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 June 08, 2023

In the Matter of the Trading Member –
Eureka Stock & Share Broking Service Ltd.

CORAM:

Ms. Mona Bhide	-	Chairperson
Mr. K Narasimha Murthy	-	Committee Member
Mr. S Ravindran	-	Committee Member
Mr. Ranganayakulu Jagarlamudi	-	Committee Member
Mr. Ashishkumar Chauhan	-	Committee Member

ALSO PRESENT:

Ms. Priya Subbaraman	-	Chief Regulatory Officer
Dr. Dinesh Kumar Soni	-	Senior Vice President - Regulatory
Mr. Bireshwar Chatterjee	-	Vice President – Investigation
Mr. Janardhan Gujaran	-	Vice President – Enforcement
Mr. Sanjayu Nair	-	Vice President – Legal
Mr. Dnyansagar Gadgil	-	Chief Manager – Investigation

BACKGROUND OF THE CASE

1. Eureka Stock & Share Broking Service Ltd. ("**Noticee"**) is a registered Trading Member of National Stock Exchange of India Limited ("**NSEIL**"**/** "**Exchange**") having SEBI Registration No. INZ000169839 and enabled for trading in Capital Market ('**CM**') Segment since April 1996, Futures & Options ('**F&O**') Segment since October 2000, Currency Derivatives ('**CD**') Segment since August 2008 and Commodity Derivative ("COM") segment since October 2018.

2. On June 02, 2022, the Exchange observed a significant fall in the traded prices of the contract (i.e., Expiry call options (the contract) with underlying NIFTY, strike 14500 and expiry June 02, 2022) from Rs.2139.85 to Re.0.15 (a fall of Rs.2139.70) without any

significant movement in the underlying index on June 02, 2022. Upon a detailed verification of the trade and order logs, the Exchange observed that more than 40 buy orders were placed by the Noticee in its proprietary account using non-algo terminals at limit prices below intrinsic value.

3. The details of price movement, and other details of the contract on June 02, 2022, was as under:

Open Price (Rs.)	High Price (Rs.)	Low Price (Rs.)	Close Price (Rs.)	Traded Qty	No of contracts traded	Premium Turnover (in Rs. lakhs)	Settlement price (Rs.)
1943.80	2139.85	0.15	2129.85	2843600	56872	42348.23	16628

4. The movement in the index values of NIFTY on June 02,2022 was as under:

Date	Open	High	Low	Close
02-Jun-22	16481.65	16646.40	16443.05	16628.00

5. On June 2, 2022, the Exchange observed a significant fall in the traded prices of the contract from Rs.2139.85 to Rs.0.15 (a fall of Rs.2139.70) between 14:34:08 and 14:38:21 without any significant movement in the underlying index. The movement in the underlying NIFTY index during the entire day on June 02, 2022, was only Rs.203.35. For a Call option contract, when the Strike price is less than the underlying price (in this case, NIFTY entire day low was 16443.05 and strike price of the contract was at 14500), it is in-the-money contract as the buyer of the option who has a “right to buy at the strike price” gets to buy at the strike price which is lower than the prevailing underlying price. The intrinsic value of the contract is the difference between the strike price and the value of the underlying. From the above table it is observed that the contract was deep in-the-money contract where the intrinsic value of the contract was more than Rs.1900 through-out the day. However, the contract got traded significantly below the intrinsic value and touched a low of Rs.0.15.

6. A summary of the trading activity of the Noticee on June 02, 2022, in the contract is as under:

Brought Forward Long Quantity	Brought Forward Short Quantity	Buy Quantity as on June 02, 2022	Sell Quantity as on June 02, 2022	Buy Average Price (Rs.)	Sell Average Price (Rs.)	Total Positive Square off diff in the Contract (in Rs. Crore)
0	0	74300	74300	91.06	2,042.52	14.50

7. It was observed that the Noticee on proprietary account purchased 74,300 quantities between 14:34:59 and 14:38:18, i.e., during the time of price fall, at an average price

of Rs.91.06 and later sold the same quantity at an average price of Rs.2042.52, earning intraday positive close out difference of Rs.14.50 crore.

8. Summary of buy orders of the Noticee (for the entire day in the contract) with respect to execution, cancellation and passive/active state is as follows:

No. of Buy Orders placed	No. of Buy Limit Orders executed	No. of Buy Limit orders Cancelled	No. of Buy Market Orders placed
42(100%)	41(98%)	1	0

No of Buy Limit Orders placed & executed	No of Passive Buy Limit Orders placed & executed	No of Buy Limit Active orders placed & executed
41 (100%)	41 (100%)	0

9. It was noticed that during the day the client placed and executed buy orders in the contract between 14:34:59 and 14:38:18 only. 98% of the total buy limit orders placed by the Noticee were executed. Further 100% of the buy limit orders which got executed for the Noticee were passive orders i.e., the Noticee placed the buy limit orders before the corresponding sell orders of the counterparty. Order matching takes place on price time priority. The buy order with the highest bid (buy limit price) and sell order with the lowest ask (sell limit price) get the first preference for matching (price priority). With the same limit price, the order which has the earliest time stamp gets preference (time priority). At the time of matching of orders, the order which already exists in the order book is known as the Passive order and the order which is placed and directly gets traded is called Active order. Further, if there is a passive order then the trade takes place at the price of the passive order.

10. Summary of buy orders of the Noticee (for the entire day in the contract) with respect to various limit price/ trade price levels:

Price levels	No. of Buy Limit Orders placed by the Noticee	Buy order volume of orders of the Noticee at the price level	Traded Buy traded Quantity of the Noticee at the price level
Total	**42 (100%)**	**77100 (100%)**	**74300 (100%)**
Buy Limit price / Trade price Less than or equal to Rs.1	36 (86%)	70900 (92%)	68100 (92%)
Buy Limit price / Trade price between Rs.1-Rs.1000	1 (2%)	1500 (2%)	1500 (2%)
Buy Limit price / Trade price between 1000-1500	5 (12%)	4700 (6%)	4700 (6%)

11. From the above table it is observed that,

11.1. 86% of the buy limit orders were placed in the contract during the day with limit prices of less than Rs.1.

11.2. 92% of the buy traded quantity of the Noticee during the day in this contract was below Rs.1.

11.3. In the given market conditions, the said contract was due to expire in less than hour at a settlement price of more than Rs.2000. However, on analysing order placement pattern of the Noticee, it was observed that more than 86% of the orders placed were below Rs.1 and 100% of these orders were passive orders.

CORRESPONDENCE OF THE EXCHANGE WITH THE NOTICEE BEFORE ISSUING THE SCN:

12. The Exchange had sent an email to the Noticee on June 02, 2022, referring to the aforesaid trades executed by the Noticee in the contract and requested the Noticee to submit detailed explanation with regard to the trades executed in the said contract with documentary evidence(s).

