Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051
held on March 19, 2024

In the matter of Trading Member JM Financial Services Limited

CORAM

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

ALSO PRESENT:

Mr. Piyush Chourasia	-	Chief Regulatory Officer
Mr. Ankit Sharma	-	Chief Regulatory Officer
Ms. Renu Bhandari	-	Vice President – Inspection
Ms. Sonali Karnik	-	Vice President – Enforcement
Mr. Janardhan Gujaran	-	Vice President – Enforcement

BACKGROUND

1. **JM Financial Services Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"**Exchange**") and enabled for trading in the Capital Market ("**CM**") segment since November 1994, Futures and Options ("**F&O**") segment since June 2004, Currency Derivatives ("**CD**") segment since January 2009 and Commodities Derivatives ("**COM**") segment since November 2019.

2. As a part of offsite supervision mechanism, the Exchange reviewed ledgers of the top debtor and creditor clients of the Noticee and bank books of J M Financial Products Limited ("**JFPL**"), a Non-Banking Financial Company ("**NBFC**"). During

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review, the Exchange observed receipt and payment entries indicating a financing arrangement between JFPL and clients of the Noticee. Therefore, the Exchange conducted a limited purpose inspection of the books and records of the Noticee during August 2022 to November 2022 covering the period February 2022, to July 2022. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") dated January 3, 2023, to the Noticee for the observed non-compliance with the regulatory provisions. The Noticee, vide email dated January 19, 2023, replied to the SCN.

INSPECTION OBSERVATION

3. The inspection observation mentioned in the SCN is summarized hereunder: -

3.1. Facilitating financing of client transactions through NBFC, i.e. JFPL

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. **Facilitating financing of clients' transactions through NBFC**

a. Exchange Circular No. NSE/INSP/6938 dated December 9, 2005

4.1 Trading Members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding company or group company, to fund the transactions executed by the Trading Members on behalf of their clients, or recognize or act in accordance with any such agreement or arrangement entered into by the clients with any person.

4.2 Trading Members shall not entertain any instructions to trade in securities or transfer funds or securities, from any entity other than

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the clients, by prior arrangement or otherwise to facilitate financing clients' transactions.

4.3 Trading Members shall not obtain any authorization or power of attorney, for operating the depository and / or bank accounts of clients who avail financing facility for securities trading, conferring rights for operation of such accounts exclusively by the trading member.

4.4 Trading Members shall not also otherwise finance or act as a conduit or front for financing any secondary market transactions entered into by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.

b. Exchange Circular No. NSE/INSP/47278 dated February 9, 2021

Recently it has come to the notice of the Exchange that in order to fund the peak margin requirement of the clients, members have entered into arrangement with NBFCs for facilitating loan/credit facilities to the clients by NBFCs. Such financing arrangements are in violation of the SCRA/SEBI guidelines. In view of the same, members are again advised to ensure the following:

- *Trading Members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding company or group or associate company, to fund any secondary market transactions or margin requirements in respect of transactions executed by the Trading Members on behalf of their clients, or recognize or act in accordance with any such agreement or arrangement entered into by the trading members' clients with any person*

- *Trading Members shall not entertain any instructions to trade in securities or transfer funds or securities, from any entity other than the clients, by prior arrangement or otherwise to facilitate financing of clients' transactions or margin requirements in respect of the*

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transactions. Any financing arrangement with a general authorization by the clients are not permitted.

- *Trading Members shall not otherwise finance or act as a conduit or front for financing any secondary market transactions or margin requirements in respect of the transactions entered into by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.*

c. Exchange Circular No. NSE/INSP/52888 dated July 5, 2022

- *Trading Members shall not share transaction/obligation details of the clients with NBFC or any other lending institutions.*

- *Trading Members shall not engage in cross-selling of lending products or open joint (2 in 1 type of) accounts in collaboration with NBFC or any other lending institutions.*

CONSIDERATION & FINDINGS

5. The inspection observation, reply of the Noticee and findings of the Committee are as under: -

5.1. **Facilitating financing of clients' transactions through NBFC**

5.1.1 The Exchange reviewed the following documents:

a. Bank books of a fellow subsidiary company of the Noticee, i.e. JFPL, provided by SEBI for the period February 1, 2022, to July 31, 2022.

b. Fund ledgers of 28 clients provided by the Noticee for the period February 1, 2022, to July 31, 2022.

Upon review of the receipt and payment entries in bank books of JFPL for the period February 1, 2022, to July 31, 2022, the Exchange observed the following:

a. Payments amounting to Rs. 4,132.38 crores made to 1,674 clients of the Noticee appeared in the bank books of JFPL.

b. Unique Client Codes of 1,672 out of 1,674 clients of the Noticee appeared in the bank books of JFPL under the "back-office code equity" column thereby indicating that the Noticee shared the Unique Client Codes of its clients with JFPL.

Upon review of the fund ledgers of 28 clients provided by the Noticee for the period February 1, 2022, to July 31, 2022, the Exchange observed the following:

a. The receipt entries in the client ledgers valuing approximately Rs. 895 crores matched with the payments made by JFPL to the clients of the Noticee, thereby indicating financing arrangements between JFPL and the clients of the Noticee.

b. Upon seeking clarification, JFPL confirmed that it holds power of attorney of the bank accounts of these 28 clients of the Noticee.

Upon seeking clarification, JFPL confirmed that the outstanding exposure of JFPL to 166 clients of the Noticee is Rs. 400.36 crores as of October 31, 2022.

5.1.2 In reply to SCN, the Noticee submitted as under: -

a. The Noticee was not a party to any agreement/arrangement, directly or indirectly, entered into between its clients and any person including its subsidiary / holding company or group or associate company, to fund the transactions or margin requirements in respect of transactions executed by the Noticee

on behalf of its clients, or recognize or act in accordance with any such agreement or arrangement entered into by its clients with any person. The financing arrangement of its client with JFPL was an independent agreement/arrangement wherein the Noticee was not a party.

b. As part of the account opening process of JFPL, customer provided details of the client code allotted by the Noticee. Being fellow subsidiaries, the client code allotted by the Noticee was used by JFPL for ease of customer and convenience.

c. Based on written instruction received from its clients, the Noticee shared transaction details of clients with JFPL. However, post issuance of Exchange Circular No. NSE/INSP/5288 dated July 5, 2022, wherein it was clarified that a Trading Member shall not share transaction/obligation details of clients with NBFC or any other lending institution, the Noticee stopped sharing transaction details of clients with JFPL.

d. In 10 out of 28 sample instances, funds received from JFPL are not reflected as receipt entries in the client ledgers maintained by the Noticee. Therefore, the agreement/arrangement between clients of Noticee and JFPL was not solely or exclusively for financing the transactions of clients with the Noticee.

e. The Noticee received funds from the client bank account registered with the Noticee. It does not hold any power of attorney over the client bank account.

5.1.3 The Committee finds as under: -

a. The Exchange reviewed the receipt and payment entries of the bank books of JFPL for the period February 1, 2022, to July 31, 2022, and observed that (i) payments amounting to Rs. 4,132.38 crores made to 1,674 clients of the Noticee appeared in the bank books of JFPL and (ii) unique client codes of 1,672

out of 1,674 clients of the Noticee appeared in the bank books of JFPL under the "back-office code equity" column indicating that the Noticee shared the Unique Client Codes (UCC) of its clients with JFPL.

b. Upon verification of client trading ledgers of 28 clients out of 1,674 clients, on a sample basis vis-à-vis bank books of JFPL provided by the Noticee, it is observed that the credit entries in the trading ledgers of the said 28 clients valuing to Rs. 895 crores matched with the debit entries in the bank books of JFPL showing funds being transferred to the said 28 clients of the Noticee. Further, JFPL holds power of attorney over bank accounts of the said 28 clients of the Noticee.

c. The Noticee admitted sharing transaction/obligation details of the clients with JFPL basis the written instructions from the client and stopped sharing of information post Exchange circular No. NSE/INSP/52888 dated July 5, 2022, wherein it was clarified that a Trading Member shall not share transaction/obligation details of clients with NBFC or any other lending institution. In this regard, the Committee observed that the said circular is a clarificatory circular issued to the market on the previous Circular No. NSE/INSP/6938 dated December 9, 2005, and Exchange Circular No. NSE/INSP/47278 dated February 9, 2021, prohibiting a Trading Member from being a party to any agreement or arrangement, directly or indirectly, between its clients and any person including its subsidiary/holding/group company, and act as a conduit or front for financing any secondary market transactions or margin requirements in respect of the transactions entered into by the clients.

d. The intent of the aforesaid circulars is to ensure that a Trading Member, i.e. the Noticee in the instant case, does not have any direct/indirect role in facilitating the financing of the secondary market transactions of its clients.

e. Therefore, by sharing of transaction/obligation details of clients

by the Noticee to JFPL, the Noticee was indirectly involved in agreement/arrangement and acted as conduit between the Noticee's client and JFPL.

f. The Noticee claimed that the financing arrangement of clients of the Noticee with JFPL was an independent agreement/arrangement wherein the Noticee was not a party.

   i. Upon verification of the MCA Master Data of JFPL vis-à-vis the records of the Exchange pertaining to the Noticee, it is observed that (i) Mr. Vishal Nimesh Kampani is a Director of the Noticee and Managing Director of JFPL and (ii) Mr. Atul Mehra is an erstwhile Additional Director of the Noticee (cessation date - January 23, 2024) and an erstwhile Director of JFPL (cessation date - January 31, 2024).

   ii. The existence of a common holding entity, coupled with shared directors between the Noticee and JFPL (Director and Additional Director of the Noticee concurrently serve as Managing Director and Director, respectively), significantly influences the independent decision-making process of both the entities. Although not direct, these commonalities tantamount to the Noticee having possible indirect role in facilitating the financing of the secondary market transactions of its clients despite the claim of the Noticee that it is not a party to any agreement/arrangement entered into between its clients and JFPL.

g. In view thereof, the Committee has serious apprehension that the Noticee is indirectly facilitating the financing of secondary market transactions of its clients through JFPL which is in violation of Exchange Circular No. NSE/INSP/47278 dated February 9, 2021. However, the Committee notes that the Noticee has stopped sharing the client's transaction/obligation details to JFPL and further outstanding exposure of JFPL to the clients of the Noticee is 'NIL' as of July 13, 2023, and hence the Committee decided to warn the Noticee. The Exchange shall

bring this to the notice of SEBI for record.

5.1.4 Given the findings mentioned above, the Committee warned the Noticee not to get involved either directly or indirectly in any agreement or arrangement between its clients and any person including its fellow subsidiary to facilitate the financing of secondary market transactions of its clients.

DECISION

6. In view of the above, the Committee levied the following penalty as indicated against the violation:

Sr.	Committee's Finding	Penalty prescribed as per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022	Penalty Levied
a.	The Noticee facilitated the financing of clients' transactions through NBFC	Rs. 5,00,000/-	Warning (Reasons enumerated above)

7. The Noticee shall note the non-monetary penalty mentioned above and ensure non-recurrence of the observed violation.

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

Date: November 26, 2024

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