

**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. Parwati Capital Market Private 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 Gujran	-	Vice President – Enforcement
Mr. Sanjaya Nair	-	Vice President – Legal
Mr. Dnyansagar Gadgil	-	Chief Manager – Investigation

BACKGROUND OF THE CASE

1. M/s. Parwati Capital Market Private Limited ("Noticee") is a registered Trading Member of National Stock Exchange of India Limited ("NSEIL"/ "Exchange") having SEBI Registration No. INZ000205936 and enabled for trading in the Capital Market ("CM") and Futures & Options ("F&O") segments since January 2003, Currency Derivatives ("CD") segment since October 2008 and Commodity Derivative ("COM") segment since December 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 300 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, is as under:

Open Price (Rs.)	High Price (Rs.)	Low Price (Rs.)	Close Price (Rs.)	Traded Qty	No of Contracts traded	Premium Turnover (Rs. in 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 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) 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.)	Expired Long Quantity in-the-money	Positive Square off difference by Intraday activity (in Rs. Crore)	Positive square off diff by auto-closure of long position at expiry (in Rs. Crore)	Total Positive Square off diff in the contract (in Rs. Crore)
0	0	367850	125500	116.81	1,926.38	242350	22.71	48.74	71.45

7. The Noticee on proprietary account purchased 3,67,850 quantities between 14:34:27 and 14:43:42 on June 02,2022 in the contract, i.e. during the time of price fall, at an average price of Rs.116.81 and later sold 1,25,500 quantity at an average price of Rs.1926.38, earning intraday positive close out difference of Rs.22.71 crores. The balance long position expired on the same day and as the position was in-the-money, the Noticee earned an additional positive square off difference of Rs.48.74 crore due to auto closure. The total square off difference to Noticee was Rs.71.45 Crores with respect to the contract.
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
366(100%)	332(90.71%)	34	0

No of Buy Limit Orders placed & executed	No of Passive Buy Limit Orders placed & executed	No of Buy Limit Active orders placed & executed
332 (100%)	322 (96.98%)	10

9. It was noticed that during the day client placed and executed buy orders in the contract between 14:34:27 and 14:38:20 only. 90.71% of the total buy limit orders placed by the Noticee were executed. Further 96.98% 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 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.
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	366 (100%)	409150 (100%)	367250 (100%)
Buy Limit price / Trade price Less than 10	263 (72%)	360200 (88%)	321087 (88%)
Buy Limit price / Trade price between 10-1000	46 (12.5%)	18050 (4%)	15461 (4%)

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
Buy Limit price / Trade price between 1000-1500	55 (15%)	30800 (8%)	30702 (8%)
Buy Limit price / Trade price between Above 1500	2 (0.5%)	100 (0.02%)	0

10.1 From the above table it is observed that,

10.1.1 72% of the buy limit orders were placed in the contract during the day with limit prices of less than Rs.10.

10.1.2 88% of the buy traded quantity of the Noticee during the day in this contract was below Rs.10.

10.1.3 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 72% of the orders placed were below Rs.10 and more than 95% of these orders were passive orders.

11. Correspondence of the Exchange with the Noticee from the date of event to the date to Show Cause Notice:

11.1 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).

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

11.2.1 *"We are one of the oldest member at NSE involved in Jobbing and arbitrage as a Prop Desk in Equity, Futures, Options, Currency, Currency Options, & Weekly Options.*

11.2.2 *With reference to trade on 02/06/2022 in Nifty 50 Strike Price 14500CE of expiry 02/06/2022, our dealers found a price movement around 2:34 PM and accordingly they placed orders as per the LTP and within the circuit limits set by the exchange. As the seller was*

keen to sell at any rate, dealers who had purchased at high price started averaging their BEP by placing BUY orders at lower price as per the last LTP, but the trades were getting executed as soon as the orders were being placed in the system.

