

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: MADHABI PURI BUCH, WHOLE TIME MEMBER
ORDER**

**Under Sections 11 (1), 11 (4) and 11B (1) of the Securities and Exchange Board of
India Act, 1992**

**In Re: Securities and Exchange Board Of India (Prohibition of Fraudulent and
Unfair Trade Practices Relating To Securities Market) Regulations, 2003**

In respect of:

S. No.	Name of the Entity	PAN
1	Mr. Vaibhav Dhadda (alias Mr. Avi Dhadda)	DFAPD6039C
2	Ms. Alka Dhadda	BBIPD5396J
3	Ms. Arushi Dhadda	DFAPD6005J

In the matter of Front Running: Various Funds of Fidelity Group

Background

1. Securities and Exchange Board of India's (hereinafter referred to as "**SEBI**") surveillance system had generated alerts for possible instances of front running by the entity Ms. Alka Dhadda (hereinafter referred to as "**Alka**") during the period May – August, 2019.
2. Based on the aforesaid alert, SEBI conducted a preliminary examination for the period May 29, 2019 to August 23, 2019 (hereinafter referred to as "**Examination Period**") to look into the possible violations of provisions of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act**") and various regulations framed thereunder including SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**") by certain entities including Alka.

SEBI's Examination

3. SEBI's preliminary examination brought out the following:

- 3.1. In the account of Alka orders were placed and executed before the orders of various entities of Fidelity Group, named in the following Table (hereinafter referred to as "**Big Client**") and subsequently positions were squared off while the orders of Fidelity Group entities were placed in the market.
- 3.2. In the account of Ms. Arushi Dhadda (hereinafter referred to as "**Arushi**") orders were placed and executed before the orders of Fidelity Asian Values PLC and subsequently positions were squared off while the orders of Fidelity Asian Values PLC were placed in the market.
- 3.3. A total of 18 entities of Fidelity Group were identified which had common scrip days with Alka and Arushi. Out of these 18 entities, Alka and Arushi had *prima facie* front running instances with the following 11 entities of Fidelity Group / Big Clients who had transacted through various Trading Members:

Sl. No.	Big Client Name	Trading Member
1.	Fidelity Funds - Emerging Markets	HSBC Securities & Capital Markets (India) Pvt. Ltd. J .P. Morgan India Pvt. Ltd.
2.	Fidelity Investment Services Ltd. A/C Fidelity	UBS Securities India Pvt. Ltd
3.	Fidelity Asian Values Plc	Goldman Sachs (India) Securities Pvt. Ltd.
4.	Fid Funds Mauritius Ltd.	Macquarie Capital Securities (India) Pvt. Ltd. IIFL Securities Ltd.
5.	Fidelity Funds Asia Pacific Dividend Fund	ICICI Securities Ltd.
6.	Fidelity Investment Services Ltd.	Edelweiss Securities Ltd.
7.	Fidelity Management & Research Company	Citigroup Global Markets India Pvt. Ltd.
8.	Fidelity Investment Trust Fidelity INT Small Cap Opportunities Fund	HSBC Securities & Capital Markets (India) Pvt. Ltd.
9.	Fidelity India Fund	Jefferies India Private Ltd.
10.	Fidelity Advisor Series I Fidelity Advisor Equity Growth Fund	Motilal Oswal Financial Services Ltd.

Sl. No.	Big Client Name	Trading Member
11.	Fidelity Funds - Emerging Markets Focus Fund	DSP Merrill Lynch Ltd.

- 3.4. The trading pattern of Alka and Arushi suggests that they managed their trading to take advantage of the impending trading activity of Fidelity Group entities by front running them and thereby generated profits for themselves by the price movement of scrips on account of the large buy / sell orders of Fidelity Group entities.
- 3.5. Mr. Avi Dhadda (hereinafter referred to as “**Avi**”), an employee of Fidelity International Ltd. and a relative of Alka and Arushi, was the trader for all of the 11 Fidelity Group entities mentioned in the aforesaid table and had provided trade instructions to the Trading Members for the said Fidelity Group entities.
- 3.6. It appeared that Avi has *prima facie* front run various entities of Fidelity Group by placing orders through the trading accounts of Alka and Arushi.

Interim Order

4. In light of the aforesaid findings of the examination, an interim order dated December 4, 2019 (hereinafter referred to as “**Interim Order**”) was passed by SEBI. The interim order was passed taking into account the facts and circumstances described therein, which are, *inter alia*, summarised as under:
- 4.1. Avi was privy to the information when the 11 Fidelity Group entities would place the order for buy / sell in a particular scrip as he was the trader dealing with the respective Trading Members on behalf of the 11 Fidelity Group entities for the said trades. Thus, he was in possession of information of the impending trades of Fidelity Group entities which was not available in the public domain.
- 4.2. Mr. Avi Dhadda is also known as Mr. Vaibhav Dhadda and is the son of Ms. Alka Dhadda and is brother of Ms. Arushi Dhadda.
- 4.3. The trading pattern of the trades executed from the trading accounts of Alka and Arushi were analysed and it showed that the tranches of the orders of the first leg of trades of Alka and Arushi have been placed on or before the time of last tranche of the orders placed by Fidelity Group entities.

- 4.4. Based on a review of various related facts like opening of trading accounts and bank accounts by Alka and Arushi, fund transfers, placement of orders, particulars of the trading and trading history of Alka and Arushi coupled with the relationship between the entities, it was *prima facie* concluded that the trades executed from the trading accounts in the name of Alka and Arushi via internet based trading facility of Arihant Capital Markets Ltd. had 'front run' the orders of 11 Fidelity Group entities.
- 4.5. The front running activity of Alka / Avi / Arushi has resulted in *prima facie* benefit to the tune of Rs. 1,85,75,843 in the trading account of Alka and Rs. 28,500 in the trading account of Arushi.
- 4.6. It was further *prima facie* held that Avi has front run various entities of Fidelity Group by placing orders through the trading accounts of Alka and Arushi. Thus, he was *prima facie* liable for the front running trades executed from the trading accounts in the name of Alka and Arushi maintained with Arihant Capital Markets Ltd.
- 4.7. It was also *prima facie* held that Alka and Arushi by opening trading accounts and bank accounts and by giving access to Avi of their trading accounts, have played an active part / participated in the scheme / device to front run the trades of the Big Clients. Thus, Alka and Arushi were also *prima facie* liable for the front running trades executed from their trading accounts.
- 4.8. The actions of Avi, Alka and Arushi had *prima facie* resulted in contravention of regulations 3 (a), 3 (b), 3 (c), 3(d), 4(1) and 4(2)(q) of PFUTP Regulations.
- 4.9. Based on the aforesaid findings, the following directions were issued against the entities:
- 4.9.1. The entities were restrained from buying, selling or dealing in the securities market or associating themselves with securities market, either directly or indirectly, in any manner whatsoever till further directions.
- 4.9.2. The entities were directed to cease and desist from undertaking any activity in the securities market, directly or indirectly, in any manner whatsoever till further directions.

- 4.9.3. The entities were directed to provide a full inventory of all assets held in their name, jointly or severally, whether movable or immovable, or any interest or investment or charge on any of such assets, including details of all bank accounts, demat accounts and mutual fund investments, immediately but not later than 5 working days from the date of receipt of this order.
- 4.9.4. The entities were directed not to dispose of or alienate any assets, whether movable or immovable, or any interest or investment or charge on any of such assets, held in their name, jointly or severally, including money lying in bank accounts except with the prior permission of SEBI.
- 4.9.5. The entities were directed to open an escrow account with a nationalised bank, jointly and severally and deposit the amount of Rs. 1,86,04,343 which has been *prima facie* found to be unlawful gain, within 15 days from the date of service of this order. The escrow account/s shall be an interest bearing escrow account and shall create a lien in favour of SEBI. Further, the monies kept therein shall not be released without permission from SEBI.
- 4.9.6. The banks including ICICI Bank Ltd. where the entities were holding bank accounts, jointly or severally, were directed to ensure that till further directions, except for compliance of direction at preceding sub-paragraph, no debits were to be made in the said bank accounts without the permission of SEBI.
- 4.9.7. The Depositories were directed to ensure that till further directions, except for compliance of direction at paragraph 4.9.5, no debits were to be made in the demat accounts, of the entities held jointly or solely.
- 4.9.8. The Registrar and Transfer Agents were also directed to ensure that till further directions, except for compliance of direction at paragraph 4.9.5, the securities / units held in the name of the entities , jointly or severally, were not transferred / redeemed.
5. Vide the aforesaid interim order, the entities were advised to submit their replies, if any, within 21 days from the service of the interim order and they were also advised

to indicate whether they desire to avail an opportunity of hearing on a date and time to be fixed on a specific request to be made in that regard.

