

In Re: Dealing in Futures and

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Court : SEBI Securities and Exchange Board of India or Securities Appellate Tribunal SAT

Decided On : Jun-18-2007

Judge : G Anantharaman

Appellant : In Re: Dealing in Futures and

Judgement :

G. Anantharaman, Member 1. Background 1.1 The trading in futures and options (F & O) contracts on the National Stock Exchange has been engaging the attention of SEBI for quite some time now. SEBI has been noting with increasing interest the nature of transactions occurring in this trading segment of capital markets. While SEBI has been advising the stock exchanges to keep a close vigil on such transactions, SEBI, on its own, also commenced a study on the nature and scope of such transactions. This is in consonance with SEBI's avowed objective and continued efforts of protecting investor interests and safeguarding market integrity. This study and the subsequent preliminary examination was commenced with the technological support and armed with output provided by the Integrated Market Surveillance System (IMSS) of SEBI and can lay claim to be the first detailed examination by SEBI in the burgeoning F & O segment.

1.2 Perusal of trading data of the F & O segment in the NSE for the period January to March 2007 brought out some extraordinary facts. It was observed that some of brokers at NSE have been trading in futures and options contracts in a peculiar manner. The brokers were buying and selling almost equal quantities of contracts

within the day and such buy/sell was synchronized in nature. In most of the cases, the same quantity and in few cases substantially the same quantity of the original trade was closed out during the day at a price which was significantly above or below the price at which the first/original transaction was executed without significant variations in the traded price of the underlying.

1.3 The observations as indicated above raised severe surveillance concerns with respect to genuine trading and price discovery in this segment as well as market integrity from an investor protection point of view. It was therefore decided to commence a preliminary examination into the trading in futures and option contracts for this period. The findings of the examination are detailed below.

2. Findings of preliminary examination in respect of reversal of trades 2.1 The trading data of the brokers was analyzed to find out those deals where there was a buy or a sell transaction for a particular client and the same was reversed on the same day. Examinations of such transactions brought out that the reversal of trade was being done either for the entire quantity of contract or substantially the same quantity with the same opposite party. Reversal of trade implies that where a buy transaction has been initially entered into by a broker for a particular client for a specific quantity, there is a corresponding sale transaction which takes place during the day for the same quantity between the same set of broker/clients and vice versa. However, it was pertinent to note that the difference in the prices at which the above two trades were executed was very significant whereas such differences were not observed in the price of the underlying shares. It was also observed that there were several brokers who were trading in the F & O contracts in a synchronized manner during the period. Additionally, it was also seen that one of the parties to the transactions apparently had substantial gains while the other party suffered losses in such transactions. Such gains and losses are termed as Close out Difference (COD) and transactions are called reversal of trades.

2.2 The findings of the preliminary examination has brought out that the F & O segment is awash with transactions undertaken by broker and clients which essentially are non genuine. Such transactions were in the nature of fictitious transactions resulting in creation of misleading appearance of trading in these

options. It was also brought out that the brokers have transacted in both type of contracts-futures as well as option contracts. Further, it was also seen that in several cases that the same broker was appearing both on the buy side as well as the sell side of the transaction. The transactions can be diagrammatically represented as under Case 1: Same broker acting on behalf of buyer as well as seller (Editor: The text of the vernacular matter has not been reproduced.

required.) In the above situation, the same broker is undertaking transactions on behalf of both the buying as well as selling clients. He is buying say X number of contracts at a price P at time T1 and thereafter reversing the transactions on behalf of the same set of clients by selling X number of contracts at price P1 at time T1.

Case 2: Same broker acting on behalf of buyer and sellers (Editor: The text of the vernacular matter has not been reproduced.

required.) In the above situation, the brokers are different. One broker is buying say X number of contracts at a price P at time T1 through the selling broker. Thereafter, the transactions are reversed and the selling broker now becomes the buying broker for his client (who had sold in the first leg of the transaction) by buying again X number of contracts at price P1 at time T1. Curiously, such transactions also resulted in unusual profit and loss for these entities. The motive of such transactions was not genuine purchase and sale but rather seemed to be for creating artificial market for trading in the futures & options and booking profit/losses on such transactions. As is being brought out, the transactions resulted in substantial book losses for one client and profit for another client. The range and scope with which such transactions have been carried out seems to suggest that there is a thriving market for such transfer of profits /losses providing the opportunity to avail of favourable tax assessments.

2.3 For the purpose of preliminary examination, those brokers whose cumulative reversal differences exceeded Rs.25 lakhs or those who had undertaken more than 20 reversal transactions during the period -January 2007 to March 2007 were short listed. The reversal differences were calculated on an approximate basis by taking into consideration the difference in prices for the first and the subsequent

counter trades The transactions undertaken are discussed herein under 2.4 Findings with respect to brokers who were seen to have been transacting on both sides of the transactions in Options and Futures contract: The findings of the preliminary examination brought out the following 5 brokers in this regard.

No Kumar Share Brokers Ltd. -- CPR Capital Services Ltd. 16.25 SMC Global Securities Ltd. 26.09 Khandwala Int. Fin. Ser P Ltd 23.93 Shilpa Stock Brokers P Ltd. -- Total Legends: COD - Close out /Reversal difference (Rs. lacs) NR - Number of Reversal transaction 2.5 The total COD across 5 brokers is Rs. 293.25 and has witnessed a sharp increase over the months January to March 2007. This trend may continue if unchecked. It is noted from the above table that stock broker - Kumar Share Brokers Ltd has undertaken 112 reversal transactions in the month of March 2007 resulting in an aggregate close out difference of Rs 19.86 lakhs. This broker has undertaken maximum no of reversals during the period - 112 out of a total of 215 reversals.

The total COD across 5 brokers is Rs 293.25 lakhs across 215 reversals.

These reversals were seen to have been carried out across the F & O segment and mostly in stock futures, stock options and index options.

2.6 Similarly, broker -CPR Capital Services Ltd has undertaken 43 reversals across the period resulting in an aggregate close out difference of Rs 54.48 lakhs. Broker -SMC Global Securities Ltd. has undertaken 26 reversals across the period resulting in an aggregate close out difference of Rs 73.34 lakhs. Broker - Khandwala Int. Fin. Ser P Ltd has undertaken 18 reversals across the period resulting in an aggregate close out difference of Rs 100.48 lakhs. Broker -Shilpa Stock Brokers Pvt. Ltd. has undertaken 16 reversals across the period resulting in an aggregate close out difference of Rs 45.09 lakhs.

2.7 It has further been brought out that such reversal transactions comprised as high as 50% of the market volume and on many occasions, it even comprised 100% of the total market volume in the market segment in the particular instrument for the day. Transactions were carried out in options in a large number of scrips across the market. Transactions were also seen to be carried out mostly in illiquid

options, i.e.

options where transactions of few identified brokers made up almost the entire trading volume. Similar pattern was noticed in stock futures and index options as well. For the purpose of explanations, illustrative reversal transactions undertaken by the aforesaid brokers during the entire period which comprised significant percentage (50% to 100%) of the market volume or which were reversed during a very short span of time are given below

2.8 Details transactions of selected brokers:

2.8.1 Kumar Share brokers Ltd. The total close out /reversal difference is Rs. 19.86 lakhs across 112 reversals done during the month of March 2007. All the above transactions were done on behalf of clients.

Illustrative transaction is given below

Transactions in UTI bank American Type put option (39171UTIBANK39198PA490) carried out on 30/3/07 for expiry on 26/4/07 -	COD	Rs	54000	Buy	Strike	Price	Trade	Time (hh:mm:ss)	Trade	Price	Rs	Cash	Seg		
Price	Rs	Trade	Qty	%to	Mkt	Gross	Traded	Value	Rs	Sell	Client	Name	Buy	Client	Name
490	Ruchi	mehrotra	Poonam	Narendra	chaudhary	490	Poonam	Narendra	Chaudhary	Ruchi	Mehrotra	Total	From the above table it may be observed that broker Kumar Shares has dealt on behalf of its clients Ruchi Mehrotra and Poonam Narendra Chaudhary. The broker has initially entered into a buy transaction for 4500 options @Rs. 15 for his client Poonam Narendra Chaudhary and sell transaction for client Ruchi Mehrotra at 15:15:32 hrs and after 23 seconds i.e. 15:15:55 hrs , the broker has reversed the positions for the clients (closed out their respective positions) @ a price Rs 3. The close out difference is Rs 54000 (Rs 15 less Rs 3 times 4500 # of options).		

It is also pertinent to note that there was no change in the price of underlying when both the transactions were undertaken and it remained at Rs 489.2. It was also observed that these transactions constituted 100% of the market volume in that particular contract at the exchange for the day.

Similar other transactions were carried out by the broker for other clients during the period which are summarised below

Trade	Date	Buy	Expiry	Date	Buy	Option	Type	Trade	Quantity (buy +Sell)	total	% to	Market	Gross	CLOSE	OUT	DIFFERENCE (Rs.)
21-Mar-07	19,86,670	It is noted from the above table that the														

broker has transacted in as many as 23 options contracts (both call and put) in the month of March 2007. It is further observed that gross traded quantity by the broker is usually a significant percentage (more than 90%) of market gross quantity on that date.

2.8.2 CPR Capital Services Ltd. The total close out difference is Rs. 54.49 lakhs across 43 reversals done during the period January to March 2007. Illustrative transactions are given below

Transactions in BEML stock futures (39135BEML39198) carried out on 22/2/07 for expiry on 26/4/07 - COD Rs 310000	Trade Time (hh:mm:ss)	Trade Price Rs	Cash Seg Price Rs	Trade Qty	%to Mkt
Gross Traded Value Rs	Buy Client Name	Sell Client Name	12:50:02	Gaurav verma	Suresh bharrat
12:54:54	Suresh bharrat	Gaurav verma	Total	From the above table, it may be observed that broker CPR Capital Services has dealt on behalf of its clients Gaurav Verma and Suresh Bharrat. The broker has initially entered into a buy transaction for 5000 stock futures @Rs. 1148 for his client Gaurav Verma and sale transaction for client Suresh Bharrat at 12:50:02 hrs and after 4 min & 52 seconds i.e. 12:54:54 hrs, the broker has reversed the positions (closed out their respective positions) @ a price Rs 1210. The close out difference is Rs 310000 (Rs 1210 less Rs 1148 times 5000 # of Stock futures).	

It is also pertinent to note that there was no significant change in the price of underlying when both the transactions were undertaken and it remained at level of Rs 1165-1166.95. It was also observed that these transactions constitute 95.24% of the market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the broker for other clients during the period are summarised below

Trade Date	Expiry Date	Option Type	Trade Qty	% to Market	Gross	Close out diff
11-Jan-07	KTKBANK	(140)	25-Jan-07	KTKBANK	(150)	25-Jan-07 5449412.50

It is seen from the above table that the broker has transacted in 2 options contracts and 29 stock futures' contracts during the period January to March 2007. It is also noted that gross traded quantity by the broker is usually a significant percentage (more than 90%) of market gross quantity on that date.

2.8.3 SMC Global Securities Ltd. The total close out difference is Rs. 73.35 lakhs across 26 reversals during the period January to March 2007. All the above transactions were done on behalf of clients. Illustrative transactions are given below

Transactions in PNB Ltd - stock futures (39148PNB39233FF0)	carried out on 7/3/2007 for expiry on 31/5/2007 - COD Rs 46200	Trade Time (hh:mm:ss)	Trade Price Rs	Cash Seg Price Rs	Trade Qty	% to Mkt	Gross Traded Value Rs
Buy Client Name	Sell Client Name	14:05:30	Daga Indra Kumar	Mall Shiw Narayan			
		14:05:39	Mall Shiw Narayan	Daga Indra kumar			

Total From the above table it may be noted that broker SMC Global Securities has dealt on behalf of its clients Daga Indra Kumar and Mall Shiw Narayan. The broker has initially entered into a buy transaction for 600 stock futures @Rs. 391 for his client Daga Indra Kumar and sale transaction for client Mall Shiw Narayan at 14:05:30 hrs and after only 9 seconds i.e. 14:05:39 hrs , the broker has reversed the positions (closed out their respective positions) @ a price Rs 468. The close out difference is Rs 46200 (Rs 468 less Rs 391 times 600 # of Stock futures).

It is also pertinent to note that there was no significant change in the price of underlying when both the transactions were undertaken and it remained at levels of Rs 423-423.45. It was also seen that these transactions constituted 100% of the market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the broker for other clients during the period are summarised below

Trade Date	Expiry Date	Option Type	Trade Qty	%to Market	Gross	Close out diff
5-Jan-07	7335715					

It is seen from the above table that the broker has transacted in 2 options contracts and 21 stock futures' contracts during the period January to March 2007. It is also noted that gross traded quantity by the broker is usually a significant percentage (more than 50%) of market gross quantity.

2.8.4 Khandwala Integrated Financial Services Ltd (KMPL).

The total close out difference is Rs 100.48 lakhs across 18 reversals done during the period January to March 2007. All the above transactions were done on behalf of clients. Illustrative transactions are given below

Transactions in Ultra Cement Company Ltd - stock futures	carried out on 23/1/07 for expiry on 29/3/2007 - COD
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Rs 1030000 Trade Time (hh:mm:ss) Trade Price Rs Cash Price Rs Trade %to Mkt
 Gross Traded Value Rs Buy Client Name Sell Client Name 11:52:34 Shah Chirag
 Kirtikumar Jaykumar Kamleshkumar Shah 15:10:36 Jaykumar Kamleshkumar
 Shah Shah Chirag kirtikumar Total From the above table it may be noted that
 broker Khandwala Integrated Finance has dealt on behalf of its clients Shah
 Chirag Kirtikumar and Jaykumar Kamlesh Kumar Shah. The broker has initially
 entered into a buy transaction for 10000 stock futures @Rs. 1158 for his client
 Shah Chirag Kirtikumar and sale transaction for client Jaykumar Kamleshkumar
 Shah at 11:52:34 hrs. Thereafter, at 15:10:36 hrs, the broker has reversed the
 positions (closed out their respective positions) @ a price Rs 1055. The close out
 difference is Rs 1030000 (Rs 1158 less Rs 1055 times 10000 # of Stock futures).

It is also pertinent to note that there was no significant change in the price of
 underlying when both the transactions were undertaken and it remained at Rs
 1061-1062.85. It was also seen that these transactions constituted 100% of the
 market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the broker for other clients during the
 period are summarised below Trade Date Expiry Date Option Type Trade Qty % to
 Market Gross Close out diff 23-Jan-07 10048811.30 It is seen from the above
 table that the broker has transacted in 18 stock futures' contracts during the period
 January to March 2007. It is also noted that gross traded quantity by the broker is
 usually a significant percentage (more than 50%) of market gross quantity.

2.8.5 Shilpa Stock Brokers Pvt. Ltd. The total close out difference is Rs 45.09
 lakhs across 16 reversals done during the period January to March 2007. All the
 above transactions were done on behalf of clients. Illustrative transactions are
 given below Transactions in Bongaigoan Refineries
 (39163BONGAIREFN39233FF0) stock futures carried out on 22/3/07 for expiry on
 31/5/2007 - COD Rs 74,250 Trade Time (hh:mm:ss) Trade Price Rs Cash Seg
 Price Rs Trade Qty %to Mkt Gross Traded Value Rs Buy Client Name Sell Client
 Name 13:04:44 Nehas patni P k s holdings 14:09:33 P k s holdings Nehas patni
 Total From the above table it may be observed that broker has dealt on behalf of
 its clients Neha S Patni and P K S Holdings. The broker has initially entered into a

buy transaction for 22500 stock futures @Rs. 41.1 for his client Neha s Patni and sale transaction for client P k s holdings at 13:04:44 hrs. Thereafter, at 14:09:33 hrs, the broker has reversed the positions (closed out their respective positions) @ a price Rs 44.4. The close out difference is Rs 74250 (Rs 44.4 less Rs 41.1 times 22500 # of Stock futures).

It is also pertinent to note that there was no significant change in the price of underlying when both the transactions were undertaken and it remained at Rs 42.15-42.1. It was also seen that these transactions constituted 58.82% of the market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the broker for other clients during the period are summarised below

Trade Date	Buy Expiry Date	Buy Option Type	Trade Quantity	%to Market	Gross CLOSURE	OUT DIFFERENCE
23-Mar-07			4,509,892			

It is seen from the above table that the broker has transacted in 16 stock futures' contracts during the period January to March 2007. It is also seen that gross traded quantity by the broker is usually a significant percentage (more than 30%) of market gross quantity.

2.9 Findings with respect to brokers who were seen to have been transacting on one side i.e., with different counter party brokers: As indicated, earlier it was also observed that transactions were carried out where the counterparty brokers are different. Details of brokers who have undertaken such transactions during the period January to March 2007 resulting in COD in excess of Rs 25 lakhs or those who had undertaken more than 20 reversal transactions is given below:

No Ashika Stock Broking Limited	2.24
Vibrant Securities Pvt. Ltd.	14.8
Systematix Shares & Stk (India) Ltd	14.8
Angel Capital & Debt Market Lt	33.6
Steel City Securities Ltd.	25.71
Indiabulls Securities Ltd.	6.91
Prashant Jayantilal Patel	118.58
Psj Securities P td.	

0.76 Manu Stock Broking (P) Ltd 33.7 Pratibhuti Vinihit Ltd. 39.27 Total The total COD across 10 brokers is Rs. 752.78 and has witnessed a sharp increase over the months January to March 2007. This trend may continue if unchecked. It is noted from the above that stock Broker -Ashika Stock Broking Limited has undertaken 73 reversals across the period resulting in an aggregate close out

difference of Rs 154.98 lakhs. The total COD across 10 brokers is Rs 752.78 lakhs. These reversals were seen to have been carried out across the F & O segment and mostly in stock futures, stock options and index options.

2.10 Similarly, broker -Vibrant Securities Pvt. Ltd has undertaken 66 reversals across the period resulting in an aggregate close out difference of Rs 158.56 lakhs. Broker -Systematix Shares & Stk (India) Ltd has undertaken 62 reversals across the period resulting in an aggregate close out difference of Rs 43.85 lakhs. Broker - Angel Capital And Debt Market Limited has undertaken 56 reversal transactions in the month of March 2007 resulting in an aggregate close out difference of Rs 33.6 lakhs. Broker -Steel City Securities Ltd has undertaken 42 reversals across the period resulting in an aggregate close out difference of Rs 25.71 lakhs. Broker -Indiabulls Securities Ltd has undertaken 23 reversals across the period resulting in an aggregate close out difference of Rs 35.43 lakhs. Broker -Prashant Jayantilal Patel has undertaken 19 reversals across the period resulting in an aggregate close out difference of Rs 118.58 lakhs.

Broker -PSJ Securities Pvt. Ltd has undertaken 16 reversals across the period resulting in an aggregate close out difference of Rs 45.35 lakhs. Broker -Manu Stock Broking (P) Ltd. has undertaken 14 reversals across the period resulting in an aggregate close out difference of Rs 97.45 lakhs. Broker -Pratibhuti Vinihit Ltd. has undertaken 10 reversals across the period resulting in an aggregate close out difference of Rs 39.27 lakhs.

2.11 It has further been brought out that such close out/reversal transaction comprised as high as 50% of the market volume and on many occasions, it even comprised 100% of the total market volume in the market segment in the particular instrument for the day. Transactions were carried out in options in a large number of scrips across the market. Transactions were also seen to have been carried out mostly in illiquid options, i.e. options where transactions of few identified brokers made up almost the entire trading volume. Similar pattern was observed in stock futures and index options as well. For the purpose of explanations, illustrative reversal transactions undertaken by the above brokers during the entire period which comprised significant percentage (50% to 100%) of the market volume

during a very short span of time are given below 2.11.1 Ashika Stock Broking Ltd and Manu Stock Brokers Ltd. Ashika Stock Broking Limited (dealing in Stock Options) has undertaken 73 reversals across the period resulting in an aggregate close out difference of Rs 154.98 lakhs. Further, Manu Stock Broking (P) Ltd. has undertaken 14 reversals across the period resulting in an aggregate close out difference of Rs 97.45 lakhs.

Illustrative Transactions by Ashika and Manu Stock broking in Triveni Engineering Stock Futures (39143TRIVENI39198FF0) executed on 2/3/07 for expiry on 26/4/07 - COD Rs 587,125 Trade Time (hh:mm:ss) Trade Price Rs Cash Price Rs Trade Qty %to Mkt Gross Traded Value Rs Buy broker Name Sell broker Name Buy Client Name Sell Client Name 13:22:49 Manu Stock Broking (P) Ltd Ashika Stock Broking Limited Manu Vyapar Pvt. Ltd. Amit Business Ltd 13:23:24 Ashika Stock Broking Limited Manu Stock Broking (P) Ltd Amit Business Ltd Manu Vyapar Pvt. Ltd. 385,000.00 From the above table, it may be observed that the buying broker - Manu Stock Broking has dealt on behalf of its clients M/s Manu Vyapar. The broker has entered into a buy transaction for 192500 stock futures @Rs. 44.25 for his client at 13:22:49 hrs. The selling broker is Ashika Stock Broking Limited who is selling for client Amit Business Ltd. Immediately after 35 seconds i.e. at 13:23:24 hrs, the transactions are reversed with the same counterparty broker /client for the same quantity but for a price of Rs 47.3. The close out difference is Rs 587,125 (Rs 47.3 less Rs 44.25 times 192500 # of futures).

It is also pertinent to note that there was no change in the price of underlying when both the transactions were undertaken and it remained at Rs 45-45.05. It was also seen that these transactions constituted 48.54% of the market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the brokers for other clients during the period are summarised below Summary of transactions of Ashika Stock Brokers Trade Date Expiry Date Option Type Trade Qty %to Market Gross Close out diff 22-Jan-07 15498906 It is seen from the above table that the broker has transacted in 43 options /futures during the period January to March 2007. It is also noted that gross traded quantity by the broker is usually a significant percentage (more than

50%) of market gross quantity.

Summary of transactions of Manu Stock Broking Trade Date Expiry Date Option Type Trade Qty %to Market Gross Close out diff 27-Feb-07 9745650 It is seen from the above table that the broker has transacted in 10 stock futures' contracts during the period February to March 2007. It is also noted that gross traded quantity by the broker is usually a significant percentage (around 50%) of market gross quantity on that date.

2.11.2 Vibrant Securities Pvt. Ltd. and Systematix Shares And Stocks (India) Limited : For broker - Vibrant Securities, the total close out difference is Rs. 158.56 lakhs across 66 reversal done during month of February 2007 and March 2007. For broker - Systematix Shares, the total close out difference is Rs.43.85 lakhs across 62 reversals done.

Illustrative Transactions by brokers - Vibrant and Systematix in GDL Call Options (39142GDL39170CA160) executed on 1/3/07 for expiry on 29/3/07 -COD Rs 115000 Buy Strike Price Trade Time (hh: mm:ss) Trade Price Rs Cash Seg Price Rs Trade Qty %to Mkt Gross Traded Value Rs Buy Broker Selling brokers Buy Client Name Sell Client 160 Vibrant Securities Pvt. Ltd. Systematix Shares And Stocks M/S. Lila Bros.

Kashinath R Pednekar Huf 160 Systematix Shares & Stocks Vibrant Securities Pvt. Ltd. Kashinath R Pednekar Huf M/S. Lila Bros.

Total From the above table, it may be observed that the broker - Vibrant has dealt on behalf of its clients M/s. Lila Bros. The broker has entered into a buy transaction for 10000 options @Rs. 15 for his client at 12: 24: 20 hrs. The selling broker is M/s Systematix who is selling for client Kashinath Pednekar-HUF. Thereafter at 13:10:06 hrs, the transactions are reversed with the same counterparty broker /client for the same quantity but for a price of Rs 5.5. The close out difference is Rs 115000 (Rs 17 less Rs 5.5 times 10000 # of options).

It is also pertinent to note that there was no change in the price of underlying when both the transactions were undertaken and it remained at Rs 162.9-163.3. It was

also seen that these transactions constituted 88.5% of the market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the brokers for other clients during the period are summarised below Summary of transactions of Broker Vibrant Securities Ltd. Trade Date Expiry Date Option Type Trade Qty %to Market Gross Close out diff 1-Feb-07 15,865,767 It is seen from the above that the broker has dealt in 14 stock option and 2 stock futures contract during the months of February and March 2007. Further, brokers' transactions comprised a significant percentage of exchange volume in that contract on that day.

Summary of transactions of Broker - Systematic Corporate Services Ltd. Trade Date Expiry Date Option Type Trade Qty %to Market Gross Close out diff 1-Feb-07 4,398,741 It is seen from the above table that the broker has transacted in 1 stock futures' contracts and 21 stock options during the period January to March 2007. It is also noted that gross traded quantity by the broker is usually a significant percentage (more than 50%) of market gross quantity.

2.11.3 Angel Capital And Debt Market Limited and Steel City Securities Ltd For broker - Angel, the total close out difference is Rs. 33.6 lakhs done during the month of March 2007 across 56 reversals done.

Broker - Steel City Securities Ltd. has undertaken a total of 42 reversals across the period resulting in an aggregate close out difference of Rs 25.71 lakhs.

Illustrative Transactions by Angel and Steel City in HPCL call options (39171HINDPETRO39198CA240) executed on 30/3/07 for expiry on 26/4/07 - COD Rs 139100 Trade Time (hh:mm:ss) Trade Price Rs Cash Seg Price Rs Trade Qty %to Mkt Gross Traded Value Rs Buy Broker Selling brokers Buy Client Name Sell Client 11:20:58 Angel Capital and Debt Market Limited Steel City Securities Ltd. Subham Developers Hari Prasad Rathi 14:40:39 Steel City Securities Ltd. Angel Capital and Debt Market Limited Hari Prasad Rathi Subham Developers Total From the above table it may be observed that the broker - Angel has dealt on behalf of its clients Subham developers. The broker has entered into a buy transaction for 13000 options @Rs. 24.9 for his client at 11:20:58 hrs. The selling

broker is Steel city Securities Ltd who is selling for client Hari Prasad Rathi. Thereafter at 14:40:39 hrs, the transactions are reversed with the same counterparty broker /client for the same quantity but for a price of Rs 14.2. The close out difference is Rs 139100 (Rs 24.9 less Rs 14.2 times 13000 # of options).

It is also pertinent to note that there was no change in the price of underlying when both the transactions were undertaken and it remained at Rs 245.8-248.8. It was also seen that these transactions constituted 50% of the market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the brokers for other clients during the period and are summarised below

Summary of transactions by Angel Stock Broking	Trade Date	Expiry Date	Option Type	Trade Quantity	%to Market	Gross COD
	3,360,257.50					

It is seen from the above that the broker has transacted in 43 stock options (both call as well as put options) during the period. Further, broker's transactions usually comprise significant percentage (more than 90%) of the day's traded volume in that segment.

Summary of transactions by Steel City Securities Ltd.

Trade Date	Buy	Expiry Date	Buy Option Type	Trade Quantity	%to Market	Gross CLOUSE OUT DIFFERENCE
1-Mar-07	2,538,810					

It is seen from the above that the broker has transacted in 29 stock options (both call as well as put options) during the period. Further, broker's transactions usually comprised significant percentage (around 50%) of the day's traded volume in that segment.

2.11.4 Pratibuti Vinihit Ltd. and PSJ Securities Broker -PSJ Securities Pvt. Ltd. has undertaken 16 reversals across the period resulting in an aggregate close out difference of Rs 45.35 lakhs. Broker -Pratibhuti Vinihit Ltd. has 22 undertaken 10 reversals across the period resulting in an aggregate close out difference of Rs 39.27 lakhs.

Illustrative Transactions by the brokers for Zee Telefilms Stock Futures (39167ZEEL39233FF0) executed on 26/3/07 due for expiry on 31/5/07 -COD Rs 448000

Trade Time (hh:mm:ss)	Trade Price Rs	Cash Price Rs	Trade Qty	%to Mkt	Gross Traded Value Rs	Buy broker Name	Sell broker Name	Buy Client Name	Sell
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Client Name 11:41:54 Psj Securities Pvt. Ltd. Pratibhuti Vinihit Ltd. Tungarli Tradeplace P Ltd Pratibhuti Vinihit Ltd 11:42:09 Pratibhuti Vinihit Ltd. Psj Securities Pvt. Ltd. Pratibhuti Vinihit Ltd Tungarli Tradeplace P Ltd Total From the above table it may be observed that the buying broker - PSJ Securities has dealt on behalf of its clients M/s Tungarli Tradeplace Private Limited. The broker has entered into a buy transaction for 14000 stock futures @Rs. 220 for his client at 11:41:54 hrs. The selling broker is Pratibhuti Vinihit Ltd. who is selling on own account. Immediately after 15 seconds i.e. at 11:42:09 hrs, the transactions are reversed with the same counterparty broker /client for the same quantity but for a price of Rs 252 The close out difference is Rs 448000 (Rs 252 less Rs 220 times 14000 # of futures).

It is also pertinent to note that there was no change in the price of underlying when both the transactions undertaken and it remained at Rs 22.73. It was also observed that these transactions constitute 45.45% of the market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the brokers for other clients during the period are summarised below Summary of transactions of Broker - Pratibhuti Vinihit Ltd. Trade Date Buy Expiry Date Buy Option Type Trade Quantity %to Market Gross CLOSE OUT DIFFEREN-CE 26-Mar-07 3,927,200 It is seen from the above that the broker has transacted in 8 stock futures' contracts in the month of March 2007 all due for expiry on 31.5.07. It is also noted that gross traded quantity by the broker is usually a significant percentage (around 30%) of market gross quantity on that date.

Summary of transactions of Broker PSJ Securities Trade Date Buy Expiry Date Buy Option Type Trade Quantity %to Market Gross CLOSE OUT DIFFEREN-CE 26-Mar-07 45,36,130 It is seen from the above that the broker has transacted in 14 stock futures' contracts during the months of February and March 2007.

Contracts were /are due for expiry towards the end of March, April and May 2007. It is also noted that gross traded quantity by the broker is usually a significant percentage (around 30%) of market gross quantity on that date.

2.11.5 Prashant J Patel Prashant Jayantilal Patel has undertaken 19 reversals across the period resulting in an aggregate close out difference of Rs 118.58 lakhs.

Illustrative Transactions by the broker in Bank of India Call options (39170BANKINDIA39170CA155) executed on 29/3/07 for expiry on 29/3/07-COD Rs 102600 Trade Time (hh:mm:ss) Trade Price Rs Cash Price Rs Trade Qty % to Mkt Gross Traded Value Rs Buy broker Name Sell broker Name Buy Client Name Sell Client Name 10:52:35 Prashant Jayantilal Patel Prashant Jayantilal Patel Nikunj Mehta Huf Nasdaq Securities 11:24:37 Prashant Jayantilal Patel Prashant Jayantilal Patel Nasdaq Securities Nikunj Mehta Huf Total From the above table, it may be observed that the buying broker - P J Patel has dealt on behalf of its clients Nikunj Mehta Huf and Nasdaq Securities. The broker has entered into a buy transaction for 5700 stock options @Rs. 3 for his client -at 10:52:35hrs. The broker is appearing on both sides of the transaction. Thereafter, at 11:24: 37 hrs, broker is reversing the transactions for the same set of clients but for a price of Rs 21 The close out difference is Rs 102600 (Rs 21 less Rs 3 times 5700 # of options).

It is also pertinent to note that there was no change in the price of underlying when both the transactions were undertaken and it remained at Rs 169.7-170.1. It was also seen that these transactions constituted 100% of the market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the brokers for other clients during the period are summarised below Trade Date Buy Expiry Date Buy Option Type Trade Quantity %to Market Gross CLOSE OUT DIFFERENCE 20-Mar-07 1,18,58,795 It is seen from the above that the broker has transacted in 8 options contracts during the month of March 2007. Further, the transactions usually comprised a significant percentage of the market volume (more than 50%) on that date.

2.11.6 Indiabulls Securities Ltd Broker -Indiabulls Securities Ltd has undertaken 23 reversals across the period resulting in an aggregate close out difference of Rs 35.43 lakhs Illustrative Transactions for broker Indiabulls Securities in Bank Nifty futures executed on 29/1/07 due for expiry on 26/4/07-COD Rs 600050 Trade

Time (hh:mm:ss) Trade Price Rs Cash Price Rs Trade Qty %to Mkt Gross Traded Value Rs Buy broker Name Sell broker Name Buy Client Name Sell Client Name
 10:40:04 Indiabulls Securities Ltd. Lohia Securities Limited Sree Rama Chandra Lohia Securities Ltd-Pro
 10:40:21 Lohia Securities Limited Indiabulls Securities Ltd. Lohia Securities Ltd-Pro Sree Rama Chandra 1000

From the above table it may be observed that the buying Indiabulls Securities has dealt on behalf of its clients Sree Ram Chandra and entered into a buy transaction for 500 Bank Nifty Futures @Rs. 6873.6 for his client -at 10:40:04 hrs. The selling broker is Lohia Securities trading on self account. Immediately after 17 seconds, i.e. at 10:40: 21 hrs, brokers are reversing the transactions for the same set of clients but for a price of Rs 5673.50. The close out difference is Rs 600050 (Rs 6873.60 less Rs 5673.50 times 500 # of futures).

It is also pertinent to note that there was no significant change in the price of underlying when both the transactions undertaken and it remained at levels Rs 1090-1115.75. It was also noted that these transactions constitute 50% of the market volume in that particular contract at the exchange for the day.

Similar other transactions carried out by the brokers for other clients during the period are summarised below

Trade Date	Expiry Date	Option Type	Trade Qty	% to Market	Gross	Close out diff
29-Jan-07			35,44,450			

It is seen from the above that the broker has transacted in 23 futures /options contracts during the month of March 2007. Further, the transactions usually comprised a significant percentage of the market volume (more than 50%)

2.12 The above transactions are only illustrative in nature and there are a series of such similar transactions which were undertaken by the 20 brokers mentioned earlier during the examination period for several clients. As with the illustrative transactions, the other transactions also comprised a major portion of the market volume in that option contract, were reversed within a short time period of each other. In many cases, synchronisation in order entry was also not needed since the contracts were in illiquid options and hence buyer could get desired seller and vice versa and there was no chance of the orders being matched with any other third party. Further, the reversals took place at significant variation (there was huge price difference in the buy order and the subsequent close/out -sale order) to each other with little or no price change in

the underlying.

2.13 Client wise analysis 2.13.1 Based on the information provided by the exchange, a client level analysis was carried out. For the purpose of preliminary examination, those clients whose closeout difference was Rs 30 Lacs or more during the period were short listed. The details of shortlisted client are given as under: S. No Client Name Client Address No Of Trade COD (Rs. Lac) PAN No. Kasam Holding Pvt. Ltd. 60, Swastik Plaza, 2nd Floor, V.L. Mehta Road, Next To Kala Niketan, Juhu, Vileparle (W), Mumbai.

54 Rakhi Trading Pvt Ltd 61/62, 4th Floor, 109, Gaya Bldg, Y M Road, Masjid Bunder (W), Mumbai 14 Manu Vyapar Pvt. Ltd. 21, Hemant Basu Sarani Centre Point Kolkata 12 Amit Business Ltd 113 NS Road 4th Floor Kolkata 9 Shah Chirag Kirtikumar 309, Silver Point, New Station Road, Bhuj-Katch 8 Suresh Bharrat C-2/7, Janak Puri, New Delhi 42 Raj Corporation B/54,, Pariseema Complex, C.G Road Ahmedabad 6 Tungarli Tradeplace Private Limited Bldg No.32, 1st Floor, Rajabahadur Mansion, Apollo Street, Fort, 14 TLB Securities Pvt. Ltd. 72-A, Mittal Tower 210, Nariman Point, Mumbai, maharashtra 10 Pratibhuti Vinihit Ltd 15-A, 3rd Floor, 28 Rajabahadur Mansion, Mumbai Samachar Marg, Fort, Mumbai Amar Mukeshbhai Shah Opp Cloth Market, Tanki Chowk, Surendranagar.

3 The transactions of the short listed clients are detailed herein under: a) Transactions of client Kasam Holding P Ltd. (KHPL) Trade Date Archjit Proj Mgm Consult P. Ltd 7-Feb-07 Daksha H Parekh 7-Feb-07 Anju Khandelwal 8-Feb-07 Anju Khandelwal 8-Feb-07 G.D. Khandelwal 19-Feb-07 Pinky Vijay Shah 20-Feb-07 Bharti V Parekh 20-Feb-07 Jinal Rajiv Parekh 20-Feb-07 Popatlal J Shah 20-Feb-07 Varsha P Shah 28-Feb-07 Ashok P Shah 28-Feb-07 Bhavana A Shah 28-Feb-07 Neena G Shah 21-Feb-07 Bharti V Parekh 21-Feb-07 Varsha P Shah 21-Feb-07 Popatlal J Shah 21-Feb-07 Pinky Vijay Shah 21-Feb-07 Jinal Rajiv Parekh 27-Feb-07 Devki G Kewani 2-Mar-07 Devang R Suchde 6-Mar-07 Ashish N Parikh 7-Mar-07 Himanshu V Parikh Huf 9-Mar-07 Ashish N Parikh 16-Mar-07 Metro Consultancy Manish Arvind Parikh 21-Mar-07 Shanti Investments Corporation Vikas S Shah 23-Mar-07 Ashish N Parikh 9-Mar-07 Ashish N Parikh 5-Mar-07 Devang R Suchde 7-Feb-07 G.D. Khandelwal 20-Feb-07 Harendra J Parekh 5-

Mar-07 Kashinath R Pednekar Huf 22-Mar-07 Kruti Chirag Shah 12-Mar-07 Metro Consultancy Manish A Parikh 21-Mar-07 Kaynet Finance Limited Shah Paresh A 7-Feb-07 Vijay J Parekh 13634917 Legend: ED - Expiry Date; OT-Option Type; GTQ - Gross Traded Quantity; %MG -% to Market Gross; TM -Trading broker; CTM-Counter Trading broker; CCN -Counter party Client SSIL-Systematix Shares And Stocks (India) Limited; KHPL-Kasam Holding Pvt. Ltd ; VSPL-Vibrant Securities P Ltd; PJP-Prashant J Patel; It is seen from the above table that client Kasam Holding Pvt. Ltd has traded in a total of 51 contracts during the months of February & March, 2007. The total close out difference for the above transactions was Rs.136.34 (Negative). It is also noted that all transactions of KHPL resulted into loss and in total it has made a loss of Rs.136.34 lacs. The client has dealt through the broker Vibrant Securities Pvt Ltd. b) Transactions of client - Rakhi Trading P Ltd. (RTPL) Trade Date Total Legend: PJP- Prashant Jayantilal Patel; VSL - Vibrant Securities Pvt.

Ltd; SSPL- Spark Securities Pvt Ltd; JSL-Jindal Stainless Ltd. It is seen from the above that Client Rakhi Trading Pvt Ltd has traded in month of March, 2007 in a total of 14 contracts. The Total COD is Rs 11579312.5 ((positive). It is further noted that all transactions of RTPL have resulted into profit and in total it has made a profit of Rs.115.79 lacs. The client has dealt through the broker Prashant Jayantilal Patel.

c) Transactions of client - Manu Vyapar P Ltd Trade Date Product Type GTQ CHAM BL FERT 4/26/07 NICOL ASPIR 4/26/07 Total 9762600 Legend : MSBL- Manu Stock Broking (P) Ltd; ASBL-Ashika Stock Broking Limited ; MVPL- Manu Vyapar Pvt. Ltd.; ; ABL-Amit Business Ltd; YVPL -Yashman Vyapaar Pvt Ltd. ED- Expiry date.

It is seen from the above table that client Manu Vyapar Pvt. Ltd has traded in a total of 12 contracts during the months of February & March, 2007. The Total COD for the above transactions was Rs9762600 (positive). It is also noted that all transactions of Manu Vyapar have resulted into profit and in total it has made a profit of Rs.97.62 lacs. The client has dealt through the broker Manu Stock Broking (P) Ltd. d) Transaction of Client Amit Business Ltd (ABL) Trade Date Expiry Date

OT 7,191,575 Legends: ASBL -Ashika stock broking limited; MSB(P)L -Manu stock broking (p) ltd; DSL -Destiny securities ltd; ESVPL -Exim scrips vanijay Pvt ltd; MVPL -Manu vyapar pvt. Ltd It is seen from the above table that client Amit Business Ltd has traded in a total of 8 contracts during the months of February and March 2007. The total COD for the above transactions was Rs. 7191575 (negative). It is further noted that these transactions have resulted into losses of Rs.71.19 Lacs for Amit Business. The client has dealt through the broker Ashika stock broking limited and Destiny securities ltd. It is also noted that the counterparty broker for these transactions were the same.

e) Transactions of client -Shah Chirag Kirtikumar (SCK) Trade Date Ashok K Sanghvi 23-Jan-07 Jaykumar K Shah 31-Jan-07 Amar M Shah 1-Feb-07 Amar M Shah 1-Feb-07 Navkar Investment Consul 2-Feb-07 Anil B Thacher 6-Feb-07 Amar M Shah 7-Mar-07 Raj Corporation 6728800 It is seen from the above table that client Shah Chirag Kirtikumar has traded in a total of 8 contracts during the months of January & February, 2007. The total COD for the above transactions was Rs.6728800 (negative). It is further noted that these transactions have resulted into losses of Rs.67.28 Lacs for Shah Chirag Kirtikumar. The client has dealt through the broker Khandwala Integrated Financial Services P Ltd f) Transaction of Client Suresh Bharrat Trade Date Expiry Date OT Subhash Malik Huf 25-Jan-07 Subhash Malik Huf 25-Jan-07 Meenu Singhal 21-Feb-07 Gaurav Verma 23-Feb-07 Mukund Singhal 26-Feb-07 Niraj K Mittal (Huf) 5-Mar-07 Mam Chand Yadav 9-Mar-07 5305412 Legend: CPR -CPR Capital Services Ltd ; RA - Ramesh Ahuja; VK -Vikas Ku3 Mittal; TM-Tina Mittal; OPC -Om Prakash Chawl ; SS -Sudarshan Ku3 Sachdeva; MG -Mahesh K Gupta; NU -Naveen Uppal & Sons Huf; MG -Mohit Goel ; Jagdish Rai Mittal (Huf)-JRM It is seen from the above table that client Suresh Bharrat has traded in a total of 27 contracts during the months of January, February and March 2007. The total COD for the above transactions was Rs.5305412 (negative). It is further noted that these transactions have resulted into losses of Rs.53.05 Lacs for Suresh Bhagat. The client has dealt through the broker CPR Capital Services Ltd and the counterparty broker for these transactions were the same.

g) Transactions of client - Raj Corporation Ltd. Trade Date Expiry Date Pdt type TOTAL 4,060,690 Legend: KIFSL-Khandwala Integrated Financial Services P Ltd; RC -Raj Corporation; MLM - Mehul Lavji Mehta; VGS -Vaghjibhai Gagaldas Shah; SCK -Shah Chirag Kirtikumar It is seen from the above that client Raj Corporation Ltd has traded in months of March, 2007 in a total of 6 contracts. The total COD for the above transactions was Rs.4,060,690 (Positive). It is also noted that all transactions of Raj Corporation have resulted into profit and in total it has made a profit of Rs.40.60 lacs. The client has dealt through the broker Khandwala Integrated Financial Services P Ltd c) Transactions of client - Tungarli Tradeplace P Ltd Trade Date Damani Sec Ltd 23-Mar-07 3,927,200 Legend: PSJ-PSJ Securities Pvt. Ltd; PVL -Pratibhuti Vinihit Ltd.; TTPL-Tungarli Tradeplace Private Limited; VTPL-Vishvesh Trading Pvt Ltd It is seen from the above table that Client Tungarli Tradeplace Private Limited has traded in a total of 14 contracts during the month of March, 2007. The Total COD for the above transactions was Rs 3927200 (Positive). It is further noted that all transactions of TTPL have resulted into profit and in total it has made a profit of Rs.64.52 lacs. The client has dealt through the broker PSJ Securities Pvt. Ltd. f) Transactions of client - TLB Securities Ltd (TLB) Trade Date WOOCK PHARMA 29-3-07 FEDERAL BNK 3/29/07 Agarwala Sameer 6-2-07 Arvind A Goyal (Huf) 6-2-07 Goyal Reena Arvind 3869650 Legend: SMC - SMC Global Securities Ltd. It is seen from the above that client TLB Securities Pvt. Ltd has traded in a total of 10 contracts during the months of January & February, 2007. The total COD for the above transactions was Rs 3869650 (Negative). It is also noted that all transactions of TLB have resulted into loss and in total it has made a loss of Rs.40.60 lacs. The client has dealt through the broker SMC Global Securities Ltd. g) Transaction of Client - Pratibhuti Vinihit Ltd. (Broker proprietary account) 3,096,200 Legend: PSJ-PSJ Securities Pvt. Ltd.; PVL -Pratibhuti Vinihit Ltd.; TTPL-Tungarli Tradeplace Private Limited It is seen from the above table that broker (pro account) Pratibhuti Vinihit Ltd has traded in a total of 8 contracts during March 2007. The total COD for the above transactions was Rs.3096200. It is also noted that these transactions have resulted into loss of Rs.30.96 Lacs for the client.

h) Transactions of client -Amar Mukeshbhai Shah Trade Date Auro Pharma 29-3-07 3095000 Legend: KIFSL-Khandwala Integrated Financial Services P Ltd; SCK -

Shah Chirag Kirti Kumar It is seen from the above table that client Amar Mukeshbhai Shah has traded in a total of 3 contracts during the months of January & February, 2007. The total COD for the above transactions was Rs.3869650. It is also noted that these transactions have resulted into profit of Rs.38.69 Lacs for Amar Mukeshbhai Shah. The client has dealt through the broker Khandwala Integrated Financial Services P Ltd 3. Conclusion The findings of the preliminary examination as brought out (supra) indicate a carefully masterminded plan by brokers of the NSE to vitiate the integrity of the futures & option markets. The futures & options markets are still in a stage of infancy in India and are characterised by illiquidity and scarcity of trades in a vast majority of contracts except Nifty Index Futures.

The total turnover in options is only 10% of the total turnover in the F & O segment. For the months of January, February and March 2007, total turnover in the F&O segment was Rs 627456.29 cr, Rs. 703492.2 cr and Rs. 693762.85 crores respectively. Out of this, turnover in stock options was Rs. 19401.42 cr (3.1% of total F& O turnover), Rs. 16785.43 (2.4% of total F& O turnover) cr and 12105.9 crores (1.75% of total F& O turnover) respectively. Thus, the stock option market segment constitutes only around 1.75 % to 3% of the total F & O turnover. Also while relatively, the futures markets have more trading turnover, it is pertinent to note that this market has a long tail and only some contracts are liquid and tradable - Nifty futures and around 10 other stock futures. For the months of January to March 2007, the top 10 stock futures constituted as much as around 35% of the total stock futures turnover thereby indicating that the remaining 145 stock futures are not as liquid /tradable.

In such a situation, these options markets are highly susceptible to Market Manipulation with concomitant adverse effects on price discovery. It may be worthwhile to point out here that futures and Options are unique trading instruments. They can be used for multitude of purposes, providing tremendous versatility and utility. Among their multiple applications are the following: to speculate on the movement of an asset; to hedge an existing position in an asset; to hedge other option positions. Futures and options thus perform a crucial function of assisting in price discovery apart from safeguarding a portfolio of an

investor. However, as observed from the findings of the preliminary scrutiny, the brokers and clients have used an ingenious technique to take advantage of the nascent stage of the market and enjoy facile gains at the expense of the lay investors and vitiate entire integrity and utility of the market.

It was seen that the close out (reversal of trade) was being done either for the entire quantity of contract or substantially the same quantity with the same opposite party. However, the difference in the prices at which the above two trades were executed was very significant. It was also observed that these brokers who have been trading either on behalf of their clients (related as well as non-related) or on behalf of their own account have entered into synchronized/structured trades with each other. Further, on most of the occasions the buy order quantity and price was matched with sell order quantity and price. Moreover, it was observed that the buy orders and sell orders were placed within a difference of few seconds (numerous occasions the order times were matched to the exact second). Further, on various occasions when time was not matched by the respective parties, it was observed that the first order was placed at an unattractive price relative to market price. Additionally, it was also seen that one of the parties to the transactions apparently had a positive close out difference whereas the other party had a negative close out difference. Thus, one party has booked profit and other party has booked loss. The apparently matched transactions and their close out transactions were executed in various futures & option contracts on different underlyings. It is also pertinent to note that reversal/close-out transactions were executed at prices with significant variation within a short period though no major variation in the underlying price during the period was observed indicating that these transactions were, prima facie, non-genuine.

The entities have thus indulged in non genuine trade transactions and have created false and misleading appearance of trading on the derivatives market. Such transactions were entered into without intention of change of ownership of the securities. They have also entered into circular transactions to provide a false appearing of trading. The peculiar nature of the trades executed by the Broker and the modus operandi by which the said trades were executed, demonstrate that the said transactions were the outcome of a predetermined and planned action

thereby injecting an element of negotiation in the whole scheme of things. It is constructive here to reproduce the observations made in respect of negotiated transactions by the Hon'ble Securities Appellate Tribunal (SAT) in the matter of Ketan Parekh Vs SEBI. ... As already observed 'synchronisation' or a negotiated deal ipso facto is not illegal. A synchronised transaction will, however, be illegal or violative of the Regulations if it is executed with a view to manipulate the market or if it results in circular trading or is dubious in nature and is executed with a view to avoid regulatory detection or does not involve change of beneficial ownership or is executed to create false volumes resulting in upsetting the market equilibrium.... Any transaction executed with the intention to defeat the market mechanism whether negotiated or not would be illegal. Whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism will depend upon the intention of the parties which could be inferred from the attending circumstances because direct evidence in such cases may not be available.... The nature of the transaction executed the frequency with which such transactions are undertaken, the value of the transactions, whether they involve circular trading and whether there is real change of beneficial ownership, the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is from the cumulative effect of these that an inference will have to be drawn.

It is also significant to note that the NSE had in March 2005 issued a circular to brokers, inter alia, specifically advising them to desist from entering such transactions as detailed above, as well as orders which, prima facie, appear to be non-genuine on their own account and / or on behalf of their clients. Brokers were further advised to put in place appropriate internal systems and procedures at their end for checking for such orders / transactions before transmitting to the trading system of the Exchange. The circular was issued when the exchange noted that such transactions were being undertaken at that point of time. However, it seems that the brokers have brazenly flouted the advice mandated by the circular and have continued to indulge in such non genuine transactions repeatedly over the investigation period with scant regard to the SEBI mandated code of conduct for Stock brokers (Regulation 7, Schedule II) which inter alia, stipulates integrity, due

skill, care and diligence as well as compliance with statutory requirements on part of the broker while prohibiting malpractices. The Brokers failed to exercise due skill, care and diligence which are expected from a prudent stock broker who have a duty not only towards its clients but also towards the securities market. I note that the Brokers were a necessary party to the transactions giving rise to artificiality in the market. Instead of exercising caution, the Broker had executed large number of such irregular trades, presumably with prior knowledge and specific instructions and thereby, the Brokers were instrumental in creating artificial volumes. The brokers seem to have wilfully indulged in such malpractices to the detriment of the market at large. The findings of preliminary examination and available evidence prima facie indicated the violation of regulation 3, 4 (1), 4(2)(a&b) of SEBI (Prohibition of Fraudulent and Unfair Trade practices relating to securities market) Regulations, 2003 by these entities and violation of Regulation 7 (schedule II; code of conduct for stock broker) of SEBI (Stock Brokers and Sub brokers) Rules and Regulations, 1992 by the brokers.

Going forward, such acts would only shake the confidence of the investors in the options market and stymie regulatory and market efforts to graduate it into a vibrant and liquid market. It is highly probable that such undesirable practices, as elucidated in the findings earlier, are likely to repeat if not checked immediately. It is therefore imperative that such harmful activities be nipped in the bud at the earliest for safeguarding the fabric of the market. In view of the facts of the case, the contentions adduced above, more particularly the persistence of the entities in perpetrating such transactions, despite NSE circular dated March 10, 2005. I am convinced that to safeguard the interest of the investing public, immediate and appropriate action is warranted at this juncture and concomitantly the need for an ad-interim order becomes necessary. The present order also takes into account the need to ensure orderly development of the options market and the directions are accordingly based.

4.1 Therefore, in exercise of the powers delegated to me by the SEBI Board in terms of Section 19 of the Securities and Exchange Board of India Act 1992 read with Section 11B and 11D, I hereby, by way of ad interim, ex-parte order, direct as under: a) The following entities -Rakhi Trading P Ltd, Kasam Holding P Ltd,

Tungarli Tradeplace P Ltd, Manu Vyapar P Ltd, Raj Corporation Ltd., TLB Securities Ltd, Amar Mukeshbhai Shah, Shah Chirag Kirtikumar, Amit Business Ltd and Suresh Bharrat are directed to cease and desist from indulging in the above mentioned violations till further orders.

b) The following brokers - Kumar Share Brokers Ltd., CPR Capital Services Ltd., SMC Global Securities Ltd., Khandwala Int. Fin. Ser P Ltd, Shilpa Stock Brokers P Ltd., Angel Capital & Debt Market Ltd, Vibrant Securities Pvt. Ltd., Systematix Shares & Stk (India) Ltd, Steel City Securities Ltd, Ashika Stock Broking Limited, Prashant Jayantilal Patel, Indiabulls Securities Ltd., PSJ Securities P Ltd., Pratibhuti Vinihit Ltd. and Manu Stock Broking (P) Ltd. are directed to cease and desist from indulging in the above mentioned violations, till further orders.

c) The aforesaid directions are without prejudice to any other action that may be initiated against the above entities and brokers.

d) This order shall come into force with immediate effect. However, the entities/persons against whom this order is being passed may file their objections, if any, within 15 days from the date of this order and, if they so desire, may avail themselves of an opportunity of personal hearing at the Securities and Exchange Board of India, Head Office, Plot C4A, G Block, Bandra Kurla Complex, Bandra East, Mumbai 400 051 on a date and at a time to be fixed on a specific request, to be received in this behalf from the entities/persons within 15 days from the date of this order, in which case their representations shall be considered and a final view taken. If they do not respond within such stipulated time, it shall take final effect against them.

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