11.2.3 *Jobbers and Arbitraders serves the purpose by acting as intermediary and provide liquidity to take advantage of the available price differences. We keep trading at different strike prices by seeing the reference rate of other strike prices and the underlying. All of our first orders were BUY orders, as the risk of Buying options was limited to just the Premium Price and were within the limits because the purpose of setting the circuit limits is to restrict the order prices within reasonable defined limits. None of our orders were IBT/ STWT/ Algorithmic as dealers identified the opportunity and traded. Further referring to circular no NSE/SURV/49971 dated July 31, 2021, please note none of the orders placed were passive orders as most of the orders were getting HIT as soon as they were getting placed in the system. From the attached Order and Trade File the dealers placed the First BUY order at Rs 1320.35 at 14:34 and kept trading the contract at various prices till 14:43*

11.2.4 *We assure you that none of the orders were non-genuine, as all the orders were placed in the normal course of trading as per the filter and circuit limit defined by the exchange, just to capitalize of the opportunity available in the Market without creating any aberration to the order book.”*

12. Limited purpose Inspection by the Exchange conducted on June 20, 2022:

12.1 The Exchange carried out Limited Purpose Inspection on June 20, 2022, of the Noticee. The Noticee has submitted the following response vide email dated June 21, 2022.

12.1.1 *“This reply is in reference to your visit and letter dated 20/06/2022 at our office premises for Limited Purpose Inspection. We have provided the visiting officials with all the relevant documents as required. It was also explained to the visiting officials how the dealers saw the LTP of that strike price from ticker and the action taken to trade using the data. It was also shown and explained to the officials*

how the RMS for certain dealers stopped due to the breach of MTM limit set for them and limit of other dealers were reduced.

12.1.2 *We again assure you that none of the orders were passive and were placed in the normal course of trading as per the filter and circuit limit defined by the exchange, just to capitalize of the opportunity available in the Market without creating any aberration to the order book.”*

12.2 The Exchange observations with respect to the Limited Purpose Inspection:

12.2.1 Contrary to the claims of the Noticee in the inspection response, more than 90% of the buy orders placed were passive orders. The dealers of the Noticee did not bother to check if there were any counterparty sell orders pending in the order book and the dealers of the Noticee were placing these orders because the Last Traded Price in the contract were moving downwards irrespective of the fact that such prices do not entail any economic rationale and the contract was not at all trading in line with the movement in the underlying index.

12.2.2 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 which indicates that dealers of the Noticee 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

13. Based on the observations of the Exchange, the Exchange issued a Show cause notice (SCN) which was communicated to the Noticee vide the Exchange letter NSE/INVG/2022/117607 dated September 16, 2022.

14. 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:

14.1 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 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;

14.2 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 to 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.”

14.3 The Noticee did not provide any evidence that an alert was generated in their 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”

14.4 In view of the above, it is alleged that the Noticee has contravened the provisions of NSEIL/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.

14.5 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, 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 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.

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.....”

“4.5.1 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 (Stock Brokers 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.

14.6 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.

- 14.7 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 demoralisation 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

15. In response to the SCN issued by the Exchange on September 16, 2022, the Noticee vide letter dated September 29, 2022, sought the following details from the Exchange:
- 15.1 Details and analysis of the rest 359 orders mentioned in the SCN whereby the Exchange has provided the analysis of only 7 orders as per paragraph 2.6 of the SCN.
 - 15.2 The Tick by Tick ("TBT") data and trade data for the entire day for the contract under scrutiny/ examination.
 - 15.3 Copy of Limited Purpose Inspection conducted on June 20, 2022.
 - 15.4 Details of market wide Last Traded prices ("LTP") existing at the time of placement of Buy orders.
 - 15.5 Copies of alerts for NEAT/ NEATPLUS terminals when orders were placed away from the prevailing market price.
 - 15.6 Details of orders of counterparty with order rates.
16. In response to the said requirement of the Noticee, the Exchange, vide its letter dated October 19, 2022, communicated the following response to the Noticee:
- 16.1 The Exchange provided tick by tick trade and order information in the said contract (i.e., NIFTY CE 14500 with expiry June 02, 2022). The said data

contained the requisite data for analysis of all 359 orders pursuant to such information along with the market wide last traded price existing at the time of placement of Buy Orders.