13. The Noticee vide its mail dated June 02, 2022, responded to above email of the Exchange, and submitted as under:

13.1. "The claim of the exchange that these are unrealistic levels is negated by the very fact that the circuit limits have been set by the exchange only. There should not be an issue so long the order price is within the limits because the very purpose of setting the circuit limits is to restrict the order prices within reasonable defined limits.

13.2. Please note that we did not place any passive order in the order book of such contract. If you have noticed from our trade, the dealer started entering the orders for the same contract of 14500 at Rs. 1355 order timing being 14:34:59 and kept on buying the contract at various prices till 14:38:21, the different rates and at different prices at which the contracts were available.

13.3. *Coming to the rationale of placing the order as listed by you, we reiterate that these have been placed in the normal course of trading without any Mala-fide intention and just to capitalize on any possible arbitrage position due to price movement. Arbitrage is the simultaneous purchase and sale of the same asset*

in different markets in order to profit from tiny differences in the asset's listed price. It exploits short-lived variations in the price of identical or similar financial instruments in different markets or in different forms. As the purpose of arbitrage/jobbing is to capitalize on the imbalances in the prices within various market/contracts, the said transactions were executed in anticipation that the availability of such contract on the platform of Exchange must have gone through fair price movement mechanism stated and propagated by the esteemed Exchange. We had just executed the order, once the same was available in the market and capitalized on the opportunity it laid. Further, as the underlying prices keep on changing, it becomes impossible for a dealer to adjust it to what the exchange considers to be the fair price, so let the exchange fix a fair price band within the overall circuit limits and if any particular order is beyond the fair price band as fixed by the exchange, then there should be some alert message from the exchange before the order is finally confirmed by the dealer.":

14. Limited purpose Inspection by the Exchange conducted on June 21, 2022:

14.1. The Exchange carried out Limited Purpose Inspection on June 21, 2022, of the Noticee. The Noticee has submitted the following response vide email dated June 24, 2022.

14.1.1. *"With reference to Circular No: NSE/SURV/49971 dated October 14, 2021, please note that we did not place any passive order in the order book of such contract. If you have noticed from our trade, the dealer started entering the orders from the same contract of 14500 at Rs.1355 order timing being 14:34:59 and kept on buying the contract at various prices till 14:38:21, the different rates at which contracts were available.*

14.1.2. *Coming to rationale of placing the order as listed by you, we reiterate that these have been placed in the normal course of trading without any mala-fide intention and just to capitalize on any possible arbitration position due to price movement.*

14.1.3. *As the purpose of arbitration/jobbing is to capitalize on the imbalance in the prices within various markets/contracts, the said was executed in anticipation that the availability of such contract must have gone through fair price movement mechanism stated and propagated by the esteemed Exchange. We had just executed the order, once the*

same was available in the market and capitalized on the opportunity it laid."

15. The Exchange observations with respect to the Limited Purpose Inspection:

15.1. Contrary to the claims of the Noticee in the inspection response, 100% of the buy orders placed were passive orders. It appears that the dealers of the Noticee were placing buy orders simply because the Last Traded Price in the contract were moving downwards. The dealers of the Noticee did not bother to check if there were any counterparty sell orders pending in the order book.

15.2. The said contract was a deep In-The-Money contract (NIFTY entire day low was 16443.05 and strike price of the contract was at 14500) and on the previous day the Open Interest of the contract was only 600 quantity and no trades were executed. As there was no significant movement in the underlying Index NIFTY, the intrinsic value of the contract was more than Rs.1900 through-out the day. Thus, there was no economic rationale for any seller to sell at any rate below the intrinsic value especially in a contract that was due to expire in less than an hour at a settlement price of more than Rs.2000. Considering the aforesaid, the Exchange is of the view that the experienced dealers would have easily realized that the counterparty sell is not a fire sale but an error of the counterparty and the Noticee has taken undue advantage.

ISSUANCE OF SHOW CAUSE NOTICE AND RELEVANT REGULATORY PROVISIONS

16. Based on the observations of the Exchange, the Exchange issued a show cause notice to the Noticee vide letter ref. no. NSE/INVG/2022/117765 dated September 21, 2022.

17. At the outset, it is appropriate to refer to the relevant regulatory provisions alleged to have been violated by the Noticee, which was communicated to the Noticee vide above mentioned SCN extracts whereof are reproduced below:

17.1. The act of the Noticee of placing passive orders at prices significantly below the intrinsic value of the contract, contributed to the matching of trades at prices which resulted in depressing the prices of the derivative contracts. Thus, it is alleged that the Noticee contravened the provisions of Regulation 4.6.2 (1) (a) of the NSEIL F&O regulations, the extract of which is reproduced as under -

4.6.2 Without prejudice to generality of the provisions contained in the above clause, no person shall indulge in market manipulation, namely:

1. (a) effect, take part in or enter into either directly or indirectly transactions in securities / derivatives contracts, which are likely to have the effect of artificially raising or depressing or stabilising the price of securities/ derivatives contracts;

17.2. The act of the Noticee of placing passive orders at prices significantly below the intrinsic value of the contract, contributed to the matching of trades at prices which were not fair and did not result in orderly market. Thus, it is alleged that the Noticee contravened the provisions of the Exchange Circular No. NSE/SURV/49368 dated August 21, 2021, the extract of which is reproduced as under:

"Orders should be placed in all contracts in a manner so as to ensure a fair and orderly market."

17.3. The Noticee did not provide any evidence that an alert was generated in its system when the orders of the Noticee were placed at prices which were away from prevailing market prices and any action from the Noticee to desist from placing orders based on such alert. It is thus alleged that the Noticee contravened the provisions of the Exchange Circular No. NSE/INSP/49369 dated August 21, 2021, the extract of which is reproduced as under:

"As per the functionality, an alert shall be generated if the user places limit order at a price which is away from prevailing market prices."

17.4. In view of the above, it is alleged that the Noticee contravened the provisions Exchange Circulars No. NSE/FAOP/4746 dated January 20, 2004, NSE/FAOP/5856 dated February 22, 2005, NSE/INVG/5911 dated March 10, 2005, NSE/INVG/2006/7127 dated February 3, 2006, and NSE/INVG/2007/8719 dated March 23, 2007. As per these circulars, Trading Members have been advised to exercise due diligence and caution at the time of entering orders which are away from market price and also advised to put in place appropriate internal systems and procedures for ensuring that such orders are not entered.

17.5. All Trading Members are expected to conduct their business as per the Code of Conduct prescribed under Regulation 4.5 of NSEIL CM and F&O Regulations. In light of the aforesaid conduct of the Noticee, it is alleged that,

by engaging in and/or facilitating such market abuse and unfair practices the Noticee contravened the Code of Conduct prescribed under Regulation 4.5 of NSEIL CM and F&O Regulations. Some of the principles/provisions of the same are given below:

"GENERAL PRINCIPLES:

(a) Professionalism: A Trading Member in the conduct of his business, shall observe high standards of commercial honor of just and equitable principles of trade.

(b) Adherence to Trading Practices: Trading Members shall adhere to the Rules, Regulations and Byelaws of the Exchange and shall comply with such operational parameters, rulings, notices, guidelines, and instructions of the relevant authority as may be applicable from time to time……"

"ADHERENCE TO SEBI CODE OF CONDUCT

The Trading Member shall at all times subscribe to the Code of Conduct as prescribed by the Securities and Exchange Board of India (Stockbrokers and Sub-Brokers) Regulations, 1992."

In view of the aforesaid, it alleged that the Noticee has violated Rule 3 (a) (b) (c) and Rule 4 (b) (d) and (e) of Chapter IV of NSEIL Rules.

17.6. The observed violations attract penalty/disciplinary action as prescribed by the Exchange Circular No. NSE/INVG/2020/46662 dated December 16, 2020. The penalties prescribed are indicative and depending upon the frequency and gravity of the observed offences, the Relevant Authority of the Exchange after considering the facts and circumstances may take appropriate disciplinary actions as it may deem fit.

17.7. It is further alleged that the conduct of the Noticee amounts to conducting the business in a manner prejudicial to the Exchange by making purchases of securities or offers to purchase securities for the purpose of upsetting equilibrium of the market or bringing about a condition of demoralization in which prices will not fairly reflect market value. Thus, if found to be established, the Noticee would also be liable for actions as contemplated in terms of Rule 8(a) of the Chapter IV of NSEIL Rules.

RESPONSE OF THE NOTICEE TO THE SHOW CAUSE NOTICE AND SUBSEQUENT CORRESPONDANCES

18. In response to the SCN issued by the Exchange on September 21, 2022, the Noticee vide letter dated September 30, 2022, requested the following details from the Exchange.

    18.1. Copies of the complete trade and order log on June 02, 2022, in relation with NIFTY 14500CE.

    18.2. Copies of alerts/warnings for NEAT/ NEAT Plus Front End in terms of circular dated August 21, 2021.

    18.3. Logs of continuous change of Daily Price Range ("DPR") in NEAT Plus Trading platform.

    18.4. Manner of computation of DPR on June 02, 2022, in NIFTY 14500 CE.

    18.5. Copy of Limited Purpose Inspection report.

    18.6. Trade and order log of counterparty.

    18.7. The decision of the Exchange in regard on the annulment application considering the fact that the Exchange seems to have already provided details about the Noticee to Vardhaman.

19. The Exchange vide letter dated December 08, 2022, responded to the requirements of the Noticee vide letter dated September 30, 2022, which are summarized as under:

    19.1. In response to the requirement of the Noticee, the Exchange, provided tick by tick trade and order information in the said contract (i.e., NIFTY CE 14500 with expiry June 02, 2022).

    19.2. The Exchange has provided the details of trade and order logs for the period (i.e., NIFTY CE 14500 with expiry June 02, 2022) in the SCN. From the said trade and order log, the Noticee could accordingly identify all such orders that were placed away from the prevailing market price. The Exchange Circular No. NSE/INSP/49369 dated August 21, 2021, has introduced order price alerts functionality /controls in the NEAT and NEAT Plus front end as part of the market price protection functionality wherein the alerts are generated and

notified to Trading Members. However, such alerts were not generated or notified to the Exchange and no records of such alerts are available with Exchange. Additionally, as per the aforesaid functionality, an alert shall be generated if the user places limit order at a price which is away from prevailing market prices. Further, such pre-trade risk controls on NEAT/NEAT Plus front end as mentioned above are configured at the front end and therefore, the functionality does not provide for maintenance of historical logs. The Noticee has availed colocation facility of the Exchange and have access to entire market order and trades wherein the Noticee can identify all such orders that were placed away from the prevailing market price. As per surveillance obligations vested on the Trading Member ("TM") vide the Exchange circular NSE/SURV/48818 dated July 01,2021, such alerts are expected to be generated at the Noticee's end.

19.3. The Exchange provided log of DPR data and details of the Exchange Circular detailing about the computation methodology of price range in option contracts. In response to the requirement of the Noticee, the Exchange provided copy of the Limited Purpose Inspection Report.

19.4. The Exchange has provided the copy of the Limited Purpose Inspection Report, the Exchange further stated that the relevant extracts of the Limited Purpose Inspection Report are already included in the SCN.

19.5. The Exchange had clarified that the assertions made in letter that "NSE has shared the details of the counterparties to the trades with "Vardhamanglobal Sharecom Private Limited" are baseless, incorrect, and false. The Exchange clarified that it cannot share counter party information with any individual/entity/third party.

20. The Noticee vide letter dated January 20, 2023, responded to the Exchange letter dated December 08, 2022, which are summarized as under:

20.1. The counterparty information sought was not at all confidential and it is apparent that the Exchange has already shared the information with the counter party seller, namely, Vardhaman Global Sharecom (Vardhman). The said details were sought to prove that there was no violation in the alleged trades. AII the trades executed were in the normal course of business and well within the laws prescribed by SEBI and the Exchange. The Noticee again requested for the trade and order logs of counterparty seller.

20.2. The Noticee had at no time during the impugned trades received any alerts generated by the Exchange. Further, the Noticee has sought for alerts/ warnings issued by the Exchange / NEAT Plus Front End to show that the trades executed were not far from last traded price and were duly within the market range of the contract. In respect thereto, as per Exchange Circular No. NSE/SURV/49368, dated August 21, 2021, which states "Exchange shall shortly release a new version of NEAT Plus wherein an alert pop-up shall be generated for the members on frontend in case limit order price is greater than or equal to X% of reference price for buy orders and is lesser than or equal to X% of Reference Price for sell orders." In view thereof, no alert was generated from the Exchange's end. The Exchange has sought for records of alerts generated by the Noticee's system, when the Exchange itself is failing to provide with the records of alerts generated by their system. Thus, present proceedings are adversarial in nature and the said records are essential for the case.

20.3. Log of continuous changes of DPR in the platform itself shows that wide range of prices at which the trades were being undertaken in the said contract during the time period. All the trades executed were well within the said permissible range.

21. The Exchange vide letter dated February 27, 2023, responded to the requirements of the Noticee, stating that in spite of the Exchange providing all relevant documents/ material relied upon by the Exchange while issuing the SCN, the Noticee has not filed the response so far.

22. The Noticee vide letter dated March 10, 2023, responded to the Exchange, which are summarized as under:

22.1. The Exchange has, vide its response dated December 8, 2022, not provided the information and documents sought for, and has attempted to proceed with the matter without providing the Noticee with essential information.

