SECURITIES AND EXCHANGE BOARD OF INDIA
FINAL ORDER

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

In respect of:

Noticee No.	Noticee Name	PAN No.
1.	Nikhil Khaitan	ANIPK9553H
2.	Om Prakash Khaitan	AEZPK1725R
3.	Manju Khaitan	AFZPK1582R
4.	Neha Khaitan	AEJPA6879G
5.	Nidhi Tibrewal	AIJPT3094Q

In the matter of investigation of trading activities of members of Khaitan Family front running the trades of certain entities.

(The aforesaid entities are referred to by their corresponding names/numbers and collectively referred to as "Noticees")

Background

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") had conducted an investigation in the matter of trading activities of members of Khaitan Family, front running the trades of certain entities (hereinafter referred to as "**Big Clients/BC**") on the basis of SEBI Alert in various scrips during the period from September 01, 2016 to August 02, 2022 (hereinafter referred to as "**Investigation Period**" or "**IP**") to look into possible violations of provisions of the 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**") by Nikhil Khaitan (hereinafter referred to as "**Noticee No.1**"), Om Prakash Khaitan (hereinafter referred to as "**Noticee No.2**"), Manju Khaitan (hereinafter referred to as "**Noticee No.3**"), Neha Khaitan (hereinafter referred to as "**Noticee No.4**") and Nidhi Tibrewal (hereinafter referred to as "**Noticee No.5**").

2. Accordingly, the investigation observed and alleged the following:

a) Noticee No.2 to 5 (hereinafter collectively called as "**FRs**") and dealer Nikhil Khaitan (Noticee No.1) were connected through common address, common phone number, common email ID and family relations as per the KYC details. Noticee No.1 is the son of Noticee No.2 and Noticee No.3. He is the husband of Noticee No.4 and brother of Noticee No.5.

b) Noticee No.1 was an employee at trading member Sumedha Fiscal Services Limited and subsequently at trading member Eureka Stock and Share Broking Services Limited, wherein he was placing orders of the big clients.

c) Considering the relationship between FRs and Noticee No.1, FRs had undue advantage of being privy to non-public information of the orders of the BC.

d) The trading pattern of the FRs, showed that the first leg of their intraday trades was placed and executed just prior to the impending order of the BC and the orders for squaring off their trades i.e. second leg sell/buy orders were placed at a limit price which was less/more than the buy/sell order limit price of the BC, ensuring that such sell/buy orders would get matched with the buy/sell orders of the BC.

e) There was a substantial jump in the trading activity during the investigation period in comparison to the pre-investigation period and the post-investigation period.

f) It was observed from data received from NSE and trading members (TMs) that during the period of analysis, FRs have entered into all the trades in question through trading members – SMC Global Securities Limited and RK Global Securities Limited.

g) It was further observed that Noticee No.1 was placing orders in the trading accounts of FRs over the call at SMC Global Securities trading member through broker terminal.

h) It was observed that the physical location of IP address (182.75.141.242) of order placement of front runners matched with the location where Noticee No.1 was

working i.e. Merlin Infinite branch of Eureka Stock and Share Broking Services Limited. Hence, it was inferred that the trading accounts of FRs (Noticee No.2 to 5) were under control/managed/used by Noticee No.1.

3. Based on the above findings of the investigation, Show Cause Notice dated June 25, 2024 **("SCN")** was issued to the Noticees, which, inter-alia, alleged that Noticee No.1 to 5 participated in the scheme/device to front run the trades of certain entities (BCs) and accordingly were alleged to have violated Section 12A(a), (b) & (c) of SEBI Act, 1992 read with Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(q) of SEBI (PFUTP) Regulations, 2003.