- 16.2 The Exchange stated that as per the Exchange Circular No. NSE/INSP/49369 dated August 21, 2021, the Trading Members are under obligation to have systems in place to generate suitable alerts at its end. As per the said obligations vested on the Noticee vide the Exchange circular no. NSE/SURV/48818 dated July 01 ,2021, such alerts are expected to be generated at the Noticee's end.
17. The Noticee vide its letter dated October 28, 2022, submitted the following response to the above-mentioned response of the Exchange:
 - 17.1 The Noticee again requested for the Copy of Limited Purpose Inspection conducted on June 20, 2022.
 - 17.2 The Noticee further stated that there were no alerts generated at its end for impugned transactions and requested the copies of alerts generated at the Exchange's end.
 - 17.3 The Noticee further contended that the data of all parties or details of all pay-ins and pay-outs and details of any profit or any loss or any manner of calculation thereof has not been provided by the Exchange.
18. In response to the said requirement of the Noticee, the Exchange, vide its letter dated January 05, 2023, communicated the following response to the Noticee:
 - 18.1 The Exchange stated that the annexure of the SCN, contains information to derive the analysis provided in the SCN by the Exchange and analysis of 359 instances is expected to be carried out at the Noticee's end.
 - 18.2 The Exchange provided copy of the Limited Purpose Inspection Report conducted by the Exchange on June 20, 2022.
 - 18.3 The Exchange stated that in the NEAT and NEAT plus alerts are pre-trade risk controls on NEAT/NEAT plus which are configured at the front end of these applications and therefore the functionality does not provide for maintenance of historical logs at Exchange end. Further, through the circular

NSE/INSP/49369 dated August 21, 2021, the Trading Members were also advised to build similar controls/alerts on Non-Neat Frontend systems.

- 18.4 The Exchange provided the tick-by tick trade and order log in the said contract.
19. The Noticee vide its letter dated January 12, 2023, responded to the SCN post the above-mentioned correspondences. The summarized response of the Noticee is as follows:
- 19.1 The Noticee stated that the Exchange did not provide opportunity of physical inspection of relevant information and documents relied upon by the Exchange in the SCN and relevant to the proceedings.
- 19.2 The Noticee further stated that the analysis for 359 orders and counterparties details were not provided by the Exchange and therefore, the allegation is broad and casual and the burden of providing the proof lies with the Exchange.
- 19.3 The Noticee further stated that the alert details were not provided to the Noticee as stated in the Exchange's Inspection Report and the Noticee mentioned the following judgements to support its contention:
- 19.3.1. The Judgment of Hon'ble Supreme Court in Reliance Industries vs. Securities and Exchange Board of India.
- 19.3.2. The Judgment of Hon'ble Securities Appellate Tribunal in Chanda Kochhar vs. Securities and Exchange Board of India.
- 19.3.3. The Judgment of Hon'ble Supreme Court in T. Takano and Anr. vs. Securities and Exchange Board of India.
- 19.4 The Noticee further stated that the shareholding pattern of the Noticee as per Limited Purpose Inspection Report is not accurate.
- 19.5 The Noticee further stated that the alert details have been not provided to the Noticee by the Exchange.
- 19.6 The Noticee contended that the LPI observed that enough controls were not in place at Trading Member end without providing any particulars of the same.

- 19.7 The Noticee further contended that the observation of the Exchange that the dealers of the Noticee did not check whether the pending order book has alerts before placement of orders is bereft as 90.71% of the orders punched by the dealers of the Noticee got executed.
- 19.8 The Noticee further contended that the Limited Purpose Inspection report does not quote any rules/regulation/circular/bye-law.
- 19.9 The Noticee further contended that the Limited Purpose Inspection already quotes the word "Noticee", and it is full of speculation, surmises, and conjectures.
- 19.10 The Noticee stated that no investigation report was given to the Noticee.
- 19.11 On June 2, 2022, the dealers of the Noticee observed the price movement of the NIFTY 14500 CE contract. Based on the spider software which provides various trade data and looking at the LTP, it started placing orders within the trade circuit limits. It is a market practice that traders keep trading at different strike prices by looking at the LTPs and availability of the opportunities. Hence, as and when an opportunity arises between trading hours before expiry, the dealers undertake trades on the price available.
- 19.12 The Noticee contended that placed the first BUY order at Rs 1320.35 at 14:34:27 compared to the first buy order in the contract which happened at 09:15:01 and kept trading the contract at various prices till 14:43.36. Before the Noticee's first buy order at 14:34:27, 378 trades totalling to a quantity of 131050 had already been undertaken. Hence, the contract was actively being traded well before the participation of the Noticee. Hence, it was not an illiquid scrip / contract.
- 19.13 The Noticee contended that (a) determination to LTP cannot be strictly done based upon the immediate previous trade when in fact there are multiple trades being executed in the same second; and (b) only the LTP accessible to the dealer basis which the trade was punched can be considered as the true LTP. Further, placing of orders by different dealers is as per their risk appetite and their diligence as thought fit at that particular point in time while being within the four corners of the extant law. The trades were not far away from the LTP.

- 19.14 In relation to and subsequent to the impugned trades was traded at a trade price higher than the impugned trade price. The buy order being punched in by the dealers of the Noticee was based on considering the LTP and view undertaken at that point in time as per their risk appetite. As a result, clearly, trades are not being placed at a low limit price.
- 19.15 The Noticee, contended that the trades were not passive since the Noticee started transacting when the contract was actively being traded with multiple transactions.
- 19.16 The Noticee denied any contribution whatsoever in depressing the prices. The Noticee further stated that the Exchange has not shared the “sell order price of the counterparty” and the algo strategy being deployed by the counterparty and the same is relevant to the Noticee.
- 19.17 The Noticee further contended that the Exchange alleged that the Noticee ought to have known that the trades of the counterparty were erroneous and quoted the judgment of Hon'ble SAT in Emkay Global Financial Services Limited vs. National Stock Exchange.
- 19.18 The Noticee further contended that the Noticee exercised due diligence in placing orders and such orders are in compliance with applicable order placement limits and the trades were adequately covered by applicable margins and mentioned the following cases to support its contention:
- 19.18.1. The Judgment of Hon'ble Supreme in Court in Chander Kanta Bansal vs. Rajinder Singh Anand.
- 19.18.2. The Judgment of Hon'ble SAT in Almondz Global Securities Limited vs. SEBI.
- 19.18.3. The Judgment of Hon'ble SAT in Sharedeal Financial Consultants Private Limited vs. Chairman, SEBI.
- 19.18.4. The Judgment of Hon'ble SAT in Mehta Equites Limited vs. AO, SEBI.
- 19.18.5. The Judgment of SEBI in the case of M/s. Jaypee Capital Services Limited.

19.18.6. The Judgment of SEBI in the case of M/s Link Intime India Pvt. Ltd.

19.19 The Noticee further contended that the orders were within pre-defined ranges. There has been no demonstratable change in the market equilibrium. The Noticee had no idea that these orders based on LTP could be treated as non-genuine. There were no alerts from the Exchange's NEAT platform. The Noticee paid all taxes and fee of the Exchange and cleared and settled all the trade obligations. It cannot be alleged that the Noticee has taken an undue advantage. Therefore, there is no contravention of any provisions. The the Noticee mentioned following cases to support its contention:

19.19.1. The Judgment of Hon'ble Supreme Court in National Buildings Construction Corporation vs. Raghunathan & Ors.

19.19.2. The Judgment of Hon'ble SAT in Sterlite Industries vs. SEBI.

19.19.3. The Judgment of Hon'ble SAT in Videocon vs. SEBI

19.19.4. The Judgment of Hon'ble SAT in Samir Arora vs. SEBI

19.19.5. The Judgment of Hon'ble SAT in Imperial Corporate Finance Services vs. SEBI

19.20 The Noticee further contended that since the Exchange has not annulled the trade therefore it is presumed that there were no erroneous trades. Further, the Noticee quoted the judgement of Hon'ble SAT in the case of M/s. Emkay Global Financial Services Limited.

19.21 The Noticee further contended that there was no major movement in the underlying scrip and therefore, it is evident that the trades had no market impact. Thus, the transactions neither distorted the equilibrium in the market nor caused any loss or prejudice to investors.

19.22 The Noticee further contended that the Noticee's trade do not indicate any malafide intention to play fraud on the market and allegation in SCN can only be considered as technical and venial breach. The Noticee stated that Hon'ble Supreme Court held that a penalty should not be imposed for the sake of it and should achieve a specific purpose, rather than as an end.

- 19.23 There is nothing brought on record to show that the Noticee's trades were manipulative or fraudulent. In the circumstance, the Noticee was free to make profits when opportunity present itself. No adverse inference can be drawn against the Noticee only because it made profits.
- 19.24 There was no allegation of any malicious intent of the Noticee with respect those trades. At the most, the Noticee was in breach of procedural requirements of the extant law. It is a settled position that not every breach in procedural requirement by an intermediary such as the Noticee invites a penalty from the regulator. The Noticee cited the following cases to support its claim:
- 19.24.1. The Judgement of Hon'ble SAT in Religare Securities Limited vs. SEBI.
- 19.24.2. The Judgement of Hon'ble SAT in UPSE Securities Limited vs. SEBI.
- 19.25 With respect to the charge of violation of NSE Circular Regulation 4.6.2 (1) (a) of the NSEIL regulations, the Noticee denied that the Noticee has indulged in market manipulation. The Noticee also denied that it has effected or taken part or entered directly or indirectly in transactions which are likely to have effect of artificially raising or depressing or stabilizing the price of securities / derivatives contracts. In support of the above, the Noticee submitted that:
- 19.25.1 The first buy order in the said contract began at 09:15:01 while the first trade of the Noticee was only at 14:34:27. By the time the Noticee started trading in the contract, 378 trades of 131050 quantity and 103 trades of 56,100 quantity being below the trade price of 1500 were already undertaken. Hence, the scrip was being actively traded between several market participants.
- 19.25.2 The buy orders placed by the dealers of the Noticee were being manually placed based on the LTP available to them, with multiple trades being executed every second.
- 19.25.3 The buy order trades of the Noticee were being matched with the sell order in a matter of milliseconds.
- 19.25.4 The Exchange by an order dated July 05, 2022, in respect of the counter party to the impugned trades rejected the review application

for annulment of trades on the ground that the trades were placed negligently and without care. Hence, the finding of the Exchange itself is that the trades were not (a) fraudulent or (b) wilful misrepresentation. The Noticee submitted that once Exchange has concluded in respect on one party that the trades were negligent, it is now not open to allege manipulation in respect of the second party who is part of the same transaction. A regulator must be consistent in its approach. Inconsistency gives way to arbitrariness and violates the spirit of Article 14 of the Constitution of India.

19.25.5 Further, it is trite law upheld by the Hon'ble SAT in many decisions that "the charge of raising price artificially has to be established and the element of collusion between the buyer and the seller is a sine quo non. The Noticee in the entire agreement with the aforesaid decisions and reiterate that in the absence of any finding of collusion between the buyer and the seller the charge contributing to the LTP cannot be sustained.

19.26 With respect to the charge of violation of the Exchange Circular No. NSE/SURV/49368 dated August 21, 2021, the Noticee submitted that the buy orders placed by the Noticee were in a manner which ensured fair and orderly market. The Noticee reiterated that (i) the contract in question was actively being traded before the Noticee started placing orders; and (ii) dealers of the Noticee manually placed orders based on the LTP available to them. The Noticee submitted that the legal standard for due diligence is doing everything reasonable and not everything possible. The Noticee submitted that the buy orders were placed by the Noticee based on the LTP of the previously undertaken trades. Further, that in a screen-based trading system trades take place anonymously i.e., the party entering sell orders into the trading system does not know as to who the counter party could be whose buy order would get matched and the trades get executed. Hence, it was in fact the counter party which was putting negligently putting in sell orders (as only subsequently concluded by Exchange). The reliance placed on the observations of SAT in Umang Dhanuka (Supra) is reiterated and it is submitted that simply because a party has made profits do not and cannot give rise to an allegation of the trades not being fair and not ensuring orderly market. Hence, in view of (i) The contract was already actively traded; (ii) The Noticee was trading based on LTP available to it; and (iii) counter party was trading negligently, the Exchange cannot allege the violation of the aforesaid circular simply because buy orders were placed at below the intrinsic value of the contract.

19.27 With respect to the charge of violation of the Exchange Circular No. NSE/INSP/49369 dated August 21, 2021, the Noticee submitted that firstly the Exchange itself 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. Further, the Noticee has already provided the Exchange with sample screenshots of quantity limits checks, price range checks, trade price protection checks, order value checks position limit checks, and trading limit checks as part pre-trade risk control undertaken by the Noticee. The Exchange allegation is the Noticee has violated the aforesaid circular because it did not provide alert generated when orders were placed at prices which were far away from prevailing market price. The Noticee cited decision Regulatory Oversight Committee of the Exchange dated July 05, 2022, wherein it is observed that "46. Coming to the facts of the present case, the Applicant has clearly submitted that the Trade was not an "unnatural trade", and it was, in fact, consistent with previous trading pattern of the Constituent, in accordance with established limits and pre-control risk checks. The Constituent undertook similar large positions at expiry of contracts on Thursdays and hence, did not generate red alerts at the Applicant's end. The Applicant has also extensively endeavoured to demonstrate how the trading pattern of the Constituent was consistent with its trading history and therefore, it is difficult to believe that the Trade was unforeseeable". The Noticee submitted that the trades by the counterparty were consistent with its trading pattern hence there is no question of any alerts being generated because the trades to being with sacrosanct. The Noticee further submitted that the alerts if any are generated at the Exchange's end and not the Noticee. As such, the Noticee has vide its two letters dated September 29, 2022, and October 28, 2022, sought for data relating to the alerts. However, the Exchange has not provided the same. Since there were no alerts generated, no alert logs are available with the Noticee. NEAT and NEAT PLUS alerts are generated by and at the Exchange. As such, the Exchange has not provided the same to the Noticee and the Noticee has not had the opportunity to offer its response to the same, which is absolutely essential.

19.28 With respect to the charge of violation of NSEIL circulars NSE/ FAOP/ 4746 dated January 20, 2004, and NSE Circular NSE/ FAOP /5856 dated February 22, 2005 the Noticee submitted that the contract was being actively traded among various market participants. In fact the contract was being actively traded on June 02, 2022, well before the Noticee began trading in the same. The trades of the Noticee were matching within a span of milliseconds.

Further, in a screen-based trading system trades take place anonymously i.e., the party entering sell orders into the trading system does not know as to who the counter party could be whose buy order would get matched and the trades get executed. Hence, the Noticee had no reason to believe that the trades were at unrealistic.

- 19.29 With respect to the charge of violation of the Exchange Circular NSE/INVG/5911 dated March 10, 2005 and NSE/INVG/2006/7127 dated February 3, 2006, the Noticee submitted that this circular is in reference to "trading in illiquid securities / contract" and deals with "reversing transactions", the Noticee reiterated that the first order in the said contract was at 09:15:01 while the first trade of the Noticee was only at 14:34:27. By the time the Noticee started trading in the contract, 378 trades of 131050 quantity and 103 trades of 56,100 quantity being below the trade price of 1500 were already undertaken. In fact, there were multiple trades being undertaken every second. In view of the above and the fact that the Exchange's SCN itself does not allege any reversal of transaction hence alleging the violation of the aforesaid circular is bereft of any merit.
- 19.30 With respect to the charge of violation of the Exchange Circular NSE/INVG/2007/8719 dated March 23, 2007, the Noticee submitted that the legal standard for due diligence is doing everything reasonable and not everything possible. Further, the Noticee has in place appropriate internal systems and procedures for ensuring that orders which are away from market price and in violation of Exchange rules, regulations and bye-laws are not placed. In this regard, the Hon'ble SAT in Emkay Global Financial Services Limited (supra) has in relation to the Exchange Circulars on placing of orders away from market price has observed that "It may be mentioned that NSE has left field wide open by issuing this circular, since no limit has been put in quantitative terms and leave matter to discretion of individuals. As a matter of fact NSE should have been more careful in issuing this important circular, by putting reasonable, unambiguous directions for everyone to understand and follow, but it is seen that the Exchange has observed a mere formality by issuing this circular, without having much relevance to the subject matter and accordingly the aforesaid circular deserves only, as much respect, which everyone concerned has accorded, by interpreting as they can and doing the needful, in this regard".
- 19.31 With respect to the charge of violation of Regulation 4.5 of NSEIL CM and F&O Regulations the Noticee submitted that it always has and continues to act in a

professional manner while conducting business. The Noticee always has and continues to be in compliance with the relevant NSE and SEBI rules, regulations and bye-laws.

- 19.32 With respect to the charge of violation of the Exchange Circular No. NSE/INVG/2020/46662 dated December 16, 2020, the Noticee submitted that according to the circular, the necessary ingredient is trading with the intent to transferring profits / loss between concerned entities or creation of artificial volume. Both of these ingredients are absent in both the conduct of the Noticee and the allegation of the Exchange. In the absence of this primary ingredients, this circular is wholly inapplicable in the current facts and circumstances. The Noticee submitted that this is not a case fit for imposition of any penalty and the SCN should be disposed of without any adverse observations or directions in relation to the Noticee. Further, the trades of the Noticee were genuine and in the normal ordinary course of business. The Noticee contended that it is not even alleged that there was any transferring of profit or loss between entities. A serious charge such as this cannot be based on surmises and conjectures. The Noticee further contended that before alleging the violation of the aforementioned circular, the Exchange must provide a strong factual basis along with the ingredient of collusion between buyer and seller. In the absence of the bare minimum, alleging transfer of loss between parties is perverse in law.

PAST MCSGFC REFERENCE

20. MCSGFC Meeting was held on May 23, 2023. The Exchange, vide its email dated May 18, 2023, had granted the Noticee an opportunity of personal hearing before the Committee at its meeting held on May 23, 2023. However, due to paucity of time, the matter was adjourned.

PRESENT PROCEEDINGS BEFORE MCSGFC

21. The Exchange, vide its email dated June 01, 2023, granted the Noticee an opportunity of personal hearing before the Committee at its meeting held on June 08, 2023. Mr. Pawan Bagri – Designated Director and Mr. C. P. Srivastava – Compliance Officer, attended the personal hearing on behalf of the Noticee and reiterated its written submissions. Further, the Committee has acceded to, the Noticee's request for submission of additional submission.
22. 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 16, 2023, submitted reply to the SCN to the Exchange and reiterated the oral submissions made in the MCSGFC Meeting dated June 08, 2023.

23. The Noticee vide its letter dated **June 16, 2023**, reiterated the oral submissions made in the MCSGFC Meeting. The Summarized response of the Noticee is as follows:
- 23.1 The Noticee in once again requested for counterparty information, the price at which the counterparty placed the order, and the trading method used (algo or non-algo) and contended that requested data was denied in the Committee Meeting and the Noticee was not given opportunity to explain the trades properly.
- 23.2 The Noticee stated that the Exchange in MCSGFC Meeting mentioned paragraph 2.6 of the Show Cause Notice to allege that there was a lot of difference in trade prices between two orders despite the orders being only thirty seconds apart (despite the difference actually being one minute and fifteen seconds). The Noticee further contended that there were various orders/trades placed/executed in between two orders by other members and the same was not considered by the Committee. The Noticee has already addressed the said fact in its reply dated January 12, 2023.
- 23.3 The Noticee contended that no alerts were generated on its end, indicating that its trades were not far away from the LTP.
- 23.4 The Noticeefurther contended that the NEAT system does not provide tick-by-tick broadcast, therefore, each dealer must have placed orders based on individual assessment of the LTP.
- 23.5 The Noticee further stated that the Exchange has previously affirmed that in a screen-based trading system, the counterparty cannot ascertain if a sell order is placed in error. In this context, the Noticee referred to the decision of the Regulatory Oversight Committee dated July 05, 2022, in case of Vardhaman Global Sharecom Private Limited which stated that there is no scope for the counterparty to ascertain if the orders were placed in error.
- 23.6 The Noticee further contended that as per the Exchange's recent letter, no adverse observations were found during the inspection.

- 23.7 The Noticee claimed to have executed the trades within the prescribed limits and trade control along with adequate margin maintained in the system. Merely because the trades resulted in profit should not be a basis for penalization.
- 23.8 The Noticee further contended that the Exchange provided analysis for only 7 instances out of 366, and even for those instances, no counterparty data was provided.
- 23.9 The Noticee further stated that in the decision Vardhaman Global Sharecom Private Limited's Annulment Order, it is explicitly mentioned that the trades were not rooted in fraud or there was no wilful misrepresentation and there were no reversing transactions or non-genuine transactions aimed at transferring profit/loss or creating artificial volume.
- 23.10 It is trite law that a charge of fraud or deceit requires a higher threshold of evidence to be established and same must be beyond doubt.
- 23.11 The Noticee further stated that the Noticee already paid all income tax and statutory dues related to this matter.

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

24. 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 hundreds of 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 October 19, 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.

25. 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’s 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. Thus, the Committee found that the case laws referred by the Noticee does not apply in the case as all the information/ data has been provided by the Exchange to the Noticee.
26. With respect to the argument made by the Noticee that “shareholding pattern of the Noticee as per Limited Purpose Inspection Report is not accurate”, the Committee found that the data relied by the Exchange is based on old records. The Committee noted that the major dominant shareholders have not changed and as such this argument has no bearing on the charges levelled in the SCN.
27. The Committee noted that during the expiry day of the contract on June 02, 2022, in the contract client placed and executed buy orders in the contract between 14:34:27 and 14:38:20 only. 90.71% (332 buy orders out of 366 buy orders) of the total buy limit orders placed by the Noticee were executed. Further 96.98% of the buy limit orders (322 orders out of 332 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. 72% of the buy limit orders (263 buy orders) were placed in the contract during the day with limit prices of less than Rs.10. 88% of the buy traded quantity (more than 3.5 lakh quantity) of the Noticee during the day in this contract was below Rs.10. The Committee further noted that the lowest value of NIFTY on June 02, 2022, was Rs. 16,443.05, the strike price of the contract was 14,500/- and in merely an 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 14,500.
28. The Committee noted that by placing the above buy orders and subsequently placing some sell orders, the Noticee on proprietary account purchased 367,850 quantity of the contract between 14:34:27 and 14:43:42, i.e. during the time of price fall, at an average price of Rs.116.81 and later sold 125,500 quantity at an average price of Rs.1926.38, earning intraday positive close out difference of Rs.22.71 crores. The balance long position expired on the same day and as the position was in-the-money,

