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 – M/s. JM 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
Mr. Ashish Tiwari	- Senior Manager – Investigation

BACKGROUND OF THE CASE AND PRELIMINARY OBSERVATION

1. **M/s. JM Financial Services Limited** ("**Noticee**"), having SEBI Registration No. INZ000195834 is a registered Trading Member of National Stock Exchange of India Limited ("**NSEIL**"/ "**Exchange**") and enabled for trading in the Capital Market ("**CM**") since November 1994, Futures and Options ("**F&O**") segments since June 2004 and Currency Derivatives ("**CD**") segment since January 2009 and Commodity segment ("**COM**") since November 2019.

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 Medplus Health Services Limited (**MEDPLUS**) on February 22, 2022, and February 24, 2022. Both the buy side and the sell side clients were trading through the Noticee. The clients trading through the Noticee in the said scrip for the said transactions were Ms. Beena Somani (Unique Client Code: 12311399) and Vinod Somani HUF (Unique Client Code: 12311646). 95.70% of the traded quantity in the first leg of the transaction was reversed with the same counter party in the second leg.

By executing the reversal transactions, the Noticee's clients made a close out difference of Rs. 5,41,826. The reversal transactions between these two clients constituted in the range of 24.90% - 55.80% of the total traded quantity in the market in that scrip on the respective days. The transactions were synchronized and the time of placement of the 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	Buy Client Name	Sell Client name	Sum of Traded value in lacs (Rs.)	Average of Trade price (Rs.)	Sum of Traded quantity in lacs	Sum of close out difference based on actual trade prices (Rs.)
February 22, 2022	Beena Somani	Vinod Somani HUF	1816.28	949.36	1.91	5,41,826
February 22 and 24, 2022	Vinod Somani HUF	Beena Somani	1732.69	946.40	1.83	

3. Based on the observations of the Exchange mentioned in Paragraph 2 hereinabove, the Exchange issued a Show Cause Notice which was communicated to the Noticee vide Exchange letter NSE/INVG/2022/112768 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/Exchange 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 Show Cause Notice ("**SCN**") via its letter dated April 07, 2022. The summarized response of the Noticee is as under:

5.1. The Noticee stated that both the clients are related to each other. Ms. Beena Somani is the wife of Mr. Shyam Somani, brother of the Karta of Vinod Somani HUF i.e., Mr. Vinod Somani. Ms. Beena Somani is a housewife and had authorized Mr. Vinod Somani to place orders/give instructions/sign/execute transactions for dealings in securities market with the Noticee. Mr. Vinod Somani HUF is a regular trader doing significant transactions in the Equity Segment.

5.2. The Noticee further stated that it had sought an explanation from the clients on the aforesaid matched and reversal of trades. On analysis, it was observed that the client Vinod Somani HUF had applied in the IPO of MEDPLUS and was allotted 1,456 shares. The client continued to buy and sell this scrip through the Noticee on various dates. The client also created a pledge of 98,000 shares of this scrip as on March 31, 2022. Both the clients of the Noticee had also traded in other scrips on the said trading days (i.e., on February 22, 2022, and February 24, 2022). As per the client's clarification, Vinod Somani HUF had sold these shares of MEDPLUS on February 22, 2022, as the client was in requirement of funds. However, due to change of mind and circumstances during the day the client had reversed the transaction in Vinod Somani HUF account.

5.3. The Noticee further stated that the client's gross trading volume accounted for more than 57% on February 22, 2022, and more than 25% on February 24, 2022. The matched traded volume between both the clients can be attributed to low liquidity in the said scrip. The clients have taken cognizance of the same and

have assured the Noticee in writing that such matched and reversal of trades will not occur in future.

PRESENT PROCEEDINGS BEFORE MCSGFC

6. The matter was placed before MCSGFC in its meeting held on January 23, 2023.

6.1 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.

6.2 The Noticee was represented through Mr. Palkesh Shah, Compliance Head and Mr. Amit Kursija, Assistant Vice President. The officials of the Noticee attended the personal hearing and reiterated the submissions made in its reply dated April 07, 2022.

OBSERVATIONS, CONSIDERATIONS AND FINDINGS OF THE COMMITTEE

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

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

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

7.3 As per the response of the Noticee in paragraph 5.1 hereinabove, Ms. Beena Somani is the wife of Mr. Shyam Somani, brother of the Karta of Vinod Somani HUF i.e., Mr. Vinod Somani. Ms. Beena Somani is a housewife and had authorized Mr. Vinod Somani to place orders/give instructions/sign/execute transactions for dealings in securities market with the Noticee.

7.4 Upon verification of Unique Client Code ("**UCC**") records of the Exchange, it is also observed that both the clients are having common registered address i.e., "B 95, Parshavnath Marg, Subhash Nagar, Behind State Bank of India, Jaipur, Rajasthan, India 302016" and common registered email address i.e., "leeprabhat@gmail.com". Thus, the buy side and the sell side client of the said transactions are related to each other.

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

7.6 The reversal traded value to total traded value on the respective days were 86.49% and 58.72% respectively for Beena Somani and Vinod Somani HUF.

7.7 95.70% of the traded quantity in the first leg of the transaction was reversed with the same counter party in the second leg.

7.8 The reversal transactions between these two clients constituted in the range of 24.90% - 55.80% of the total traded quantity in the market in that scrip on those days.

7.9 As per the response of the Noticee in Paragraph 5.2 hereinabove, Vinod Somani HUF had sold these shares of MEDPLUS on February 22, 2022, as the client was in requirement of funds. However, due to change of mind and circumstances during the day client had reversed the transaction in Vinod Somani HUF account.

7.10 The Committee noted that this statement of the Noticee clearly depicts that the clients have executed reversal transactions which are of non-genuine in nature. The trading system of the Exchange cannot be a medium for executing Trade Reversals for any purpose.

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

7.12 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.**

7.13 The above act also involves abnormal/ non-genuine transactions.*(* **NSE/INVG/2020/46662 dated December 16, 2020***)*

7.14 The Committee finds that 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 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 the 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. 5,41,826/-, and since the Noticee is on both sides of the transaction, the amount of 100% penalty amounts to Rs. 10,83,652/-.

MCSGFC DECISION

8. Accordingly, a penalty of Rs. 10,83,652/- rounded off to **Rs. 10,83,700/-** (Ten Lakhs Eighty-Three Thousand Seven 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/-
S. Ravindran	Ashishkumar Chauhan
(Committee Member)	(Committee Member)

Date: August 29, 2023