4. Further, the Noticees were called upon to show cause as to why suitable directions, under Sections 11(1), 11(4) and 11B(1) of SEBI Act, should not be issued against them for the alleged violations mentioned above including directions to prohibit them from buying, selling or otherwise dealing in securities market, either directly or indirectly, in any manner whatsoever, for a particular period and not to be associated with any registered intermediary/ listed company and any public company which intends to raise money from public in the securities market, in any manner whatsoever. Further, Noticees were also show caused as to why any directions for disgorgement of wrongful gain of Rs.1,52,90,938/-, jointly and severally, should not be issued against them. Noticees were also called upon to show cause as to why appropriate directions for imposing penalty under Section 11(4A) and 11B(2) read with Section 15HA of the SEBI Act, 1992 and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 should not be issued against them for the alleged violations mentioned above.

SERVICE OF SCN, ISNPECTION OF DOCUMENTS, REPLIES AND HEARING

5. The SCN along with annexures was served on the Noticees through speed post and acknowledgement due. It was duly delivered to all the Noticees. Subsequently, vide letter dated July 24, 2024, the Noticees requested for inspection of documents. Meanwhile, the Noticees also filed application for settlement on July 29, 2024, which was later withdrawn on October 24, 2024. The inspection of following documents along

with copies of the same were provided to the Authorized Representative (AR) of the Noticees on September 04, 2024:

a) Investigation Report
b) Email from RK Global (TM) w.r.t. to ID address details
c) Summons issued to Noticee No.1
d) Copy of Annexure 1 of Annexure 7 of SCN
e) Order and Trade logs for all entities during the investigation period

6. Subsequently, vide letters dated September 09, 2024 and September 24, 2024, the Noticees sought inspection of additional documents to which the relevant documents/para wise clarification on the information sought were provided to them vide emails dated September 13, 2024 and again on October 08, 2024. However, vide letters dated October 22, 20224, Noticee No.1 again sought inspection of certain documents. Accordingly, the second inspection was scheduled on November 6, 2024 which, on the request of Noticee No.1, was rescheduled and partly conducted on November 12, 2024 and partly on November 18, 2024. Thereafter, in accordance with the principles of natural justice, vide hearing notice dated December 02, 2024, an opportunity of personal hearing was granted to the Noticees on December 12, 2024. However, the Noticees, vide email dated December 05, 2024, requested to provide additional documents and requested to adjourn the hearing. Acceding to their request, the hearing was adjourned and the documents sought were provided to the Noticees vide email dated December 24, 2024.

Thereafter, another opportunity of hearing was provided to the Noticees vide hearing notice dated December 24, 2024 on January 06, 2025. However, again vide mail dated December 28, 2024, the Noticees requested for adjournment of hearing. As the hearing was rescheduled already on the request of the Noticees and it was also communicated that *'it was the last and final opportunity of hearing being provided and no more adjournment will be granted',* the aforesaid request was not acceded to.

AR of the Noticees appeared for the hearing on January 06, 2025 and again requested for a second hearing in the matter on merit, which was acceded to and another opportunity of hearing was granted on January 17, 2025. Meanwhile, the Noticees submitted their reply vide letter dated January 13, 2025. The AR of the Noticees

appeared in the said hearing on January 17, 2025. The Noticees submitted their additional reply vide letter dated January 23, 2025.

7. The replies of the Noticees are summarised as under:

a. *The alleged Front Running transactions started in September 2016 and more than 8 years had expired from the date of the said transactions and due to such an extensive time frame, it is not possible for anyone to provide the rationale for the said trades that have happened more than 8 years ago.*

b. *All the documents as requested are not provided to them.*

c. *There was a common Phone Line in respect to which the Orders were received from the clients and there were around 3 dealers working for the said role in Sumedha including him. Pertinently, the orders as directed to be put in by the Big Clients might have been through any Dealer at the Broker i.e. Sumedha.*

d. *There was no complaint received in respect to his working pattern and there was no complaint of any client (Big Client) that their order was placed belated and therefore it cannot be said that to gain any alleged advantage of the price movement, he obstructed the order placement of the Big Clients.*

e. *Mr. Nikhil had access to the trading account, the said access does not necessarily indicate that he traded on their behalf or the other Noticees traded on the instruction of Mr. Nikhil.*

f. *Mr. Nikhil does not handle trading accounts of the family members, and he is not involved in placing orders/ any other activity related to trading in any of the Demat/ Trading accounts (Except in certain Instances as mentioned herein below) and he do not take trading decisions in respect to their trading account. He had not sent any messages relating to placing orders/trading in demat/trading account of Noticee No. 2 to 5. They are totally unaware of authorization letters issued by Noticee No.3 and 4 to Noticee No.1 and the said accounts with SMC have been operating since a very long time and therefore, it is not possible for them to validate whether the said letter was submitted at the time of KYC i.e. opening of accounts or not.*

g. *Only in certain instances when his father, i.e. Mr. Om Prakash faced issue in placing the orders, he used to place orders on behalf of his family members. In respect to trade as executed through SMC (Brokers of Noticee No. 2 to 5), in only some instances, Nikhil had called the SMC to place the orders on behalf of his family Members. Additionally, he sometimes used to advise Mrs. Nidhi on trading*

strategies. Barring some instances, the majority of the instances, the orders were placed by him in his account and the accounts of the family members, and he had not instructed any other person to place the orders on his behalf and on behalf of the other family members. Mrs.Manju Khaitan, she has inter alia stated that "My husband takes all my trading decisions. Do not know about trading member". Mrs. Neha, she has inter alia stated that "I have trading account with SMC Global and possibly with RK Global. I do not trade. My father-in-law operated my trading account". Mrs. Nidhi, she has inter alia stated that "I have trading accounts registered with SMC Global trading and RK Global trading member. Yes, I do trade. However, my father handles my trading accounts".

h. *Nikhil did not come across even a single instance on the basis of which it can be said that the timing of the calls of the Big client matched with the Order timings of the alleged FRs.*
i. *The alleged front Running trades ought to be in respect of certain pattern i.e. alleged Buy Buy Sell ("BBS") or a Sell Sell Buy ("SSB") in view thereof a separate column for whether the trade is a BBS or an SSB has to be provided to him.*
j. *The Annexure — 20 has 2 Instances less than what is alleged in the SCN, however the profit in the SCN as well as Annexure — 20 has remained the same.*
k. *In the details of the dealers that placed the orders on behalf of the Big Client of Eureka as provided by Eureka to SEBI via Email dated 23.12.2022, there are only 336 Instances as mentioned therein in respect of the trades executed by him of the Big Clients. Pertinently, the allegation in the SCN is in respect to 794 instances (including the trades of Sumedha and Eureka) of by the BC.*
l. *In merely some instances the IP is matching with that of Eureka (i.e. 182.75.141.242) and in majority of the Instances IPs are different than that of Eureka and no documents are provided in respect of the other IPs.*
m. *The profit as mentioned under Annexure No.19 of Rs.1,96,48,756.04/- does not match with the alleged Front Running profit of Rs.1,52,90,938.74/- which is derived from Annexure—20 of the SCN.*
n. *Out of the total 966 instances, in case of 68 instances, neither buy trades nor sell trades matched with the BC.*
o. *In some instances, there is only matching of the orders and nothing in respect of how did the FR gain advantage due to the subsequent price change because of the Order of the BC. Further, there is no pattern of FR involved in the present scenario,*

and matching of trades cannot be constituted with Front Running. Further, in some instances, the Buy and the Sell Order End time of the FR was even before the BC placed its first Buy Order. Hence, it is not even in anyone's control to whom the trades get matched.

4. From the above, I note that the SCN and Hearing Notice were duly served to the Noticees and sufficient time was provided to submit their replies. Further, an opportunity of personal hearing was also given to the Noticees, which was availed by them. Hence, the principles of natural justice were complied with respect to the Noticees and I shall now proceed to deal with the key issues involved in the instant matter.

ISSUES FOR CONSIDERATION

5. On a perusal of the observations and allegations brought out in the SCN, oral / written submissions filed by the Noticees and other materials available on record, the following issues arise for consideration in the present proceedings:

   A. Whether Noticee No.1, using the trading account of Noticee No.2 to 5, front ran the trades of Big Clients during the IP and made profit consequently in violation of the provisions of SEBI Act and SEBI PFUTP Regulations, as alleged in the SCN?

   B. If the answer to the above issue is in affirmative, what directions, if any, including monetary penalty, is required to be imposed on the Noticees?

6. Before dealing with the replies of the Noticees on specific charges on merit, I deem it appropriate first to deal with the following preliminary objections raised by the Noticees:
   a) The alleged Front Running transactions started in September 2016 and more than 8 years had expired from the date of the said transactions and due to such an extensive time frame, it is not possible for anyone to provide the rationale for the said trades that have happened more than 8 years ago.
   b) All the documents as requested are not provided to them.

7. With regards to the first contention that the alleged Front Running transactions started in September 2016 and more than 8 years had expired from the date of the said transactions, I note that SEBI initiated examination based on the alerts generated by SEBI internal alert system (hereinafter referred to as DWBIS) for the month of October 2021 and November 2021 against Noticee No.2 to 5. Accordingly, SEBI conducted an investigation into their suspected front running trades of Ares Diversified, Assam Roofing Limited and Jhalar Vincom Pvt Ltd, who were trading through the broker Eureka Stock and Share Broking Services Limited. In addition to Ares Diversified, Assam Roofing Limited and Jhalar Vincom Pvt Ltd, the front runners were also found to have front run the trades of few other entities who were trading through Eureka Stock and Share Broking Services Limited. Based on the aforesaid information, Search and Seizure activity was conducted on August 03, 2022 during which it was found that Noticee No.1, prior to his employment with Eureka Stock and Share Broking Services Limited, was working as dealer with Sumedha Fiscal Services Limited during the period September 26, 2008 to March 30, 2019 and the front runners were found to have front run the trades of some of the entities whose orders were being placed by Noticee No.1 at Sumedha Fiscal Services Limited. Considering the above, it was decided to carry out detailed investigation for the period between September 01, 2016 and August 02 2022, to ascertain whether or not Noticee No. 2 to 5 had front run the trades of Eureka Stock and Share Broking Services Limited and Sumedha Fiscal Services Limited, based on the information available with Noticee No.1, in contravention of the provisions of SEBI Act, 1992 read with PFUTP Regulations, 2003. I note that the investigation required detailed examination of multiple scrips during the period September 01, 2016 and August 02 2022, in which the said entities had placed orders. Further, various information was required from concerned entities regarding the details of persons who were privy to such trades being placed during the investigation period, including information from the Noticees. Also, I note that the SCN issued in the present matter, contains all the relevant extracts of the investigation report which have been relied upon in the SCN and relevant documents have been provided to the Noticees as Annexures to the SCN. I further note that the Noticees had also sought inspection of documents and the same was availed by them on multiple days. Thereafter, the Noticees have filed detailed replies, attended hearing on January 17, 2025 and filed additional submissions also. In view of the above, the above contention of the Noticees that delay

in issuance of the SCN has caused great prejudice to them are fallacious and untenable.

8. Further, with regard to the second contention that all the documents, as requested, were not provided to them, I note that the contention pertains to 4 points which are as below:
   a) Recorded conversation between Mr. Nikhil and Mr. Om Prakash (Noticee No. 2) & between Mrs. Nikhil and Mrs. Nidhi (Noticee No. 5).
   b) Pre Orders, Order confirmation and trade confirmation over phone from the Big Clients to the Brokers from the period 2015 -2019 as per the Exchange (NSE) and SEBI guidelines.
   c) Data of IP w.r.t. RK Global as provided during the course of Inspection (Details of IP attached to email dated 23.09.2022).
   d) Data of all the alleged Front Run trades (the total of alleged unlawful profit is Rs.1,52,90,938.74/-) a/w all the details/ data of the Order/Trades as mentioned in Annexure- 19 of the SCN a/ w the details in respect of the BBS and SSB trades)