the Noticee earned an additional positive square off difference of Rs.48.74 crore due to auto closure. The total square off difference to the Noticee was Rs.71.45 crore with respect to the contract.

29. The Committee noted that the Noticee is referring to controls (User ID limit, Rejection of User ID, RMS Rejection of User ID etc) which are risk controls to ensure that the dealer cannot trade beyond the user id limits and the controls that are referred by the Exchange are to ensure that the orders placed by the Noticee in a manner so as to ensure a fair and orderly market i.e. controls which would ensure that the dealers are not able to place orders at Limit prices less than Rs. 10 when the intrinsic value of the contract expiring in less than an hour is close to Rs. 2000. In view of the above, the Committee found there is no substance in the argument of the Noticee that “Exchange has ignored some controls that the Noticee has put in place” and the Noticee is in violation of the provisions of the Exchange Circular No. NSE/INSP/49369 dated August 21, 2021.
30. The Committee noted that more than 90% of the buy orders were passive (i.e. there were no pending sell orders at the time of placement of these buy orders) and majority of them had limit prices less than Rs. 10 when the intrinsic value of the contract expiring in less than an hour is close to Rs. 2000. The Committee further found that there were no arguments offered by the Noticee on why such orders were placed by the noticee at such low prices when the intrinsic value of the contract expiring in less than an hour is close to Rs. 2000. The Committee opines that there is no substance in the argument of the Noticee that *“the observation of Exchange that the dealers did not check whether the pending order book has alerts before placement of orders is bereft as 90.71% of the orders punched by the dealers got executed.”*
31. The Committee found that the argument of the Noticee that “that orders are placed by traders by looking at the LTPs and availability of the opportunities” clearly demonstrates that while placing the orders the dealers of the Noticee did not have any view or control on why they should place orders at Limit prices less than Rs. 10 when the intrinsic value of the contract expiring in less than an hour is close to Rs. 2000.
32. The Committee found that the argument of the Noticee that “By the time PCMPL started trading in the contract, 378 trades of 131050 quantity and 103 trades of 56,100 quantity being below the trade price of 1500 were already undertaken” is not tenable as the Committee cannot accept the argument that as a contract was trading at unreasonable prices, the placement of orders of the dealers of the Noticee at unreasonable limit prices is justified (dealer of the Noticee placed hundreds of passive orders at such lower limit prices (including orders at limit prices below Rs. 10) in the

contract which is expiring in less than an hour when the intrinsic value is close to Rs. 2000).

33. The Committee found that in the immediately preceding trading days and on June 02, 2022, till 14:34 hrs (about an hour before the time of expiry of the contract), there were hardly any trades executed in the contract. 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, there was no reason for NIFTY value to come to 14500. Thus, the Committee opines that there is no substance in the argument of the Noticee that “the contract in question was actively being traded before PCMPL started placing orders”.

AFTER DULY CONSIDERING THE ORAL AND WRITTEN SUBMISSIONS MADE BY THE NOTICEE ON THE CHARGES MENTIONED IN THE SCN ISSUED VIDE LETTER NSE/INVG/2022/117607 DATED SEPTEMBER 16, 2022, THE COMMITTEE CONCLUDES AS UNDER:

34. The Committee found that as the dealers of the Noticee were continuously placing hundreds of orders at such low limit prices (which are unreasonable as the intrinsic value of the contract expiring in less than an hour is close to Rs. 2000), more than 90% of the buy limit orders in the proprietary account 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, 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 hundreds of 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. 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, 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.

35. The Committee noted 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.
36. 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

37. 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. 1,42,90,264/- (2% of the profit amount Rs. 71,45,13,220) rounded off to **Rs. 1,42,90,300/-** (Rupees One Crore Forty-Two Lakhs Ninety Thousand Three Hundred Only) for the observed violation.

38. 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 Ravindran
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: January 11, 2024