Service of interim order, reply and hearing

6. The interim order was served on the entities vide email dated December 5, 2019. Pursuant to the interim order, the entities vide their application dated January 31, 2020 had applied to SEBI for settlement of the extant matter under SEBI (settlement Proceedings) Regulations, 2018. However, the said application was returned to the entities vide email dated April 27, 2020 as the investigation in the matter is ongoing. It is noted from records that no reply was received from the entities in response to the interim order. Considering the facts and circumstances of the matter, vide an email dated May 7, 2020, an opportunity of hearing was granted to the entities on May 19, 2020 via video conference. Mr. Ravi Ramaiya (hereinafter referred to as “AR”) vide his email dated May 12, 2020 confirmed his attendance for the hearing. Along with the said email, Mr. Ravi Ramaiya submitted a letter dated December 10, 2019, wherein the entities had authorised him, Mr. Shardul Shah and Mr. Sahebrao Butkare to represent them before SEBI in the extant matter.
7. On the day of scheduled hearing, the AR *inter alia* made the following submissions:
 - 7.1. Avi is of 27 years. Post the interim order, he has lost his job and currently has no source of income.
 - 7.2. Avi got carried away by positive flow of money and is regretful for the same.
 - 7.3. Alka and Arushi were aware about the opening of trading account. However, they have no knowledge about the trading done in their accounts.
 - 7.4. The family is undergoing a lot of hardships due to the actions of Avi and therefore, the AR prayed for a lenient view in the matter.
 - 7.5. The AR was advised to submit the following information on or before May 26, 2020:
 - 7.5.1. Whether Avi had undergone any training on compliance requirements / code of conduct when he had joined Fidelity Group?
 - 7.5.2. Whether, the entities are residents of Hong Kong?

7.5.3. Whether the submissions made by the entities in the section of “*Full and true disclosure of facts*” in their settlement application should be treated as a response to the interim order or the entities would prefer to make a separate submission?

8. The AR vide his letter dated May 23, 2020 while reiterating his submissions made at the time of hearing *inter alia* made the following submissions:

8.1. Avi has completed his BBA and employment with the Fidelity Group was his first job.

8.2. While his role as a buy side trader, he understood that the transactions of his company impact the price of the securities and therefore just out of curiosity he tried to execute one such trade where he bought these stocks in his account and then sold while placing orders for his company. As it resulted in positive cash flow. Avi got carried away with it and executed more such transactions.

8.3. Alka and Arushi do not know anything about trading except that they had opened an account at the direction of Avi. Once the account was opened, they shared the password with Avi and never logged into the account thereafter.

8.4. All other activities like trade execution etc. were done online by Avi from Hong Kong and the other 2 entities were completely oblivious of the transactions in their accounts.

8.5. Alka and Arushi are very apologetic that they never understood or even try to understand as to what was happening in their accounts.

Findings & Considerations

9. I have considered the allegations levelled against the entities in the interim order, oral submissions, their replies/written submissions and other material available on record. I note that in the instant case, the directions issued against the entities are interim in nature and have been issued on the basis of *prima facie* findings. SEBI had issued directions vide interim order in the matter in order to protect the interests of investors and the securities market. Detailed investigation in the matter is still in progress. Thus, the issue for consideration at this stage is whether the interim directions issued against the entities vide the interim order, need to be confirmed,

vacated or modified in any manner, during the pendency of investigation in the matter.

10. Before proceeding further, I would like to reproduce the *prima facie* findings mentioned in the interim order which have not been contested by the entities. The same are as follows:

10.1. Avi was privy to the information with respect to the trading of 11 Fidelity Group entities.

10.2. Avi is the son of Alka and the brother of Arushi.

10.3. The trading pattern of the trades executed from the trading accounts of Alka and Arushi wherein the buy / sell trades were executed depending on the impending buy / sell orders of the Fidelity Group entities, has not been disputed.

10.4. The trades executed from the trading accounts in the name of Alka and Arushi via internet based trading facility of Arihant Capital Markets had 'front run' the orders of the 11 Fidelity Group entities has not been disputed.

10.5. Avi admittedly had access to the trading accounts of Alka and Arushi and had executed the front running trades from the trading accounts of Alka and Arushi maintained with Arihant Capital Markets Ltd.

10.6. The 3 entities by their actions have made a wrongful gain of Rs. 1,86,04,343/- in the instant matter has not been disputed.

