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

In the matter of the Trading Member – Motilal Oswal Financial Services Limited

CORAM:

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:

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

BACKGROUND OF THE CASE AND PRELIMINARY OBSERVATION

1. **M/s. Motilal Oswal Financial Services Limited** ("**Noticee**") is a registered Trading Member of National Stock Exchange of India Limited ("**NSEIL**"/ "**Exchange**") having SEBI Registration No. INZ000158836 and enabled for trading in the Capital Market ("**CM**") segment since January 1995 and Futures & Options ("**F&O**") segment since January 2001, Currency Derivatives ("**CD**") segment since January 2013 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 Aarti Surfactants Limited (**AARTISURF**) as on March 02, 2022, March 03, 2022, March 07, 2022, and March 08, 2022. Both the buy side and the sell

side client in the above transactions were trading through the Noticee. The clients trading through the Noticee in the said scrip for the said transactions were Mr. Pradeep Kumar Sonthalia (PAN - AHFPS8270A) and Mr. Nityanand Sonthalia (PAN - ALDPS5358M). The Noticee's clients executed set of transactions which were matched and reversed with the same counter party. The first leg (March 02, 2022 and March 03, 2022) was of 82,903 quantities and the reversal leg (March 07, 2022 and March 08, 2022) was of 41,873 quantities. By executing the reversal transactions, the Noticee's clients made a close out difference of Rs. 8,37,968. The reversal transactions between these two clients constituted in the range of 59.83% - 82.96% of the total traded quantity in the market in that scrip on the respective days. The transactions were in the nature of synchronized transaction and time of placement of the buy order and sell order was less than or equal to 60 seconds. The orders were placed by Mr. Nityanand Sonthalia through Computer-to-Computer Link ("**CTCL**") terminal and were NON-ALGO in nature and through Securities Trading using Wireless Technology ("**STWT**") terminal by Pradeep Kumar Sonthalia and were NON-ALGO in nature. The details of reversal transaction are as per the table below:

Trade date	Average of trade price (Rs.)	Sum of traded quantity	Sum of traded value in crores (Rs.)	Sum of % market gross	Sum of close out difference (Rs.)	Buy client name	Sell client name
02-03-2022	788.64	67361	5.31	82.96	8,37,968	Pradeep Kumar Sonthalia	Nityanand Sonthalia
03-03-2022	817.13	15542	1.27	59.83		Pradeep Kumar Sonthalia	Nityanand Sonthalia
07-03-2022	774.50	23932	1.85	66.48		Nityanand Sonthalia	Pradeep Kumar Sonthalia
08-03-2022	772.56	17941	1.39	73.53		Nityanand Sonthalia	Pradeep Kumar Sonthalia

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/2022/113992 dated May 04, 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 no. 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 SCN via its letter dated May 12, 2022. The summarized response of the Noticee is as under:

5.1 The Noticee stated that clients had placed the request for execution of order. After placement of order, the order got executed in the market through the Exchange anonymous trading platform based on price and time priority rule prescribed by the Exchange with available counter party.

5.2 The Noticee further stated that the clients' have been associated with the Noticee and have been making substantial investments in shares since long. The client has been holding some stake in AARTISURF since February 2021 among others. Regarding sale and purchase of Shares of AARTISURF in the Clients' Accounts, the transactions were made on 2nd, 3rd, 7th and 8th day of March 2022 for sale and purchase of the shares of AARTISURF for making investments size according to the Fund availability (Own Capital) and to reduce the inter family/group unsecured loan in the respective books of account of Mr. Pradeep Kumar Sonthalia and Mr. Nityanand Sonthalia whereby holdings of both the accounts got exchanged as clients did not want to dilute the stakes in AARTISURF. However, the clients clarified that the above transactions were not carried out for any price manipulation as the clients were holding shares of AARTISURF at the price of Rs.1200/- per shares approx., since February 2021 in their respective accounts and the clients were intending to keep present holding for long term.

5.3 The Noticee further stated that the Exchange volume of the scrip AARTISURF from March 2, 2022, to March 08, 2022, was very low. During that period, its clients placed the order and the order got executed in the market through the Exchange anonymous trading platform.

5.4 The Noticee contended that this being a one-time transaction without any intention of manipulation of volume or prices of the abovementioned scrip, the Noticee hereby requested the Exchange to consider the feedback from the client and oblige.

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. The Noticee was represented through Mr. Neeraj Agarwal, Compliance Officer. The official of the Noticee attended the personal hearing and reiterated the submissions made in its reply dated May 12, 2022.

OBSERVATIONS, CONSIDERATIONS AND FINDINGS OF THE COMMITTEE

7. After duly considering the oral and written submissions made by the Noticee with regards to the charges mentioned in the SCN dated May 04, 2022, the Committee finds as under:

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

7.2 The Noticee's clients on both sides of the transaction are related to each other.

7.3 Upon verification of Unique Client Code ("**UCC**") records of the Exchange, it is observed that Mr. Pradeep Kumar Sonthalia and Mr. Nityanand Sonthalia have common address (221, 2nd Floor, Sri Ram Plaza Bank More, Dhanbad, Jharkhand - 826001) and common Mobile Number (9234895300).

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

7.5 50.51% of the traded quantity in the first leg of the transaction was reversed with the same counter party in the second leg of the transaction.

7.6 Further the Noticee's contention in Paragraph 5.4 hereinabove, that transaction was a one-time transaction made by its clients without any intention of manipulation is baseless and stated without any supporting evidence.

7.7 The reversal transactions between these two clients constituted in the range of 59.83% - 82.96% of the total traded quantity in the market in that scrip on the respective days.

7.8 The reversal traded value to total traded value on the respective days were 99.29% and 99.02% respectively for Mr. Nityanand Sonthalia and Mr. Pradeep Kumar Sonthalia.

7.9 As per the response of the Noticee in Paragraph 5.2 hereinabove, the Noticee submitted that the transactions were made on the 2nd, 3rd, 7th and 8th day of March 2022 for sale and purchase of shares of Aarti Surfactants Ltd for making investments size according to the Fund availability (Own Capital) and to reduce the inter family/group unsecured loan in the respective books of account of Mr. Pradeep Kumar Sonthalia and Mr. Nityanand Sonthalia, whereby the holdings of both accounts were exchanged as the clients did not want to dilute their stake in Aarti Surfactants Ltd. based on this response, it can be observed that the Noticee's clients have transacted to adjust/settle their Books of Accounts. Thus, the Committee noted that the Noticee's clients have used the Exchange platform to adjust Books of Accounts which tantamounted to creating a false or misleading appearance with respect to the market thereby violated the Exchange Regulation 4.5.4(c)(i) and Regulation 4.6. of the Exchange Regulations (CM Segment), hence the said transaction is non-genuine in nature.

7.10 As per Paragraph 5.3 hereinabove, the Noticee stated that the volume of the scrip AARTISURF on the Exchange platform from March 2, 2022, to March 08, 2022, was very low and during that period its clients placed the orders and the same got executed in the market through the Exchange's anonymous trading platform. This statement made by the Noticee is not tenable, as in Paragraph 5.2 hereinabove the Noticee has clearly accepted that purpose of such transaction was to reduce the inter family/group's unsecured loan in the respective Books of Accounts of Mr. Pradeep Kumar Sonthalia and Mr. Nityanand Sonthalia and therefore the said transactions were not executed in the open market. The above act tantamount to creating a false or misleading appearance with respect to the market (Regulation 4.5.4(c)(i)) and to create an artificial appearance of activity in such security thereby violating the Exchange Regulation 4.6.1.

7.11 The above act of the Noticee's clients is also equivalent to placing any order/s for the purchase of such security with knowledge that an order/s of substantially the same size, and at substantially the same price, for the sale of any such security, has been or will be entered thus violating the Exchange Regulation 4.6.2.

7.12 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 Byelaws of the Exchange, the Committee holds that the Noticee has facilitated non-genuine trades and violated legal provisions as mentioned above. Therefore,

considering 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. 8,37,968, since the Noticee is on both the sides of the transaction, the amount of 100% penalty amounts to Rs. 16,75,936.

MCSGFC DECISION:

8. Accordingly, a penalty of Rs. 16,75,936 rounded off to **Rs. 16,75,900** (Sixteen Lakhs Seventy-Five Thousand Nine 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.

9. 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.

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