

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

Sl. No.	Name of the Entity	PAN
1.	Virendra Pratap Singh	ELQPS9579P
2.	Neha Virendra Singh	JIWPS9785M
3.	Gulammohammed Gulamabbas Shaikh	JCCPS3297A
4.	Mohammedidrish A Shaikh	JROPS3987L
5.	Santosh Brijraj Singh	BFTPS9871L
6.	Adil G Suthar	BAVPS3473B

In the matter of Front Running by employee / dealer of India Infoline Group and other connected entities using Mule Accounts

Background

1. Securities and Exchange Board of India's ("SEBI") alert system had generated front running alerts for the months of December 2019 and January 2020. Mr. Virendra Pratap Singh and Ms. Neha Virendra Singh, were suspected to be front running the trades of India Infoline Asset Management Ltd, part of India Infoline Wealth ("IIFL Wealth"). IIFL Wealth is a part of the India Infoline Group ("IIFL Group").
2. Based on the aforesaid alert, SEBI conducted a preliminary examination for the period December 1, 2019 to August 10, 2020 ("Relevant Period") to look into the possible violations of provisions of Securities and Exchange Board of India Act, 1992 ("SEBI Act") and various regulations framed thereunder including SEBI (Prohibition of

Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (“**PFUTP Regulations**”) by certain entities including Mr. Virendra Pratap Singh and Ms. Neha Virendra Singh.

SEBI's Examination

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

- 3.1. It is observed that certain Funds managed by IIFL Wealth were placing orders through an IIFL employee (Dealer), Mr. Santosh Brijraj Singh who was found to be connected with certain entities who were *prima facie* observed to have traded depending on the impending orders of the Big Clients. Subsequently, these entities squared off their positions when the orders of the Big Clients were placed in the market. Thus, they were able to generate substantial proceeds for themselves by placing orders in anticipation of the price movement of scrips on account of large buy / sell orders of the Big Clients.
- 3.2. The proceeds of the ‘front run’ trades were, on a regular basis, withdrawn from the linked bank accounts in cash, via ATM, by entities who, *prima facie*, were not the holders of the said bank accounts.

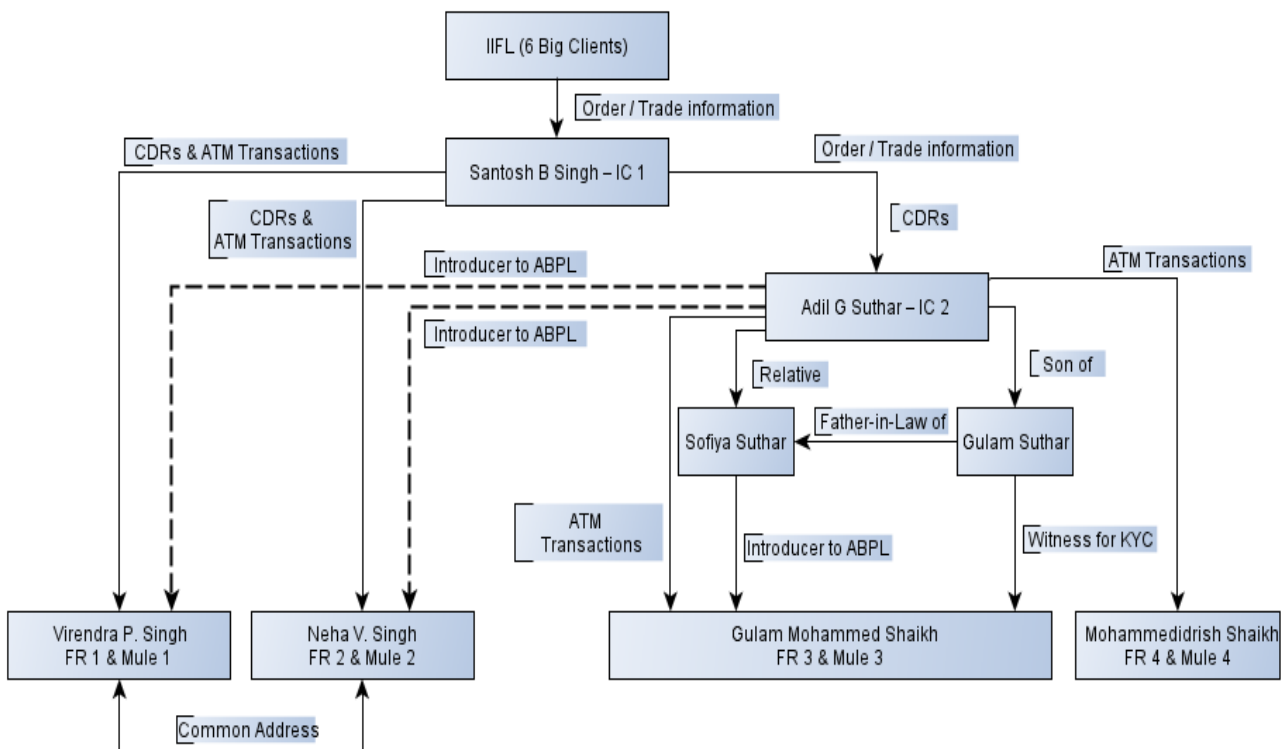
Interim Order

4. In light of the aforesaid findings of the examination, an interim order dated October 1, 2020 (“**Interim Order**”) was passed by SEBI *inter alia* against Mr. Santosh Brijraj Singh, Mr. Adil Gulam Suthar, Mr. Virendra Pratap Singh, Ms. Neha Virendra Singh, Mr. Gulammohammed Gulamabbas Shaikh and Mr. Mohammedirish A Shaikh (collectively referred to as “**Noticees**”). The interim order against the Noticees was passed taking into account the facts and circumstances described therein, which are, *inter alia*, summarised as under:

- 4.1. Mr. Santosh Brijraj Singh was privy to the order / trade information of the six Big Clients as he was the Dealer on behalf of the Big Client for its trades. Thus, he was in possession of information of the impending trades of the Big Client which was not available in the public domain and was an Information Carrier (“**IC 1**”).

4.2. It is noted from the material available on record that Mr. Adil Gulam Suthar, is in constant communication (405 calls in just 8 months) with Mr. Santosh B. Singh during the Relevant Period who as noted in preceding paragraph had *prima facie* access to the non-public information of the Big Clients. Thus, Mr. Adil Gulam Suthar was *prima facie* an IC 2.

4.3. Based on KYC details, Call Data Records (“CDRs”), bank statements and ATM transactions of the Noticees, the Noticees involved in the extant matter were *prima facie* connected with each other as depicted pictorially, here under:



*IC- Information Carrier & FR – Front Runner

4.3. It was observed *inter alia* on the basis of KYC documents, bank statement analysis, location of ATM transactions and CCTV footage of ATM transactions that IC 1 was *prima facie* controlling and operating the bank account of Mr. Virendra Pratap Singh (“**Front Runner 1 / FR 1**”), Ms. Neha Virendra Singh (“**FR 2**”) while IC 2 was *prima facie* controlling and operating the bank account of Mr.

Gulammohammed Gulamabbas Shaikh (“**FR 3**”) and Mr. Mohammedirish A Shaikh (“**FR 4**”).

- 4.4. The trading pattern of the trades executed from the trading account of the Noticees, except the Noticees who were only ICs, was analysed and it showed that the trades executed from the trading account of the Noticees, except the Noticees who were only ICs, have followed a Buy-Buy-Sell (“**BBS**”) pattern or Sell-Sell-Buy (“**SSB**”) pattern around the orders of the Big Client which, as noted from their order log trade log, was done consistently during the Relevant Period. Further, the trades that were executed from the trading accounts of FRs 1 to 4, were *prima facie*, not only in sync with the orders of the Big Clients but were also *prima facie*, in tandem with each other.
- 4.5. Based on the cumulative effect of various related facts like trading activity of the Noticees prior to Relevant Period, except the Noticees who were only ICs, common scrip days / contract days with the Big Client, proceeds generated by Noticee’s trades during the Relevant Period and frequency of placement of orders along with the trading pattern of the Noticees, except the Noticees who were only ICs, it was *prima facie* concluded that the trades executed from the trading account of the Noticees, except the Noticees who were only ICs, in the equity segment of the market had ‘front run’ the orders of the Big Clients.
- 4.6. It was *prima facie* observed that Mr. Santosh B. Singh and Mr. Adil Gulam Suthar are *prima facie* front runners and are *prima facie* liable for the front running trades while Mr. Virendra Pratap Singh, Ms. Neha Virendra Singh, Mr. Gulammohammed Gulamabbas Shaikh and Mr. Mohammedirish A Shaikh, are *prima facie* Mule Account Set Holders who are *prima facie* liable for their “omission” to act in a prudent manner which enabled Mr. Santosh B. Singh and Mr. Adil Gulam Suthar to *prima facie* use their Account Sets as Mule Account Sets.
- 4.7. It was *prima facie* held that Mr. Santosh B. Singh and Mr. Adil Gulam Suthar by employing a *prima facie* scheme to ‘front run’ the orders of the Big Clients, have *prima facie* violated Sections 12A (a), (b), (c) and (e) of SEBI Act, regulations 3

(a), 3 (b), 3 (c), 3(d), 4(1) and 4(2)(q) of PFUTP Regulations. Moreover, the *prima facie* “omission” of Mr. Virendra Pratap Singh, Ms. Neha Virendra Singh, Mr. Gulammohammed Gulamabbas Shaikh and Mr. Mohammedidrish A Shaikh not to act in a prudent manner which enabled Mr. Santosh B. Singh and Mr. Adil Gulam Suthar to execute *prima facie* front running trades, led to the *prima facie* violation of Sections 12A (a), (b) and (c) of SEBI Act, regulations 3 (a), 3 (b), 3 (c), 3(d) and 4(1) of PFUTP Regulations.

- 4.8. The front running activity of the Noticees resulted in the generation of the following *prima facie* proceeds, as mentioned in the table below:

Trading Account	Name of the Entities	Proceeds of front running trades (Rs. in lakh)
FR 1	Mr. Santosh B. Singh	11.49
FR 2	Mr. Santosh B. Singh	18.27
FR 3	Mr. Adil Gulam Suthar and Mr. Santosh B. Singh	17.38
FR 4	Mr. Adil Gulam Suthar and Mr. Santosh B. Singh	10.96
Total		58.10

- 4.9. Based on the aforesaid findings, certain directions were issued against the Noticees vide the interim order which *inter alia* were as follows:

- 4.9.1. The Noticees 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 Noticees 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 bank accounts of the Noticees mentioned in the table 1 to the extent of amount mentioned therein is impounded. Further, the said Noticees were directed to open an escrow account with a nationalised bank, jointly and severally and deposit the impounded mentioned therein which has been *prima facie* found to be proceeds generated from the *prima facie*

front running trades, in the Order, within 15 days from the date of service of the Order. The Noticees shall jointly and severally so deposit the proceeds. 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.

5. Vide the aforesaid interim order, the Noticees 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 Noticees vide emails dated October 3, 2020. Pursuant to the interim order, the ICs had opened escrow accounts and deposited the entire *prima facie* proceeds generated from the front running trades as directed in the interim order. Further, only ICs had declared their assets to SEBI. None of the Noticees had submitted a reply to the interim order.
7. The Noticees were granted an opportunity of hearing in the matter on April 15, 2021 via Webex. Hearing Notice was served on the Noticees vide emails dated March 30, 2021.
8. On the day of scheduled hearing, the authorise representative (“AR”) of the Noticees made the following submissions:
 - 8.1. Mr. Santosh B. Singh is the son-in-law of Mr. Virendra Pratap Singh. Ms. Sofia Suthar is the wife of Mr. Adil Gulam Suthar and Mr. Gulammohammed Gulamabbas Shaikh and Mr. Mohammedirish A Shaikh are Mr. Adil Gulam Suthar’s neighbours.
 - 8.2. Noticees have executed trades but they were not aware that the trades were front running trades.
 - 8.3. Noticees are small time traders who trade on the basis of tips.

- 8.4. Mr. Santosh B. Singh accepts that the information was passed by him but it was an inadvertent mistake. He was not aware that passing of information will have such grave consequences.
- 8.5. Most of the time the trades were executed by the registered account holders but sometimes trades were also executed by Mr. Santosh B. Singh and Mr. Adil Gulam Suthar in the accounts of other Noticees.
- 8.6. Noticees were advised to submit information regarding the source of money which was used for the impugned trades on or before April 25, 2021.

Post Hearing Submissions

9. The following Noticees made post hearing submissions:

- 9.1. Mr. Adil Gulam Suthar vide his letter dated April 25, 2021 *inter alia* submitted as follows:
- 9.1.1. Mr. Santosh B. Singh and he are acquaintances/friends. During this course of their discussions, they usually discuss about Mr. Santosh B. Singh's suggestions about the stocks which he can suggest to near and dear ones as Mr. Santosh B. Singh is related to that field for far longer period and has better experience than him. Further, in course of such series of discussions, the information that he received, it was beyond his capacity or knowledge to filter those information as genuine or nonpublic information.
- 9.1.2. The onus lied only upon Mr. Santosh B Singh, if he was in possession of some classified and privileged information, whether that can be shared or not. Its near impossible for a person like him who has received the information to check the background and veracity of that information.
- 9.1.3. Mr. Gulammohammed Gulamabbas Shaikh and Mr. Mohammedidrish A Shaikh are his neighbours and family friends. Since they were new to market and had less expertise, they use to regularly contact him and used to ask for news and tips for trading.
- 9.1.4. Sometimes he has helped Mr. Gulammohammed Gulamabbas Shaikh and Mr. Mohammedidrish A Shaikh in their trading when they were finding it

difficult and when they had asked for help. However, he categorically denies that he controlled their trading or bank accounts. Mr. Gulammohammed Gulamabbas Shaikh and Mr. Mohammedidrish A Shaikh had the knowledge of their banking and trading transactions.

9.1.5. No alerts were generated for the said two entities ever from any broker or Exchanges or any regulatory authorities ever, while they were trading in their account, before October, 2020.

9.1.6. Leverage of multiple times on margin money was allowed so sometimes large positions on small margin amount was easily created.

9.1.7. The Noticee is not challenging the calculation of proceeds but the actual proceeds are less than what has been shown in the interim order, if losses, brokerages and other statutory charges are included.

9.2. Mr. Gulammohammed Gulamabbas Shaikh vide his letter dated April 25, 2021 made submissions on similar lines as that of Mr. Adil Suthar and *inter alia* submitted as follows:

9.2.1. He is a retired person with very few or no source of any income. He is a family friend and neighbour of Mr. Adil Suthar.

9.2.2. He has executed the trades in his account but sometimes Mr. Adil Suthar has helped him as due to Covid pandemic all of them were staying together.

9.2.3. He does not have any capability or resources or any financial understanding to do any harm in market. Trades which have been executed were unintentional and done in the normal course of trading.

9.2.4. At the time of execution of trades, he was not aware that the news Mr. Adil Suthar was sharing was confidential in nature.

9.2.5. All his banking transactions were done by him or under his own instructions.

9.3. Mr. Mohammedidrish A Shaikh vide his letter dated April 25, 2021 made submissions on similar lines as that of aforesaid 2 Noticees and *inter alia* submitted as follows:

- 9.3.1. He does some odd transport related jobs and during the pandemic those jobs dried up. He has some savings but he does not have a proper source of income. He is a beneficiary of Government Aid.
- 9.3.2. He made the same submissions as of Mr. Gulammohammed Gulamabbas Shaikh with respect to trades executed from his trading account and banking transactions.
- 9.4. Mr. Santosh B. Singh vide his letter dated April 25, 2021 *inter alia* submitted as follows:
- 9.4.1. He being in the position of responsibility was privy to non-public information and since he was surrounded by that information day-in and out, that data was always playing at back of his mind. He was aware that Big Client was going to place huge orders.
- 9.4.2. He knows Mr. Adil Suthar, Mr. Virendra P. Singh (his father-in law) and Ms. Neha V. Singh (his sister in-law). They used to ask him about stocks in which they can trade. Since, it is a practical fact that a person usually knows what he is continuously working on, accordingly while requested for tip he had just asked them to pick certain scrips, which were brought to his information. He had never disclosed the source of his information or who the counter party would be including any trade details.
- 9.4.3. During the Relevant Period, Mr. Virendra P. Singh and Ms. Neha V. Singh stayed with him as his mother and mother-in law were not well. Both of them passed away in July 2020 and December 2019, respectively. He was also admitted in ICU for Covid, during July 2020.
- 9.4.4. All the impugned trades were done by the registered owner of the trading accounts with minute help from him and Mr. Adil Suthar. The funds were of their own and the trades were done at available leverage allowed by the broker.
- 9.4.5. Sharing of non-public information was an unintentional mistake.

- 9.5. Mr. Virendra P. Singh vide his letter dated April 25, 2021 made submissions on similar lines as that of other Noticees and *inter alia* submitted as follows:
- 9.5.1. He works as a chauffeur at a monthly salary of Rs. 12,000/-.
- 9.5.2. He does not have much knowledge regarding trading in securities apart from the fact that shares are bought at a lower price and sold when their price goes up, thereby booking a profit.
- 9.5.3. He had executed trades in his account with the help of Mr. Santosh B. Singh. He had invested his saving of Rs. 60,000/- to trade in securities.
- 9.5.4. Since taking delivery was beyond his capacity so upon Mr. Santosh B. Singh's advice he used to square off the positions.
- 9.5.5. He was staying with Mr. Santosh B. Singh and since his wife was critically ill, he had asked Mr. Santosh B. Singh to withdraw the funds for medical needs. Sometimes he had asked him to withdraw money for expenditure related to Ms. Neha V. Singh (groom search).
- 9.5.6. Trades were executed in the normal course without being aware of the source of the information.
- 9.6. Ms. Neha V. Singh vide her letter dated April 25, 2021 made the same submissions as that of Mr. Virendra P. Singh.

Findings & Considerations

10. I have considered the allegations levelled against the Noticees 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 Noticees 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 to be considered at this stage is as follows:

- 10.1. *Whether in light of the findings of the interim order, the facts and circumstances of the case and the submission of the Noticees in response to the interim order, the directions issued against the Noticees vide the interim order need to be*

confirmed, revoked or modified in any manner, during the pendency of investigation in the matter?

I now proceed to consider the aforesaid issue in light of the specific contentions raised by the Noticees.

Issue No. 1- *Whether in light of the findings of the interim order, the facts and circumstances of the case and the submission of the Noticees in response to the interim order, the directions issued against the Noticees vide the interim order need to be confirmed, revoked or modified in any manner, during the pendency of investigation in the matter?*

11. Before I proceed to deal with the Noticees replies/written and oral submissions, it will be appropriate to reproduce the text of *prima facie* applicable provisions in the matter which are Sections 12A (a), (b), (c) and (e) of SEBI Act, regulations 3 (a), 3 (b), 3 (c), 3(d), 4(1) and 4(2)(q) of PFUTP Regulations. The same reads as follows:

SEBI Act

Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. No person shall directly or indirectly—

- (a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;*
- (b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;*
- (c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;*
- (d) ...*

(e) deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person, in a manner which is in contravention of the provisions of this Act or the rules or the regulations made thereunder;

PFUTP Regulations

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

- (a) buy, sell or otherwise deal in securities in a fraudulent manner;*
- (b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;*
- (c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;*
- (d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.*

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a manipulative, fraudulent or an unfair trade practice in securities markets

4 (2) Dealing in securities shall be deemed to be manipulative, fraudulent or an unfair trade practice if it involves any of the following: —

...

(q) any order in securities placed by a person, while directly or indirectly in possession of information that is not publically available, regarding a substantial impending transaction in that securities, its underlying securities or its derivative;

12. The aforesaid provisions deal with 'fraud' in the securities market. Fraud has been defined under regulation 2 (1)(c) of PFUTP Regulations as follows:

"fraud" includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person with his connivance or by his agent while dealing in securities in order to induce another person or his agent to deal in securities, whether or not there is any wrongful gain or avoidance of any loss and shall also include--

(1) a knowing misrepresentation of the truth or concealment of material fact in order that another person may act to his detriment;

(2) a suggestion as to a fact which is not true by one who does not believe it to be true;

(3) an active concealment of a fact by a person having knowledge or belief of the fact;

(4) a promise made without any intention of performing it;

(5) a representation made in a reckless and careless manner whether it be true or false;

(6) any such act or omission as any other law specifically declares to be fraudulent;

(7) deceptive behavior by a person depriving another of informed consent or full participation;

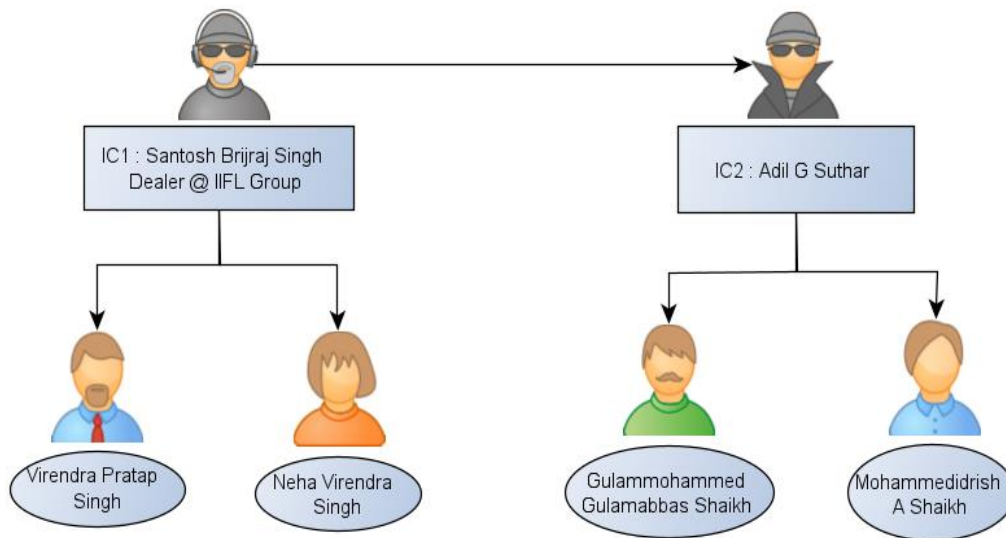
(8) a false statement made without reasonable ground for believing it to be true;

(9) the act of an issuer of securities giving out misinformation that affects the market price of the security, resulting in investors being effectively misled even though they did not rely on the statement itself or anything derived from it other than the market price.

And "fraudulent" shall be construed accordingly;

13. As noted in the interim order, on the basis of KYC details, CDRs, bank statements and ATM transactions of the Noticees, the Noticees involved in the extant matter were broadly classified under two ICs, namely Mr. Santosh B. Singh (IC 1) and Mr. Adil G. Suthar (IC 2). Further, there were two trading accounts which were *prima facie* found to be connected with IC 1 namely, Mr. Virendra P. Singh (FR 1) and Ms. Neha Virendra

Singh (FR 2) and two trading accounts which were *prima facie* found to be connected with IC 2 namely, Mr. Gulammohammed Gulamabbas Shaikh (FR 3) and Mr. Mohammedidrish A Shaikh (FR 4). The pictorial depiction of the aforesaid is as follows:



IC 1 and FRs 1&2

14. During the examination period, *prima facie* front running trades were executed from the trading accounts of FRs 1 and 2 between December 1, 2019 to August 10, 2020. The specific contentions raised by IC 1 and FRs 1 and 2 have been considered and dealt as follows:

14.1. It is noted from the submissions of IC 1 that he has admitted that he was aware of the information with respect to the orders of the Big Clients. However, with respect to communicating the same to FR 1, FR 2 and IC 2, he has submitted that it was an unintentional mistake. He has further submitted that he has not disclosed the source of his information or who the counter party would be including any trade details.

I note from the admission of IC 1 that he has communicated the information to IC 2 and FRs 1 and 2. His submission that the aforesaid act was an unintentional mistake, is without any merit. He being the Dealer for the Big Clients was privy to the order / trade information of the Big Clients i.e., when

and what size of orders for buy / sell in a particular scrip, would be placed. Thus, *prima facie* he was in possession of confidential non-public information of the Big Clients. It was his duty not to disclose or discuss with any other person(s) or to make improper use of the order details of a confidential nature of the Big Clients which he has come to know or was in possession of during the course of his business relationship / Client – Dealer relationship. Moreover, as a Dealer he has been associated with securities market. Thus, he has the knowledge about the various facets and functioning of the market. Therefore, he does understand the impact of substantial orders. In spite of being aware of the potential impact that a substantial order can have on the price of a particular scrip, IC 1 instead of being careful and diligent in handling the said information, has by his own admission communicated the same to IC 2 and FRs 1 and 2. Therefore, he has *prima facie* breached his duty to keep the information confidential and hence his submission is unacceptable.

14.2. IC 1's submission that he has not disclosed the source of his information or the trade details of the Big Clients, is also not acceptable as for the allegation of violation of front running what is relevant is the pre-existing knowledge of the substantial order of the Big Client which can potentially change the price of a security. Therefore, the material / relevant information which the IC needs to communicate, directly or indirectly, is to buy particular scrip(s) before a particular time of the day viz., as the market opens or before noon etc. Specific details about the order i.e., volume and price or who is placing the order including the source of IC's information are not essential to establish the allegation of front running. Thus, source of information of IC or the precise trade details of the Big Client, is not a relevant criterion for determination of violation of front running.

14.3. With respect to the impugned trades, IC 1 has submitted that the said trades were executed by the registered owner of the trading accounts with minute help from him. It is observed from the interim order that both IC 1 and IC 2

have, *prima facie*, not only employed a scheme to 'front run' the orders of the Big Clients but were also *prima facie*, involved in every step that led to the fruition of the scheme, from the beginning (access to non-public information) till the withdrawal of *prima facie* proceeds of the front running trades. Further, based on the astronomical increase in the trading activity of FRs during the Relevant Period vis-à-vis prior to the Relevant Period, large percentage of common scrip days with Big Client, substantial jump in the proceeds on the scrip days common with the Big Client and the high frequency of placement of orders by FRs prior to the placement of the impending orders of the Big Clients, on a preponderance of probabilities, *prima facie* led to a conclusion that the orders placed / trades executed from the trading accounts of FRs, would not have been entered into, had the *prima facie* ICs, not been in possession of or privy to the non-public information of the impending orders of the Big Clients. The FRs have not specifically addressed the aforesaid four parameters which were used to corroborate the *prima facie* finding in the interim order that front running trades were executed from their trading accounts, in their current submissions. Therefore, it can be *prima facie* held that all the impugned trades were executed pursuant to the *prima facie* scheme employed by the ICs wherein each Noticee has played his / her role. Moreover, as per FRs own submission, they have limited understanding about the securities market and have a meagre source of income. The aforesaid, when is juxtaposed with their trading activity in terms of gross buy / sell value, pattern of trading, pattern of deposit of cash and subsequent withdrawal in cash and sustained generation of proceeds over 8 months, on a preponderance of probability show that the minute help that IC 1 is referring to is nothing but the various facets / aspects of the *prima facie* scheme which was employed to *prima facie* front run the orders of the Big Clients. Thus, as observed in the interim order IC 1 as part of the scheme was *prima facie* operating and controlling the accounts of FRs 1 and 2 for the impugned trades.

14.4. With respect to the submission that the funds for the impugned trades were of FRs, it is observed that FRs 1 and 2 as per their own submissions have meagre source of income (FR 1 has a monthly salary of Rs. 12,000/- and FR 2 has no identified source of income). Having limited source of income, FRs 1 and 2 have not supported with documentary evidence their source of savings of Rs. 60,000/- each. Further, no explanation has been put forth by the FRs for putting their entire savings in the capital market, which when considering the dynamics of the market, is not a predictable investment. Moreover, as observed from their bank statements, a substantial cash deposit would be made in their bank accounts out of which substantial proceeds would be debited within few days by the stock broker. The FRs have not submitted any documentary evidence for the source of the cash deposit, inspite of being asked specifically for it at the time of hearing. Thus, I am constrained to draw an adverse inference against the FRs. Furthermore, the FRs have also not submitted any explanation / particulars as to who and why such large cash deposits were made in their bank accounts. Thus, in view of the aforesaid, it is *prima facie* held that the submission that the FRs had their own source of income to meet the requirements of the impugned trades, is without any merit.

14.5. Submission of the Noticees that trades were done at the available leverage is also unacceptable due to the following reasons:

14.5.1. Noticees have not supported their submission by documentary evidence demonstrating what was their total exposure, how much was the margin requirement for the trade executed by them and how the margin requirement was met.

14.5.2. It has already been *prima facie* held in the preceding paragraphs that the FRs did not have their own source of funds. Consequently, even the source of margin would not be that of FRs.

- 14.5.3. Moreover, as noted in the interim order, the impugned trades which were disproportionate to the declared source of income of FRs 1 and 2, were executed not because leverage of multiple times was available on the margin money but the IC 1 was confident that he would not make a loss.
- 14.6. Without prejudice to the aforesaid, it is observed from FRs 1's and 2's submission that they have limited expertise in trading in securities market and have a meagre source of income. The aforesaid when seen along with the material anomalies in their KYC documents (disproportionate trading activity as compared to declared income, providing a mobile number which is not a primary number), bank account statement / entries (cash deposits which is deployed subsequently for trading, mismatch between the declared income and actual inflow, lack of online transactions / issuance of cheques / any bill payment /any EMI / payment of insurance premium etc.) and ATM transactions (frequent cash withdrawals during the Relevant Period as compared to January, 2019 – November, 2019, CCTV footage, location of withdrawal of money, withdrawal of money in cash within few days of credit from the stock broker) and the cumulative effect of corroborative evidence as noted in preceding paragraphs, leads to a *prima facie* conclusion that Mr. Santosh B. Singh pursuant to the scheme employed by him and IC 2 to *prima facie* front run the orders of the Big Clients, was *prima facie* controlling and operating the trading and bank accounts of FRs 1 and 2.
- 14.7. FRs 1 and 2 have submitted that as taking delivery was beyond their capacity, so upon the advice of IC 1 they used to square off their positions. In this regard, it is observed from the examination of their KYC documents and bank statements that not only taking delivery was beyond FRs capacity, even entering into high gross value trades on a regular basis was beyond FRs capacity. The only *prima facie* reason for executing the first leg of the impugned trades was that IC 1 was privy to the information of the substantial impending order of the Big Clients and the first leg trades were squared off

only to encash the advantage of the first leg as a result of the price movement by the orders of the Big Client. Therefore, the submissions of the FRs is devoid of any merit.

14.8. With respect to the submission of FRs 1 and 2 that the IC 1 used to withdraw money on their behalf for medical needs and for the purpose of groom search, I note that the submission of the FRs are not supported by any documentary evidence viz, medical bills, online payment, payment to a third party etc. This when seen along with the fact that there was a pattern of withdrawal from ATM wherein it was observed that as soon as the money is credited by the stock broker, it is withdrawn in cash via ATM over a period of few days in denominations of mostly Rs 10,000/- (range is Rs 5,000 – Rs. 20, 000). This regular pattern during the Relevant Period is not in line with the submission of the FRs. Hence, the submission of the FRs is unacceptable, even if some of the money which was withdrawn may have been used for medical purposes as the end use of proceeds is not a relevant factor in determination of an allegation of front running.

14.9. FRs have submitted that the trades were executed in the normal course. The following is the trading data for the FRs prior to the Relevant Period vis-à-vis their trading activity during the Relevant Period:

Front Runner	Pre - Relevant Period		Relevant Period	
	(June 1, 2019 to Nov 30, 2019)		(Dec 1, 2019 to Aug 10, 2020)	
	Equity -Gross Trade Value (in lakh)	Intra Day Scrip Days	Equity -Gross Trade Value (in lakh)	Intra Day Scrip Days
FR 1	85	6	2,477	85
FR 2	0	0	3,630	107

Further, following is the detail of proceeds generated during the Relevant Period (dominated by common scrip with the Big Clients) than prior to the Relevant Period:

Front Runners	Pre - Relevant Period		Relevant Period	
	(June 01, 2019 to Nov 30, 2019)		(Dec 01, 2019 to Aug 10, 2020)	
	Intraday proceeds (in lakh)		Intraday proceeds (in lakh)	

FR 1	0.08	11
FR 2	0	18

The aforesaid two table show a substantial increase in the trading activity from the trading accounts of FRs 1 and 2 in the equity segment of the market and generation of significant proceeds, which leads to a *prima facie* conclusion that the trading during the Relevant Period cannot be defended as “normal trading behaviour” of FRs 1 and 2.

15. I, therefore, find that the submissions / explanations submitted by Mr. Santosh B. Singh, Mr. Virendra P. Singh and Ms. Neha V. Singh cannot be accepted because of the reasons as discussed in preceding paragraphs. Thus, the *prima facie* findings mentioned in the interim order dated October 1, 2020, that Mr. Santosh B. Singh has *prima facie* acted in a fraudulent manner which is in contravention to the provisions of Sections 12A (a), (b), (c) and (e) of SEBI Act, regulations 3 (a), 3 (b), 3 (c), 3(d), 4(1) and 4(2)(q) of PFUTP Regulations stand confirmed. Moreover, the *prima facie* findings in the interim order dated October 1, 2020, that Mr. Virendra P. Singh and Ms. Neha V. Singh have *prima facie* acted in contravention to the provisions of Sections 12A (a), (b) and (c) of SEBI Act, regulations 3 (a), 3 (b), 3 (c), 3(d) and 4(1) of PFUTP Regulations stand confirmed.

IC 2 and FRs 3&4

16. During the examination period, *prima facie* front running trades were executed from the trading accounts of FRs 3 and 4 between December 1, 2019 to August 10, 2020. The specific contentions raised by IC 2 and FRs 3 and 4 have been considered and dealt as follows while the common submissions for sake of brevity have not been repeated:

16.1. IC 2 has submitted that it was beyond his capacity or knowledge to filter the information that he received from IC 1 as genuine or non-public information. In this regard, it is observed that under the extant regulations (Section 12 A(e) of SEBI Act and regulation 4(2)(q) of PFUTP Regulations), there is no specific

requirement that the person who has received a non-public information should have the knowledge that the information received by him is non-public in nature. What needs to be established is that the Noticee in question was in possession of non-public information which he has used to place the order in the market. Any other interpretation would play mischief to the objective of curbing the misuse of non-public information, as elaborate schemes can be developed by letting the non-public information to pass through the intermediaries who may not have any knowledge as to its nature of non-public information before the misuse. It is relevant to note that in case of the spreading of false news, the PFUTP Regulations considers whether the same was dispersed with knowledge or belief in falsity in order to make such spreading of false news as “fraudulent”. However, there is no such requirement for invocation of Section 12 A(e) of SEBI Act and regulation 4(2)(q) of PFUTP Regulations. Therefore, the express words of the aforementioned provisions, leaves no room for ambiguity that knowledge of non-public nature of the information in the hands of the recipient, is not a relevant criterion under the aforementioned provisions. Hence, the submission of the IC 2 that it was beyond his capacity or knowledge to filter the information that he received from IC 1 as genuine or non-public information, is untenable. Without prejudice to the aforesaid, it is observed that IC 2 is an ex-sub broker of Angel Broking Pvt. Ltd. Thus, he has the experience of working in the securities market which could have alerted him to the following red flags:

16.1.1. Pattern of buying / selling shares before a certain time of the day over a period of eight months.

16.1.2. Considering the market dynamics, generation of regular proceeds over a period of eight months.

The overlooking of the aforesaid red flags when seen along with the following circumstantial evidence *prima facie* leads to a conclusion that IC 2 was aware of / had knowledge of the non-public nature of the information:

- Relationship between IC 1 and IC 2 – Both are friends / acquaintances who used to discuss matters related to securities market.
- Timing of contact between IC 1 and IC 2 - During the Relevant Period both the ICs were in constant communication, 405 calls in just 8 months.
- Attempt to Conceal the Identity – IC 1 as well as IC 2 did not use their own trading accounts to trade in the shares of impugned trades but *prima facie* used the accounts of their connected entities to execute the impugned trades during the Relevant Period.

16.2. With respect to the submission that the trades were executed by FRs 3 and 4 and IC 2 was not operating their trading and bank accounts, it is observed that FRs 3 and 4 are also similarly placed when it comes to their limited expertise in the securities market and no source / proper source of income. The said submissions have been dealt in preceding paragraphs *inter alia* based on material anomalies in their KYC documents, bank statements / entries and ATM transactions and hence, are not repeated here. In this regard, paragraphs 14.3 to 14.6 may be referred to.

16.3. The submission of IC 2 that no alerts were generated at the time of FRs 3 and 4 trading, is devoid of any merit. Whether there is any concern with respect to trading pattern in scrip(s) is a subject matter of examination / investigation in that scrip(s) and its outcome. Any direction or measure, if warranted, based on the outcome of such examination / investigation, is a post facto action taken to safeguard the interest of investors in securities market and protect the market from further damage, as done in the instant case. Thus, the time taken to arrive at such decision / action depends on the complexity of the matter, its scale and modus operandi involved. Thus, there is no substance in

the contention of the Noticee that no alerts were generated at the time of FRs 3 and 4 trading. In any event, the responsibility that front running trades are not executed lies with the person having access to the non-public information and the registered owner of the trading account. They cannot deflect the responsibility onto a third party.

- 16.4. Noticees have submitted that though they are not challenging the calculation of proceeds but the actual proceeds are less, if losses, brokerages and other statutory charges are included.

In this regard, it is observed that the interim order for the purpose of calculation of proceeds has taken into account scrip days / contract days where FRs have day traded and commonly traded with the Big Client and have earned a positive square off of Re. 1 or more, i.e., loss incurred by FRs have not been considered. It is relevant to note here that in general, the alleged front runner expects to make a profit from his trades by using the non-public information regarding an impending buy or sell order of the Big Client. In other words, he profits from the impact which the order of the Big Client has on the price of the securities. However, in certain situations the alleged front runner could incur loss for e.g., when the alleged front runner has not squared off his position at the right time i.e., the impact of the Big Client order has diminished or he is not able to close his position because of less liquidity / absence of counter party in the market and there can also be situations where the alleged front runner in order to camouflage his trades could incur loss on purpose. Therefore, the second leg of the intra day trade executed by the front runner is not considered relevant while classifying trades as front run trades. Thus, there is no reason to give benefit of the loss making trades to the alleged front runner as it does not take away the fact that the entire proceeds generated by profit making trades are illegal.

Moreover, if the *prima facie* proceeds of the fraudulent trades which have earned a positive square off have to be balanced with *prima facie* fraudulent

trades which have not earned a positive square off i.e., net value is taken into account, it will tantamount to advancing Noticee's interest as some of the proceeds from *prima facie* fraudulent trades which have earned a positive square off would go in offsetting proceeds from the *prima facie* fraudulent trades which have not earned a positive square off.

Furthermore, I note that at the interim order stage, direction has been given to impound the proceeds of *prima facie* fraudulent trades which have earned a positive square off Re. 1 or more. Therefore, at this stage of this proceedings, the question of entertaining the submission of the Noticees that brokerages and other statutory charges should be deducted from the impounding amount, does not arise.

16.5. The FRs have submitted that they were not aware that the information shared by IC 2 is confidential in nature. In this regard, I note that the ICs have *prima facie* employed a scheme to front run the orders of the Big Clients wherein each Noticee has played his / her role. Thus, as the impugned trades were pursuant to a scheme which *prima facie* involved each of the Noticees, the submission of the FRs that they were not aware of the confidential nature of the information, is unacceptable. Moreover, the aforesaid submission of the FRs does not arise for consideration at this stage as FRs have not rebutted the *prima facie* findings of interim order that the source of funds for the impugned trades were not theirs nor have they demonstrated that they have the expertise to execute the impugned trades or any other instance of trading in substantial quantity in terms of gross traded value and generating substantial proceeds. Thus, at this stage there is no reason to interfere with the *prima facie* findings of the interim order that IC 2 was controlling and operating the accounts of FRs and hence the aforesaid submission of FRs at this stage is untenable.

17. I, therefore, find that the submissions / explanations submitted by Mr. Adil G. Suthar, Mr. Gulammohammed Gulamabbas Shaikh and Mr. Mohammedidrish A Shaikh cannot

be accepted because of the reasons as discussed in preceding paragraphs. Thus, the *prima facie* findings in the interim order dated October 1, 2020, that Mr. Adil G. Suthar has *prima facie* acted in a fraudulent manner which is in contravention to the provisions of Sections 12A (a), (b), (c) and (e) of SEBI Act, regulations 3 (a), 3 (b), 3 (c), 3(d), 4(1) and 4(2)(q) of PFUTP Regulations stand confirmed. Moreover, the *prima facie* findings in the interim order dated October 1, 2020, that Mr. Gulammohammed Gulamabbas Shaikh and Mr. Mohammedidrish A Shaikh have *prima facie* acted in contravention to the provisions of Sections 12A (a), (b) and (c) of SEBI Act, regulations 3 (a), 3 (b), 3 (c), 3(d) and 4(1) of PFUTP Regulations stand confirmed.

Order

18. Considering the material on record, reply of the Noticees 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 directions of the interim order dated October 1, 2020.
19. I note that a detailed investigation in the matter is in progress which may bring out additional roles of omission or commission, of the Noticees, 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.
20. 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.

-sd-

DATE: August 31, 2021

PLACE: MUMBAI

MADHABI PURI BUCH

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA