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 -
M/s. Master Capital Services Limited

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. **M/s. Master Capital Services Limited** ("**Noticee**") is a registered Trading Member of National Stock Exchange of India Limited ("**NSEIL**"/ "**Exchange**") having SEBI Registration No. INZ000210539 and enabled for trading in the Capital Market ("**CM**") segments since November 1994 and Futures & Options ("**F&O**") segments since June 2001, Currency Derivatives ("**CD**") segment since October 2008 and Commodity Derivative ("**COM**") segment since February 2019.

2. On June 02, 2022, the Exchange observed a significant fall in the traded prices of the contract (i.e., in the Equity Index call option contract with underlying NIFTY, expiry date June 02, 2022, and strike price of 14500) from Rs.2139.85 to Re.0.15 (a fall of

Rs.2139.70) without any significant movement in the underlying index NIFTY on June 02, 2022. Upon a detailed verification of the trade and order logs, the Exchange observed that 37 buy orders were placed by the Client of the Noticee, Dilip Ratilal Bhansali (HUF) ("**Dilip Bhansali**") using Non Algo terminal, 20 buy orders were placed by the Client of the Noticee, Quantx Technology Private Limited ("**Quantx**") using algo terminal and 1 order was placed by the Noticee trading on its proprietary account ("**Master Capital**") using non-algo terminal 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. lacs)	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 02, 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) without any significant movement in the underlying index between 14:34:08 and 14:38:21. 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 order placement of the Noticee and its Clients Dilip Bhansali and Quantx on June 02,2022 in the contract between 14:34:08 to 14:38:21 is as under:

Client Name	Terminal	Buy Quantity between 14:34:08 and 14:38:21	Buy Average Price (Rs.)
Dilip Bhansali	Non-Algo	38550	184.24

Quantx	Algo	5000	0.15
Master Capital Services Ltd on Prop account (the Noticee)	Algo	1000	2063.76
	Non-Algo	1000	1.25

7. During 14:35:19 and 14:38:21 Dilip Bhansali purchased 38,550 quantities at an average price of Rs.184.24 and sold the same quantity at an average price of Rs.2113.91 subsequently, earning intraday positive close out difference of Rs.7.44 crores.

8. Quantx, trading through Algo terminal, purchased 5000 quantities at Rs.0.15 during the price fall Between 14:35:19 and 14:38:21. Subsequently, squaring it off at an average price of Rs. 2,126.46 and earning intraday positive close out difference of Rs.1.06 crore.

9. The Noticee was observed to have traded on Proprietary account through Algo and Non-Algo terminals between 14:35:19 and 14:38:21. Through Algo terminal, the Noticee purchased 1000 quantity at an average price of Rs.2063.76, however there was a single buy trade of 1000 quantity at Rs.1.25 was executed through non-algo terminal, subsequently, squaring it off the same at an average price of Rs.2122.95 and earning intraday positive close out difference of Rs.0.21 crore.

10. Summary of the buy orders of Dilip Bhansali between 14:34:08 and 14:38:21 (i.e., during the price fall 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 by the Noticee**	**No. of Buy Market Orders placed**
37 (100%)	37 (100%)	0	0

No of Buy Limit Orders placed & executed	**No of Passive Buy Limit Orders placed & executed**	**No of Buy Limit Active orders placed & executed**	**Total Buy Quantity**
37(100%)	35 (95%)	2 (5%)	38550

11. From the above table it is noticed that between 14:35:19 and 14:38:21 Dilip Bhansali placed and executed 37 buy orders in the contract. 35 orders out of 37 executed orders 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 with the first time 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, at the price of the passive order trade takes place.

12. Summary of buy orders of the Dilip Bhansali 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
Between 14:35:19 and 14:38:21	**37 (100%)**	**38550 (100%)**	**38550 (100%)**
Buy Limit price / Trade price Less than or equal to Rs.10	24 (65%)	31000 (80%)	31000 (80%)
Buy Limit price / Trade price between Rs.10-Rs.1000	4 (11%)	3000 (8%)	3000 (8%)
Buy Limit price / Trade price between Rs.1000-Rs.1500	9 (24%)	4550 (12%)	4550 (12%)
Buy Limit price / Trade price above Rs.1500	0	0	0

13. From the above table it is observed that,

13.1. Between 14:35:19 and 14:38:21 more than 75% of the buy limit orders were placed in the contract with limit prices of less than Rs.1000 and 88% of the buy traded quantity in this contract was below Rs.1000.

13.2. Dilip Bhansali placed and executed 37 buy orders between 14:35:19 and 14:38:21 i.e., during the price fall, all of these orders were placed significantly below the Intrinsic price of the contract.

13.3. 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 analyzing the order placement pattern of the client, it was observed that between 14:35:19 and 14:38:21, 65% of the buy orders were placed below Rs.10 and all orders were passive orders.