11. I now proceed to consider the role played by the individual entities in the scheme employed in the extant matter in light of the specific contentions raised by the entities.

11.1. Avi

11.1.1. He has submitted that he got carried away by his actions when he understood that the transactions of his company impact the price of the securities which resulted in a positive cash flow to him. In this regard, I note the following:

11.1.1.1. Avi is a BBA graduate and was employed as a trader with the Fidelity Group. It is thus, reasonable to infer that Avi was aware of the impact of an impending large buy / sell order on the price of the scrip upon

execution of the order which was realised by him by his own submission after the “test trades” were done by him.

11.1.1.2. Avi had undergone code of conduct / compliance requirement training when he had joined Fidelity Group. Thus, he had the knowledge about the non-public nature of the information regarding the Fidelity Group’s possible trades or the Fidelity Group’s decision to acquire/ sell shares. Therefore, he was aware that he was obligated to maintain the confidentiality of the said non-public information and not misuse the same.

11.1.1.3. Avi had directed his mother and sister to open bank accounts and trading accounts immediately before executing the *prima facie* front running trades. He had transferred funds to his mother. His mother who has no source of income, had transferred funds to Arushi, who is a student with no source of income. Moreover, the email id given in the account opening form of the trading accounts of Alka and Arushi was of Avi instead of theirs. The aforesaid facts *prima facie* demonstrate that Avi tried to cover his tracks using the accounts of his family and the entire scheme to ‘front run’ the trades of various entities of the Fidelity Group, was by design.

11.1.2. In light of the above findings, I am unable to accept the submission of Avi that he got carried away by positive flow of money. Even if so, the same is not a circumstance to negate the legal consequence of his actions.

11.2. Alka and Arushi

11.2.1. They have submitted that they were completely oblivious of the transactions in their trading accounts. In this regard, I note that the following facts shows the complicity of the aforesaid entities in the entire scheme:

11.2.1.1. The decision of the entities to open trading account inspite of having no trading experience.

11.2.1.2. Providing email id of Avi in their trading account opening form.

11.2.1.3. Sharing the password of their trading account with Avi.

- 11.2.1.4. Alka had opened a second ICICI Bank account which was linked to the trading account and she had received funds from Avi on the bank account opening day. Further, though she has no source of income, she had transferred funds to Arushi, who is a student.
- 11.2.2. In view of the above, I note that demat accounts and bank accounts are opened with proper compliance of Know Your Client (hereinafter referred to as “**KYC**”) norms. One of the objectives of KYC is to ensure that the said accounts are operated by and for the beneficial interest of the persons whose identity has been verified at the time of account opening. KYC also ensures proper tracking and accountability of the person holding the said accounts in cases such accounts are used for illegal or fraudulent purposes. The requirement of KYC and purpose behind the KYC clearly shows that the said accounts are to be owned and operated by the persons whose identity is verified indicating that the accounts are personal in nature. The owner of such accounts may constitute another person as valid power of attorney holder to operate the accounts. However, such accounts are operated on the owner’s behalf by the validly constituted power of attorneys.
- 11.2.3. But the practice of renting the accounts by name lending by account holders to third parties entails not only the operation of accounts by third persons but practically results in ownership and custody of those funds/securities. Such persons employ their own resources in the form of shares and money mostly for their own illegal or fraudulent purpose, while the real identity of the owner of the funds and shares in the records of the operating institutions continue to vest with name-lending account holder. This devious practice helps the wrong doers to conceal their identity behind the name-lending account holders while the name lenders receive gratification in an easy way by being part of the wrong doing by renting their accounts. SEBI has found that this dubious practice is being followed by wrong doers in the market in new and diverse ways. The consequence of such dubious practice facilitates fraud in a camouflaged way designed to evade

detection. Thus, such practices need to be strongly curbed in order to limit market fraud. In this regard, Hon'ble Securities Appellate Tribunal (hereinafter referred to as "**SAT**") in the matter of *Mahavirsingh N Chauhan and ANR vs. SEBI* decided on October 18, 2019 has observed as follows:

"We are of the opinion that by renting their demat account, trading account etc., the appellants were concealing the identity of the fraudster and, thus, were acting not only in concert but in connivance with the said fraudster. The appellants cannot, thus, escape from the liability of debarment and the wrongful gains made by them."

11.2.4. Admittedly, Alka and Arushi have not denied opening of trading accounts and bank accounts and giving access of the trading account to Avi. Both of them, by renting their accounts, possibly for reasons of familial relationship, as no material for financial gratification to them is made available to me at this stage, have *prima facie*, concealed the identity of the prime executioner of the *prima facie* scheme.

11.2.5. As observed by Hon'ble SAT in the above case, the acts of Alka and Arushi indicate that they were *prima facie*, acting not only in concert but in connivance with Avi under a pre-meditated plan to achieve the end objective of the scheme with Avi. Therefore, at this juncture, when the investigation against the entities is still in progress which may further bring out any other additional role played by each entity in the entire scheme, I, on an overall evaluation of facts of the matter, am unable to accept the submission of the entities.

12. In the instant case, the interim order has *prima facie* brought out the scheme engineered by Avi to 'front run' the trades of the various entities of Fidelity Group and the role played by Alka and Arushi in the said scheme. Thus, the acts of the entities while acting under the alleged scheme, are *prima facie* fraudulent in nature as defined under regulation 2 (1) (c) of PFUTP Regulations. Therefore, given the reply and consideration of the information submitted by the entities the *prima facie* findings mentioned in the interim order dated December 4, 2019, that they have *prima facie*

acted in a fraudulent manner which is in contravention to the provisions of regulations 3 (a), 3 (b), 3 (c), 3(d), 4(1) and 4(2)(q) of PFUTP Regulations stand confirmed.

13. I, therefore, find that the submissions / explanations submitted by Mr. Vaibhav Dhadda (alias Mr. Avi Dhadda) (PAN: DFAPD6039C), Ms. Alka Dhadda (PAN: BBIPD5396J) and Ms. Arushi Dhadda (PAN: DFAPD6005J) cannot be accepted because of the reasons as discussed in preceding paragraphs and therefore they have not been able to make out a *prima facie* case for revocation of the interim order. However, I note from the records (Bank of India email dated May 18, 2020) that the entities have deposited the *prima facie* wrongful gains in an escrow account of Bank of India, Jaipur Branch (Account no. 660010110011424) with a lien marked in favour of SEBI. Further, it is also noted that the entities vide their letter dated December 11, 2019, have furnished an inventory of their assets (moveable) to SEBI. I, therefore, do see a reason to modify the directions issued against them in the interim order.

Order

14. Considering the reply of the entities and findings thereupon mentioned in the preceding paragraphs, pending investigation, I in exercise of the power conferred upon me under Sections 11(1), 11(4) and 11B(1) read with Section 19 of the Securities and Exchange Board of India Act, 1992 and in the facts and circumstances of the case, hereby confirm the following directions of the interim order dated December 4, 2019:

14.1. Mr. Vaibhav Dhadda (alias Mr. Avi Dhadda) (PAN: DFAPD6039C), Ms. Alka Dhadda (PAN: BBIPD5396J) and Ms. Arushi Dhadda (PAN: DFAPD6005J) are restrained from buying, selling or dealing in the securities market or associating themselves with securities market, either directly or indirectly, in any manner whatsoever till further directions.

14.2. Mr. Vaibhav Dhadda (alias Mr. Avi Dhadda) (PAN: DFAPD6039C), Ms. Alka Dhadda (PAN: BBIPD5396J) and Ms. Arushi Dhadda (PAN: DFAPD6005J) are

directed to cease and desist from undertaking any activity in the securities market, directly or indirectly, in any manner whatsoever till further directions.

14.3. Needless to say that in view of the prohibition on sale of securities, during the period of restraint, the existing holding, including units of mutual funds, of the Noticees shall remain frozen including the demat accounts held by the entities, individually or jointly and severally.

15. Further, I in exercise of the power conferred upon me under Sections 11(1), 11(4) and 11B(1) read with Section 19 of the Securities and Exchange Board of India Act, 1992 and in the facts and circumstances of the case, hereby revoke the directions given under paragraphs 39.3 to 39.8 in the interim order dated December 4, 2019 with effect from the date of this order. It is reiterated that money kept in the escrow account shall not be released without permission from SEBI.

16. I note that a detailed investigation in the matter is in progress which may bring out additional roles of the entities, if any, in detail, depending on the material and after considering the facts and veracity of their submissions. The findings in the extant order are *prima facie* findings in a matter under investigation.

17. A copy of this order shall be served on all recognized stock exchanges, depositories and registrar and share transfer agents to ensure compliance with the above directions.

DATE: June 15, 2020

PLACE: MUMBAI

MADHABI PURI BUCH

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA