National Stock Exchange of India

Circular

Department: Investigation	
Download Ref No: NSE/INVG/62292	Date: May 31, 2024
Circular Ref. No: 336/2024	

To All NSE Members,

Sub: **SEBI Final Order in matter of Front running by Kajal Savla**

This has reference to NSE circular no. NSE/INVG/54899 dated December 19, 2022 where in SEBI has restrained the below-mentioned entities from buying, selling or dealing in securities, either directly or indirectly, in any manner whatsoever until further orders.

Sr. no.	Name of the Entity	PAN
1.	Gaurav Dedhia	AFMPD5304F
2.	Kajal Savla	AAQPD2208R

SEBI now vide its order no. WTM/AN/IVD/ID4/30391/2024-25 dated May 31, 2024, has hereby restrained above entities from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in the securities market, directly or indirectly in any manner whatsoever manner, for a period of three years from the date of this Order.

The above directions come into force with immediate effect.

The detailed order is available on SEBI website (http://www.sebi.gov.in).

Further, the consolidated list of such entities is available on the Exchange website http://www.nseindia.com home page at the below mentioned link:

https://www.nseindia.com/regulations/member-sebi-debarred-entities

Members are advised to take note of the above and ensure compliance.

National Stock Exchange of India

In case of any further queries, members are requested to email us at dl-invsg-all@nse.co.in

For and on behalf of
National Stock Exchange of India Limited

Sandesh Sawant
Senior Manager

ANNEXURE: SEBI Final Order in matter of Front running by Kajal Savla

WTM/AN/IVD/ID4/30391/2024-25

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Sections 11(1), 11(4), 11(4A), 11B (1) and 11B (2) of the Securities and Exchange Board of India Act, 1992 read with Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995

In respect of:

Sl. No.	**Name of Noticee**	**PAN**
1.	Gaurav Dedhia	AFMPD5304F
2.	Kajal Savla	AAQPD2208R

(The entities mentioned above are individually known by their respective names or Noticee Nos. and collectively referred to as "Noticees")

In the matter of Front Running by Kajal Savla

EXECUTIVE SUMMARY

1. This case pertains to the alleged front running by the erstwhile Chief Dealer of IDBI Capital & Securities Markets Ltd. aided by and using the trading account of his sister over a period of two and a half years. The Chief Dealers' access to and/ or awareness of large impending orders of the institutional clients constituted the basis for the said trades which were observed to have been largely placed from the premises of his workplace.

BACKGROUND

2. Securities and Exchange Board of India's (hereinafter referred to as **"SEBI"**) surveillance mechanism generated front running alerts during the months of November 2020, December 2020 and January 2021 against Kajal Savla. Thereafter, SEBI conducted an investigation into the trading activity of Kajal Savla for the period from January 1, 2019 to July 15, 2022 (hereinafter referred to as "**Investigation Period**"). The investigation was carried on for the suspected violations of provisions of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act**") and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to

Securities Market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**").

3. The primary findings of the investigation are as follows:

3.1. Kajal Savla was trading through stock brokers, Sushil Financial Services Private Limited (hereinafter referred to as "**Sushil Finance**") and Motilal Oswal Financial Services (hereinafter referred to as "**Motilal Oswal**"). It was observed that she was front running the trades of Life Insurance Corporation of India, LIC Pension Fund Ltd., Unit Trust of India Mutual Fund, IDBI Trusteeship Services Ltd., Catalyst Trusteeship Ltd. and General Insurance Corporation of India (hereinafter collectively referred to as "**Big Clients**").

3.2. The trades of the Big Clients, which were being front run by Kajal Savla were all executed by the stock broker, IDBI Capital & Securities Markets Ltd. (hereinafter referred to as "**IDBI Securities**").

3.3. Investigation revealed that the Chief Dealer of IDBI Securities namely Gaurav Dedhia (hereinafter referred to as "**Noticee No. 1**") was the brother of Kajal Savla (hereinafter referred to as "**Noticee No. 2**") and being the Chief dealer, Gaurav Dedhia had knowledge of all the impending orders of the Big Clients of IDBI Securities.

3.4. On an examination of the Internet Protocol (hereinafter referred to as "**IP**") address of the trades executed from the trading account of Kajal Savla, it was noted that the IP address was of IDBI Securities located at Cuffe Parade, Mumbai where Gaurav Dedhia was working. The same showed that Gaurav Dedhia was operating the trading account of Kajal Savla from his office.

3.5. Thus, based on the facts and circumstances, a finding was arrived at the time of investigation that Gaurav Dedhia was the main perpetrator behind the front running activities of Kajal Savla. Further, Kajal Savla allowed her trading account to be used by her brother for such fraudulent activities and was also a party to such activities. Therefore, the activities of the Noticees were in violation of the relevant provisions of SEBI Act and PFUTP Regulations.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Pursuant to the completion of the investigation in the matter, an *Impounding Order cum Show Cause Notice* dated December 19, 2022 (hereinafter referred to as "**SCN**") was passed against the Noticees *inter alia* restraining the Noticees from accessing or dealing in the market including a direction to deposit the proceeds (INR 1,67,70,060/-) of the *prima facie* front running activity. Details of the facts and allegations made in the SCN are reproduced later in this Order under the heading "Consideration of Issues and Findings".

5. Subsequent to the service of SCN, the Noticees have only deposited INR 66 lakh in an escrow account and have submitted a list of their assets. It is noted from material available on record that there are numerous correspondences with the Noticees post the service of the SCN. Some of the important correspondences with the Noticees are placed below in a chronological order:

Table No. 1

Sl. No.	Date	Nature of Correspondence
1.	5-6/1/2023	Inspection request submitted by the Noticees.
2.	24/1/2023	Inspection carried out by the Noticees.
3.	7&9/2/2023	Request for additional documents made by the Noticees.
4.	23/2/2023	Letter seeking discovery / production of documents received from the Noticees.
5.	1/4/2023	Letter received from Noticee No. 1 informing that INR 66 lakh has been deposited in an escrow account.
6.	5-6/4/2023	Reply submitted by the Noticees.
7.	12/5/2023	Hearing on 13/7/2024 scheduled in the matter.
8.	29/6/2023	Letter received from the Noticees requesting cross-examination in the matter.
9.	11/7/2023	Letter received from the Noticees seeking adjournment of hearing.
10.	12/7/2023	Noticees were informed that hearing has been rescheduled to 13/9/2023.
11.	11/9/2023	Noticees were informed that hearing has been rescheduled to 18/10/2023.
12.	18/10/2023	Part hearing was conducted in the matter.
13.	25/11/2023	Letter received from the Noticees requesting cross-examination in the matter.

Sl. No.	Date	Nature of Correspondence
14.	29/1/2024	Email sent to the Noticees regarding additional documents sought by them and with respect to their cross-examination request.
15.	6/2/2024	Cross-examination on 26/2/2024 was scheduled in the matter.
16.	9/2/2024	Requests for additional material / documents received from the Noticees.
17.	16/2/2024	Reply sent to Noticees with respect to their request for additional material / documents.
18.	26/2/2024, 7/3/2024 & 21/3/2024	The Noticees conducted cross-examination of witnesses (2 in nos.) in the matter.
19.	11/3/2024	Post cross-examination submissions were received from the Noticees.
20.	16/4/2024	Hearing was concluded in the matter.
21.	27/4/2024	The Noticees filed post hearing written submissions.
22.	3/5/2024	Additional submissions were received from the Noticees.

6. Noticees vide their letter dated April 5 and 6, 2023 submitted their replies, both of which were on similar lines. Noticees while denying the allegation levelled against them have *inter alia* submitted as follows:

6.1. During the relevant period, there were 75 institutional clients associated with IDBI and Noticee No. 1 was responsible for order management of 15 institutional clients. In the instant proceedings, SEBI has limited its findings only in respect of 6 Big Clients and Noticee No. 1 was directly handling only 3 of the said Big Clients.

6.2. No evidence has been given to show that the Noticee No. 1 might divert the alleged gain or has ever attempted in the past to dispose of the property or divert the alleged ill-gotten gains to any of his source. Therefore, there was no need to pass directions to attach his bank accounts. Further, since considerable time had lapsed between the last alleged trade and passing of the Impounding Order coupled with his suspension, there was no urgency to pass the Impounding Order.

6.3. SEBI is yet to furnish the complete order and trade logs based on which comparative analysis and conclusions have been made in the Impounding Order including the order and trade logs of the Big Clients and complete ordinary trade log of the market.

6.4. Contradictory observation has been taken against Noticee No. 1 in the SCN. On the one hand, it is observed that the Noticee No. 1 himself was possibly executing the trades in the account of the Noticee No. 2. On the other hand, it is alleged that he aided and abetted and acted as a tipper to Noticee No. 2 in front running the orders of the Big Clients.

6.5. Noticee No. 1 has not affected a single alleged trade himself and the trades of Noticee No. 2 are independent trades based on the day-to-day performance of the scrip.

6.6. It has been alleged that Noticee No. 1 has shared non-public information about the impending trade orders of Big Clients with Noticee No. 2. However, no evidence has been brought on record pertaining to the mode of communication used by Noticee No. 1 to exchange such information. Further, no calls between Noticee No. 1 and his sister could be mapped with the trades that were allegedly front run.

6.7. SEBI has failed to carry out independent examination of the organisation structure of IDBI Securities and the Client Instruction Management System followed at IDBI Securities for trading on behalf of the Big Clients in the securities market.

6.8. No data has been provided to show how the non-public information pertaining to order of the Big Client used to flow from the end of Big Clients' dealers and notified to officers who were involved in placing of orders on behalf of Big Client.

6.9. No details / information has been given to show the time at which the assigned dealers used to get the information pertaining to the orders for buy / sell in a particular scrip of the Big Clients and the time difference between receiving such information and placing the orders on behalf of the Big Clients in the market.

6.10. Noticee No. 1 denied that he had an exclusive access to Bloomberg Terminal and submitted that the said terminal was equally accessible by Arjun Rawat who was also responsible for handling / communicating the orders of Big Clients received through the said terminal to the respective assigned dealers.

6.11. Only few of the orders of Big Clients used to be received through the Bloomberg Terminal and as mentioned by IDBI itself (vide e-mail dated June 26, 2022), most of the orders of Big Clients were received vide Fix Line, telephones and emails.

None of the orders of Big Clients whose trades have been analysed for establishing the case, were received on the Bloomberg Terminal.

6.12. The Client Instruction Management System followed in respect of such Big Clients is as under:

Table No. 2

Sl. No.	Big Client	Trade order flow process	Assigned Dealer
1	LIC	Recorded Line /Auto-Redialing Mode	Before June 2020: Mr. Amrut Hankare and Mr. Arjun Rawat. Post June 2020: Mr. Arjun Rawat, Mr. Ashutosh Desai and Ms. Manisha Rathod.
2	GIC	Electronic Fixed Line	Before June 2020: Mr. Amrut Hankare Post June 2020: Mr. Arjun Rawat
3	SBI Pension Fund	No trades with IDBI from January 1,2019 to March 31, 2022	-
4	UTI Flexi Cap	Electronic Fixed Line	Mr. Gaurav Dedhia
5	IDBI Trusteeship	Written Instructions to assigned dealer	Mr. Gaurav Dedhia, Mr. Arjun Rawat and Mr. Ashutosh Desai
6	Catalyst	Written Instructions to assigned dealer	Mr. Gaurav Dedhia and Mr. Arjun Rawat

6.13. It can thus be concluded that Noticee No. 1 was not privy to any information pertaining to the orders of Big Clients which were not directly assigned to Noticee No. 1.

6.14. It has been alleged that the dealing room activities was "overseen" by the Chief Dealer, Noticee No. 1 on the basis of the information provided by the Compliance Officer of IDBI Securities vide her email dated June 29, 2022. However, what is meant by "overseen" has not been defined.

6.15. In cases where Noticee No. 1 was not the assigned dealer, information regarding impending orders was not shared prior to the placement of the orders. Such information was only disclosed to Noticee No. 1 after the completion of the trade, when the trade completion deal ticket was sent to the Back Office for processing the contract note. Noticee No. 1, therefore cannot be presumed to have the knowledge of the impending orders of all the Big Clients of IDBI Securities.

6.16. It is submitted that Media Access Control (hereinafter referred to as "MAC") details have not been provided to show that the said trades were executed from the IDBI's personal computer used by Noticee No. 1 during the Investigation Period.

6.17. At various instances information pertaining to the IP address is wrong and unreliable. There are instances shown, wherein neither Noticee No. 1 nor Noticee No. 2 were present in the premises of the IP address. A bare perusal of the given IP addresses, would show that there are certain alleged trades executed on the days, wherein there is either no log in into the account of the Noticee No. 2 or even if there is a login, the IP address has not matched with the IP address details provided by IDBI Securities. Further, the said data also includes instances where the log-in IP is different from log off IP and vice versa, and also includes the instances where there is a dual IP log-in. This itself creates a doubt whether the IP data so provided is appropriately recorded or not.

6.18. It is pertinent to note that only selective data for the period of May 31, 2022 to July 25, 2022 has been provided by IDBI Securities to SEBI whereas the investigation period spans over several months. It is denied that Noticee No. 1 has deleted any data from the system in an unauthorized manner. IDBI Securities has not provided any proof towards the allegation of such unauthorised deletion.

6.19. The data of all the computers at IDBI Securities was being stored and backed-up in the main server/network of IDBI Securities. Hence, even if the data that cannot be found or recovered from the computers of employees of IDBI Securities, it can be recovered from the IDBI Securities main server level network.

6.20. Noticee No. 1 had transferred money to the account of Noticee No. 2 to the tune of INR 57 lakh to cover up for the losses incurred by her while trading in securities. Out of the said amount, INR 51.35 lakh was transferred to the Noticee No. 2's stock broker on the same day as that of transfer to trade in F&O segment and cash segment. In the cash segment, first alleged front running trade was observed after 24 days of the fund transfer while in the F&O segment, the same was observed after 51 days from the last fund transfer to the stock broker.

6.21. It has been wrongly assumed that Noticee No. 2 had barely any annual income to take such huge risky positions and that the same is disproportionate to her annual income. The said assumption does not appreciate the fact that the trading turnover for an entity does not have any bearing on the actual income of the entity.

6.22. The alleged F&O trades are not falling within the criteria of the Buy-Buy-Sell pattern / Sell-Sell-Buy pattern of front running as there is not even a single trade instance in F&O where the quantity of the Noticee has matched with the Big Clients. It is so because in all the alleged F&O trades, the Big Clients and the Noticees were trading in different segments.

6.23. Comparing the two segments in order to establish the alleged price impact charges against the Noticees may not be appropriate since they operate on different trading strategies and have distinct market dynamics. The F&O segment of the stock market generally trades at a premium compared to the cash segment. The premium in the F&O segment is subject to continuous changes throughout the day and over the expiry of the F&O series. Any buying or selling in the cash segment may not necessarily have an impact on the F&O segment.

6.24. NSE in its "Trade Order data", has observed and termed certain trades as "No FR" in both the segments on the basis that those trades were not falling into any of the self-declared given conditions of Buy-Buy-Sell pattern and / or Sell-Sell-Buy pattern of Front Running. In almost all of such "No FR" trades either the first leg of the transactions/trades were executed post the execution of the buy / sell trades of the Big Clients or the second leg was executed prior to the execution of the buy / sell trades of the Big Clients, making such mentioned laid conditions false to constitute them as Front Running instances.

6.25. There are around 5 instances of alleged trades executed in the scrip of ADANIENT, wherein the pattern of alleged FR buy or sell trade is not similar to that of the pattern of Big Clients trade. In all such alleged trade entries noted against Noticee No. 2 in Buy-Buy-Sell pattern, as against the buy trade of the Big Client in the first leg, the sell trade was executed in the account of Noticee No. 2. Such trades do not qualify the Buy-Buy-Sell pattern relied upon to establish the case against the Noticees.

6.26. Out of the total alleged 1,002 cash trade entries there are around 140 such alleged "No FR" instances and 93 such alleged "No FR" F&O trades out of 258 F&O trades, where legible profit earned through the trades executed in the account of Noticee No. 2, was taken into consideration. Such trades should have been excluded from the alleged calculation of the ill - gotten gains.

6.27. There are certain alleged trades executed on the days, wherein there is either no log in into the account of Noticee No. 2 or even if there is a login, the IP address has not matched with the IP address details provided by IDBI Securities. On this basis, it can be conclusively said that Noticee No. 1 had not logged in into Noticee No. 2’s account allegedly from his office system and that the said trades are not executed while in possession of order details of the Big Client.

6.28. In regards to the above, the following may be noted:

Table No. 3

<table>
<tr><th>Sl. No.</th><th>Total Instances</th><th>Specific Instances</th><th>Total Instances</th><th>Specific Instances</th><th>Remarks</th></tr>
<tr><th></th><th colspan="2">Cash Segment</th><th colspan="2">F&O Segment</th><th></th></tr>
<tr><td>1</td><td rowspan="3">1002</td><td>5</td><td rowspan="3">258</td><td>7</td><td>No login shown in the trading account of Noticee No. 2.</td></tr>
<tr><td>2</td><td>18</td><td>14</td><td>IP address has not matched with the IP address details provided by IDBI Securities.</td></tr>
<tr><td>3</td><td>101</td><td>16</td><td>Dual IP Login during market hours i.e., one IP between is although</td></tr>
</table>

					matching with the IP address details provided by IDBI Securities, however the other given IP address is a random one.
4		13		2	Login is shown from the IP address of IDBI Securities, however the log off is from different IP address and vice versa.
Total		**136**		**39**	

6.29. Trade entries where trades of the Big Client bearing Permanent Account No. (hereinafter referred to as "**PAN**") AABTN0648L are alleged to have been front run by the Noticees, should be excluded. The said PAN is indicated to belong to SBI Pension Fund as per the statements given by IDBI Securities during the course of investigation, while in the Investigation Report it is shown to be that of LIC Pension Fund. Further, in the order trade log data provided for cash Segment, the said PAN is indicated to belong to New Pension System Trust, however nowhere it has been shown as to who is the trustee of the said scheme. Identity of the Big Client is important to analyse which mode of Client instruction management was followed for receiving such Big Client's orders and who was the assigned dealer for receiving the orders from such Big Client.

6.30. Even if it is presumed that the said PAN belongs to LIC Pension Fund, in that case also the said alleged trades cannot be imputed to the Noticees since Noticee No. 1 was not an assigned dealer of LIC Pension Fund during the relevant period. Further, if it is presumed that the said PAN belongs to SBI Pension Fund, in that case it is pertinent to note that SBI Pension Fund was not associated with IDBI Securities during the relevant period.

6.31. Execution and management of the orders was responsibility of multiple assigned dealers apart from just Noticee No.1. The same can further be seen from the dealer details provided in the Investigation Report. Upon perusal of the dealer details, it is submitted that 834 trades in the cash segment and 201 trades in the F&O Segment should be excluded, as Noticee No. 1 was not privy to the information of the Big Clients.

6.32. Trades where buying or selling was not ahead of the Big Client's order, should be excluded. Out of 1,002 trades in the cash Segment, 172 trades and in F&O Segment 50 trades, fall in the said category.

6.33. Trades where the order for the first leg of the trade was placed with a time gap ranging from 5 minutes to 5 hours before the placement of Big Client's order should be excluded. That the decision of the Big Client to acquire shares / contracts or sell its shares / contracts, and information about its possible trades, is confidential and is shared generally at a very shorter notice. The assigned dealers have a very limited amount of time (less than 1 minute) between receiving instructions about the Big Client's order placement and the actual execution of those orders in the market. As a result, it would not have been possible for Noticee No. 1 or any other assigned dealer for that matter to receive information or instructions pertaining to any trade from the Big Client 10-15 minutes prior to order placement. Further, it is worth noting that Big Clients generally do not prefer giving their orders to the assigned dealer much prior to their actual placement in the market. This is because the stock prices constantly fluctuate in the market, particularly for highly liquid scrips the price can change and revise with every tick. Given this, both the Big Client and the assigned dealer cannot afford any delay or a time gap in placement of the orders.

6.34. The aforesaid submission is further substantiated by the information received from IDBI Securities vide email dated June 17, 2022 that "*the time lag in orders received via Fix Line is miniscule and as such there are no impending orders*". The said information itself clarifies the stand of the Noticees regarding the availability of the limited amount of time for the placement of Big Clients orders. The number of instances in F&O Segment is 30 and in cash Segment is 46.

6.35. The trade executed on July 14, 2022 should also be excluded as Noticee No. 1 was not present on the premises of IDBI Securities on account of his suspension with effect from July 13, 2022. Hence, he cannot have access to the information of the Big Clients. Further, the IP address of the trade is different from the IP address of IDBI Securities.

6.36. Notice No. 2 has also suffered losses while trading in her account during the Investigation Period, which was completely ignored while computing the alleged ill-gotten gains. Hence, the calculation is flawed and done by cherry-picking only profitable trades.

6.37. The alleged computation of ill-gotten gains also includes the entries, which are termed as "*duplicate entries*" by NSE in its Trade Order data. However, the said fact has been overlooked while computing the ill-gotten gains. In addition, in various alleged FR trades, the alleged profit has been counted twice and imputed against the Noticees, while computing the ill-gotten gains.

6.38. No evidence has been provided to show that the alleged gains made out of the trades executed in the account of Noticee No. 2 were transferred to Noticee No. 1 or were in the possession of Noticee No. 1. In light of *Karvy Stock Broking Ltd.* vs. *SEBI* (Appeal No. 6 of 2007 dated May 02, 2008), it is submitted that the directions regarding disgorgement should be quashed against Noticee No. 1 as no gains have been made by Noticee No. 1.

6.39. Noticees have not violated provisions of SEBI Act, as the trades are not manipulative, as the trades did not fiddle with the price order matching system and market equilibrium of the Stock Exchange.

6.40. Since the element of "fraud" is not established, there is no case for violation of regulations 3(a) and (c) of PFUTP Regulations. Further, the Noticees have not employed any device, scheme or artifice to defraud the market by dealing in securities in any manner.

7. Noticee No. 1 in her reply dated April 6, 2024 has provided her trading rationale while trading in different scrips during the investigation period.

8. Considering the facts and circumstances of the matter, a hearing in the matter was conducted on October 18, 2023. At the time of the hearing, the Authorised Representatives of the Noticees reiterate their request to cross-examine the employees of IDBI Securities and Sushil Finance.

9. The cross-examination requests of the Noticees was considered. Noticees where granted an opportunity to cross examine Iswar Padhan (MD & CEO of IDBI Securities at the relevant time) and Christina D'Souza (Compliance Officer of IDBI Securities at the relevant time) while their request to cross-examine the employees of Sushil Finance was not acceded to (reasons have been discussed in subsequent paragraphs).

10. Cross-examination of Iswar Padhan was conducted on February 26, 2024 and on March 7, 2024 while cross-examination of Christina D'Souza was conducted on March 21, 2024. Pursuant to the cross examinations, a hearing in the matter was scheduled on April 16, 2024.

11. Post cross-examination, Noticees vide a common letter dated March 11, 2024 *inter alia* submitted as follows:

11.1. The IP data provided by Sushil Finance is faulty. There is a high possibility of existence of potential software bugs within Sushil Finance's system or technical glitches, which has impacted the reliability of information provided by it. Most importantly, no digital evidence and certificate as required under Section 65B of the India Evidence Act, 1872 has been provided for the alleged IP login details provided by Sushil Finance to certify the source of the data relied against the Noticees. Therefore, there is a need to cross-examine the employees of Sushil Finance to gain an understanding of the process of collecting and maintain IP data at Sushil Finance.

11.2. Iswar Padhan and Christina D'Souza made contradictory statements during their cross-examination. While Iswar Padhan stated that he had discussed about cross-examination with Christina D'Souza, the latter has denied the same.

11.3. Mr. Padhan's statements are unreliable as his assertions are based on understanding / general information rather than from personal knowledge. It is pertinent to note that Mr. Padhan's reliance on general information to state that Noticee No. 1 could easily access orders received by other dealers rather than it being based on facts and personal knowledge indicates ambiguity in his statements. Moreover, he had visited the dealing room to enable him to gauge any information about the activities happening in the dealing room on very few instances.

11.4. It is asserted that Mr. Padhan's incriminating statement is based on external factors, particularly the queries of SEBI. Further, the statements were given without carrying out independent investigation within IDBI Securities. Moreover, the statement of other dealers who were prime witnesses to the activities in the dealing room were not recorded. Given this scenario, it raises significant questions as to basis of Mr. Padhan's incriminating statements against Noticee No. 1. Therefore, his statement is unreliable.

11.5. The information provided by Christina D'Souza is also unreliable as the information provided by her is not based on her personal knowledge but were provided to her by different Head of Departments. Further, the said information was not personally verified by her but was verified by the respective Head of Departments who as per her were more technically savvy.

11.6. There are no emails by which the information was provided to her by the Head of Departments. As admitted by her, the same was orally confirmed to her. Therefore, the information provided by her constitutes hearsay evidence.

11.7. Further, during cross-examination when she was questioned whether from retrieved files, only some files were submitted, she never mentioned that the Noticee No. 1 deleted any data. She stated that personal data not relevant to the matter was not submitted.

11.8. Christina D'Souza never entered the dealing room during Covid period, therefore reliance should not have been placed on the information provided by her.

11.9. It is submitted that the primary purpose of the testimony of officers of IDBI Securities was to deflect any action that could have been taken by SEBI against IDBI for compliance failures and negligence on their part.

12. Pursuant to the cross examinations, a hearing in the matter was scheduled on April 16, 2024. On the scheduled date and time, the Noticees along with their Authorized Representatives appeared for the hearing. The Authorized Representatives reiterated the submissions made in their replies dated April 5 & 6, 2023. A query was put to the Authorized Representatives that considering the scrips in which the alleged front running trades were executed are liquid, mathematically the probability of the orders being placed from the trading account of Kajal Savla on the right side of the orders of the Big Clients, should be very low. However, the opposite has been observed. Coincidence of it happening is abnormal. The Authorized Representatives stated that they would make their submissions in their additional reply. The Authorized Representatives at the time of hearing sought additional time till April 26, 2024 to make further submissions, if any, in the matter.

13. Post hearing, the Noticees vide their letter dated April 27, 2024 while reiterating their earlier submissions *inter alia* made the following submissions:

13.1. During the period January 1, 2019 till December 19, 2022, 7,023 trades were executed in the account of Noticee No. 2, in both the cash and F&O segments. Further, a comparison of the total number of trades i.e., 7,023 trades with 1,260 alleged front running trade entries reveals that a mere 17.94% out of the total trades of the Noticee were alleged as front-running instances allegedly following or similar to that of the pattern of Big Clients' trade. The said fact indicates that the Noticee No. 2 was an active trader and investor in the market and was not reliant on Noticee No. 1 for non-public information regarding impending trade orders from the Big Clients. Thus, the probability of the trades of the Noticee No. 2 allegedly following the pattern of Big Clients' trades is evidently too low when compared to the total trades of the Noticee No. 2. This low probability justifies the case of the Noticee No. 2 that her trades were genuine and any alleged matching of the same with the big clients' orders was a mere coincidence.

13.2. Similar submissions as noted above have been made by the Noticees by excluding trades which are categorized as “No FR trade entries by NSE” or by excluding trades not falling within Buy-Buy-Sell / Sell-Sell-Buy pattern or by excluding trades in F&O segment.

13.3. All the alleged trades where trades have been categorised as “No FR trade”, trades where position was not taken ahead of Big Client’s order, trades wherein the first leg was executed with a time gap ranging from 5 minutes to 5 hours, trades where Noticee No. 1 was not assigned dealer, trades with no IP address, trades with different IP address then IDBI Securities, trades with dual IP address, trades with multiple IP address and trades where identity of the Big

Client cannot be ascertained, should be excluded from the calculation of wrongful gains.

13.4. Apart from the reasons submitted earlier for faulty IP address, there is one more additional reason for submission of faulty IP address details submitted by Sushil Finance which is that there are instances were IDBI Securities IP was disconnected during market hours. There was no attempt to log in from IDBI Securities IP. Still trades were executed.

13.5. The statement of Mr. lswar Padhan that the dealers in the dealing room could see the screen of other dealers and also overhear the conversation of other dealers is false. The composition of the dealing team further supports our contention. Mr. Arjun Rathod who was seated approximately 10 feet away from the Bloomberg terminal on Noticee No.1’s left side, was closer to the terminal than Noticee No. 1. Similarly, Mr. Amruth was seated about 18 feet away on the left side, Mr. Ashutosh's trading computer was positioned approximately 10 feet away on the right side, and Ms. Manisha was seated around 40 feet away towards Noticee No. 1's left. Given this physical layout and the operational procedures in place, it is implausible for Noticee No. 1 to have access to or obtain information about the trades of Big Clients of other dealers.

13.6. It is important to note that the operational dynamics within the dealing team were such that all execution of orders, including those of the Big Clients, was carried out by the assigned dealer on the Bloomberg terminal without involving Noticee No. 1 or seeking instructions from him.

14. Noticees have made additional submissions vide their letter dated May 3, 2024 subsequent to their post hearing submissions. The Noticees have reiterated their submissions and *inter alia* submitted as follows:

14.1. Noticees elaborated on the seating arrangement of the dealing room at IDBI Securities.

14.2. Throughout the investigation period (840 trading days), the institutional desk of IDBI Securities would have handled on an average 75-80 trades per day. With such a high volume of trades, it is implausible for the Chief Dealer to possess comprehensive knowledge or information regarding each of the 63,000 to 67,000 trades during the investigation period.

CONSIDERATION OF ISSUES AND FINDINGS

15. I have considered the allegations in the SCN, their written submissions, oral submissions and other material available on record. I find that the following issues arise for determination in the present matter:

15.1. Whether the Noticees have front run the impending orders of the Big Clients?

15.2. If answer to the aforesaid question is in affirmative, whether the conduct of the Noticees has resulted in violation of provisions of SEBI Act and PFUTP Regulations which warrants issuing of directions and / or penalty including the liability to disgorge the wrongful gains made from the front running trading activities?

16. Before I proceed to deal with the Noticees' written and oral submissions and adjudicate the allegations levelled against them, it will be appropriate to reproduce the text of applicable provisions in the matter. The same are Sections 12A (a), 12A (b), 12 A (c) and 15HA of SEBI Act, regulations 3 (a), 3 (b), 3 (c), 3(d), 4(1) and 4(2)(q) of PFUTP Regulations. The text of the aforesaid provisions reads as follows:

SEBI Act

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

Section 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.

Penalty for fraudulent and unfair trade practices.

15HA. If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher

PFUTP Regulations

Prohibition of certain dealings in securities

Regulation 3. 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 thereunder;

(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 thereunder. Prohibition of manipulative, fraudulent and unfair trade practices

Regulation 4 (1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

Regulation 4 (2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves–

...

(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;

PRELIMINARY ISSUES

Urgency

17. Before going to the merits of the case, I find it appropriate to deal with the preliminary contentions raised by the Noticees. The Noticees have contended that there was no urgency to pass the impounding order since considerable time had lapsed between the last alleged trade and passing of the Impounding Order and the fact that Noticee No. 1 had been suspended. Further, no evidence has been brought on record to show that the Noticee No. 1 might divert the alleged gain or has attempted in past to dispose of the property.

18. It is pertinent to note that Sections 11 and 11B of the SEBI Act empower SEBI to pass ex-parte Impounding Orders in order to prevent further possible mischief of tampering with the securities market. In the present matter, at the time of passing of the Impounding Order there was adequate evidence to show *prima facie* misuse of non-public information of the Big Clients by Noticee No.1 by way of executing front running trades from the trading account of Noticee No. 2. The said *prima facie* front running trades, which had carried on for more than 2 years, would have continued unabated in future too but for the enquiries made by SEBI. Thus, there was an immediate need to restrain the trading activities of Noticee No. 2 coupled with the fact that Noticee No. 1 was the Chief Dealer of IDBI Securities, thus having access to non-public information of several Big Clients. Considering the brazen way in which the Noticees had carried out their *prima facie* fraudulent activity for more than 2 years, there was a high probability that Noticee No. 1 would have or could have misused non-public information of several clients. Consequently, in the said process, it would have not only resulted in breaching of fiduciary duty of the stock broker towards its clients, having a bearing on the confidence of the said clients to deal in the securities market but also had an adverse impact on the integrity of the securities market. As held by Hon'ble Securities Appellate Tribunal (hereinafter referred to as "**SAT**") in the matter of *Ms. Pooja Menghani* vs. *SEBI* decided on April 23, 2014 that "*Front-running is* *undoubtedly very injurious to the market and which is resorted to by some unscrupulous persons at the cost of innocent and genuine investors who incidentally or unfortunately do not possess that information which such front runners have come to know due to any means or by their position*."

19. Moreover, as per the available records at the relevant time, there was evidence to *prima facie* show that Noticee No. 1 had attempted to delete the data from his office computer, thereby making the prospect of him diverting the wrongful gains made by their *prima facie* front running activities, highly likely. Therefore, Impounding Order was required to be passed to ensure that post passing of the Final Order in the matter, if direction of disgorgement is issued against the Noticees, the implementation of the said direction does not get defeated. In any case, the Impounding Order has demonstrated how the *prima facie* wrongful gains made by the Noticees were intrinsically linked with the fraudulent activity of the Noticees. Thus, there was a need to impound the same. Hence, I find the submission of the Noticees with respect to urgency in passing of the Interim Order and lack of evidence for diverting wrongful gains, without merit.

20. Without prejudice to the above, I note that the present proceedings have been initiated under Sections 11(1), 11(4) and 11B of SEBI Act and hence are quasi-judicial in nature as held by the Hon'ble Supreme Court in the matter of *NSDL* vs. *SEBI* and Other Connected Appeal, Civil Appeal No. 5173 of 2006 decided on March 7, 2017. Here, it would be appropriate to refer to the order of the Hon'ble Supreme Court in the matter of *Tata Consultancy Services Limited* vs. *Cyrus Investments Pvt. Ltd.* dated March 26, 2021 wherein it was held as follows: "*It is true that the rigors of CPC and the Evidence Act are not applicable to Tribunals/Quasi-Judicial Authorities…*" Quasi-judicial proceedings are guided by principles of natural justice. They are not strictly subject to provisions of Indian Evidence Act, 1872. Hence, I find the submissions of the Noticees regarding lack of evidence for diverting wrongful gains, untenable.

21. With respect to the submission of the Noticees that considerable time had lapsed between the last alleged trade and passing of the Impounding Order, I note that period under examination covered more than two years. Examination in front running matters require gathering of information from multiple institutions and intermediaries such as stock brokers, stock exchanges, banks, telecom service providers, etc. Voluminous data needed to be processed and analysed before a *prima facie* conclusion could be drawn. It would be unlawful and counterproductive to argue that interim actions must be passed devoid of such a fact-finding exercise.

22. The Noticees have submitted that due to the operation of the Impounding Order, the Noticees are undergoing serious hardship as the bank accounts and trading accounts of Noticees have been frozen. Further, Noticee No. 1 has been debarred from associating himself with any intermediary registered with SEBI, till further orders due to which Noticee No. 1 is presently unemployed. The Noticees have argued that such injury caused to them by not being able to meet their medical and day-to-day expenses is greater than the alleged violation made out in the Impounding Order. In this regard, I note that the Impounding Order has elaborated the rationale for both impounding of the *prima facie* wrongful gains and the need to prevent the Noticees from accessing and dealing in the securities market. The risk of continued front running of Big Client's trades and the immense damage that such actions, if left unchecked, would cause to the integrity of the securities market is one that the securities market regulator must seek to mitigate, in compliance with the mandate of securities law.

Order Log and Trade Log

23. Noticees have contended that they have not been provided with order and trade logs of the Big Clients and complete order trade log of the market. They needed the same to know the price impact analysis of their trades and the trades executed by the Big Clients and whether Noticee No. 2 was the only one who had similar trading pattern.

24. I note that the relevant data concerning the front running instances executed from the trading account of Noticee No. 2 has been provided to the Noticees. Further, complete order log and trade logs of Noticee No. 2 including those executed on the F&O segment have been provided to them. However, trade log of the Big Clients may provide confidential information relating to their trading strategy and therefore, the request for providing trade log of the Big Clients was not acceded to. With respect to the complete order trade log of the market, it is noted that the same is not available with SEBI and hence was not provided to the Noticees. In any case, I do not find any merit in the rationale put forth by the Noticees for requiring the entire trade log of the Big Clients. Noticees are required to explain the legality of the impugned trades to justify their submission that Impounding Order was not warranted. Rather than doing so, the Noticees are seeking to disprove the allegations by pointing out trades, which do not even fall within the realm of the front running allegation made in the Impounding Order. The possibility of someone else having a similar trading pattern as that of the trades executed from the trading account of Noticee No. 2 would not have a bearing or explain or absolve the Noticees from front running allegations in the specific trades in question.

25. The submission of the Noticees that it was legitimate for the Noticees to know how many of the alleged front running orders and the orders of the Big Clients were there on the screen and at what rate and how many of those orders were modified and to what extent and how many of those resulted in trades, is also without merit. In order to refute an allegation of front running, one has to show that it was a fortuitous act or some trading strategy as to why the impugned order was placed prior to the last tranche of the order of the Big Client. So long the impugned order of the alleged front runner is placed prior to the last tranche of the order of the Big Client, it is immaterial whether subsequently the orders were modified and to what extent and how many of those resulted in trades.

Contradictory Allegations

26. It has been submitted by the Noticees that contradictory observations have been made in the SCN as Noticee No. 1 has been categorised as both tipper as well as person who has executed impugned orders. It is noted from the records that impugned orders have been executed in the matter both by accessing the website of Sushil Finance from Noticee No. 1's office as well as physically placing the order by visiting the office of the other stock broker of Noticee No. 2 i.e., Motilal Oswal which was in close proximity to the residence of Noticee No.2. There is evidence which shows that Noticee No. 1 was in touch with his family members over telephone during office hours. Thus, in my view there is adequate evidence available to allege that Noticee No. 1 has acted as both a tipper as well as a trader. Hence, I do not find any contradiction in the SCN.

Issues pertaining to Cross-Examinations

27. It is noted from Noticees submissions that they have contended that the information that has been provided by the MD & CEO of IDBI Securities and Compliance Officer of IDBI Securities cannot be relied upon. The specific contentions of the Noticees are dealt herein under:

27.1. Iswar Padhan and Christina D'Souza are making contradictory statements during their cross-examination. Therefore, their testimonies cannot be relied upon.

The assertion of the Noticees is based on the questions which were put to the witnesses. When Iswar Padhan was questioned whether he had discussed any details of cross-examination with Christina D'Souza during the second day / occasion of cross-examination, he answered that he had spoken generally to her about the cross examination. While when Christina D'Souza was questioned whether she had discussed with Iswar Padhan regarding his cross-examination on <u>two occasions</u>, she had answered in negative. In my opinion, there is no contradiction in witnesses' answers as Christina D'Souza was asked a specific question with respect to cross-examination held on <u>two occasions of</u> Iswar Padhan, to which she replied in negative. There is no material on record or any information brought out during cross examination(s), which would show that Christina D'Souza had spoken / discussed with Iswar Padhan about latter's cross-examination on both the occasions.

Without prejudice to the above, I do not find from the record of cross-examination that the witnesses have made any contradictory statements regarding the merits of the case.

27.2. Mr. Padhan's has relied on general information rather than personal knowledge to state that Noticee No. 1 could easily access orders received by other dealers rather than it being based on facts and personal knowledge indicates ambiguity in his statements.

I note that as per Mr. Padhan's admission his role as the MD & CEO of IDBI Securities was to take care of the overall organisation. By virtue of the office he was holding, he was in charge and responsible for the conduct of the business of IDBI Securities. However, it will be irrational to expect that for every little thing that happens in the organisation or for every routine matter, the MD needs to have personal knowledge. The information that was provided by Mr. Padhan was the role and function of the Chief Dealer. It would stay the same irrespective of who is occupying the office of Chief Dealer. In other words, the role and function of a Chief

Dealer in an organisation like IDBI Securities is standardised and the information for the same is generally available within the organisation including the Managing Director. In any case, Mr. Padhan claims to have visited the dealing room on few occasions to have first-hand knowledge of the activities happening in the dealing room. Therefore, I find the information provided by Mr. Padhan regarding the role and function of the Chief Dealer, to be reliable.

27.3. Mr. Padhan's incriminating statement is based on external factors, particularly the queries of SEBI and have been given without carrying out independent investigation within IDBI Securities including in the absence of statement recording of other dealers.

The incriminating statement that the Noticees are referring to is regarding Noticee No. 1's access to orders of institutional clients that were not assigned to him. In this regard, I note from the deposition of Mr. Padhan that the information was given in the context of a Chief Dealer and his / her role in the dealing room. It was not specific to Noticee No. 1. As noted in the preceding paragraphs, the role of a Chief Dealer in IDBI Securities was standardised. There is nothing on record to show that the same has been altered during the investigation period compared to the time prior to it. Therefore, the submissions of the Noticees are without merit.

27.4. Similarly, the assertion made by the Noticees that since the witnesses did not visit the dealing room regularly, they cannot comment upon the activities of dealing room, is also untenable. The ordinary course of their work did not require them to visit the dealing room regularly. As stated by Mr. Padhan at the time of cross-examination, the Compliance Officer may enter the dealing room only if there was a specific need to do so. As the dealing room activities include dealing with non-public information of the Big Clients, they must have restricted access. In any case, the witnesses have provided information about the role and function of the Chief Dealer and information regarding general activity which is carried out in the dealing room, viz., how orders are received, what is permitted inside the dealing room, what kind of information is accessible from the dealing room, etc. The same is generally known to the key managerial personnel of the organisation and does not require frequent access to the dealing room to know about it.

27.5. Noticees have made an assertion that Mr. Padhan deliberately omitted to bring the fact to the notice of SEBI that the other dealers in the dealing room were unaware of any alleged wrong doings of Noticee No.1. I do not agree with the said assertion of the Noticees. Mr. Padhan was never asked specifically by SEBI whether IDBI Securities have recorded the statements of other dealers and whether they were aware of the wrong doings of Noticee No.1.

27.6. The information provided by Christina D'Souza is also unreliable as the information provided by her is not based on her personal knowledge or is personally verified by her but were provided to her by different Heads of Departments.

It is observed from the information provided by Christina D'Souza that apart from providing the information regarding the role of Chief Dealer (a standardised information available in the organisation), the other information provided by her was with respect to the dealing room activities and related to information technology. Being the Compliance Officer who has to ensure that applicable rules and circulars, both internal and those issued by SEBI, are complied with by the employees, she would definitely be aware of the role and function of the Chief Dealer to ensure necessary compliance with the applicable law(s). With respect to the dealing room activities she has given information regarding how the order was received, what was prohibited in the dealing room, what was not accessible from the dealing room, etc. Noticees in their submissions have not specifically disputed the said information. Regarding information related to information technology infrastructure at IDBI Securities, it is noted that she had provided information regarding CTCL ids of trading terminal operated by Noticee No. 1, IP address details and deletion of data by Noticee No. 1. The said information are factual and she has to necessarily rely on the information provided by the Head of the Departments to provide the same as she does not have the technical expertise to independently verify the same. In any case the IP address details relevant to the instant proceedings i.e., static IP of IDBI Securities has been verified by the telecom service provider. Therefore, there is no reason to disregard the information provided by her in the context of administrative structure and information technology infrastructure of IDBI Securities.

27.7. During cross-examination when Christina D'Souza was questioned whether from retrieved files, only some files were submitted, she never mentioned that Noticee No. 1 deleted any data.

Considering the witness was never asked specifically whether Noticee No. 1 had deleted any data, she never had the occasion to answer the same. In my opinion, she had answered the question which was put to her.

27.8. The primary purpose of the testimony of IDBI Securities officers was to deflect any action that could have been taken by SEBI against IDBI Securities.

The action, which has been initiated by SEBI in the instant matter, does not solely rely upon the information provided by the witnesses. SEBI has carried out its independent examination and upon holistic analysis of facts and circumstances of the matter, has decided to initiate actions against the entities involved in the matter. The "purpose", if any of the witnesses does not impede / affect the initiation of action by SEBI.

Without prejudice to the above, Noticees have to refute the allegations on its own merits rather than deflecting the blame on IDBI Securities for ineffective implementation of its internal policies and circulars, if any.

28. In view of the aforesaid discussion, I do not find any ground to not rely upon the information provided by the MD & CEO and Compliance Officer of IDBI Securities specifically with respect to the role of the Chief Dealer of IDBI Securities.

29. Noticees had made a request to cross-examine the employees of Sushil Finance. The request of the Noticees was not acceded to for the following reasons:

29.1. The fact that the address of the location vis-à-vis the IP address details was not provided by Sushil Finance;

29.2. The IP address provided by Sushil Finance is system generated and without any human intervention and

29.3. The fact that Sushil Finance was not aware of the location of the IP address.

ISSUES ON MERITIS

30. Now I proceed to adjudicate the matter on merits. The primary issue that is required to be addressed in the present matter is whether the Noticees have 'front run' the impending orders of the Big Clients. In order to establish the allegation of front running, following issues need to be answered:

30.1. Whether Noticee No. 1 was aware of the substantial impending transactions of the Big Client(s)?

30.2. Whether the trades were irregular i.e., are they indicative of front running trading?

30.3. Whether other circumstantial evidence support the allegation of front running by the Noticees?

Access to Non-Public Information

A. *Whether Noticee No. 1 was aware of the substantial impending transactions of the Big Client(s)?*

31. In the instant matter, it is an admitted fact that the Noticees are closely related to each other as brother and sister. It is noted from records that Noticee No. 1 was the Chief Dealer at IDBI Securities. In his capacity as a Chief Dealer, he had a supervisory role wherein he was overseeing and managing the dealing room activities as confirmed by IDBI Securities. Further, he was responsible to ensure smooth flow of work related to dealing room activities including client instruction management. It is noted from the records that all the dealers for institutional clients were working from a common dealing room. Moreover, it is observed that though each dealer including Noticee No. 1 was assigned individual institutional clients who used to place the respective orders of the institutional clients in the trading terminal, the Chief Dealer continued to bear the overall responsibility for dealing room activities including client instruction management of all trades.

32. In view of the above, it can be held that not only was Noticee No. 1 handling his own assigned institutional clients but being the Chief Dealer he was also aware of / would have access to the orders of other institutional clients. In any case, considering that IDBI Securities had a common dealing room where all 5 dealers worked, the possibility of information relating to the impending orders of the Big Clients being known to each other and to the Chief Dealer i.e., Noticee No. 1 was very high. These facts coupled with the high frequency with which the orders from the trading account of Noticee No. 2 (sister of Noticee No. 1) were placed prior to the orders of the Big Clients during the investigation period, more so when the impugned scrips were highly liquid (discussed in subsequent paragraphs), by preponderance of probability, leads to the inference that Noticee No. 1 did in fact know about the impending orders of the Big Clients.

33. Noticees have submitted that SEBI has failed to carry out independent examination of the organisation structure of IDBI Securities and has also not collected any information regarding order flow from the Big Clients to the dealers of IDBI Securities. The submission of the Noticees is factually incorrect. At the time of investigation, information was collected from the MD & CEO of IDBI Securities and Compliance Officer of IDBI Securities *inter alia* with respect to the functioning of dealing room, role of the dealers including the Chief dealer and order placement by the Big Clients. The information, which was collected along with the other facts and circumstances of the matter (not limited only to the trading activity of the Noticees), was deemed sufficient and significant enough to proceed against the Noticees.

34. It has been contended by the Noticees that the information provided by Mr. Padhan that the seating arrangement in the dealing room was such that the dealers in the dealing room could see the screen of other dealers and overhear the conversation of other dealers, is false. The submission of the Noticees rests upon the physical set up of the dealing room. The seating arrangement vis-à-vis Bloomberg terminal and the Chief Dealer was such that the other dealers used to sit at considerable distance from the Chief Dealer (10-40 feet away). Further, execution of orders, including those of the Big Clients, was carried out by the assigned Dealer on the Bloomberg terminal without involving Noticee No. 1 or seeking instructions from him.

35. The submission of the Noticees regarding seating arrangement in the dealing room is neither supported by any documentary evidence nor has been brought on record at the time of cross-examination of the witnesses. Further, the Noticees are contradicting themselves - in their earlier replies, they have stated that only one other dealer other than Noticee No. 1 had access to Bloomberg terminal and that they were communicating the orders of the Big Clients received through Bloomberg terminal to the respective assigned dealers. In their post hearing reply, the Noticees have submitted that execution of orders, including those of the Big Clients, was carried out by the assigned dealer on the Bloomberg terminal without involving Noticee No. 1 or seeking instructions from him. Thus, while they earlier argued that only 2 dealers out of 5 had access to Bloomberg terminal, they have contradicted themselves by stating that all the dealers had access to the Bloomberg terminal. Not only that, Noticees have submitted that none of the impugned orders of the Big Clients were received on the Bloomberg Terminal. If that is the case, then the entire submission of Noticees regarding receiving of orders on the Bloomberg Terminal and its subsequent execution on the Bloomberg Terminal and the seating arrangement of the dealers vis-à-vis the Bloomberg Terminal, is irrelevant. Be that as it may, the SCN does not allege that whenever an order was received by a dealer other than Noticee No. 1, the same was executed post receiving instructions from him. Rather, considering Noticee No. 1 was the Chief Dealer, he in his supervisory capacity while overseeing the activity of the dealing room can be said to have been aware of the orders of the Big Clients or would have access to the orders of the Big Clients.

36. Noticees have made submissions regarding the mode of receipt of orders from the Big Clients especially with respect to LIC and GIC and because of the said mode, Noticee No. 1 would not be aware of the orders of the Big Clients. It is not in dispute that there were various modes through which the Big Clients were placing their orders. It is also not in dispute that Noticee No. 1 was the Chief Dealer at IDBI Securities. However, what is relevant to the matter is that Noticee No. 1 was responsible for the dealing room activities. Consequently, the onus is on him to ensure that the orders of the Big Clients are placed precisely as per their instructions. The same cannot happen if Noticee No. 1 does not have access to the orders of the Big Clients.

37. Noticees have contended that considering the volume of the trades executed by the institutional desk at IDBI Securities (63,000 to 67,000 trades) during the investigation period, it would not be possible for Noticee No. 1 to be aware of each one of the trades. Upon examining Noticees' submission, I note that as per their submission, on any given day the entire institutional desk at IDBI Securities used to handle 75-80 trades. If the said figures are further broken down, it would come down to 13 trades per dealer over 6 hours per day. The same does not indicate a very busy institutional desk and even Noticee No. 1 has submitted that the institutional desk at IDBI Securities was small. Thus, the submission of the Noticees that because of the large number of trades executed during the investigation period, Noticee No. 1 would not be aware of the orders of the Big Clients, is untenable. Further, the submission of the Noticees belies the whole concept of front running trades. In a front running trade, the alleged front runner would place the order upon receipt of the impending order of the Big Client and would not wait till the end of the trading hours to place it. Hence, between the time the alleged front runner comes to know about the impending order of the Big Client and placement of his order, the time period is very limited. In any case, it is not the case against the Noticees that each and every order of Big Clients which Noticee No. 1 was aware of, has been front run by him and / or executed from the trading account of Noticee No. 2.

38. It has been argued by the Noticees that though the Compliance Officer has submitted that the dealing room activities was "overseen" by the Chief Dealer, "overseen" has not been defined. I note from the records that she has also submitted that the Chief Dealer manages the overall dealing activities including client instruction management. Further, to a query whether the impending trades of Big Clients are known to the full team of dealers irrespective of who is punching the trade of a particular Big Client, she has submitted that while the individual dealers would know the status of the pending trade, the Chief Dealer oversees the same. In the context, it is amply clear that for any given order of a Big Client, the respective dealer and the Chief Dealer are in the know-how of the order of the Big Client. Therefore, I am of the view that there was no need for the Compliance Officer to further clarify the term “overseen” in relation to the Chief Dealer. In any case, Noticees had the opportunity to get it clarified for themselves during her cross-examination, which as the records suggest, they have failed to do.

39. In light of the above discussions, it can be reasonably concluded that Noticee No. 1 was aware of / had access to the impending orders of the Big Clients.

Irregular Trading Pattern

B. *Whether the trades were irregular i.e., are they indicative of front running trading?*

40. It has been alleged in the SCN that there are 1,222 instances (1,216 instances are on NSE) of front running majority of which either fall in Buy-Buy-Sell (hereinafter referred to as “**BBS**”) pattern or Sell-Sell-Buy (hereinafter referred to as “**SSB**”) pattern. The said trades were executed in both the cash segment (987 instances) and F&O (235 instances) segment of the market.

41. It is noted from the material available on record that the aforesaid instances of front running were executed in the cash segment of the market on 407 unique days and on 174 unique days in the F&O segment of the market. Further, the aforesaid instances show that the alleged front running trades were concentrated in the cash segment of the market where the Big Clients were trading through IDBI Securities.

42. A few illustrative trades placed in BBS and SSB pattern, is reproduced below:

42.1. BBS pattern in the scrip of Ambuja Cements Ltd. (front running in F&O segment and Big Client's order in cash segment) was observed on March 18, 2021:

Table No. 4

	Front Runner				**Big Client**			
	Total Buy Qty	Avg Buy Price (INR)	Turnover (INR)					
	15,000	283.00	4,245,000					
	Buy Order Time(range)	Buy Order Price (INR)	Buy Trade Time(range)	Buy Trade Price (INR)				
From	1:18:19 PM	283	1:18:40 PM	283				
To	1:18:19 PM	283	1:18:40 PM	283				
	Total Sell Qty	Avg Sell Price (INR)	Turnover (INR)	Matched Qty Big Client	Total Buy Qty	Avg Buy Price (INR)	Turnover (INR)	
	15,000	284.25	4,263,750	-	170,000	284.58	48,379,355	
	Sell Order Time(range)	Sell Order Price (INR)	Sell Trade Time(range)	Sell Trade Price (INR)	Buy Order Time(range)	Buy Order Price (INR)	Buy Trade Time(range)	Buy Trade Price (INR)
From	1:20:54 PM	284.25	1:21:35 PM	284.25	1:19:01 PM	283.55	1:19:01 PM	283.55
To	1:20:54 PM	284.25	1:21:41 PM	284.25	1:22:13 PM	284.85	1:22:13 PM	284.85

The above illustration shows that a buy order for 15,000 shares of Ambuja Cements Ltd. was placed from the trading account of Noticee No. 2. The said buy order was placed at 1:18:19 pm in the F&O segment of the market which is prior to the impending buy order of the Big Client for 1,70,000 shares of Ambuja Cements Ltd. which was placed at 1:19:01 pm in the cash segment of the market. Subsequently, a sell order for 15,000 shares was placed from the trading account of Noticee No. 2 at 1:20:54 pm and the previous buy position was squared off immediately when the Big Client order was placed. Thus, both legs of the intra-day trading activity executed from the trading account of Noticee No. 2 was designed in a manner to follow a BBS pattern with respect to the impending buy order of the Big Client, wherein the first leg of the trade was the front running leg**.**

42.2. SSB pattern in the scrip of Gujarat Narmada Valley Fertilizers Chemicals Ltd. (cash segment) was observed on August 7, 2020:

Table No. 5

	Front Runner				**Big Client**			
	Total Sell Qty	Avg Sell Price (INR)	Turnover (INR)					
	15,000	166.44	2,496,669					
	Sell Order Time(range)	Sell Order Price (INR)	Sell Trade Time(range)	Sell Trade Price (INR)				
From	10:50:17 AM	167.00	10:50:17 AM	167.00				
To	10:50:59 AM	166.35	10:50:59 AM	166.35				
	Total Buy Qty	Avg Buy Price (INR)	Turnover (INR)	Matched Qty Big Client	Total Sell Qty	Avg Sell Price (INR)	Turnover (INR)	
	15,000	164.40	2,466,000	15,000	100,000	165.05	16,504,924	
	Buy order Time(range)	Buy Order Price(INR)	Buy Trade Time(range)	Buy Trade Price (INR)	Sell Order Time(range)	Sell Order Price (INR)	Sell Trade Time(range)	Sell Trade Price (INR)
From	10:54:19 AM	164.40	10:56:08 AM	164.40	10:50:32 AM	166.85	10:50:32 AM	166.85
To	10:54:19 AM	164.40	10:56:08 AM	164.40	11:01:11 AM	164.5	11:01:11 AM	164.5

The above illustration shows that a sell order for 15,000 shares of Gujarat Narmada Valley Fertilizers Chemicals Ltd. was placed from the trading account of Noticee No. 2. The said sell order was placed at 10:50:17 am in the cash segment of the market which is prior to the impending sell order of the Big Client for 1,00,000 shares of Gujarat Narmada Valley Fertilizers Chemicals Ltd. which was placed at 10:50:32 am in the cash segment of the market. Subsequently, a buy order for 15,000 shares was placed from the trading account of Noticee No. 2 at 10:54:19 am and the previous sell position was squared off immediately when the Big Client order was placed. Thus, both legs of the intra-day trading activity executed from the trading account of Noticee No. 2 was designed in a manner to follow a SSB pattern with respect to the impending buy order of the Big Client, wherein the first leg of the trade was the front running leg.

43. It is noted from the records that the orders for first leg of the intra-day trades (the front running leg) were placed on a regular basis / on numerous occasions during the investigation period, sometimes multiple times on the same day, prior to the placement of the impeding orders of the Big Client(s) or before the last tranche of the order of the Big Client(s) was placed. Similarly, orders for the second leg of the intra-day trades on numerous occasions were placed prior to the last tranche of the order of the Big Client(s). Out of the numerous securities / derivative contracts being traded on stock exchange platform, it is surprising to observe that the trades executed from the trading account of Noticee No. 2 were not only being executed in the same scrip on the same day as that of the Big Client(s) on a regular basis, but also such orders were being placed from the trading account of Noticee No. 2 in the same securities by following either BBS pattern or SSB pattern, on a consistent basis. The frequency with which the orders were placed prior to the last tranche of the order of Big Client(s), shows that the same was being executed consciously under a well thought out design / scheme or artifice and such execution of trades from the trading account of Noticee No. 2 in the same scrip on a regular basis as that of the Big Client(s) cannot be seen as a mere coincidence.

44. The Noticees have submitted that the alleged F&O trades do not fall within the criteria of the BBS pattern / SSB pattern of front running as there is not even a single trade instance in F&O where the quantity of the Noticee has matched with the Big Clients. Further, in all the alleged F&O trades, the Big Clients and the Noticees were trading in different segments. The Noticees have also contended that comparing the two segments in order to establish the alleged price impact charges against the Noticees may not be appropriate since 'they operate on different trading strategies and have distinct market dynamics'. I do not find this argument of the Noticees to be tenable. First, in the cash segment alone, an extraordinarily large number of BBS and SSB patterns of trades of the Noticees matching with the Big Clients have been observed. The extremely precise trading activity in the cash market, standalone, firmly indicates that the Noticees have indulged in front-running. Trades in the cash segment resulted in bulk of the wrongful gains. Second, fundamentally, transactions in F&O segment cannot be said to be disconnected from the underlying price movement in the cash segment. Price movement in the underlying scrip certainly has a nexus and high correlation with the price movement in its derivative. Basic market forces and the presence of arbitrageurs provide guardrails to ensure and preserve such nexus and close correlation between the cash and derivative markets. It is certainly possible for front runners to take advantage of non-public information regarding impending large trades in the cash segment for the purpose of front running in the derivatives segment. Being large institutional investors, trades of Big Clients can be said to have had a concomitant and simultaneous impact on the price of the cash and derivative markets in the scrips it traded in. Besides, the number of trades executed from the trading account of Noticee No. 2 in the cash segment (987) (where the Big Clients were trading through IDBI Securities) exceeded the trades in the F&O segment (235).

45. It has been contended by the Noticees that, NSE in its "trade order data", has observed and termed certain trades as "No FR" in both the segments on the basis that those trades were not falling into any of the self-declared given conditions of BBS pattern and / or SSB pattern of front running. In almost all of such "No FR" trades, either the first leg of the transactions / trades were executed post the execution of the buy / sell trades of the Big Clients or the second leg was executed prior to the execution of the buy / sell trades of the Big Clients, making such mentioned laid conditions false to constitute them as front running instances. This contention of the Noticees lacks merit. It is immaterial as to how NSE classifies the impugned trades. To reiterate, a front running trading activity is one where the order by the alleged front runner in securities was placed (directly or indirectly) in advance of the Big Client order, while in possession of the non-public information regarding the impending orders of the said Big Client. Big Clients often place their orders above the minimum lot size (particularly for large orders) in smaller tranches so that the securities can be bought / sold at prices more beneficial to them. Therefore, the alleged front runner can gain from placing his / her order(s) at any time before the last or substantial tranche of the Big Client's order. In other words, all the tranches of the order of the first leg placed by the alleged front runner that have been placed on or before the last tranche of the order placed by the Big Client, would qualify as front running transactions. However, any tranche of the order placed by the alleged front runner subsequent to the last tranche of the order of the Big Client will be excluded from being qualified as a front running trade. The illustration given by the Noticees in their reply itself shows that though the order from the trading account of Noticee No. 2 was placed subsequent to the order of the Big

Client but it was prior to the last tranche of the order of the Big Client. The second illustration given by the Noticees in the scrip of Zee Entertainment Enterprises Ltd. on September 23, 2019 clearly brings out what has been stated above. The sell order of the Big Client in the scrip was for 72,50,000 shares which was executed throughout the market hours (9:21:03 am – 03:20:22 pm). The order was placed in small tranches.

46. Further, with respect to the submission of the Noticees that the second leg was executed prior to the execution of the buy / sell trades of the Big Clients, it is observed that the second leg of the transaction is not a front running leg, rather it is the leg where the front runner encashes the advantage accrued to him from the first leg i.e., by placing the order prior to the order of the Big Client. What is material is that the order of the first leg was placed while the front runner was in possession of the non-public information of the impending order of the Big Client. That is, but for the said non-public information, the front runner would not have placed the order in the normal course of his / her trading activity. Additionally, it may be noted that the second leg of the front runner's orders which encashes the "advantage" of the first leg, need not necessarily be placed after the Big Client order since the Exchanges permit "limit orders" i.e., contingent orders like "sell if the price is more than INR. "X" or "buy if the price is lower than INR "Y". Such limit orders can be placed in advance / "waiting" for the Big Client order to come and impact the price of the scrip. Moreover, it may happen that the front runner saw a better opportunity and exited the scrip, prior to the order of the Big Client. However, as noted above, what is relevant is the act of placing orders using pre-existing knowledge of non-public information regarding a substantial impending transaction.

47. It has been submitted by Noticees that there are 5 instances of trades executed in the scrip of ADANIENT, wherein the pattern of alleged FR buy or sell trade is not similar to that of the pattern of Big Clients trade. In all such alleged trade entries noted against Noticee No. 2 in Buy-Buy-Sell pattern, as against the buy trade of the Big Client in the first leg, the sell trade was executed in the account of Noticee No. 2. It is noted from order log trade log that there are 12 instances of front running in the scrip of Adani Enterprises Ltd. in the cash segment and 2 instances in the F&O segment. Out of the said 14 instances, in 12 instances BBS pattern has been followed. However, in the remaining 2 instances, though the buy order from the trading account of Noticee No. 2 was placed prior to the last tranche of the buy order of the Big Client, sell order was also placed from the trading account of Noticee No. 2, prior to the placement of buy order. The same however does not change the classification of the said 2 trades as front running trades because what is relevant is that the buy order was indeed placed prior to the impending order of the Big Client. BBS and SSB patterns are the two most common patterns that are observed in a typical front running matter but that does not mean that they are the only patterns that can be there. One cannot lose sight of the fact that a trade is classified as a front running trade based on the definition of front running and not on the pattern of trade executed by the alleged front runner.

48. Noticees have submitted that the identity of PAN AABTN0648L is not clear. According to them, identity of the Big Client is important to analyse which mode of client instruction management was followed for receiving such Big Client's orders and who was the assigned dealer for receiving the orders from such Big Client. Even if it is presumed that the said PAN belongs to LIC Pension Fund, in that case also the said alleged trades cannot be imputed to the Noticees since Noticee No. 1 was not an assigned dealer of LIC Pension Fund during the relevant period. I note from the material available on record that the aforesaid PAN belongs to LIC Pension Fund. As held in the preceding paragraphs, for the present matter, it is immaterial who was the assigned dealer of the Big Client or through which mode the order of the Big Client was received. It has already been held that Noticee No. 1 being the Chief Dealer can be reasonably expected to be aware of / have had access to the orders of the Big Clients. Therefore, the submission of the Noticees to exclude the trades pertaining to the aforesaid PAN is without any merit. Similarly, the submission of the Noticees to exclude the trades where Noticee No. 1 was not an assigned dealer is also without merit.

49. It has been argued by the Noticees that the trades where the order for the first leg of the trade was placed with a time gap ranging from 5 minutes to 5 hours before the placement of Big Client's order should be excluded. According to the Noticees, the decision of the Big Client is confidential and is shared generally at a very short notice and as a result, it would not have been possible for Noticee No. 1 or any other assigned dealer to receive information or instructions pertaining to any trade from the Big Client as early as 10-15 minutes prior to order placement. I disagree. Firstly, it is not in dispute that the said orders were placed prior to the last tranche of the order of the Big Clients and thus qualify as front running orders. Secondly, the submission of the

Noticee is general in nature and is not supported by any documentary evidence. Further, it is not necessary that all the orders from the Big Clients will come at a short notice. The orders from the Big Client could come with several contingencies viz., execute the order only at a particular price or when a particular volume / several lots are available or execute the order towards the second half of the day or towards the end of market hours, etc. Therefore, to submit that all orders from the Big Clients are received at a short notice, is a simplistic way of looking at various trading strategies and hence is untenable.

50. Noticees have further contended that the aforesaid submission is substantiated by the information received from IDBI Securities which states that "the time lag in orders received via Fix Line is miniscule and as such there are no impending orders". I find that information received from IDBI Securities in no way substantiates Noticees contention as the above statement only claims that when it comes to execution of an order, the time lag is miniscule as the same is algo driven / machine driven. The same does not imply that the order from the Big Client was received just prior to its execution. To illustrate, an order that is contingent on being executed only if a certain price is available, could have come to the dealer of IDBI Securities at the start of the trading hours but will be executed only when that particular price is available. During the execution of that order, the time lag would be miniscule. Hence, I find the contention of the Noticees to be without merit.

Probability of executing the impugned trades

51. A query was put to the Noticees at the time of the hearing that considering the scrips in which the alleged front running trades were executed are liquid, mathematically the probability of the orders being placed from the trading account of Noticee No. 2 on the right side of the orders of the Big Clients, should be very low. However, such a low probability pattern has been seen to repeat in the extant case.

52. In response to the above, Noticees in their post hearing submissions have submitted that during the period January 1, 2019 till December 19, 2022, a total of 7,023 trades were executed in the trading account of Noticee No. 2 in both cash and F&O segments. When the total number of trades are compared with the above mentioned 1,260 alleged front running trade entries, it is clear that a mere 17.94% out of the total trades of the Noticee were alleged as front-running instances following or similar to that of the pattern of Big Clients' trade. This low “probability”, according to the Noticee No. 2, supports her case that her trades were genuine.

53. This submission is perfunctory, incorrect, and misleading on several counts, and requires some clarification and explanation.

54. On the surface, in the cash equity market alone, there were 6,573 buy and sell orders of Noticee No. 2 that translated into trades during the investigation period. Of these, as many as 3,988 orders that translated into trades were identified by SEBI as front running the orders of a Big Client of IDBI Securities, a significantly higher proportion than submitted by the Noticee in the earlier paragraph. However, even this does not even begin capture the suspiciously distinctive trading pattern of Noticee No. 2.

55. To appreciate the unique nature of Noticee No. 2’s trading pattern, one must consider that on several occasions during the investigation period, she happened to buy (or sell) a specific scrip, just moments before a Big Client of IDBI Securities happened to precisely buy (or sell) the exact same scrip. Then, taking advantage of the movement in the price caused by the sizeable trade flow of the Big Client, she immediately sold (or bought) back the stock in question, to realize a large net profit.

56. To emphasize, we had asked the Noticees to consider the probability of a regular trader commencing to buy (or sell) a particular scrip, just moments before a Big Client of IDBI Securities happened to buy (or sell) the exact same scrip, specifically through IDBI Securities, only to sell (or buy) the scrip when the Big Client’s orders moved the market. To reiterate, there are many coincidences involved simultaneously here:

56.1. Noticee No. 2 happening to trade in <u>exactly the same scrip</u> as a Big Client operating through IDBI Securities, <u>just moments before</u> the Big Client commenced trading in that scrip. Note that Noticee No. 2 happened to trade in 472 stocks during the examination period – so on each of these coincidental occasions, Noticee No. 2 happened to choose the exact scrip from <u>amongst these 472 stocks</u> that the Big Client just happened to trade in through IDBI Securities, a few moments later.

56.2. This trade by Noticee No. 2 happened to be <u>in the same direction</u> as this Big Client, i.e., buying just before the Big Client bought, or selling just before the Big Client sold.

57. The coincidence, therefore, is of choice of a particular scrip, on a particular day, at a particular time, and on the right side of trade (buy or sell) – all together – all happening to come together just before the trades of a Big Client through IDBI Securities. Given this, looking just at overall trades of Noticee No. 2 across 472 scrips misses much of the coincidences enumerated above. One should at least start by considering the pattern of Noticee No. 2's trading in individual scrips to better appreciate the context.

58. Consider therefore Noticee No. 2's trades in Hindustan Unilever (hereinafter referred to as "**HUL**"). Of the 472 scrips that Noticee No. 2 happened to trade in during the investigation period, she traded in HUL the largest number of days, viz., on 22 different trading days. HUL is a well-known and well-traded, diversely held liquid scrip that is part of the benchmark NIFTY50 and S&P BSE Sensex indices, and public records show that it has over 12 lakh individual shareholders. Details of trades executed by Noticee No. 2 in the cash and the F&O segment during the period January 1, 2019, and July 15, 2022, and the instances where there is an overlap between the said trades and that of the Big Clients of IDBI Securities, have been shared with the Noticees. From this data, I note the following.

59. During the investigation period spanning 3.5 years and over 800 trading days, 62 orders of Noticee No. 2 in HUL were executed on 22 distinct trading days. Out of these 22 days, coincidentally, Big Client Life Insurance Corporation of India (hereinafter referred to as "**LIC**") also happened to trade in HUL on 20 of these trading days, through IDBI Securities. Note that LIC is a long-term investor; it is not a high frequency trader that enters and exits the markets throughout the day, every trading day of the year, in every large scrip. Further, given the sheer size of its investments, it is to be expected that LIC also trades through multiple brokers besides IDBI Securities. To that extent, out of the over 800 trading days in the investigation period, the number of days that LIC happened to buy HUL through IDBI Securities would be expected to be a fraction of these 800-plus trading days. Therefore, the coincidence and overlap of LIC trading in HUL through IDBI Securities on as many as 20 days out of the 22 days that Noticee No. 2 traded in HUL during that period (spanning over 800 trading days), is itself a low probability event. However, the number of days that LIC happened to trade in HUL through IDBI Securities during the investigation period is not public information. To that extent, we will refrain from attaching a number to the probability here. Even without using this as an indicator of the extent of coincidence, as we will show below, the data shared with the Noticees itself reveals that the probability that the distinct trading pattern of Noticee No. 2 is an innocent coincidence is very, very low.

60. Out of these 20 days of overlap between Noticee No. 2's trades in HUL and Big Client LIC happening to buy HUL on the same day through IDBI Securities, the SEBI investigation report makes the case that KS's trades in HUL on 19 out of the 20 days were front-running the Big Client's trades. Further, out of these 19 days, on 17 days Noticee No. 2 commenced purchasing HUL stock just a few minutes before Big Client, LIC, commenced purchasing the same HUL scrip via IDBI Securities.

61. On these 17 occasions, the average time interval by which Noticee No. 2's commencement of purchases in HUL preceded the commencement of LIC's purchases in HUL via IDBI Securities was just 66 seconds, with a minimum of 15 seconds, and a maximum of 3 minutes and 24 seconds (204 seconds). This pattern was observed at different times through the day on different days – spread between 10:30 am in the morning to 2:45 pm in the afternoon.

62. Note further that we are talking not about just any trade in HUL by Noticee No. 2 or LIC through the day where this coincidence occurs; we are talking about a specific event of Noticee No. 2 commencing purchase of HUL on a given day through an order, just moments before LIC happens to commence a round of purchase of HUL through IDBI Securities through an order on the same day.

63. When we speak of "preponderance of probability", it would be a pertinent exercise to try to gauge the numerical probability number that Noticee No. 2's above pattern vis-à-vis HUL and Big Client is an innocent coincidence. From the context described above, let us consider the probability of an average investor happening to commence purchase of HUL scrip in the cash equity market, within 3 minutes and 30 seconds before LIC happens to commence purchasing HUL via IDBI Securities.

64. There are 6.5 hours in a normal trading day in India, between 9:00 am and 3:30 pm. Let us consider only the time ranged that we observed Noticee No. 2's trading in HUL in the 20 occasions (when both Noticee No. 2 and LIC through IDBI Securities happened to trade in HUL on the same day), i.e. between 10:30 am and 2:45 pm, or during an interval of 4 hours and 15 minutes (255 minutes). Note that even through the Covid-19 pandemic, trading hours in cash equity markets were never curtailed.

65. LIC could be commencing purchase of HUL through IDBI Securities anytime during this 255-minute period. What is the probability that an investor happens to commence purchase of HUL within 3.5 minutes before of such a commencement of purchase of HUL by LIC through IDBI Securities (hereinafter referred to as '**FR Event**')?

66. The probability for the same can be computed using the classical definition of probability, as explained below-

If there are 'n' mutually exclusive, equally likely and exhaustive cases out of which 'm' of them are favourable to an event A, then

Probability P(A), p = m / n

Applying the aforesaid formula in 'FR Event' described above, the probability would be, p = (3.5 / 255), or around 1.37%. While it looks a low number, this is certainly not improbable.

We now need to extend this across 20 separate occasions. To compute the same, Binomial Probability Distribution, can be used, which is described herein below-

If we have N trials of an event A, where the probability of success is 'p', then the probability of obtaining exactly 'k' success is

$$P\ (X = k) = \binom{N}{k}\ p^k\ \ (1-p)^{N-k}$$

Where,

$$\binom{N}{k} = \frac{N\,!}{k!(N-k)!}$$

Where, X = No. of success (number of instances of front running)

Accordingly, the probability of obtaining <u>more than</u> 'j' success will be sum of probabilities of events with k success for all k from j+1 to N

$$P\ (X >\ j) = \sum_{k=j+1}^{N} \binom{N}{k}\ p^k\ \ (1-p)^{N-k}$$

67. Now, I proceed to apply the above formula in illustrations given below-

- If an investor happens to purchase HUL on 20 different days when the Big Client happened to purchase HUL via IDBI Securities, what is the probability that on more than 1 occasion, Noticee No. 2 happens to commence purchase of the stock within 3.5 minutes of LIC commencing purchase of HUL through IDBI Securities (FR Event)?

  As noted above, the probability of ‘FR Event’ happening once is 1.37%. i.e. p =1.37%

  The probability of ‘FR Event’ happening more than once in 20 occasions, would be-

$$P\,(X > \ 1) = \sum_{k=1+1}^{20} \binom{20}{k} (0.0137)^k \ (1 - 0.0137)^{20-k}$$

- The above formula gives the probability of ‘FR Event’ happening more than once in 20 occasions, would be approximately 3.04%; again, while this is low, this is certainly not improbable.

- To extend this, what is the probability that on more than 5 occasions out of 20, Noticee No. 2 happens to commence purchase of the stock within 3.5 minutes of LIC commencing purchase of HUL through IDBI Securities? That probability is approximately 2.2 times in 10,000,000 (10 million) – a very, very low probability indeed.

- What is the probability that on more than 10 occasions out of 20, Noticee No. 2 happens to commence purchase of the stock within 3.5 minutes of LIC commencing purchase of HUL through IDBI Securities? That probability is approximately 4.88 times in 10,000,000,000,000,000 (10 Quadrillion, or 10 followed by 15 zeros) – to put it mildly, this suggests extreme improbability.

- What is the probability that on more than 15 occasions out of 20, Noticee No. 2 happens to commence purchase of the stock within 3.5 minutes of LIC commencing purchase of HUL through IDBI Securities? That probability is approximately 7.3 times in 1,000,000,000,000,000,000,000,000,000 (1

Octillion, or 1 followed by 27 zeros). For all practical purposes, this probability number suggests a near-impossibility.

68. Note that Noticee No. 2 happened to commence purchase of HUL within 3.5 minutes of LIC happening to commence purchase of HUL through IDBI Securities an astonishing 17 times out of 20 occasions over two years, even higher than any of the options considered above.

69. Note further, that her average time of purchase of HUL on these 17 occasions was just 66 seconds before LIC commenced purchases of HUL, with a maximum of 204 seconds. To that extent, the 210 second window that the calculation uses above is a concession to her. In addition, we have restricted the trading window to 255 minutes, while an actual trading day spans 390 minutes – again, a concession to Noticee No. 2; if we had considered the full day's trading window, the probability numbers described above would be even lower.

70. To further reiterate, we have ignored the fact that it is highly improbable that LIC would have purchased HUL through IDBI Securities on all days of the investigation period. Since these numbers are not publicly available the calculations give her the benefit of assuming such an improbable event indeed took place. To that extent, the probability of this event is even further lower than any of the numbers enumerated above.

71. The choice of a single stock, HUL in this case, is not a case a special set of instances being cherry-picked to show Noticee No.2's trading pattern in poor light. Quite the contrary – in fact, sticking to Noticee No.2's trades in HUL alone understates the improbability of her trading pattern being an innocent coincidence. As described earlier, it is imperative that to truly capture the extent of the coincidence, we cannot just look at the overall number of trades dealt by Noticee No.2 over the investigation period across 472 scrips and consider how many of these were identified by the SEBI investigation report as being cases of front-running. The coincidence lies in the Noticee's choice of a particular scrip from amongst these 472 scrips, on a particular day and at a particular time, in the same direction (buy or sell), just moments before a Big Client happened to do the exact same thing (buy or sell) in the exact same scrip through IDBI Securities. Noticee No.2's trades in HUL only begin to reflect a sense of the extent of the coincidence involved here. It does not stop here – this unique pattern was observed not just in HUL, but across hundreds of scrips.

72. As described earlier, HUL was chosen for the above illustration since this was the stock that Noticee No. 2 traded amongst the highest number of days during the investigation period. But the arguments can be extended even further, using the trading data shared with the Noticees. Across as many as 256 stocks, Noticee No. 2 traded on 981 scrip days in the equity cash market at NSE during the period in question, coinciding with a BC happening to deal in the same stock, on the same day, through IDBI Securities. Out of these, on an astounding 811 occasions, she happened to commence trading in the above scrips, in the same direction (purchase or sale), just minutes before one of 6 Big Clients of IDBI Securities happened to commence trading in the precise same scrip, in the same direction (buy or sell), with an average gap of less than 3 minutes between these events.

73. As one might imagine, the probability of all this happening as an innocent coincidence would be many, many times lower than even any of the incredibly small numbers enumerated in the specific example of Noticee No.2's trades in HUL above. Standard computer applications boggle at the prospect of calculating the precise probability here – they simply round off the number to zero, suggesting the need for advanced computational methods or specialized software capable of handling extremely small probabilities. Advanced computations suggest that the probabilities involved here would be one in a very, very large number, with a mind-numbing number of zeros following 1. Such a number would several standard lines of this order just to enumerate numerically.

74. We have considered the trades of Noticee No. 2 in the cash market, purely for illustrative purposes. The same analysis can be extended to the derivative market trades as well. Given the number of front running trades of Noticee No. 2 in the derivatives market as well, expanding the scope of the analysis to cover both cash and derivative market trades would only further reduce the probability of the trading patterns being an innocent coincidence.

75. "Preponderance of probability" does not even begin to capture what we are dealing with here. While the standards required for the purpose of this order stop at "preponderance of probability", the exercise above suggests that significantly higher standards have been met. The exercise only enumerates what any professional markets expert, familiar with dealings in markets, would reasonably conclude upon seeing the facts of the case – the probability that KS's observed trading pattern vis-à-vis BCs of IDBI Securities is just a chance coincidence, is next to zero.

76. In view of the aforesaid discussion, I find that the impugned trades executed from the trading account of Noticee No. 2 are indicative of the fact that front running trades were being carried out from her trading account during the investigation period.

77. Nor are we stopping at just this reliance on preponderance of probability, even though given the numbers described above, one might argue that this alone should more than suffice to arrive at a definitive conclusion. There are belts and braces to further strengthen the case against the Noticees – such as the fact that the then IDBI Securities Chief Dealer, Noticee No. 1 is the brother of Noticee No. 2, the fact that there were financial dealings between them, the fact that IP addresses suggest that majority of Noticee No. 2's deals originated from within the IDBI Securities premises (all of which is discussed subsequently).

Additional Circumstantial Evidence

C. *Whether other circumstantial evidence support the allegation of front running by the Noticees?*

IP address

78. Investigation revealed that the impugned orders were in majority of instances placed through the portal of Sushil Finance (stock broker through which approximately 97% of front running trades were executed). Based on the IP address, it was noted that the said portal was mostly logged in from the premises of IDBI Securities where Noticee No. 1 was employed as a Chief Dealer. The IP address (14.143.196.90) is the static IP of IDBI Securities, Cuff Parade, Mumbai's office. Clearly, being the official premises of IDBI Securities, Noticee No. 2 cannot be present there. Rather, of all the persons working in the said premise, the only person who could have access to the trading account of Noticee No. 2, is Noticee No. 1, being her brother.

79. Noticees have submitted that MAC details have not been provided. Given the family connection and matching of IP address of Noticee No. 1's office with the IP address of the impugned trades, further details such as MAC, in the given facts and circumstances of the matter, is not necessary to arrive at the strong inference of trades having been executed by Noticee No. 1 using his sister's (Noticee No. 2) trading account.

80. Noticees have contended that at various instances information pertaining to IP address is wrong and unreliable. The reasons for the same according to the Noticees and my finding on the same, are as follows:

80.1. *There are instances wherein neither of the Noticees were present in the premises of that IP address.*

It is noted from records that when Noticee No. 1 was not present on the premises of IDBI Securities, no front running trades were executed having IP address of IDBI Securities.

80.2. *There are certain alleged trades executed on the days, wherein there is either no log in into the account of Noticee No. 2 or even if there is a login, the IP address has not matched with the IP address details provided by IDBI of its network provider*.

Upon examination of order log and trade log of the front running trades executed, it is noted that during the investigation period that out of total alleged 1,222 front running trades there are only 7 instances (2 in cash segment and 5 in F&O segment) where there is no IP address available. This appears to be so as the front running trades were placed physically with the other stock broker of Noticee No. 2, i.e., Motilal Oswal. It is observed that the residence address of Noticee No. 2 as per her KYC is same as the branch address of Motilal Oswal in Sion West, Mumbai. It is noted from the investigation report that Noticee No. 1 had access to his mobile phone in the dealing room of IDBI. There are call data records, which show that he was in communication with his family members (wife and Noticee No. 2) and other individuals during his office hours, enabling him to pass on the non-public information of the Big Clients. Thus, Noticee No. 1 having the means and opportunity to pass on non-public information of impending orders of the Big Client(s) and Noticee No. 2's easy access to Motilal Oswal's branch, suggests that the trades that were executed through Motilal Oswal, were front running trades as well, having been executed based on the non-public information of the Big Clients accessed by Noticee No. 1.

Further, there are only 28 instances (17 in cash segment and 11 in F&O segment) during the investigation period, where the IP address of front running trades is different from IDBI's IP address i.e., approximately 3% of the impugned trades. The front running trades, which were executed having the IP address of IDBI Securities premises, constitutes approximately 97% of front running trades. The reason for having IP address different from that of IDBI's IP address could be manifold viz., Noticee No. 1 placed the order using his mobile phone or Noticee No. 2 after receiving the non-public information from Noticee No. 1 placed the order using her mobile phone or home computer / laptop, etc. Moreover, just because IP address of certain trades is different from the IP address of IDBI Securities premise that does not *ipso facto* lead to an inference that the trades whose IP address are that of the IDBI Securities premise, are incorrect.

80.3. *The data also includes instances where the log-in IP address is different from log off IP address and vice versa, and also includes the instances where there is a dual IP log-in.*

For the purposes of instant matter, it is immaterial whether the log-in IP address is different from log off IP address and vice versa or there is a dual IP log-in. The fact remains that on the day when the front running trades were executed and had multiple IP addresses and / or dual IP addresses, the static IP address of IDBI Securities should not have been present. Nevertheless, it was present. It shows that Noticee No. 1, who should not have been accessing any third-party trading account, can be reasonably expected to have been accessing his sister's trading account. Not only that the orders were placed in the same scrip in which the Big Clients were placing orders. The aforesaid shows that it is reasonable to conclude that Noticee No. 1 was involved in placing the impugned orders which have multiple IP addresses and / or dual IP addresses. Credence to it is further lent from the fact that multiple log-in's and dual IP address were happening regularly throughout the investigation period.

80.4. *There are instances where IDBI Securities IP address is disconnected before execution of trades.*

Firstly, it shows that on that particular day, the trading account of Noticee No. 2 was accessed from the premises of IDBI Securities (which could only have been done by Noticee No.1). Secondly, there could be various possible reasons for such disconnection. For instance, Noticee No. 1 may have executed the trade using his mobile phone or Noticee No. 1 had communicated the non-public information to Noticee No. 2, who then has executed the order, etc.

80.5. *Sushil Finance has submitted the IP address data without any proof of its authentication and veracity.*

As already noted in the preceding paragraphs, provisions of Indian Evidence Act, 1872 are not strictly applicable to quasi-judicial proceedings. Further, it is observed that Sushil Finance has only provided the IP address of the orders placed from the trading account of Noticee No. 2 while it is in fact the Telecom Service Provider, viz., Tata Telecommunications that has provided the **location** of the IP address. Thus, Sushil Finance would not have known the location of IP address to tamper it to show it as originating from IDBI Securities premises. Moreover, Sushil Finance has recorded the IP address, as it was mandatory for it to do so under various circulars issued by SEBI from time to time (SEBI Circulars dated June 30, 2011, March 22, 2018 and October 16, 2023). Here, it will be relevant to refer to the Order of Hon'ble SAT in the matter of *Ashish M Ganatra* vs. *SEBI* decided on July 19, 2011 wherein it was held as follows:

"Another argument advanced by the learned counsel for the appellant during the hearing of the case, though not taken up in the grounds of appeal, is that the trade logs furnished to the appellant are not duly authenticated and so they lack evidentiary value. <u>We do not find any merit in this argument. It is an established fact that trade logs are system generated and there is no human intervention. It is not necessary to further authenticate the system generated documents.</u> It has been the practice to accept computer generated trade logs as correct and legally tenable. So this argument also does not merit any consideration." (emphasis supplied)

The above Order though was in reference to trade logs, however, it is relevant to the facts of the present matter as well since the IP address is also system generated without any human intervention.

81. In view of the aforesaid discussion, I do not find the IP address details provided by Sushil Finance as wrong and / or unreliable.

82. In view of the aforesaid discussion, I find that the very fact that 97% of the alleged front running trades have IP address of IDBI Securities, shows that no one else other than Noticee No. 1 could be placing the orders for the said trades. Since, he was aware of / had access to the orders of the Big Clients, it invariably leads to a conclusion that the orders for the impugned trades were placed while he was in possession of non-public information of the Big Clients.

Deletion of data from Noticee No. 1's official computer

83. The SCN has alleged that Noticee No. 1 has deleted data from his official computer, apparently as an attempt to tamper with the evidence of his illegal activity. Noticee No. 1 has denied deleting any data from his office computer. According to him, there is no proof for the same. Further, the data of all the computers at IDBI Securities was being stored and backed-up in the main server/network of IDBI Securities. Hence, even if the data that cannot be found or recovered from the computers of IDBI Securities employees, it can be recovered from the IDBI Securities main server level network. In this regard, I note that the data from the computer of Noticee No. 1 was indeed deleted, otherwise there was no reason for IDBI Securities to run the retrieval tool to recover the data. IDBI Securities provided the recovered data to SEBI. It is noted from the available records that the said data contained personal data of Noticee No. 1 including the internet logs from his computer i.e. the websites accessed by Noticee No. 1. However, the internet logs recovered from his computer were available only for period from May 31, 2022 to July 25, 2022. Upon analysis of data specifically the internet logs, it was observed that there was an internet log viz. ***hostname='itrading.sushilfinance.com"*** that was accessed daily multiple times from May 31, 2022 to June 21, 2022 from the computer / terminal of Noticee No. 1. Further, it is observed that for all the internet logs, the IP of terminal was '*172.16.15.251*' which is the terminal IP of computer used by Noticee No. 1 at IDBI Securities. For illustration, on June 8, 2022, there were 6 instances of front running from the trading account of Noticee No. 2. On the same day, the IP from which these 6 orders were placed was '14.143.196.90' which is the static IP of office premises of IDBI Securities and the internet logs obtained from Noticee No. 1's computer for the same day reveals that he has accessed the website of Sushil Finance multiple time the same day. Moreover, it is noted that only Noticee No. 1 had access to his computer during his employment at IDBI Securities. There is no evidence on record to show that anybody else apart from Noticee No. 1 had access to his computer. Therefore, the logical inference is that it is Noticee No. 1 who has accessed the website of Sushil Finance from IDBI Securities and he was the person who deleted the data from his official computer.

84. With respect to the submission of Noticee No. 1 of the data being backed-up in the main server of IDBI, I note that the same is not relevant. Firstly, the submission is not backed by any documentary evidence. Secondly, whether or not IDBI Securities could have accessed the data from the main server, by running the retrieval tool, IDBI Securities has shown that some data has been deleted from Noticee No. 1's computer. Thus, I note that in the given facts and circumstances of the case, the only possible reason reasonably explaining Noticee No. 1's action, would be his attempt to hide his digital trail from the purview of regulatory detection.

Fund Transfer and Annual Income of Noticee No. 2

85. It is noted from material available on record that INR 57 lakh was transferred by Noticee No. 1 to Noticee No. 2 during the period February 29, 2020 to October 22, 2021. The SCN has alleged (at paragraph no. 9) that *"…out of the total amount of INR 52.75 Lakh received upto 23.3.2020 (Serial no. 1-4), an amount of INR 52.50 Lakh was utilised towards dealing/ trading in the securities market which is evident from the fact that the above mentioned amount of INR 52.50 Lakh was periodically transferred to SFSL (the stock-broker of the Noticee no. 2) on the same day of the receipt of such amounts from the Noticee no. 1.".* It has been contended by the Noticees that the fund transfer between them was to cover up the losses incurred by Noticee No. 2 and the money was used to buy equity stocks and to pay the debit balance. Even if for a moment it is assumed that what Noticees are contending is correct, considering money lying with stock broker is fungible, it shows that Noticee No. 1 was funding the trades of Noticee No. 2 during the investigation period, inspite of him knowing that she had incurred huge losses in the market (as per their own admission). This suggests that Noticee No. 1 had a stake in the trading activity executed from the trading account of

Notice No. 2. The SCN has not alleged that the fund transfer was specifically done to execute front running trades.

86. Noticees have argued that it has been wrongly assumed that Noticee No. 2 had barely any annual income to take huge risky positions. According to the Noticees, the said assumption does not appreciate the fact that the trading turnover for an entity does not have any bearing on the actual income of the entity. I note from Noticee No. 2's income tax returns that during the investigation period, she barely had any income. Trading turnover indicate the risk appetite of an entity. In this context, the income of the entity assumes importance. Noticee No. 2 hardly had any income but compared to her annual income, her risk appetite was very high. In intra-day trading, considering the dynamics of the market, there could be a reasonable probability that when the second leg of the orders are placed, they get executed at a loss. For e.g., during the period August 24-28, 2020, the gross buy value of trades executed from the trading account of Noticee No. 2 in various securities (BBS pattern) was approximately INR 2.72 crore. Under the prevailing condition, for the sake of understanding the risk appetite of Noticee No.2, it is assumed that if the price would have moved down in the said securities by 1%, it would have meant a substantial loss of approximately INR 2.7 lakh within 5 days, which for a person with gross annual income between INR 0-6 lakh is substantial and difficult to absorb. In the given facts and circumstances of the matter, the very fact that trades from her account were regularly placed with significant turnover, shows her confidence that she would not incur loss. Considering the facts and circumstances of the case, the confidence of Noticee No. 2 appears to have been stemming from the knowledge of non-public information of the Big Clients relating to their impending orders.

87. Thus, from the above I note that the increased risk appetite of Noticee No. 2 was concurrent with the financial transaction between the Noticees. Considering money is fungible and around INR 51.35 lakh was transferred to Sushil Finance from the funds received from Noticee No. 1, it can be said that the increased risk appetite of Noticee No. 2 was fueled in part by Noticee No.1.

Concentrated activity in the Cash segment

88. Upon examination of the front running trades, it is noted that the front running trades in the cash segment of the market, have increased during the latter part of the investigation period. It leads to a reasonable inference that the Noticees were increasingly becoming confident about positions taken in the cash segment. Further, it is also not surprising that the front running trades were heavily concentrated in the cash segment of the market where the Big Clients were mostly trading through IDBI Securities. The year-wise break-up of the front running trades in both the segments of the market is as follows:

Table No. 6

Sl. No.	Year	No. of trades in Cash segment	No. of trades in F&O segment
1	2019	23	13
2	2020	288	22
3	2021	363	180
4	2022 till June	313	20
Total		987	235

Increase in profit figures

89. It is observed that the trading activity of Noticee No. 2 had a turnaround during the investigation period in terms of generation of profits. Not only were substantial profits generated; they were being consistently booked throughout the investigation period. The same, as per her own admission, is in sharp contrast to her prior trading activities (prior to the investigation period / earlier part of the investigation period), where she had suffered substantial losses while trading in the market. In the given facts and circumstances, it can be held that the same is related to the front running trades executed from her trading account.

90. In light of the aforesaid discussions, I note that in addition to the distinctive nature of the trading patterns of Noticee No.2 suggestive of front-running activity, there are other circumstantial evidence available on record that support the allegation of front running by the Noticees. The inescapable conclusion remains that notwithstanding all the myriad arguments and objections put forth by the Noticees, the extensive cross-examinations that they demanded, obtained, and used, there can be little doubt that there are more than sufficient grounds to hold the Noticees liable for clear violations of PFUTP Regulations.

Additional Submissions of the Noticees

91. Noticees have submitted that neither any evidence has been brought on record pertaining to the mode of communication used by Noticee No. 1 to exchange information nor any calls between Noticee No. 1 and his sister could be mapped with the trades that were allegedly front run. This argument is not tenable. It does not require reiteration that in cases like front running, direct substantive evidence will not always be present. However, in the absence of the same, one has to infer the exchange/ use of non-public information of the Big Client, based on the immediate and proximate facts and circumstances surrounding the events on which the charges / allegations are founded. Here, I would like to refer to the observations of the Hon'ble Supreme Court of India in the matter of *SEBI* vs. *Kishore R Ajmera* (2016) 6 SCC 368, wherein the Hon'ble Court while dealing with the nature of evidence required to establish the alleged violation has held as follows:

"...It is a fundamental principle of law that proof of an allegation levelled against a person may be in the form of direct substantive evidence or, as in many cases, such proof may have to be inferred by a logical process of reasoning from the totality of the attending facts and circumstances surrounding the allegations/charges made and levelled. While direct evidence is a more certain basis to come to a conclusion, yet, in the absence thereof the Courts cannot be helpless. It is the judicial duty to take note of the immediate and proximate facts and circumstances surrounding the events on which the charges/allegations are founded and to reach what would appear to the Court to be a reasonable conclusion therefrom. The test would always be that what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion."

92. In the present matter based on the following circumstances, it can be held that either Noticee No. 1 was placing the order directly in the trading account of Noticee No. 2 by accessing it (bulk of the impugned front running trades) or he was communicating the non-public information of the Big Clients to Noticee No. 2, who was then placing the impugned orders (especially where IP address is different from IDBI Securities IP address and orders placed via Motilal Oswal using DIS; both the instances are in minority). To summarise:

92.1. Noticee No. 1 was the Chief Dealer at IDBI Securities;

92.2. Noticees are family members who also had financial transactions between them;

92.3. Noticee No. 1 had access to his mobile phone during his office hours and also had access to website of other stock brokers from his office;

92.4. The probability that the distinctive trading pattern of Noticee No. 2 was anything other than front running of the orders of the Big Clients operating through IDBI Securities throughout the investigation period (3.5 years) is very, very low;

92.5. Approximately 97% of the front running trades had IP address of IDBI Securities where Noticee No. 1 was working;

92.6. There was concentrated trading activity from the trading account of Noticee No. 2 in the cash segment of the market where the Big Clients were trading through IDBI Securities;

92.7. As per Noticees own admission, Noticee No. 2 had suffered losses to the tune of INR 57 lakh prior to the investigation period but during the investigation period, Noticee No. 2 generated considerable profits on a regular basis;

92.8. Noticee No. 2 had a meagre annual income vis-a-vis her considerable high trading turnover on a regular basis showing her increased risk appetite; and

92.9. There were attempts made by Noticee No. 1 to conceal his digital signatures identity suggestive of him operating his sister's trading account by deleting data / files from his computer.

93. The submission of Noticees that no calls between the Noticees could be mapped with the trades that were allegedly front run, does not aid their defence. There are various applications such as WhatsApp available today that enable making calls and sending messages while providing service of end-to-end encryption (i.e., where no one outside the call or chat, can listen or read them). Therefore, it would be incorrect to assume that Noticees would have communicated with each other through telephonic calls only.

94. It is submitted by Noticee No. 2 that her trades are independent trades based on the day-to-day performance of the scrip and her own research. It is noted from the records that during the investigation period the orders from the trading account of Noticee No.

2 were on a regular basis placed in the same scrip as that of the Big Clients. The trading activity of the Noticee No. 2 increased substantially during the latter half of the investigation period and was concentrated mainly in the cash segment where the Big Clients were trading through IDBI Securities. Noticee No. 2 who had suffered substantial loss in her trading activity was generating regular profit on a continuous basis throughout the investigation period. Moreover, Noticee No. 2 has failed to provide similar kind of explanation / analysis for trades executed by her during the investigation period which are not front running trades or trades executed by her prior to the investigation period. Therefore, I do not find that any reasonable explanation has been submitted by Noticee No. 2 as to how on a regular basis trades were executed from her trading account on numerous occasions, sometimes multiple times in the same day, just prior to the placement of the impending orders of the Big Client or before the last tranche of the order of the Big Client.

95. In addition, note that the detailed probability calculations described earlier in this order suggest that the probability that the distinctive trading pattern and coincidences achieved by Noticee No. 2 during the investigation period is anything other than a pre-meditated scheme of front running, is a mind-numbingly low number that approximates to zero. The standard required of 'preponderance of probability' to arrive at a conclusion of front-running has been well surpassed in the instant case.

96. The submission of Noticee No. 1 that he has not affected a single alleged trade is incorrect. It has been noted that he had access to the trading account of Noticee No. 2 from his office. The same would be either to place the order or to check the activity in the said trading account. Further, since Noticee No. 1 had access to his mobile phone, the front running trades carried out from IP addresses other than those of IDBI Securities, could also have been executed by Noticee No. 1. In any case, front running trades could not have been executed in the matter but for the involvement of Noticee No. 1.

97. In light of the aforesaid discussion, it can be concluded that the Noticees have front run the orders of the Big Clients.

FINDINGS & CONCLUSIONS

98. The facts and circumstances elaborated in the foregoing paragraphs of this Order along with the conclusions drawn therefrom are summarised as follows:

98.1. Noticee No. 1 was the Chief Dealer of IDBI Securities. By virtue of his office, he was aware of / had access to the impending orders of the Big Clients;

98.2. On a closer scrutiny of the trading pattern of the impugned trades, that the probability that the distinctive trading pattern and coincidences achieved by Noticee No.2 during the investigation period is anything other than a pre-meditated scheme of front running, is a mind-numbingly low number that approximates to zero.

98.3. There are adequate additional circumstances present in the matter viz., IP address, the close relationship and financial connection between the Noticees, particulars of trading activity during the investigation period, increased risk appetite of Noticee No. 2, attempt made by Noticee No. 1 to hide his identity / digital trail, etc. which further strengthens the allegation of front running against the Noticees.

99. Noticees have argued that they have not violated any applicable securities laws as the trades are not manipulative in nature and that the element of fraud has not been established in the matter. Further, the Noticees have not employed any scheme to defraud the market.

100. It has been held by Hon'ble Supreme Court of India in the matter of *SEBI* vs. *Kanaiyalal Baldevbhai Patel and Ors.* decided on September 20, 2017 that front running is a fraudulent and unfair trade practice resulting in violation of regulations 3 (a), (b), (c) and (d) and 4 (1) of PFUTP Regulations. Further, Hon'ble SAT in its recent order in the matter of *Madhu Chandra et. al.* vs. *SEBI and Other Connected Appeals* decided on October 30, 2023 has held as follows:

"Thus, the WTM order and the AO order have correctly held that due to the trading based on prior information of trades of the aforesaid 7 noticees (noticee Nos. 2, 4, 6, 7, 8, 10 and 12) and of the Sterling group, Madhu Chanda, Anandilal Chanda and Anandilal Chanda HUF defrauded investors in the securities market and caused loss to other investors / deprived the investors from profits, and made unlawful gains in their respective trading accounts."

101. In the instant matter also Noticees have mistultilised the confidential information of the Big Clients and had the Noticees not been in possession of the said confidential non-public information of the Big Clients, the trades in the account of Noticee No. 2 would not have been executed. Thus, in the given facts and circumstances of the case, on a preponderance of probability, I find that Noticees have executed front running trades during the investigation period and in the process have made substantial wrongful gains. The Noticees by their conduct of executing front running trades have not only defrauded the Big Clients but have also defrauded other investors in the market. Thus, I find that Noticees have violated Sections 12A (a), 12A (b), and 12 A (c) of SEBI Act, regulations 3 (a), 3 (b), 3 (c), 3(d), 4(1) and 4(2)(q) of PFUTP Regulations and are liable for directions as well as penalties.

COMPUTATION OF WRONGFUL GAINS AND RATIONALE FOR DIRECTIONS

102. It has been alleged in the SCN that the Noticees by executing front running trades in cash and F&O segments of the market have made wrongful gains to the extent of INR 1,67,70,060/-.

103. Noticees have submitted that all the alleged trades where trades have been categorised as “No FR trade”, trades where position was not taken ahead of Big Client’s order, trades wherein the first leg was executed with a time gap ranging from 5 minutes to 5 hours, trades where Noticee No. 1 was not assigned dealer, trades with no IP address, trades with different IP address then IDBI Securities, trades with dual IP address, trades with multiple IP address and trades where identity of the Big Client cannot be ascertained, should be excluded from the calculation of wrongful gains. The submissions of the Noticees with respect to the aforesaid, has already been considered in the preceding paragraphs and have been held to be untenable. Hence, the wrongful gains made from the aforesaid trades would be considered for computation of wrongful gains.

104. Noticees have submitted that losses suffered while trading during the investigation period should also be taken into account. In this regard, I would like to refer to the order of Hon’ble SAT in the matter of *Immix Trade Pvt. Ltd.* vs. *SEBI and Other Connected Appeals* decided on November 10, 2023 wherein the appellants had made a similar contention of reckoning the losses suffered by them. Hon’ble SAT while dismissing the said contention, held as follows:

“ 68. The appellants have further contended that the respondent has not reckoned the losses (either ‘notional losses’ or ‘actual losses’) suffered by the appellants on the sale of shares bought by the appellant during the investigation period. This ground

raised by the appellant is devoid of any merit and it is submitted that a manipulator cannot be allowed to set off the loss suffered by him in manipulating the market.

…

71. It is further submitted that allowing a manipulator to set-off the losses suffered by him while causing manipulation or subsequent to the manipulation, from the disgorgement amount, would amount to allowing insurance for losses to manipulator. The intention of law in this regard, as enshrined in explanation to Section 11B of SEBI Act is very clear and unambiguous. Explanation to Section 11B of SEBI Act as inserted vide Securities Laws (Amendment) Act, 2014, clearly provides that :-

"Explanation. - For the removal of doubts, it is hereby declared that the power to issue directions under this section shall include and always be deemed to have been included the power to direct any person, who made profit or averted loss by indulging in any transaction or activity in contravention of the provisions of this Act or regulations made thereunder, to disgorge an amount equivalent to the wrongful gain made or loss averted by such contravention."

72. A reading of the aforesaid explanation shows that the law envisages disgorgement of profit / loss avoidance, made in violation of securities law, without any set-off of any expenses or loss suffered by the violator. Therefore, the contentions of the appellant that calculation of disgorgement amount should also take into consideration the amount of losses suffered by it is untenable."

105. In light of the aforesaid order of Hon'ble SAT and the fact that Noticees have executed front running trades in the market which as held by SAT in the matter of *Ms. Pooja Menghani* vs. *SEBI* decided on April 23, 2014, "*is undoubtedly very injurious to the market and which is resorted to by some unscrupulous persons at the cost of innocent and genuine investors"*, leads to a conclusion that Noticees should not be given any benefit of setting off losses from their fraudulent conduct in the securities market.

106. Noticee No. 1 has submitted that there is no evidence to show that the alleged gains made out of the trades executed in the account of Noticee No. 2 were transferred to Noticee No. 1. It has been noted in preceding paragraphs that but for Noticee No. 1, the front running trades would not have been executed in the trading account of

Noticee No. 2. Further, based on IP address details it has been held that Noticee No. 1 was also reasonably expected to have been involved in placing the orders / monitoring the trades executed in the trading account of Noticee No. 2. Thus, both the Noticees are jointly responsible for the execution of the scheme of front running trades during the investigation period. Therefore, the reliance placed by Noticee No. 1 on the Order of Hon'ble SAT in the matter of *Karvy Stock Broking Ltd.* vs. *SEBI* dated May 2, 2008 is misplaced as in the instant matter both are wrongdoers who have made wrongful gains as a result of their fraudulent act. It will be apt here to quote the Order of Hon'ble SAT in the matter of *SRSR Holdings Ltd.* vs. *SEBI and Other Connected Appeals* decided on February 2, 2023 wherein it was held as follows:

"91… All persons who aid or direct or join in the committal of a wrongful act, are joint tort-feasors. To constitute a joint liability, the act complained of must be joint and not separate. Where two or more persons combine together to commit an act, it is a joint action which amounts to a tort. The liability of joint tort-feasors i.e. the liability that an individual or business either shares with other tort-feasor or bears individually without the others. Thus, joint tort-feasors are jointly and severally liable for the whole damage resulting from the tort…

92… It must be shown that they acted concurrently or jointly with a common intention."

107. I find that the submission of the Noticees that the trade executed on July 14, 2022 should be excluded from computation of wrongful gains, as Noticee No. 1 was suspended with effect from July 13, 2022, is acceptable as Noticee No. 1 was no longer the Chief Dealer at IDBI Securities. Hence, his access to the non-public information of the Big Client cannot be ascertained based on the available records.

108. It has been contended by the Noticees that the alleged computation of ill-gotten gains also includes the entries, which are termed as *"duplicate entries"* by NSE in its trade order data. In this regard, it is noted there was one duplicate entry in the scrip of Marico Ltd. on November 26, 2021 in the cash segment wherein the profit was calculated as INR 12,744/-. The same has been removed from the computation of wrongful gains made by the Noticees.

109. I, therefore find that the Noticees by executing 1,220 front running trades during the investigation period have made wrongful gains to the extent of INR 1,67,52,329/. The details of the wrongful gains are as follows:

Table No. 7

Sl. No.	Segment	Front Running Instances	Wrongful Gains (INR)
1	Cash	986	1,28,69,527
2	F&O	234	38,82,802
Total		**1,220**	**1,67,52,329**

110. I note that Section 11 of SEBI Act casts a duty on the Board to protect the interests of investors in securities and to promote the development of and to regulate the securities market. For achieving such object, it has been authorised to take such measures as it thinks fit. Thus, power to take all measures necessary to discharge its duty under the statute, which is a reflection of the objective disclosed in the preamble, has been conferred in widest amplitude. Pursuant to the said objective, PFUTP Regulations have been framed. The said Regulations apart from bringing transparency and fairness among other things, aim to preserve and protect the market integrity in order to boost investors' confidence in the securities market. Since the conduct of the aforementioned Noticees are not in the interest of investors and the securities market and considering the violations committed by the Noticees, I find that it becomes necessary for SEBI to issue appropriate directions against them. Further, for the acts of Noticees to front run the impending orders of the Big Clients, which resulted in wrongful gains in their hands, appropriate directions including disgorgement of the wrongful gains, need to be passed against them.

111. Moreover, as it has been found in the present case that Noticees have executed front running trades which are in violation of the provisions related to fraudulent and unfair trade practices under SEBI Act and PFUTP Regulations, the same also warrants imposition of monetary penalty under Section 15 HA of the SEBI Act. For imposition of penalty under the provisions of the SEBI Act and PFUTP Regulations, Section 15J of the SEBI Act provides as follows:

Factors to be taken into account while adjudging quantum of penalty.

15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: —

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

Explanation. —For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section."

112. I have in preceding paragraphs, taken note of the wrongful gains made by the Noticees in the extant matter. However, I also note that the entire proceeds as computed in the Impounding Order cum Show Cause Notice have not been deposited by the Noticees in an escrow account. Further, I find that allegations made in the SCN do not indicate the amount of specific loss caused to investors or group of investors as a result of the default by Noticees. Moreover, there is no allegation of repetitive nature of the default made by the Noticees in the SCN.

ORDER

113. In view of the foregoing, I, in exercise of the powers conferred upon me under Sections 11(1), 11(4), 11(4A), 11B (1) and 11B (2) read with Section 19 of the Securities and Exchange Board of India Act, 1992 read with Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, pass the following directions:

113.1. Noticees i.e. Mr. Gaurav Dedhia and Ms. Kajal Savla, are hereby restrained from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in the securities market, directly or indirectly in any manner whatsoever manner, for a period of three years from the date of this Order.

113.2. The Noticees are hereby directed to disgorge, jointly and severally, the amount of wrongful gains to the tune of INR 1,67,52,329/- *(as computed in Table No. 7 of this Order)* along with interest at the rate of 12% per annum, calculated from the last date of front-run trades (i.e. June 14, 2022) till the date of transfer to Investor Protection and Education Fund (hereinafter referred to as "**IPEF**"). The Noticees are permitted to utilise the amount already deposited by the Noticees in the escrow account *(pursuant to the Impounding Order cum SCN dated December 19, 2022)* along with accrued interest if any. The said disgorged amount shall be remitted by the Noticees to IPEF referred to in Section 11(5) of the SEBI Act within 45 days from the date of this Order. An intimation regarding the payment of said disgorged amount directed to be paid herein, shall be sent to "The Division Chief, IVD-ID4, Securities and Exchange Board of India, SEBI Bhavan II, Plot no. C-7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai -400 051".

113.3. Noticee No. 1 is hereby imposed a penalty of INR 25 lakh under Section 15HA of SEBI Act while Noticee No. 2 is hereby imposed a penalty of INR 15 lakh under Section 15HA of SEBI Act.

113.4. Noticees shall remit / pay the amount of penalty mentioned above against their respective names, within 45 days of receipt of this order by using the undermentioned pathway: www.sebi.gov.in/ENFORCEMENT → Orders → Orders of Chairman/ Members → Click on PAY NOW or by using the web link: https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html. Noticees shall forward the details/confirmation of penalty so paid through e-payment to "The Division Chief, IVD-ID4, Securities and Exchange Board of India, SEBI Bhavan II, Plot no. C-7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai -400 051" and also to e-mail id: tad@sebi.gov.in in the format given in the table below:

Table No. 8

1. Case Name	
2. Name of payee:	
3. Date of payment:	
4. Amount paid:	
5. Transaction no.:	
6. Bank details in which payment is made:	
7. Payment is made for : (like penalties/ disgorgement/ recovery/settlement amount and legal charges along with order details)	

114. This Order shall come into force with immediate effect.

115. A copy of this Order shall be forwarded to the Noticees, all recognized stock exchanges, depositories, banks and registrar and transfer agents for ensuring compliance with the above directions.

-Sd-

Date: May 31, 2024
Place: Mumbai

ANANTH NARAYAN G.
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA