



Metropolitan Stock Exchange of India Limited

Department: Market Operations - Surveillance and Risk

Segment: All

Circular No: MSE/SURV/7309/2019

Date : February 8, 2019

Subject: Guidance Note on Abnormal / Non-Genuine trade.

To All Members,

This is further to Exchange circulars issued from time to time to exercise due diligence and adhere to the Rules, Regulations and Bye-Laws of the Exchange.

In this regard, trading members are advised 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.

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 may also levy a penalty of 100% of the traded value / profit made / loss incurred as a result of the trades.

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, Bye-Laws and Business Rules of the Exchange.

In case the Trading Members suspect that there is an abnormal trading pattern, the amount equivalent to the trades in the security shall be blocked and released only after seeking rationale of the client on the said trades and carrying further scrutiny of KYC documents / source of funds.

The trading member shall intimate his decision to withhold the amount of the client along with his rationale to the Stock Exchange within 01 day of withholding. The intimation shall be sent to surveillance@msei.in.

Trading Members are also aware that, in compliance with SEBI Master Circular No. SEBI/HO/MIRSD/DOS3/CIR/P/2018/104 dated July 04, 2018 (clause 2.6), members are required to monitor transactions of their clients, excerpts of which are as follows:

- Intermediary to understand their client's activity to identify deviations in transactions by regularly monitoring them.
- The intermediary shall pay special attention to all complex unusually large transactions / patterns which appear to have no economic purpose.

- The background including all documents/office records /memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing.

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.
- Fresh positions are being created in the contracts very close to their respective expiry or on the day of expiry
- Large quantities being traded during last half an hour which account for significant percentage to total traded quantity without change in beneficial ownership.
- Securities /contracts where the total traded volume of the client vis a vis the average daily traded volumes in that security is significant.
- Additional emphasis to be given to Securities / Contracts where surveillance actions such as Additional Surveillance Measure, Graded Surveillance Measure, Periodic call auction, Trade for Trade etc. have been initiated. The details are available on Exchange website under [Surveillance Measures | Investors | Metropolitan Stock Exchange of India Ltd. Limited \(MSE\)](#)

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.

Exchange has also been intimating trading members about transactions which needs to be analyzed and to seek rationale / documentary evidences including seeking information such as bank statements / demat transaction statements from the clients in terms of the Exchange Circular No: MCX-SX/ID/1053/2013 dated March 8, 2013

Exchange shall take appropriate disciplinary actions, if instances of abnormal / non-genuine transactions are observed after following the due process and by providing the necessary opportunity to the trading member to offer their clarification in the matter.

Trading members are requested to take note of the above.

For any clarifications, kindly contact Surveillance & Risk Management Department on 022-61129031/62 or send an email to surveillance@msei.in.

**For and on behalf of
Metropolitan Stock Exchange of India Limited**

**Sachin Nayak
Sr. Manager**