Before the
Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051
held on April 16, 2024

In the matter of the Trading Member: JM Financial Services Limited

CORAM

Mr. S Ravindran	-	Chairperson
Mr. S Sudarshan	-	Committee Member
Mr. Essaji Vahanvati	-	Committee Member
Mr. Ashishkumar Chauhan	-	Committee Member

ALSO, PRESENT

Mr. Piyush Chourasia	-	Chief Regulatory Officer
Ms. Sonali Karnik	-	Vice President – Enforcement
Mr. Janardhan Gujaran	-	Vice President – Enforcement

BACKGROUND

1. **J M Financial Services Limited ("JM Financial")** is a SEBI registered stockbroker and a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"the **Exchange**") and enabled for trading in the Capital Market ("**CM**") segment since November 1994, Futures and Options ("**F&O**") segment since June 2004 and, Currency Derivatives ("**CD**") segment since January 2009.

2. The Exchange conducted a limited-purpose inspection of J M Financial' s books of accounts and records covering the period from October 1, 2021, to September 30, 2022, in March 2023 **("Inspection")**. Post-Inspection, the Exchange issued a letter of observations dated May 12, 2023, ("**LO**") seeking explanation for the non-compliances with the regulatory provisions observed during the inspection. JM Financial vide its email dated May 26, 2023, replied to the said LO.

INSPECTION OBSERVATIONS/ALLEGED VIOLATIONS

3. The observations/violations alleged in the LO, are summarized hereunder: -

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3.1 Unauthorized trade in clients' accounts/sharing of trading credentials (login Id and password) in case of 6 out of 13 clients.

3.2 Non-maintenance of pre-order confirmation for orders placed by client in 7 instances pertaining to 7 clients (100% of the clients selected for sample scrutiny)

3.3 Notice board of the trading member in the prescribed format was not displayed at the inspection location.

REGULATORY PROVISIONS

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

4.1 **Unauthorized trade in clients' accounts/sharing of trading credentials (login Id and password)**

Exchange Circular No. NSE/INSP/51770 dated March 25, 2022

(f) Sharing of trading credentials (login id & password):

It has been observed that clients trading in derivatives were lured to share trading credentials – (login id & passwords) with the individuals/persons who had promised assured returns and traded on behalf of these clients. In view of the same, members are hereby advised to carry out surveillance of trading activities of clients, particularly in derivatives. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment is in proportion to their income / networth. …

In view of the above, members are also advised to regularly caution and create awareness amongst their clients/investors to abstain them from dealing in any schemes of unauthorised collective investments/portfolio management, indicative/ guaranteed/fixed returns / payments etc. and sensitise their clients to avoid practices like:

a) Sharing

i. trading credentials – login id & passwords,
ii. trading strategies
iii. position details

b) Trading in leveraged products /derivatives without proper understanding, which could lead to losses

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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 based on recommendations from unauthorised / unregistered investment advisors*

Members are advised to look out for various unsolicited messages 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.

4.2 **Non-maintenance pre-order confirmation for orders placed by client**

a. Regulation 3.2.1 of Exchange Regulations (CM Segment) and Regulation 3.4.1 of Exchange Regulations (F&O Segment)

Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the system/NEAT system and shall keep relevant records or documents of the same and of the completion or otherwise of these orders thereof.

Notwithstanding the above, wherever the order instructions are received from clients through the telephone, Members shall mandatorily use the telephone recording system to record the instructions and maintain telephone recordings as part of its records.

b. Exchange Circular No. NSE/INSP/37301 dated March 26, 2018 (SEBI Circular SEBI'/HO/DOP1/CIR/P/2018/54 dated March 22, 2018)

III. To further strengthen regulatory provisions against un-authorized trades and also to harmonize the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, which could be, inter alia, in the form of: -

a. Physical record written & signed by the client,
b. Telephone recording,
b. Email from authorized email id,

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b. *Log for internet transactions,*
c. *Record of messages through mobile phones,*
d. *Any other legally verifiable record.*

IV. *Further, wherever the order instructions are received from clients through the telephone, the stock broker shall mandatorily use telephone recording system to record the instructions and maintain telephone recordings as part of its records.*

4.3 **Notice board of the trading member in the prescribed format was not displayed at the inspection location**

a. Exchange's circular no. NSE/MEM/1591 dated April 20,2000

7. The trading member shall ensure placing notice boards/plates of size of minimum 4'x 3', which shall contain the details prescribed in Annexure 1 or 2 of this circular as applicable in an indelible manner, is prominently displayed in the main/branch office of the trading member or office of the registered sub-broker (where the trading terminal is located), as the case may be.

8. The trading member shall ensure that the copy of registration certificate issued by SEBI to the trading members is displayed at the main office. It should be visible to everybody and placed in the reception area of the dealing office.

9. The trading member shall ensure that members of other Exchanges who are acting as sub-brokers through the trading members of NSE should obtain separate certificate of registration from SEBI to act as a sub-broker under SEBI (Stock-Brokers and Sub-Brokers) Rules and Regulations, 1992 (Ref. Circular NSE/MEMB/465 dated February 16, 1998).

10. The trading member shall ensure that the copy of registration certificate issued by SEBI to the sub-broker is displayed at the dealing office of the sub-broker. It should be visible to everybody and placed in the reception area of the dealing office.

b. Exchange's circular no. NSE/MEM/6706 dated September 28,2005
Trading members are advised to ensure display of the revised notice board prescribed in Annexure 1 of this circular as applicable in prominently visible locations, in a permanent manner, in the

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main/branch office of the trading member or office of the registered sub-broker (where the trading terminal is located), as the case may be.

CONSIDERATION AND FINDINGS

5. The observations/violations in the LO, reply of JM Financial and the findings of the Committee are as under: -

5.1. **Unauthorized trade in clients' accounts/sharing of trading credentials (login Id and password)**

5.1.1. Upon verification of Internet Base Trading (IBT) logs vis-à-vis Internet Protocol (IP) details provided by JM Financial, it is observed that the Noticee carried out unauthorized trades in clients' accounts using the login credentials of clients, such as login Id and password, in 6 out of 13 instances.

5.1.2. In reply to the LO, JM Financial submitted that there were no complaints against the Authorized Person (AP) regarding unauthorized trading. Further, all trades executed are supported by the pre-trade confirmation maintained in compliance with SEBI Circular No. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.

5.1.3. The Committee finds that: -

a. The Noticee's contention that there are no complaints from clients regarding unauthorized trading and all the trades were executed after prior trade confirmation from the clients is not acceptable in absence of any supporting documents.

b. Upon verification of trade logs, client Internet Base Trading (IBT) logs, IP details, and UCC details, it is observed that the login credentials of six clients, who are not related to each other, have been used by JM Financial's AP, Mr. Kalpesh Thakorlal Parikh for logging in to the clients trading account. This is evident as all six clients' terminals have been logged in through the same IP address, viz.172.16.21.22. Out of these six clients, trades have been carried out in four clients' accounts on multiple dates in the CM and F&O segments of the Exchange. Thus, the violation persists. The details are as follows:

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UCC	Client Name	Address	Date	IP address	Segment	Buy Qty	Sell Qty
63710384	Shegun Bakul Chokshi	7 MONALI PARK SOC OPP MORE MEGA STORE MANJALPUR VADODARA 390011 GUJARAT India	10/18/2021	172.16.21.22	FO	0	4125
63710385	Ashish Hasmukhbhai Desai	B 8 VITTHALKRUPA SOCIETY NEAR MENTAL HOSPITAL KARELIBAUG VADODARA 390018 GUJARAT India	3/3/2022	172.16.21.22	CM	250	0
63710390	Sejalben Ashishbhai Desai	B 8 VITTHALKRUPA SOC NR MENTAL HOSPITAL KARELIBAUG VADODARA 390018 GUJARAT India	11/10/2021	172.16.21.22	CM	75	0
			11/16/2021	172.16.21.22	CM	5	0
			12/10/2021	172.16.21.22	CM	110	0
			12/10/2021	172.16.21.22	CM	200	0
			12/30/2021	172.16.21.22	CM	0	270
			2/28/2022	172.16.21.22	CM	45	0
			3/9/2022	172.16.21.22	CM	75	0
			3/23/2022	172.16.21.22	CM	25	0
			4/7/2022	172.16.21.22	CM	25	0
			4/7/2022	172.16.21.22	CM	300	0
			4/7/2022	172.16.21.22	CM	500	0
			4/8/2022	172.16.21.22	CM	75	0
			5/10/2022	172.16.21.22	CM	0	50
			6/21/2022	172.16.21.22	CM	125	0
			6/21/2022	172.16.21.22	CM	270	0
			6/21/2022	172.16.21.22	CM	0	3
			6/21/2022	172.16.21.22	CM	125	0
			7/18/2022	172.16.21.22	CM	25	0
			8/2/2022	172.16.21.22	CM	500	0
			9/28/2022	172.16.21.22	CM	0	600
63710509	Raj Vipul Parikh	7 BHAGYALAXMI SOCIETY BEHIND AITTHI GRUH AKOTA VADODARA 390020 GUJARAT India	12/2/2021	172.16.21.22	CM	21	0
			2/15/2022	172.16.21.22	CM	0	242
			2/15/2022	172.16.21.22	CM	0	21
			3/16/2022	172.16.21.22	CM	18	0
			3/23/2022	172.16.21.22	CM	0	15
			2/10/2022	172.16.21.22	FO	100	100
			2/10/2022	172.16.21.22	FO	125	125
			2/10/2022	172.16.21.22	FO	125	125
			2/10/2022	172.16.21.22	FO	125	125
			2/10/2022	172.16.21.22	FO	375	375
			2/10/2022	172.16.21.22	FO	100	100
			3/9/2022	172.16.21.22	FO	50	0
			3/9/2022	172.16.21.22	FO	0	50
			3/9/2022	172.16.21.22	FO	0	50
			3/9/2022	172.16.21.22	FO	50	0
			3/9/2022	172.16.21.22	FO	50	50
			3/9/2022	172.16.21.22	FO	50	50

c. Exchange Circular No. NSE/INSP/51770 dated March 25, 2022, brought to the attention of Trading Members that the clients were

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being lured into sharing their trading credentials (login Id and passwords) by individuals promising assured returns and trading on their behalf. Accordingly, Trading Members were advised to sensitize their clients to avoid such practices, including sharing their trading credential. The sharing of trading credentials of IBT clients with JM Financial Authorized Person was not adequately monitored and prevented by JM Financial, thus violated the provision of the said Exchange circular.

d. In view of the above, the Committee noted that the login details of four IBT clients had a single IP address belonging to Authorized Person (AP) viz. Kalpesh Thakorlal Parikh indicating that the AP had accessed clients IBT terminals. Accordingly, it was observed that the trades are unauthorized trades.

5.1.4. Given the findings mentioned above the Committee decided to levy a monetary penalty of Rs. 2,00,000/- (Rs. 50,000/- per client x 4 traded clients) for the observed violation at par with the Exchange Circular No. NSE/ISC/60035 dated December 29, 2023.

5.2. **Member has not kept appropriate evidence in respect of the order placed by their clients**

Upon verification of the voice recording of orders placed by the clients, it is observed that the JM Financial has not kept appropriate evidence in respect of the order placed by its clients in all 7 sample dates pertaining to 7 clients selected for sample scrutiny.

5.2.1. In reply to the LO, JM Financial submitted as under: -

The AP have maintained appropriate evidence of pre-order placement confirmation in the form of voice recording, or physical deal slip duly signed by the clients. JM Financial submitted 5 deal slips and 2 voice recordings for verification.

5.2.2. The Committee finds that: -

a. JM Financial contended that AP have maintained appropriate evidence of pre order placement confirmation in the form of voice recording, and physical deal slip duly signed by the clients. Upon verification it is observed as under:

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i. Voice recordings of 2 clients (Client code 63710669 and 63710654)

Upon verification of voice recordings, it is observed that the voice recording was pertaining to post trade confirmation. Thus, JM Financial failed to maintain pre trade confirmation in case of 2 instances and hence the violation persists.

ii. Deal Slips of 5 clients (Client codes 63710263, 63710653, 63710661, 63710664, 63710665)

Upon verification of the deal slips, the Exchange observed that the deal slips were without time stamps. Therefore, it cannot be ascertained whether the deal slips were signed prior to the trade. Further, JM financial failed to provide the deal slips during the inspection. Thus, in absence of appropriate documentary evidence, the contention of JM Financial is not acceptable and the violation persists.

b. As per Regulation 3.2.1 of NSEIL Regulations (CM Segment), Regulation 3.4.1 of NSEIL Regulations (F&O Segment) and Exchange Circular No. NSE/INSP/37301 dated March 26, 2018, Trading Members shall ensure that appropriate order confirmation instructions are obtained from the constituents before placement of an order on the system and shall keep relevant records or documents of the same and of the completion or otherwise of these orders thereof. Hence, JM Financial violated the regulatory provisions mentioned above by failing to maintain appropriate evidence of the orders placed by its clients.

5.2.3. Given the findings mentioned above coupled with the incidents observed in paragraph no. 5.1 pertaining to the practice of sharing of login credentials by clients at its APs office, the Committee decided to treat the observation in line with unauthorized trading and levy a monetary penalty of Rs. 3,50,000/- (50,000 per client x 7 clients) on JM Financial for the observed violation and directed it to comply with the requirement of keeping appropriate evidence of pre-orders placement requests by clients within 30 days from the date of this order at par with the Exchange Circular No. NSE/ISC/60035 dated December 29, 2023, for unauthorised trading.

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5.3. **Notice board of the trading member was not displayed at the inspection location**

5.3.1. The Exchange inspected the office of AP, Mr. Kalpesh Thakorlal Parikh of JM Financial located at Thakor Bhuvan, Bajwada Near Kalyanraiji Temple, Vadodara. Upon verification, it is observed that the Notice board was not displayed at the inspection location.

5.3.2. In reply to the LO, JM Financial submitted that the Notice Board and certificate as applicable to the AP were displayed at a prominent place in its office premises at the time of inspection and submitted photos of notice board for verification.

5.3.3. The Committee finds that: -

a. JM Financial contended that a Notice board was displayed at the inspection location and, in support submitted photocopies of the AP's office displaying the Notice Board. However, JM Financial contention is not acceptable as the Exchange did not find any Notice Board at the AP's office during its inspection visit. Further, the Exchange shared a copy of inspection observation vide email dated February 15, 2023, however no response was received from JM Financial in reply to the said observation. Thus, the violation persists.

b. Exchange's circular no. NSE/MEM/6706 dated September 28,2005 requires the display of the notice board as prescribed in Annexure 1 of this circular in prominently visible locations, in a permanent manner, in the main/branch office of the trading member or office of the registered sub-broker or authorized person (where the trading terminal is located), as the case may be. JM Financial violated the regulatory provisions mentioned above by failing to display the Notice board in prescribed format at a prominent place in the office of the AP.

5.3.4. Given the findings mentioned above the Committee decided to levy a monetary penalty of Rs. 10,000/- on JM Financial for the observed violation in line with Sr. No.68 (B) of schedule 1 as per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

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DECISION

6. In view of the above, the Committee levies the following penalties as indicated against each of the violations mentioned below:

Sr. No.	Committee's Findings based on JM Financial' s submission	Prescribed penalty as per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022, and Exchange Circular No. NSE/ISC/60035 dated December 29,2023	Penalty levied post-considering JM Financial' s submissions and the Committee's findings
1.	Unauthorized trade in clients' accounts/sharing of trading credentials (login Id and password)	Rs. 50,000 per case	Rs. 2,00,000/-
2.	Non-maintenance pre-order confirmation for orders placed by clients	Rs. 50,000 per case	Rs. 3,50,000/- + Direction to comply with the requirement of keeping appropriate evidence for orders placed by clients within 30 days from the date of this order.
3.	Notice board of the trading member in the prescribed format was not displayed at the inspection location	Rs. 10,000/-	Rs. 10,000/-
TOTAL			**Rs. 5,60,000/- + Directions**

6. JM Financial is directed as under: -

a. To pay a monetary penalty of Rs. 5,60,000/- (Rupees Five Lakhs Sixty Thousand Only).

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b. To note the non-monetary penalties mentioned above and ensure non-recurrence of the observed violations.

Sd/-	Sd/-	Sd/-
S Ravindran	Essaji Vahanvati	Ashishkumar Chauhan
(Chairperson)	(Committee Member)	(Committee Member)

Date: March 03, 2025

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