14. Summary of the buy orders of Quantx between 14:34:08 and 14:38:21 (i.e., during the price fall 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 by the Noticee	No. of Buy Market Orders placed
20 (100%)	20 (100%)	0	0

No of Buy Limit Orders placed & executed	No of Passive Buy Limit Orders placed & executed	No of Buy Limit Active orders placed & executed	Total Buy Quantity
20(100%)	7 (35%)	13 (65%)	5000

15. From the above table it is noticed that between 14:35:19 and 14:38:21 Quantx placed and executed 20 buy orders in the contract. 7 orders out of 20 executed orders were passive orders i.e., the Noticee placed the buy limit orders before the corresponding sell orders of the counterparty.

16. Summary of Buy Orders of the Quantx 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
Between 14:35:19 and 14:38:21	**20 (100%)**	**5000 (100%)**	**5000 (100%)**
Buy Limit price / Trade price Less than or equal to Rs.10	20 (100%)	5000 (100%)	5000 (100%)
Buy Limit price / Trade price above Rs.10	0	0	0

17. From the above table it is observed that in the given market conditions, the said contract was due to expire in less than an hour at a settlement price of more than Rs.2000. However, on analyzing order placement pattern of the client, it was observed that between 14:35:19 and 14:38:21, Quantx placed and executed 20 buy orders with a limit price of Rs.0.15 and purchased 5000 quantity. All of these orders were placed significantly below the Intrinsic price of the contract.

18. Summary of the buy orders placed through Non-Algo terminal by the Noticee between 14:34:08 and 14:38:21 (i.e., during the price fall 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 by the Noticee	No. of Buy Market Orders placed
1	1	0	0

No of Buy Limit Orders placed & executed	No of Passive Buy Limit Orders placed & executed	No of Buy Limit Active orders placed & executed	Total Buy Quantity
1	1	0	1000

19. From the above table it was noticed that between 14:34:08 and 14:38:21 the Noticee placed and executed only one buy limit order in the contract using non-algo terminal. The order was placed at a limit price of Rs.1.25 and it was a passive order i.e., the Noticee placed the buy limit order before the corresponding sell order 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 with the first time 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, at the price of the passive order trade takes place.

20. Between 14:34:08 and 14:38:21 there was no other buy order was placed by the Noticee using non-algo terminal at such unfair price which was significantly below the Intrinsic price in the contract. However, it was observed that during the above time patch, the Noticee has placed 6 buy orders using Algo terminal at Rs.2063.65 and purchased 850 quantity.

21. 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. From the order placement analysis, it is understood that the Noticee has placed one order through non-algo terminal at limit price of Rs.1.25.

CORRESPONDENCE OF THE EXCHANGE WITH THE NOTICEE FROM THE DATE OF EVENT TO THE DATE TO SHOW CAUSE NOTICE

22. 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).

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

"*Both of these clients are active clients and are trading regularly in their respective accounts. As per the analysis done by our concerned team and as per the clients, the trades in the aforesaid contract on June 2, 2022, have been executed at the prevailing market rates during the relevant point of time and were not far from the Last Traded Price (LTP). It has also been noticed that the orders were placed on rates which were not at the extreme end of DPR of that particular time.*

With respect to the trades executed in the Proprietary account of the Company we would like to submit that we execute large & frequent number orders every day on the Exchanges. The trades executed in the aforesaid contract in the Proprietary account on June 2, 2022, are a very small fraction of our overall volume of the Proprietary account. Further, we have observed that the aforesaid trades have been executed at the prevailing market rates during the relevant point of time and were not far from the Last Traded Price (LTP). It has also been noticed that the orders were placed on rates which were not at the extreme end of DPR of that particular time.

Further, the orders for the trades in question, whether on behalf of the client or in our own account, were placed on the current market price & within the DPR revised by the Exchange from time to time which is evident from the fact that there is no difference between the orders placement time and trade execution time in majority of the trades and in balance trades the difference is in seconds.

In view of the above, the trades executed on June 2, 2022 in the NIFTY Call option contract having Expiry June 2, 2022 and Strike Price 14500, on behalf of our aforesaid clients or in our Proprietary account are genuine & we have complied with the provisions of the circulars referred in your trail mail and the rules, regulations & byelaws of the Exchange/SEBI."

24. The Exchange observations with respect to the above-mentioned response of the Noticee are as under:

24.1. As per the response of the Noticee it is observed that the clients, Dilip Bhansali through a non-algo terminal and Quantx through algo terminal simply placed buy orders between 14:34:08 to 14:38:21 based on the Last Traded Price in the contract which was moving downwards. They did not bother to check if there were any counterparty sell orders pending in the order book.

24.2. During 14:34:08 to 14:38:21, the Noticee, trading on its proprietary account through non algo terminal, placed and executed one buy limit order at Rs.1.25 while its algo was placing buy orders close to the intrinsic value of the contract. The order placed by the non-algo terminal was significantly away from the intrinsic value of the contract.

24.3. 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. 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 hour at a settlement price of more than Rs.2000. Considering the aforesaid, the Exchange is of the view that the experienced dealers of the Noticee, Clients Dilip Bhansali & Quantx would have easily realized that the counterparty sell is not a fire sale but an error of the counterparty and took undue advantage.

ISSUANCE OF SHOW CAUSE NOTICE AND RELEVANT REGULATORY PROVISIONS

25. Based on the observations of the Exchange mentioned above, the Exchange issued a Show Cause Notice ("**SCN''**) bearing reference no. NSE/INVG/2022/118181 dated October 13, 2022.

26. 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:

26.1. 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 has contravened the provisions of Regulation 4.6.2 (1) (a) of the Exchange 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;

26.2. 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 has 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."

26.3. 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 has 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"

26.4. In view of the above, it is alleged that the Noticee has contravened provisions of the Exchange 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. 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.

26.5. As Algo orders were placed at prices significantly below the intrinsic value of a deep in-the-money contract, it is observed that the "Trade price protection Check" as required by the Exchange circular NSE/MSD/41332 dated June 17, 2019, was not in place. In view of the same, the Noticee has failed to adhere with the requirements of the Exchange circular NSE/MSD 141332 dated June 17, 2019.

26.6. All Trading Members are expected to conduct their business as per the Code of Conduct prescribed under Regulation 4.5 of the Exchange CM and F&O Regulations. In light of the aforesaid conduct of the Noticee, by engaging in and/or facilitating such market abuse and unfair practices the Noticee, thus it is alleged that the Noticee has contravened the provisions of the Code of Conduct prescribed under Regulation 4.5 of the Exchange 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.

26.7. 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.

26.8. 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 the Exchange Rules.

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

27. The Noticee vide email dated October 17, 2022, sought information/ data from the Exchange related to the SCN. The Exchange provided the requested data vide email dated October 17, 2022. The Noticee, vide letter dated October 21, 2022, requested for extension of time till November 21, 2022, for filing reply to the SCN. The Exchange, vide email dated November 03, 2022, sent a reminder email for filing the reply to the SCN, for which the Noticee sent an email on the same day again requesting the Exchange to grant extension till November 21, 2022.

28. In response to the SCN dated October 13, 2022, issued by the Exchange the Noticee vide its letter dated November 11, 2022, while denying the allegations made against the Noticee in the SCN stated as follows:

    28.1. The Noticee requested to provide a complete inspection of documents and records in the matter, along with copies of the same.

    28.2. The trades executed in the contract on June 02, 2022, were on account of the inadvertent sell orders placed by a broker Vardhman Global Sharecom Pvt. Ltd. ("**VGSPL/Vardhman**"), in its client account, Kuber India Fund. The Vardhman addressed a letter dated June 02, 2022, to the Exchange, Securities Exchange Board of India ("**SEBI**") and NSE Clearing Limited("**NCL**"), admitting 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 05, 2022, rejected the application for annulment of trades made by Vardhman. The Noticee requested for a copy of the minutes of the meeting of the Regulatory Oversight Committee ("**ROC**") of the Exchange, wherein the impugned trades that occurred on June 02, 2022, in the contract, were discussed and examined in detail.

    28.3. The following Exchange circulars, alleged to have been violated by the Noticee, vide the SCN, are not applicable under the present circumstances:

28.3.1. The Exchange Circular dated March 10, 2005, bearing reference no. NSE/INVG/5911 and the Exchange Circular dated February 03, 2006, bearing reference no. NSE/INVG/2006/7127 which is related to trading in illiquid securities/contracts and trading in illiquid options contracts respectively. In this regard, the Noticee contended 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 requested for any information / material relied upon while alleging violation of the aforesaid Circular.

28.3.2. The Exchange Circular dated March 23, 2007, bearing reference no. NSE/INVG/2007/8719 which is about exercising due diligence and caution at the time of entering orders which are far away from the market price and placing an appropriate internal system. In this regard, the Noticee contended that market price of the impugned contract, was admittedly falling steeply when the Noticee undertook trades in the contract. In view of the steadily falling market price, the Noticee was placing orders in the range of the market price, and not far away from the market price. The Noticee requested for a copy of the complete order and trade logs of the said contract on June 02, 2022.

28.3.3. The Exchange Circular dated June 17, 2019, bearing reference no. NSE/MSD/41332 which is about Trade Price Protection Check. In this regard, the Noticee contended that aforesaid Circular does not contain any rules or regulations pertaining to "Trade Price Protection Check", and the allegation in this regard is unfounded the Noticee requested to the Exchange to provide all material/ information/ documents, which have been relied upon while alleging violation of the aforesaid Circular.

28.3.4. The Exchange Circular dated December 16, 2020, bearing reference no. NSE/INVG/46662 where Trading Members were advised to refrain from entering into abnormal / non-genuine transactions. In this regard, the Noticee contended that there are no observations or allegations that the Noticee and its Clients undertook an abnormal / non-genuine trade with an objective of transferring profit / loss with the counterparty, as to relation with the counter party and creation of artificial volume in the contract. Paragraph 2.8 of the SCN states "hence, it is apparent that Dilip Bhansali was trading with clear

understanding of an error by the counterparty." This statement of the Exchange itself underscores that these trades were not done with the objective of transferring profit/ loss or creation of artificial volume. 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. The Noticee requested for all the material/ information / documents which have been relied upon while alleging that the impugned trades were undertaken with a view of transferring profit or loss/ creating artificial volume in the contract.

28.3.5. The Exchange Circular dated August 21, 2021, bearing reference no. NSE/SURV/49368 which has reference of the Exchange Circulars dated July 31, 2021, bearing reference no NSE/FAOP/49118 and NSE/CD/49119 which is about Pre-Trade risk controls. In this regard, the Noticee requested the Exchange to provide the pop-up that was generated by the Exchange to the Noticee in relation to the impugned trades.

28.3.6. The Exchange Circular dated August 21, 2021, bearing reference no. NSE/INSP/49369 is regarding the introduction of order price alerts functionality / controls in the NEAT & NEAT Plus front end as part of the Market Price Protection functionality. In this regard, the Noticee requested the Exchange for the records of the alerts generated to the Noticee by the Exchange on the NEAT & NEAT Plus Front End.

28.4. The Noticee again reiterated its request for inspection of all the records and documents and reiterated its request for the documents/information mentioned above.

29. In response to the above-mentioned reply of the Noticee, the Exchange, vide its letter dated February 27, 2023, communicated the following clarification/information to the Noticee:

29.1. The Exchange provided the weblink for the order of the ROC which was placed on the website of the Exchange in the matter of Trade Annulment Review Request ("**TARR**") placed before the ROC on June 29, 2022.

29.2. The Exchange requested the Noticee to refer Annexure 1 of the SCN.

29.3. The Exchange provided the trade and order log of the alleged contract.

29.3.1. Further, the Exchange clarified that vide its circular no. NSE/INSP/49369 dated August 21,2021, the Exchange has introduced order price alerts functionality /controls in the NEAT & NEAT Plus front end as part of the market price protection functionality wherein the alerts are generated and notified to the Trading Members. However, such alerts are not generated or notified to the Exchange and the Exchange has no records of such alerts.

29.3.2. Pre-trade risk controls on NEAT/NEAT Plus front end are configured at the front end and therefore the functionality does not provide for maintenance of historical logs. Through the aforesaid circulars, the Trading Members were also advised to build similar controls/alerts on Non-Neat Frontend systems.

29.3.3. The Noticee 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 Members vide the Exchange circular NSE/SURV/48818 dated July 01, 2021, such alerts are expected to be generated at the Noticee's end.

30. In response to the above-mentioned communication of the Exchange, while denying the allegations or adverse observations of the Exchange, the Noticee vide its letter dated March 09, 2023, submitted the following response:

30.1. The Noticee contended that it shall respond to the SCN after receiving the data and documents that have been relied upon by the Exchange and inspection of the same. The Exchange has violated the principles of natural justice by denying the Noticee the right to effectively represent its case.

30.2. The primary allegation in the SCN is that prices were far away from the market price/ last traded price of the contract. The Noticee stated the facts about pop up generation NEAT & NEAT Plus software and stance of the Exchange in the same. Initial email questioning the Impugned Trades was received from the Exchange on June 02, 2022, i.e., the day of the trades itself. If any alerts were generated by the Exchange in relation to the said contract, it would have preserved the data relating to the same. The Noticee alleged that while on one hand asserting that alerts should have been generated, the Exchange is not

even able to provide data to show that any alerts were generated by the Exchange.

30.3. No alerts were generated by the Exchange, and all the trades took place within permissible ranges. In case the contrary is being claimed by the Exchange, the Noticee requested for the data to substantiate such an allegation and contended that in the absence of such data, the allegation is unfounded.

30.4. The Noticee had requested for minutes of meeting of the ROC, wherein the impugned sell trades that occurred on June 02, 2022, and the Exchange vide its response dated February 27, 2023, had shared the weblink for the ROC order for TARR. The Noticee again reiterated its request to provide the minutes of the meeting.

30.5. The Noticee contended that complete records relied upon by the Exchange to issue the SCN, were not provided by the Exchange to enable the Noticee to effectively respond to the allegations therein.

30.6. The prices of the scrip were extremely dynamic. The Noticee/ its clients were simply executing trades at the prevailing market price and acting in its best interest and judgement. The trades were undertaken in compliance with the Exchange byelaws and circulars, and there has been no breach of the same.

30.7. The Noticee requested to provide data/ copies of documents which have been relied upon while making allegations against in the SCN.

PRESENT PROCEEDINGS BEFORE MCSGFC

31. The Exchange, vide its email dated June 01, 2023, granted the Noticee an opportunity of personal hearing before the Committee in its meeting held on June 08, 2023. Mr. Virender Arora – Associate Director, Mr. Anil Sadana – Sr. Vice President, Mr. Ravichandra Hegde – Advocate, Mr. Paras Parek– Advocate, Ms. Parinaz Bharuch – Advocate and Ms. Shonan Bangera – Advocate attended the personal hearing on behalf of the Noticee.

32. 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 19, 2023, submitted reply to the SCN to the Exchange.

33. The Noticee, vide its letter dated June 19, 2023, made the additional written submissions as follows:

33.1. The Noticee reiterated its submission about pop up alerts generation and non-maintenance of historical data by the Exchange and stated that it shall be violation of the principles of natural justice and due process as the essential information has not been provided to the Noticee.

33.2. The Noticee has mentioned background of the matter and circulars and byelaws alleged to be violated in the SCN.

33.3. As a result of the present proceedings, the Noticee had withheld the payout of its clients for the Impugned Trades. This was done in accordance with the policies of the Noticee, and considering the email dated June 02, 2022, addressed by the Exchange to the Noticee questioning the Impugned Trades. In response to the above, Dilip Bhansali alleged that the said payout was being wrongly withheld by the Noticee, and that the same must be released to his account. Dilip Bhansali further proceeded to place its claim before the Exchange, and thereafter upon no resolution, also initiated a Petition under Section 9 of the Arbitration and Conciliation Act, 1996, before the Hon'ble High Court of Bombay, seeking interim reliefs in the nature of release of the payouts. The Noticee submitted that the payout is presently deposited in a separate fixed deposit, pending adjudication of the issue by the Exchange.

33.4. The Noticee had placed a single buy order on June 02, 2022, in the said contract, and has earned a mere positive close out difference of Rs. 21 lakhs, which is miniscule compared to its daily trading volumes and turnover. Further, it has been entangled in disputes with its clients in the said matter and has incurred legal expenses well over the amount of the alleged profit made from Impugned Trades. It defies rationale that the Noticee would engage in an unlawful trade, with any sort of malafide intent, to earn a meagre profit of Rs. 21 lakhs, which would result in months of litigation at either end, i.e., with the client and with the Exchange. It is a matter of fact that on the trades executed by its clients, the Noticee only earns brokerage, and nothing else.

33.5. The Noticee contended that the present proceedings are vitiated as the Noticee is filing its preliminary response based on the limited records provided by the Exchange. The Noticee has not taken any undue advantage on account of the Impugned Trades. The price volatility is extremely high in options

trading. There is no point of comparing the trading value of the contract with the intrinsic value, since if all securities trade on intrinsic value there would be no mispricing and no need for secondary markets to exist.

33.6. The core allegation against the Noticee is that as a broker, the Noticee "allowed' the placement of such client orders which were away from the market prices in the contract." In this regard the Noticee contended that it placed orders at prices not away from the market prices at the time of placing such orders. During the time when the Impugned Trades were executed, the market price of the Contract was falling steeply, and the Operating Price Range ("OPR") was accordingly being adjusted by the Exchange from time to time. The Exchange itself does not permit any orders which are placed outside the OPR range and therefore the trades were executed in line with the permissible limits set by the Exchange itself. In such a scenario, when the trades have been permitted by the Exchange's systems, the Noticee cannot be held liable for not generating alerts/ allowing the trades,

33.7. It is natural for a buyer to try and get the lowest value for the scrips. The trading window in the contract was limited to a short time span. The Clients tried to place orders based on the prevailing market prices at the given time. There was no pop-up generation in the Exchange trading system or any other trading system. The Exchange imposes circuit filters and Operating Price Range ("OPR") to control the price manipulation. In the present scenario all trades were within the circuit limits, which is why there were no alerts generated. Further, in line with the trading, OPR was automatically shifted or rolled down earlier.

33.8. The entire purpose of jobbing/ arbitrage is to benefit from the mispricing in the securities market. This does not tantamount to market manipulative behaviour, nor does it lead to artificially inflating or deflating prices. The Noticee's daily market volume in Nifty and Bank Nifty reflect that the Impugned Trades were undertaken in the regular course of trading and are regularly done.

33.9. There is no connection or correlation attributed or demonstrated between the Noticee/its clients and any of other counterparties and there is no allegation of any funds having been transferred to any of the other parties in question. Therefore, the allegation of fictitious dealings is also not sustainable.

33.10. The Exchange has itself mentioned in the SCN that the sale was on account of an error of the counterparty. The Noticee submitted that many such

mispricing events and errors occur on a daily basis and in the scenario errors and mispricing are considered unfair trade practices, then the Exchange should refund all such losses to every broker making an error on the Exchange platform and should charge all others making profits from such errors.

33.11. In the Review Order passed by the Exchange in the trade annulment request made by the counterparty seller, the Exchange has categorically observed that the trades were not artificial, neither were induced by fraud or misrepresentation and happened due to gross negligence on part of the seller. Therefore, the allegations of fraud against the Noticee are not wholly untenable and void.

33.12. The impugned trades passed the Exchange risk control mechanism, 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 provides for two pre-trade risk control measures, namely, a quantity freeze and the generation of alerts in certain cases. The Noticee submitted that no records of the alerts generated by the Exchange has been provided to the Noticee, despite requesting for the same on multiple occasions. Further, during the personal hearing before the MCSGFC, on June 8, 2023, the Noticee was categorically informed by the Exchange's 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 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.

33.13. With these systems in place, an order can only reach the Noticee 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. In view of the aforesaid, the question of taking undue advantage of a counter party error does not arise. 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.

33.14. Execution of the orders were allowed in accordance with the applicable Exchange Circulars of the Exchange, 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.

33.15. As per the Exchange circular no. NSE/FAOP/39920 dated January 10, 2019, the Exchange has introduced an additional flex mechanism for option contracts with respect to the OPR. 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. Therefore, if option contracts orders which are entered beyond the OPR shall be cancelled by the Exchange.

33.16. All the buy orders/ trades undertaken by the Noticee/its clients were within the OPR and not away from the prevailing market prices, the tables at Paragraphs 2.5.3, 2.7 and 2.8 of the SCN are misleading in relation to LTP of the Contract prior to the placing of orders by the Noticee/its clients. When the volatility is so high that the price significantly fluctuates every micro/ nano second, the LTP will not be the accurate mode of verifying whether the trades were in line with the market prices. It can be confirmed 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.

33.17. 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 based on the LTP of the 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. Whereas all the ticks/trades per second are received in TBT broadcast, only 20 ticks/ trades per second in Fast Broadcast & 5 ticks/trades per second in Slow Broadcast are received from the Exchange. Further, there are buffering issues due to the network components at the Exchange's end as well as network components at the end of the 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. Even for a machine to identify & place a four-leg order based on micro-seconds prior LTP cannot be possible. Hence, the LTP in such moments of highly fluctuating market prices of a contract should not be the basis for comparison. Even the Exchange circulars require that order should not be away from market prices. The word used in the circular is "prices not price" which confirms that it is not Last trade price but the market prices at the relevant time. To prove the same facts the Noticee provided the details of the sample trades referred to in the SCN, along with the details of previous trades/ market range during the same second and the previous second.

33.18. Regarding the allegation of allowing orders at prices significantly below intrinsic value, the Noticee submitted that no Exchange Circular as referred in the SCN requires 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 No case, none of the orders were placed beyond the OPR/ away from the market prices at the relevant time.

33.19. 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 reference 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. As 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.

33.20. Even otherwise there was neither any check of option valuation in the Exchange trading system nor there was any requirement and there is no point of comparing the trading value of the Contract with the intrinsic value.

33.21. With regards to alert generation, the Noticee stated that 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 Exchange circular nos. NSE/SURV/49368 and NSE/SURV/49369, both dated August 21, 2021, read

with the Exchange circulars 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.

33.22. Paragraph 3.5 of the SCN alleges the Noticee of violating the Exchange circular no. NSE/MSD/41332 dated June17, 2019 which is about "Trade price protection check". The Circular is with respect to operational guidelines of Non-Neat Frontend software and this circular nowhere provides that in case ALGO orders are placed at prices significantly below the intrinsic value of deep in the money contract, it will amount to a trade price protection check not being in place. In this regard, the Noticee submitted that:

33.22.1. The algo strategy used to execute the trades in question were duly approved by the Exchange and duly audited from time to time and there are checks in place as also mentioned in the checklist available on the ENIT portal of the Exchange.

33.22.2. As per the System Audit Report for the period w.e.f. April 1, 2022, to September 30, 2022, it is certified by the auditor that the trade price protection & market price protection checks were in place.

33.22.3. In case of trades executed in the account of SN327 using algo strategy namely BOX, which is duly approved by the Exchange whereby the 4 legs of orders were placed simultaneously including the trade in question. Hence, the same cannot be seen in isolation and alleged to be in violation of any provision of the Exchange. LTP was already established at Rs.0.15 a few microseconds within the same second before placing the aforesaid 4 leg order.

33.22.4. The price significantly fluctuates every micro/ nano second when the volatility is high. So, at the time of placement of order by the algo strategy, it is entirely possible that the system was still considering the LTP as Rs. 0.15 whereas there might be different LTP on the Exchange at the time of placing order due to the broadcast/ network latency issues.

33.23. The Noticee has in-house algo strategy, "BOX", duly approved by the Exchange used for trades, in question, executed in the account of SN327 and proprietary account respectively. The non- algo trades were executed using

NEST and Greek CTCL software provided by the Exchange empanelled vendors.

33.24. The risk controls and checks were in-built in the aforesaid strategies/ CTCL software and tested and certified by the auditor and demonstrated before the Exchange officials based on which the approval of the said software was given by the Exchange. The auditor has certified that software/ facilities are in compliance of the SEBI/ Exchange requirements. The Noticee reiterated the facts about system audit report, compliance of checklist available on ENIT portal of the Exchange and stated that the risk parameters/ controls & checks in the NEST & Greek CTCL (Exchange empanelled vendors) software were according to the prevailing provisions of the Exchange.

33.25. The Impugned Trades in the contract were undertaken in the regular course of trading and the clients who have executed the Impugned Trades are active clients and regularly trade in their respective accounts. The Noticee reiterated that it had all trade price protection check and trades were within the permissible limits and ranges set by the Exchange.

33.26. The order prices of the Impugned Trades were always within the Exchange's circuit limits. 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 theoretical price, however at all times all the trade orders placed by the Noticee/its clients were within OPR and not away from the market prices at the given time. The objective of such trades was to simply capitalize on the possible arbitrage position due to price movement.

33.27. It is apparent therefore that the trade in the said contracts by the Noticee/its clients during the relevant period were for a legitimate purpose and not as part of any collusion or conspiracy as alleged or otherwise.

33.28. The Exchange has itself stated that the Impugned Trades were on account of an error trade by the counterparty seller. 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, this was not done, which establishes that the trades cleared the Exchange's scrutiny and were considered as fair trades by the platform.

33.29. In relation to the trades undertaken by the Noticee's clients, the Noticee had sought explanations from the Clients pursuant to the Exchange email dated June 02, 2022, for the Impugned Trades. The clients had responded to the same and provided their rationale for the Impugned Trades. Dilip Bhansali vide email dated on June 03, 2022, has stated, infer alia, that the trades were placed at prices higher than the bid price and lower than ask price. The buy orders were placed at prices not away from the market prices at the time or placing the orders. A perusal of the orders logs of the clients will also reflect that these statements are accurate.

33.30. The Noticee again reiterated the facts about the trades placed by Kuber India Fund, Client of Vardhman and annulment request made by the Vardhman, and order passed by the ROC. The Noticee/its clients were not aware of the error trade prior to execution of the impugned trades, and simply executed the trades in the normal course of trading, by utilizing an opportunity that was available in the market to all the traders.

33.31. The Noticee/its clients (to the best knowledge of the Noticee) has no relationship/ connection with the counterparty seller and trades have been declared as valid by the Exchange, vide its Order dated July 05, 2022. Therefore, the charge of "artificially raising or depressing the market" under Regulation 4.6.2(1)(a) of the Exchange F&O Regulations cannot be applicable in the present matter.

33.32. The Noticee has cited the following Judgements passed by Hon'ble Securities Appellate Tribunal to demonstrate that there cannot be manipulation of the market in the absence of collusion / connivance:

33.32.1. Premchand Shah & Ors. v. SEBI (Decided on February 21, 2011)

33.32.2. Shailesh M. Ved vs SEBI (Decided on July 6, 2011)

33.32.3. Jagruti Securities Ltd. v. SEBI (Decided on October 27, 2008)

33.33. There is nothing in the SCN or otherwise to demonstrate that there was any connection or relationship of the Noticee and its clients with the counterparty seller. In the absence of any such connection or fund transfer, it is apparent that the transactions were genuine and were going through the approved market route.

33.34. The following Exchange circulars/byelaws/rules/regulations, alleged to have been violated by the Noticee, vide the SCN, are erroneously applied on the Noticee:

33.34.1. Regulation 4.6.2(1)(a) of the Exchange F&O Regulations which states that no person shall indulge in market manipulation, the Noticee/its clients 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 by the Noticee/its clients 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. The Noticee contended 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.

33.34.2. The Exchange Circular dated August 21, 2021, bearing reference no. NSE/SURV/49368 which has reference of the Exchange Circulars dated July 31, 2021, bearing reference no NSE/FAOP/49118 and NSE/CD/49119 which is about Pre-Trade risk controls. The Noticee stated that no alert whatsoever was generated from the Exchange end, which further shows that the Impugned Trades were being executed within the market permissible limits. No alert was generated on the portal of the Noticee either, as the trades were being executed within permissible ranges, as per the Exchange OPR and circuit filters and not away from market prices even otherwise the Circulars are not applicable to option contract. In view thereof, the applicability or the Circular is misplaced.

33.34.3. The Exchange Circular dated August 21, 2021, bearing reference no. NSE/INSP/49369 provides order price alerts functionality / controls in the NEAT & NEAT Plus front end as part of the Market Price

Protection functionality. As no 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.

33.34.4. As per the SCN, the various Circulars, 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. In respect thereto, the Noticee once again reiterated that the trades were not away from the prevailing market prices 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. The Noticee further contended that if the orders were in fact placed at prices away from the normal prices, the Exchange could have cancelled the trades and not permitted them to go -through. By permitting the trades to be completed, the Exchange has itself permitted the trades, which shows that the trades were well within the market prices, especially in light of the fact that no pop-up alerts were generated by the Exchange. When the market itself fluctuates severely, the Noticee/ its clients cannot be held liable for utilizing the market opportunity.

33.34.5. The Exchange Circular dated December 16, 2020, bearing reference no. NSE/INVG/46662 where Trading Members were advised to refrain from entering into abnormal / non-genuine transactions. The Noticee contended that there is no observations or allegations that the Noticee undertook an abnormal / non-genuine trade with an objective of transferring profit / loss with the counterparty, as to relation with the counter party and creation of artificial volume in the Contract. 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. There was no change of beneficial ownership in the Impugned Trades.

33.34.6. Regulation 4.5 of the Exchange CM and F&O Regulations and the Code of Conduct specified thereunder, the Noticee stated that there

is no violation of the said regulations as 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 and the trades were genuine and in accordance with the market trends.

33.34.7. Rule 3(a), (b), (c) and Rule 4(b), (d), (e) of Chapter IV of the Exchange Rules which states various cases in which Trading Member shall be deemed of misconduct i.e., if the Trading Member is convicted of a criminal offence, or commits fraud, violated provisions of any statute governing the operations of the Exchange, Trading Members and securities market, is guilty of dishonourable or disgraceful conduct on the Exchange and the Trading Member shall be deemed guilty of unprofessional like conduct for: Fictitious dealings, prejudicial business and market manipulation or rigging. The Noticee contended that there was no violation of the said rules as none of the provisions are applicable to the Noticee in the present matter as the impugned trades were undertaken in the regular course of trading and there was no intention of taking any undue advantage. The Noticee cannot be held liable for the error committed by another broker, when clearly the Noticee was not a party to such error, nor aware of the same at the time of execution of the trades.

33.34.8. Rule 1 and 2 of Chapter IV of the Exchange Rules, the Noticee submitted 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.

33.35. The charging provisions/ allegations of violation of Circulars are improperly applied. The Circulars related to artificial trading/ generation of artificial volumes, the same are wholly inapplicable as the Impugned Trades were admittedly genuine. Further, by rejecting the annulment application made by the counterparty vide its Order dated July 05, 2022, the Exchange has itself certified the sanctity of the trades. In view thereof, the question of the trades being artificial does not arise.

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

34. 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 prevailing 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 multiple passive orders at prices significantly below the intrinsic value of a contract expiring in one hour. The Committee also noted that the Exchange provided the trade and order log data to the Noticee 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.

35. The Committee found that the argument raised 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.

36. 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 trade and order log 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 with respect to alerts. 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.

37. 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 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.

38. The Committee found that the argument made by the Noticee that "*it is seen from the trade logs that the price of the Contract was falling even before the Noticee's trading in the Contract"* 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.

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 and its clients 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.

40. 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 theoretical price, however at all times all the trade orders placed by the Noticee were within the OPR and not away from the market price. 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 contract, and based on market conditions prevailing on that day, there was no reason for NIFTY value to come to 14500 within an hour.

41. The Committee noted that on June 02, 2022, there was 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.

42. The Committee found that there was no brought forward open position of the Noticee and its Clients, Dilip Bhansali and Quantx in the contract at the time of start of order placement.

43. From the order placement analysis of the Noticee and its Clients Dilip Bhansali and Quantx between 14:34:08 to 14:38:21, it is observed that the Noticee and its Client were placing buy limit orders at such prices which are below the intrinsic value of the contract. As per the response of the Noticee it appears that the Client Dilip Bhansali & Client Quantx were placing buy orders simply because the Last Traded Price in the contract was moving downwards.

44. The Committee found that the Noticee has allowed placement of such client orders which were grossly away from the fair prices in the contract.

45. With respect to ALGO orders of client Quantx, as the Noticee allowed placement of orders at prices which were significantly below the intrinsic value of a deep in-the-money contract, it is observed that the "Trade Price Protection Check" as required by Exchange circular NSE/MSD/41332 dated June 17, 2019, was not in place.

46. The Committee noted that 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.

AFTER DULY CONSIDERING THE ORAL AND WRITTEN SUBMISSIONS MADE BY THE NOTICEE ON THE CHARGES MENTIONED IN THE SCN ISSUED VIDE LETTER NSE/INVG/2022/118181 DATED OCTOBER 13, 2022, THE COMMITTEE CONCLUDES AS UNDER:

47. The Committee found that as the dealers of the Noticee for proprietary account and on behalf of the client had placed multiple 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), 95% of the buy limit orders placed by the Client, Dilip Bhansali proprietary account which got executed, 35% of the buy limit orders placed by the Client, Quantx which got executed and single order placed by the Noticee which got executed were passive orders during 14:34:08 to 14:38:21 i.e. the Noticee and its Clients' buy limit orders were placed before the corresponding sell orders of the counterparty, 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 Exchange F&O regulations. In view of the above, the Committee noted that act of dealers of the Noticee of placing multiple 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 an 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. Thus, the Committee finds that 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 the Exchange 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. Further the Committee also records that the Noticee has contravened the provisions of the Exchange circular no. NSE/MSD/41332 dated June 17, 2019, as it appears that the "Trade Price Protection Check" as required by the Exchange was not effective.

48. The Committee notes that Trading Members are expected to conduct their business as per the Code of Conduct prescribed under Regulation 4.5 of the Exchange 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 the Exchange CM and F&O Regulations.

49. 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 and allowing to place 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

50. 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, decided to levy a penalty of **Rs. 25,00,000/-** (Rupees Twenty-Five Lakhs Only) for the observed violation.

51. 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/-	Sd/-
S Ravindran	Ashishkumar Chauhan
(Committee Member)	(Committee Member)

Date: January 11, 2024