- |
| Mr. S. Ravindran | Ashishkumar Chauhan |
| (Committee Member) | (Committee Member) |

Date: November 20, 2023.