22.2. The Noticee submitted that no alerts were received from the Exchange. Further, the Exchange has taken a stand, vide its letter dated December 8, 2022, that it does not have records of any alerts generated on the Exchange platform in respect of the said Contract. In this regard it is to be presumed that no alerts were generated, and all the trades took place within permissible ranges. In case the contrary is being claimed by the Exchange, the Noticee requested to substantiate the allegation with data on which it is relying upon.

In the absence of such data, the allegation is baseless and ought to be set aside.

22.3. The Noticee reiterated its request to provide data/ copies of documents which have been relied upon while making allegations against the Noticee, or to confirm that no further documents and data have been/ will be relied upon.

PAST MCSGFC REFERENCE

23. The Exchange, vide its email dated May 18, 2023, granted the Noticee an opportunity of personal hearing before the Committee in its meeting to be held on May 23, 2023.

24. The Noticee vide its email dated May 19, 2023, sought an adjournment of the meeting scheduled on May 23, 2023. The matter was placed before the Committee in its meeting held on May 23, 2023, wherein the Committee acceded to the request of adjournment.

PRESENT PROCEEDINGS BEFORE MCSGFC

25. The Exchange, vide its email dated June 01, 2023, provided an opportunity of a personal hearing before the Committee in its meeting to be held on June 08, 2023. On behalf of the Noticee, Mr. Rakesh Somani – Director, Ms. Debomita Guha Maity – Compliance Officer, Mr. Ravichandra Hegde, Ms. Shonan Bangera, Mr. Paras Parekh, and Ms. Parinaz Bharucha – Advocates at RHP Partners, appeared before the Committee and reiterated its written submissions.

26. The Noticee requested the Committee to grant time to file a reply to the SCN. The Committee directed the Noticee to submit the reply within 10 days. The Exchange, vide its email dated June 09, 2023, communicated the direction of the Committee to the Noticee. The Noticee, vide its letter dated June 18, 2023, submitted reply to the SCN to the Exchange.

27. The Noticee vide letter dated June 18, 2023, responded to the SCN, which are summarized as under:

27.1. The Noticee stated that vide letters dated May 19, 2023, March 10, 2023, January 20, 2023, and September 30, 2022, had requested the Exchange to provide it with documents that have been relied upon while issuing SCN.

27.2. The Noticee stated that vide letters as mentioned above, has sought records of the alleged alerts/ warnings issued by the Exchange at the time of the Impugned Trades in terms of the Circular dated August 21, 2021. The Exchange has, vide its responses, not provided this information, nor all the documents sought by the Noticee, and has proceeded with the matter without providing essential information and thereby violating principles of natural justice and due process. One of the main allegations in SCN is that certain "pop-up alerts" should have been generated in NEAT & NEAT Plus Front-End software of the Noticee, which would have alerted the Noticee that Impugned Trades were being placed at prices far away from the prevailing market price ad would have thus prevented the execution of the Impugned Trades. In this regard, without supporting records/ information on the “pop-up alerts,” this allegation is not sustainable. The Noticee has already confirmed that no such alerts were generated in its system.

27.3. The Noticee, stated that the Exchange Circular No. NSE/FAOP/49118 dated July 31, 2021, relating to the Futures & Options Segment provides for pre-trade risk controls. The Circular states that the Exchange has a robust risk management framework and continuously reviews and implements various pre-trade risk control measures for ensuring orderly trading, effective risk management and price discovery. In the current state of market maturity/ development and to create a conducive environment for all market participants, review and enhancements are required to optimize and strengthen the pre-trade risk control measures for preventing aberrant orders.

27.4. The Circular provides for two pre-trade risk control measures, namely, a quantity freeze and the generation of alerts in certain cases. Part B of Circular states that the Exchange shall generate an alert for the member in case limit order price is greater than or equal to X% of Reference Price for buy orders and is lesser than or equal to X% of Reference Price for sell orders.

27.5. Further stated that no records of the alerts generated by the Exchange has been provided to the Noticee, despite requesting for the same on multiple occasions. During the personal hearing before MCSGFC, on June 8, 2023, the Noticee was categorically informed by the Exchange representative present, that the risk control mechanisms are in place by the Exchange to ensure that there is no unwarranted/ error loss made by any party/ member. It was stated by the Exchange representative that risk controls function in a manner to prevent any loss/ trading on account of errors, and that a broker placing an

error order would be instantly notified of the same vide the alert system, thereby preventing the order/ trade from being executed.

27.6. The Noticee stated that with these systems in place, an order can only reach if it passes the risk control systems set up by the Exchange. Therefore, when one trades on the floor of the Exchange, it is with the reasonable belief and assurance that the counterparty order will have fulfilled the criteria of the Exchange. Thus, the question of taking undue advantage of a counter party error does not arise.

27.7. In addition to pre-trade risk controls, which include, inter alia, cancellation of the order, cancellation of the trade, generation of alerts, the Exchange also has in place an annulment mechanism. However, the Impugned Trades have also not been annulled by the Exchange, thereby verifying the sanctity of the Impugned Trades.

27.8. As per SCN, the Exchange Circulars Ref. Nos. i.e., NSE/FAOP/4746 dated January 20, 2004, NSE/FAOP/5856 dated February 22, 2005, NSE/INVG/5911 dated March 10, 2005, NSE/INVG/2006/7127 dated February 3, 2006, and NSE/INVG/2007/8719 dated March 23, 2007, provides that Trading Members have been advised to exercise due diligence and caution at the time of entering orders which are away from market prices and also advised to put in place appropriate internal systems and procedures for ensuring that such orders are not entered.

27.9. As per the Exchange Circular No. NSE/FAOP/39920 dated January 10, 2019, the Exchange has introduced additional flex mechanism for option contracts with respect to the Operating Price Range (“OPR”). The Circular states that with a view to bring more efficiency in trading of options, the Exchange is pleased to introduce the additional flex mechanism. The Circular further provides that if the prevailing underlying price moves by a defined percentage as set by the Exchange, then the Exchange shall re-compute and flex the OPR of all the options contracts. As per this Circular, orders entered beyond the new OPR shall be cancelled by the Exchange. The option contracts orders which are entered beyond the OPR shall be cancelled by the Exchange. The Noticee contended that it is assumed that OPR as calculated by the Exchange itself is based after taking into consideration the above Circular in this respect including the requirement of not being away from market prices or any other price control measures as set by the Exchange. It is further reasonably

believed that OPR would not be rolled down in a manner to permit unjust trades on the Exchange platform.

27.10. The Noticee stated that all the buy orders/ trades undertaken by the Noticee are within OPR and not away from the prevailing market prices, even if prevailing market prices of 1 - 2 seconds considered before the execution of the Impugned Trades.

27.11. The Noticee stated that Tables provided in SCN are misleading in relation to last traded price ("LTP") of the Contract prior to the placing of orders by the Noticee. When the volatility is so high that the price significantly fluctuates every micro/ nano second, LTP will not be the accurate mode of verifying whether the trades were in line with the market prices. The OPR and prevailing market prices at time of the trades would be the factors to consider in such a scenario. The Noticee has traded in the contract in line with the prevailing market prices and OPR which is set and changed from time to time by the Exchange itself.

27.12. The Noticee stated that price of the contract was extremely volatile and was dipping market wide. It is further evident that Impugned Trades were carried out within permissible OPR and not away from the prevailing market prices. The Noticee has merely executed trades in the Contract during this time, within the range of the prevailing market prices. Further, it is seen from the trade logs that the price of the Contract was falling even before the Noticee's trading in the Contract and none of Impugned Trades have created new low, nor has the Noticee disturbed the equilibrium of the market in any manner whatsoever.

27.13. The Noticee stated that 1 second is equal to 1 million microseconds/ 1 billion nano seconds. In 1 second there could be thousands of trades having thousands of different LTPs. Further, placing the orders on the basis of the LTP of last prior nano-second of the trade cannot be handled by any system, either manually or computerized under any circumstances. This is further complicated by the fact that there are multiple types of market data broadcast from the Exchange viz. Tick-by-Tick (TBT), Fast Broadcast & Slow Broadcast, etc. There are also buffering issues due to the network components at the Exchange's end as well as network components at the end of broker resulting in buffering/ latency issues affecting broadcast of data pertaining to LTP at the broker's end. Hence, LTP cannot possibly be the same on all the platforms used by the broker for trading/ RMS purposes. Further, even for a machine to identify and place a four-leg order based on micro-seconds prior LTP cannot

be possible. Thus, LTP in such moments of highly fluctuating market prices of a contract should not be the basis for comparison.

27.14. There is no violation of any Circular as the orders were placed within OPR and not far away from market prices.

27.15. The Noticee stated that regarding the allegation of allowing orders at prices significantly below intrinsic value, there were no Exchange Circular as referred in SCN require that in the case of option contract, the member should not allow orders at price significantly below the intrinsic value. The only requirement is that the order should be within the OPR, which is flexed by the Exchange from time to time. In the present case, none of the orders were placed beyond the OPR/ away from the market prices at the relevant time. Further, there is no provision for calculating/ control placement in respect of intrinsic value of the underlying, as the same is not available on NEAT/ NEAT Plus Trading Platform neither are such restrictions normally available on non-- NEAT/ non-NEAT Plus Trading systems.

27.16. The Noticee stated that the Exchange Circular Nos. NSE/SURV/49368 and NSE/SURV/49369, both dated August 21, 2021, are misplaced. The Circulars are in continuation of and with respect to the Exchange Circular July 31, 2021, bearing Ref. No. NSE/FAOP/49118 and NSE/CD/49119 vide which the Exchange had introduced certain changes in Pre-Trade Risk Controls with respect to quantity freeze and in part B generation of alerts in case of future contract in stock future and index future. These Circulars are not with respect to option contracts.

27.17. The SCN alleges that the Noticee has not provided any evidence that any alert was generated when the orders were placed at prices which were away from prevailing market prices. In this respect all the orders were within the OPR and not away from prevailing market prices at the relevant time. Therefore, there was no question of generation of any alert in the system. Even otherwise without prejudice, the Circular dated August 21, 2021, read with the Exchange Circular dated July 31, 2021, bearing Ref. No. NSE/FAOP/49118 and NSE/CD/49119, is only with respect to future contract and not with respect to option contract.

27.18. Further, parameters mentioned in these Circulars are implemented by the Noticee and are duly adhered to throughout the organization. As per the referred Circulars regarding fair price and intrinsic value, the Exchange ought

to restrict/ cancel orders which are placed in the system in contravention of the guidelines mentioned in the circular. Therefore, in absence of any such restriction/ alerts/ cancellation of orders, it is assumed that all the trades executed between 14:34:59 to 14:38:18 on June 2, 2022, have passed through the various checks and controls implemented by the Exchange and are not against the “fair” and “orderly market”.

27.19. The Noticee stated that the Exchange has also alleged that the Impugned Orders placed by the Noticee were "passive orders". In this regard, the Noticee contended that Orders are always matched at the passive order price and orders placed by the Noticee were executed immediately as soon as they were placed in the system as in majority instances the order time and trade time are the same. Hence, the orders placed by the Noticee were Active Orders. In absence of the order book of the counterparty, it is quite impossible to further substantiate that the counterparty may have placed passive order under "undisclosed' quantity and price mode. Thus, the allegation against the Noticee in this regard, is misplaced and unfounded.

27.20. The Noticee stated that all the internal controls and checks were in place at the time of the Impugned Trades. All the risk parameters/ controls and checks are in compliance with the guidelines, rules and regulations of the Exchanges and SEBI. Thus, Impugned Trades in the Contract were undertaken in the regular course of trading. The Noticee regularly trades in Nifty and Bank Nifty options in large volumes, and there was nothing amiss about the Impugned Trades.

27.21. The Noticee have relied upon a detailed log of the Noticee's trades for the month of June 2022, to show that the Impugned Trades form part of the Noticee's general trend of trading in the market.

27.22. Further, the Noticee's trade in the Contract was a miniscule percentage of the total trades that took place in the said Contract on the given day. Even before the Noticee executed any trades in the said Contract, several trades were already executed by other market participants.

27.23. The order prices of the Impugned Trades were always within the Exchange’s circuit limits. The Noticee placed orders and kept on buying the Contract at various prices in the mentioned duration. The said orders were placed on the reasonable assumption that the availability of the Contract on the platform of the Exchange would have cleared scrutiny through fair price movement

mechanism set by the Exchange. The prices in the said Contract kept on fluctuating and it was impossible for anyone to adjust their bids according to the prices and consider the fair price, however at all times all the trade orders placed by the Noticee were within the overall circuit limits. The objective of such trades was to simply capitalize on the possible arbitrage position due to price movement.

27.24. The Noticee has drawn a reference to the Exchange Circular Reference No. NSE/FAOP/44482 dated May 27, 2020, wherein Clause 1.4 of Item 1 stipulates that in the event of a market trend in either direction, the dynamic price band shall be relaxed by 5% at a time in the direction of the price movement during the day. In light of this mechanism, the DPR of Contract kept rolling down, and only then the Noticee was able to log in the trades at the relevant prices.

27.25. The Noticee provided a table depicting the OPR time vs. the trade time and stated that trade in the said contracts as mentioned in table by the Noticee during the relevant period were for a legitimate purpose and not as part of any collusion or conspiracy as alleged or otherwise.

27.26. The Noticee stated that the Exchange has itself stated that Impugned Trades were on account of an error trade by the counterparty seller. In this regard, even the Noticee has incurred losses at several instances due to inadvertent / error trades. The Exchange has never compensated the Noticee for the same or annulled the said trades. This is a common market practice where at time parties tend to incur losses due to error trades. There is no intent or question of "undue advantage" being taken of the counterparty seller. The Noticee merely observed that the price of the Contract was dipping, and utilized the opportunity, which is well within the ambit of law. In fact, the Exchange could have stopped the execution of the trades by establishing a circuit or by generating pop-up alerts for trades occurring outside the price range. However, the same was not done, which establishes that the trades cleared the Exchange's scrutiny and were considered as fair trades by the platform.

27.27. The Noticee stated that table provided at Paragraph 2.6 of SCN is misleading in relation to the last traded price of the Contract prior to the placing of orders by the Noticee. The Trades were executed in the Contract in line with the prevailing market price. The price of the Contract was extremely volatile and was dipping market wide. It is further evident that the Impugned Trades were carried out within the permissible DPR range.

27.28. The order placement time and trade time in all the trades is negligible, which shows that the orders were placed in line with the market movement. If orders had placed which were far away from the market price, then the orders would not have been executed or would have been executed after a considerable period of time.

27.29. The Noticee, stated that after June 2, 2022, it came to be widely known that the counterparty sell orders were placed by Vardhman Global Sharecom Pvt. Ltd. (Vardhman) in its client's account - Kuber India Fund. In this regard, Vardhman had addressed a letter dated June 2, 2022, to the Exchange, SEBI and NSE Clearing Limited, stating that the trades were entered due to an error in squaring of the position in the Contract, and requesting the authorities, including the Exchange to investigate the matter and annul the trades that had occurred on account of a mistake. The Regulatory Oversight Committee of the Exchange has, vide Order dated July 5, 2022, rejected the review application for annulment of trades made by Vardhman. The Order categorically records that there was no scope for the Noticee (counterparty buyer) to ascertain whether the sell order was a mistake or not.

27.30. The Noticee stated that the Exchange has itself observed that the Impugned Trades in the contract were valid and could not be annulled. Therefore, the Exchange has upheld the validity of the Impugned Trades. It is further submitted that such errors occur on a daily basis, and if all such trades were to be annulled, the Exchange would have to refund the monies for all such error trades and penalize the counterparty in every instance.

27.31. The Exchange Order dated July 5, 2022, observes that the Impugned Trades were genuine and valid trades. It also stated that the same were not a result of a material mistake on the part of the seller and could not be annulled. Therefore, the Exchange has upheld the validity and enforceability of the Impugned Trades.

27.32. The Noticee has no relationship/ connection with the counterparty seller. There is no such observation or allegation made out in SCN as well. Thus, in the absence of any allegation or demonstration about collusion between the Noticee and the counterparty seller, it cannot be alleged that there was any manipulation of the market/ artificial trading.

27.33. The trades have been declared as valid by Exchange, vide its Order dated July 5, 2022. Therefore, the charge of "artificially raising or depressing the market" under Regulation 4.6.2(1)(a) of the NSEIL F&O Regulations cannot be applicable in the present matter.

27.34. The Noticee cited following judgements to substantiate its claim that there cannot be manipulation of the market in the absence of collusion/ connivance:

27.34.1. The Judgment of Hon'ble SAT in Premchand Shah & Ors. v. SEBI.

27.34.2. The Judgment of Hon'ble SAT in Shailesh M. Ved v. SEBI.

27.34.3. The Judgment of Hon'ble SAT in Jagruti Securities Ltd. v. SEBI.

27.35. The Noticee stated that the provisions of the relevant Regulations, Rules and Circulars are erroneously applied as can be seen hereunder:

27.35.1. Regulation 4.6.2 (l)(a) of the NSEIL F&O Regulations - In this regard, the Noticee contended that it had not indulged in any form of market manipulation, that has resulted in artificially raising or depressing the price of the Contract. The trades placed were basis the prevailing market price of the Contract. Furthermore, vide its Order dated July 5, 2022, the Exchange has itself declared that the Impugned Trades were genuine and valid, therefore the question of "artificially" raising / depressing the price does not arise in case of a genuine trade. It is submitted that no connection or relationship has been observed or alleged with the counterparty seller, which is a sine qua non for sustaining the charge of artificially manipulating the price of a scrip/ contract.

27.35.2. The Exchange Circular Ref. Nos. NSE/SURV/49368 dated August 21, 2021, NSE/FAOP/49118 dated July 31, 2021, and NSE/CD/49119 dated July 31, 2021 - in this regard the Noticee contended no alert whatsoever was generated from the Exchange's end, which further shows that Impugned Trades were being executed within the market permissible limits. The Noticee further submitted that no alert was generated on the portal of the Noticee either, as the trades were being executed within permissible ranges, as per the Exchange DPR and circuit filters.

27.35.3. The Exchange Circular Ref. No. NSE/INSP/49369 dated August 21, 2021 - the Noticee contended that in SCN, the Exchange has alleged that the Noticee has placed orders far away from the prevailing market price as on June 02, 2022. The Noticee has not placed any orders far away from the market price, otherwise an alert would have been generated by the Exchange on the NEAT and NEAT Plus front end. Since, no such alerts were received by the Noticee from the Exchange, which proves that the Impugned Trades were not executed far away from the prevailing market prices.

27.35.4. The Exchange Circular Ref. No. NSE/FAOP/4746 dated January 20, 2004 - The Noticee submitted that, in the present scenario the trades executed were in accordance with the prevailing market prices of the scrip at the given point of time. The Noticee saw an opportunity in the market and observed that the price of the contract was dipping and used such opportunity by placing buy orders in the range of the prevailing market prices. Therefore, the Noticee has not violated the Exchange Circular dated January 20, 2004.

27.35.5. The Exchange Circular Ref. No. NSE/FAOP/5856 dated February 22, 2005 - The Noticee submitted that the trades were not far from the prevailing market price at the time of execution of the trades. The price of the Contract was extremely volatile at the time of the Impugned Trades and the orders were placed in the range of the market prices. Thus, if the orders were placed at prices far away from the normal price, the Exchange could have cancelled the trades and not permitted them to go through.

27.35.6. The Exchange Circular Ref. No. NSE/INVG/5911 dated March 10, 2005 -The Noticee stated that there is no observation that the underlying contract was illiquid, and further no allegation whatsoever of reversing transactions or non-genuine trades. There has admittedly been no reversing transactions or synchronized trading. Therefore, the Exchange Circular dated March 10, 2005, is not applicable in the present matter.

27.35.7. The Exchange Circular Ref. No. NSE/INVG/2006/7127 dated February 03, 2006 -The Noticee stated that there is no observation that the underlying contract was illiquid, and further no allegation

whatsoever of reversing transactions or non-genuine trades. The Noticee would have to place a corresponding sell order for the Contract, as the Contract was expiring on the same day, i.e., June 2, 2022.

27.35.8. The Exchange Circular Ref. No. NSE/INVG/2007/8719 dated March 23, 2007 -The Noticee stated that market price of Impugned Contract was admittedly falling steeply when the trades were executed, which can be seen from the complete order and trade logs of the said Contract on June 02, 2022. The orders were not placed at prices far away from the market price and due diligence and caution are always exercised at the time of execution of trades. Thus, there is no violation of the Exchange Circular dated March 23, 2007.

27.35.9. The Exchange Circular Ref. No. NSE/INVG/46662 dated December 16, 2020 - The Noticee stated that in the present matter, there is no observation or allegation whatsoever that the Noticee undertook an abnormal/ non-genuine trade with an objective of transferring profit/ loss with the counterparty. There is also no observation of creation of artificial volume in the Contract. Evidently, the Exchange has denied the request for the annulment of trades in the Contract, thereby verifying that the trades were genuine and could not be annulled.

27.35.10. Regulation 4.5 of the NSEIL CM and F&O Regulations and the Code of Conduct- The Noticee stated that trades were genuine and in accordance with the market trends and at all times has remained compliant with the Code of Conduct and provisions applicable on the Noticee. The Noticee has always conducted its business whilst observing high standards of commercial honor and has adhered to the rules, regulations and byelaws prescribed by the Exchange from time to time. Therefore, there is no violation of Regulation 4.5 of the NSEIL CM and F&O Regulations and the same is not made out from SCN.

27.35.11. Rule 3(a), (b), (c) and Rule 4(b), (d), (e) of Chapter IV of the NSEIL Rules - The Noticee stated that none of the provisions are applicable in the present matter as it has not indulged in any fraud, nor has it violated any Exchange law, and has not conducted

business in a dishonorable manner. The Exchange has observed that trades occurred on account of an error by the counterparty seller. In this regard, such errors have occurred by the Noticee as well and are a regular market occurrence and the Noticee cannot be held liable for the error committed by another broker, when the Noticee was not a party to such error, nor aware of the same at the time of execution of the trades. The Noticee further stated that trades were not fictitious, neither were they executed for the purpose of upsetting the equilibrium of the market, or with the interest of raising or depressing the prices for the purpose of inducing purchase/ sale in the Contract. The price of the Contract was already falling vigorously at the time of execution of trades. The Noticee merely followed the trend in the market and placed its orders within the market price range. Hence, there is no violation of Rules 3 or 4 of NSEIL Rules.

27.35.12. Rule 1 and 2 of Chapter IV of the NSEIL Rules - The Noticee stated that no disciplinary action must be taken against the Noticee under Rule 1 and no penalty must be imposed upon the Noticee, as there has been no violation of the Exchange Rules, Regulations or Byelaws by the Noticee.

COMMITTEE FINDINGS ON THE RESPONSE OF THE NOTICEE TO THE SHOW CAUSE NOTICE:

28. The Committee noted that the charges of the SCN are based on certain datapoints viz; (a) Time of placement of orders by the Noticee on proprietary account, (b) The market price prevailing in the contract at the time of placement of orders by the Noticee (c) With respect to trades of the Noticee in the contract, whether the orders of the Noticee were placed before the placement of orders of the counterparty and the (d) consistent pattern of placement of more than 40 such passive orders at prices significantly below the intrinsic value of a contract expiring in one hour. The Committee also noted that the Exchange vide communication dated December 08, 2022, to the Noticee provided the TBT data which contains all the information related to point (a), (b), (c) and (d) above. The Committee found, based on the above that there was no information withheld by the Exchange which was relied on by the Exchange for issue of SCN which could have been inspected by the Noticee. The Committee also found that the data with respect to counterparties was not relevant for the charges levied in SCN. Thus, the Committee found that there is no substance in the Noticee's argument on non-sharing of information by the Exchange.

29. The Committee noted that the Exchange had clarified in its response dated December 08, 2022, that the assertions made in letter of the Noticee that “NSE has shared the details of the counterparties to the trades with "Vardhamanglobal Sharecom Private Limited" are baseless.

30. The Committee noted that the Exchange has provided log of DPR data and details of the Exchange Circular detailing about the computation methodology of price range in option contracts and copy of the Limited Purpose Inspection Report as desired by the Noticee.

31. The Committee with respect to the arguments of the Noticee w.r.t Circular No. NSE/INSP/49369 dated August 21, 2021, noted that as per surveillance obligations vested on the Trading Member ("TM") vide the Exchange Circular No. NSE/SURV/48818 dated July 01,2021, alerts are expected to be generated at the Noticee’s end for placement of orders at away prices. The Committee also noted that the Exchange circular NSE/SURV/49368 dated August 21, 2021, states that “Orders should be placed in all contracts in a manner so as to ensure a fair and orderly market”. In view of the same, the Committee found that the arguments with respect to these alerts are not tenable.

32. The Committee noted that the charges relate to the “placement of passive buy orders in illiquid contract at prices significantly lower than the intrinsic value.” The Exchange has provided the TBT data which has the reference of traded price of the contract, and it also has information about whether the buy orders of the Noticee were passive or not. The Committee also noted that “Intrinsic value” as stated in the SCN is the difference of strike and underlying value which is also explained in the SCN. So, the data provided by the Exchange to the Noticee along with the SCN has the information of the alerts that were mentioned in the Exchange inspection report. In view of the above, the Committee found that all relevant information/ data has been provided by the Exchange to the Noticee which has been relied on by the Exchange to issue the SCN.

33. The Committee noted that on June 2, 2022, the Exchange observed a significant fall in the traded prices of the Contract from Rs.2139.85 to Re.0.15 (a fall of Rs.2139.70) during the time patch 14:34:08 to 14:38:21 without any significant movement in the underlying index. The movement of the underlying NIFTY index during the entire day on June 02, 2022, was only 203.35. The Contract was deep in-the-money contract where the intrinsic value of the Contract was more than Rs.1900 through-out the day. During the period 14:34:59 and 14:38:18 on June 02, 2022, in the Contract, the Noticee

on proprietary account had placed 42 buy orders for 77,100 quantities. 41 (98%) of these buy orders were executed and all buy orders were passive. There was no brought forward open position of the Noticee in the Contract at the time of start of order placement. 36 of the above buy orders with 70,900 quantities were placed at limit prices below Rs.1. Further only 1 buy order was placed with limit prices in the range Rs. 1 to Rs.1000. Another 5 orders were placed with limit prices in the range Rs. 1000 to Rs. 1500. Thus, there were multiple buy orders with limit prices which were not fair. Since the buy orders of the Noticee were passive orders, it is understood from the Limited Purpose Inspection that the dealers of the Noticee were placing these orders based on the downward movement in the traded prices of the Contract and without any view on the pending order book. The said contract was a deep In-The-Money contract and on the previous day the Open Interest of the contract was only 600 and no trades were executed on the previous day in the Contract. As there was no significant movement in the underlying Index NIFTY, the intrinsic value of the Contract was more than Rs.1900 through-out the day.

34. The Committee noted that the argument made by the Noticee that “Orders are always matched at the passive order price and orders placed by the Noticee were executed immediately as soon as they were placed in the system as in majority instances the order time and trade time are the same. In absence of the order book of the counterparty, it is quite impossible to further substantiate that the counterparty may have placed passive order under "undisclosed' quantity and price mode. Hence, the orders placed by the Noticee were Active Orders” is not tenable as the order / trade log provided by the Exchange to the Noticee contains the time of placement of order in jiffy seconds which validates the observation of the Exchange that the orders placed by the Noticee were passive orders.

35. The Committee found the argument made by the Noticee that “The Noticee have relied upon a detailed log of the Noticee's trades for the month of June 2022, to show that the Impugned Trades form part of the Noticee's general trend of trading in the market” is not tenable as from the analysis of trades of the Noticee for the month of June 2022, placement of orders by the Noticee at such low prices and so far away from intrinsic value was not observed in any other In-the-Money Equity Index Call Option contract on the Expiry day.

36. The Committee found that the argument made by the Noticee that “Exchange has itself stated that Impugned Trades were on account of an error trade by the counterparty seller. In this regard, even the Noticee has incurred losses at several instances due to inadvertent / error trades. The Exchange has never compensated the Noticee for the same or annulled the said trades” is not tenable as such arguments cannot justify the

placement of multiple passive orders by the Noticee at such lower limit prices (much below the intrinsic value of the contract) in the contract which is expiring in less than an hour is close to Rs. 2000.

37. The Committee found that the argument made by the Noticee that "Even before the Noticee executed any trades in the said Contract, several trades were already executed by other market participants" is not tenable as such arguments cannot justify the placement of multiple passive orders by the Noticee at such lower limit prices (much below the intrinsic value of the contract) in the contract which is expiring in less than an hour is close to Rs. 2000.

38. The Committee found that the argument made by the Noticee that "The prices in the said Contract kept on fluctuating and it was impossible for anyone to adjust their bids according to the prices and consider the fair price, however at all times all the trade orders placed by the Noticee were within the overall circuit limits. The objective of such trades was to simply capitalize on the possible arbitrage position due to price movement" is not tenable as there was no movement in the Underlying of the contract during that period to justify such price movement in the contract and therefore such argument cannot justify the placement of multiple passive orders by the Noticee at such lower limit prices (much below the intrinsic value of the contract) in the contract which is expiring in less than an hour is close to Rs. 2000. The Committee further noted that the lowest value of NIFTY on June 02, 2022 was 16443.05, the strike price of the contract was 14500 and in one hour before expiry of the contract, and based on market conditions prevailing on that day, there was no reason for NIFTY value to come to 14500 within an hour.

39. The Committee noted that the mechanism of the flexing of DPR is transparently disclosed to the Market by the Exchange. The Committee further noted that the Order of Regulatory Oversight Committee decided on the review application which cannot justify the placement of multiple passive orders by the Noticee at such lower limit prices (much below the intrinsic value of the contract) in the contract which is expiring in less than an hour is close to Rs. 2000.

AFTER DULY CONSIDERING THE ORAL AND WRITTEN SUBMISSIONS MADE BY THE NOTICEE ON THE CHARGES MENTIONED IN THE SCN ISSUED VIDE LETTER NSE/INVG/2022/117765 DATED SEPTEMBER 21, 2022, THE COMMITTEE CONCLUDES AS UNDER:

40. The Committee found that as the dealers of the Noticee were continuously placing more than 40 orders at low limit prices (which are unreasonable as the intrinsic value

of the contract expiring in less than an hour is close to Rs. 2000), these passive orders resulted in the Noticee taking part or entering directly or indirectly in transactions which are likely to have effect of artificially depressing the price of derivatives contracts which is in violation of the provisions of Regulation 4.6.2 (1) (a) of the NSEIL F&O regulations. In view of the above, the Committee noted that act of dealers of the Noticee of placing more than 40 passive orders at such lower limit prices in the contract which is expiring in less than an hour is close to Rs. 2000, contributed to the matching of trades at prices which were not fair and did not result in orderly market. The Committee further noted that the lowest value of NIFTY on June 02, 2022, was 16443.05, the strike price of the contract was 14500 and in one hour before expiry of contract, and based on market conditions prevailing on that day, there was no reason for NIFTY value to come to 14500 within an hour. Thus, the Committee finds that the Noticee has failed to adhere to the provisions of the Exchange Circular No. NSE/SURV/49368 dated August 21, 2021. In view of the above, the Committee also finds that the Noticee has failed to adhere to NSEIL circulars NSE/FAOP/4746 dated January 20, 2004, NSE/FAOP/5856 dated February 22, 2005, NSE/INVG/5911 dated March 10, 2005, NSE/INVG/2006/7127 dated February 3, 2006, and NSE/INVG/2007/8719 dated March 23, 2007.

41. The Committee notes that Trading Members are expected to conduct their business as per the Code of Conduct prescribed under Regulation 4.5 of NSEIL CM and F&O Regulations. In light of the aforesaid conduct of the Noticee, the Committee finds that, by engaging in and/or facilitating such market abuse and unfair practices the Noticee has failed to adhere to the Code of Conduct prescribed under Regulation 4.5 of NSEIL CM and F&O Regulations.

42. With respect to the charge of violation of the Exchange Circular No. NSE/INVG/46662 dated December 16, 2020, based on the analysis of the Exchange, the arguments and the submissions presented to the Committee by the Noticee, the Committee found that since the Exchange during its analysis with the data/information available with it, was not able to establish any relationship between entities on both sides of the impugned trades, the Committee does not have enough evidence to establish that the impugned transactions are abnormal / non-genuine transactions executed by the Noticee primarily with an objective of transferring profit/ loss between the concerned entities or creation of artificial volume in the securities / contracts. However, the act of the Noticee, amounts to conducting the business in a manner prejudicial to the orderly market by placing orders at such lower prices in the contract which resulted in upsetting equilibrium of the market where prices were not reflecting fair market value. This act of the Noticee therefore, is found to be in violation of the provisions of Chapter IV Rule 3 (b) and 4(d) of the NSEIL Rules. Thus, under Rule 1 and 2 of Chapter IV of

NSEIL Rule, the Committee, keeping in view the gravity of the case, decided to levy a penalty.

MCSGFC DECISION

43. In view of the charges mentioned in the Show Cause Notice and consideration of the written and oral submissions, the Committee observed that the Noticee did not have controls to ensure fair and orderly market. The Committee, therefore, finds it appropriate to levy a monetary penalty of Rs. 28,99,871/- (2% of the profit amount 14,49,93,530) rounded off to **Rs. 28,99,800/-** (Rupees Twenty - Eight Lakhs Ninety-Nine Thousand Eight Hundred Only) for the observed violation.

44. The Committee also directs the Noticee to put in place controls so that such orders are not placed which results in upsetting the equilibrium of the market and does not ensure orderly markets.

Sd/-
S RavindraSn
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: January 11, 2024