9. In this regard, I note that all the relevant details that were relied upon for the purpose of investigation, was made part of the SCN or was shared as annexures to the SCN. For instance, details of correspondences of Noticee No.1 with Noticee No.2 and 5, showing their connections and sharing of login details of the trading account, was provided in the SCN. Further, it was also indicated that Noticee No.1 was placing trades on behalf of other Noticees. Further, IP address details of entities trading via RK Global was also provided with the SCN. Further, details of FR instances where Noticee No. 2 to 4 had traded and made intraday profits including that of Big Client were also shared along with the SCN. Also, order log and trade log of all the Noticees for the examination period were provided at the time of inspection of documents. Hence, I find that all the relevant documents and records to allege front running by the Noticees during the investigation period have been made available to the Noticees. Further, as mentioned in the above para, the Noticees have filed detailed replies, attended hearing on January 17, 2025 and filed additional submissions also. Accordingly, I find no merit in the contention of the Noticees that all the documents were not provided to them.

10. Now that the preliminary objection has been dealt with, I shall now proceed with the merits of the case.

11. Before proceeding to consider the matter on merits, I find it appropriate to refer to relevant provisions of law which are as follows: -

SEBI Act

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

12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

…

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

PFUTP Regulations

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive

device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

Explanation.– For the removal of doubts, it is clarified that any act of diversion, misutilisation or siphoning off of assets or earnings of a company whose securities are listed or any concealment of such act or any device, scheme or artifice to manipulate the books of accounts or financial statement of such a company that would directly or indirectly manipulate the price of securities of that company shall be and shall always be deemed to have been considered as manipulative, fraudulent and an unfair trade practice in the securities market.

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

…

…

…

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

12. I shall now proceed to address the above issues in light of the facts of the case, material available on record and the submissions made by the Noticees.

A. Whether Noticee No.1, using the trading account of Noticee No.2 to 5, front ran the trades of Big Clients during the IP and made profit consequently in violation of the provisions of SEBI Act and SEBI PFUTP Regulations, as alleged in the SCN?

Definition of Front Running

13. In order to examine the veracity of allegations raised in the SCN, it is pertinent to mention what constitutes front running in the securities market and the jurisprudence surrounding it. The Hon`ble Supreme Court, for the first time, in the matter of ***SEBI Vs. Kanaiyalal Baldevbhai Patel*** [(2017) 15 SCC 1], set out contours within which any conduct alleged to be front running must be examined. Hon`ble Court referred to wide range of authoritative resources to arrive at proper definition of front running in India, this included examination of definition thereof in Major Lax Lexicon by P. Ramanatha Aiyer, Black`s Law Dictionary, as also Wall Street Journal.

> *"As per the Major Law Lexicon by P Ramanatha Aiyar (4th Edition 2010), 'front running' is defined as under:*
>
> *Buying or selling securities ahead of a large order so as to benefit from the subsequent price move. This denotes persons dealing in the market, knowing that a large transaction will take place in the near future and that parties are likely to move in their favour. The illegal private trading by a broker or market-maker who has prior knowledge of a forthcoming large movement in prices."*

The Black's *Law Dictionary (Ninth Edition) defines the term 'front running' as under:*

> *Front running, n. Securities. A broker's or analyst's use of non-public information to acquire securities or enter into options or futures contracts for his or her own benefit, knowing that when the information becomes public, the price of the securities will change in a predictable manner. This practice is illegal. Front-running can occur in ways. For example, a broker or analyst who works for a brokerage firm may buy shares in a company that the firm is about to recommend as a strong buy or in which the firm is planning to buy a large block of shares.*

Nancy Folbre –In the world of financial trading, a front-runner is someone who gains an unfair advantage with inside information.

SEBI has defined front-running in one of its circular of 2012 in the following manner-

> *"Front-running; for the purpose of this circular, front running means usage of non-public information to directly or indirectly, buy or sell securities or enter into options or futures contracts, in advance of a substantial order, on an impending transaction, in the same or related securities or futures or options contracts, in anticipation that when the information becomes public; the price of such securities or contracts may change."*

14. Further, a consultative paper issued by SEBI had grouped front running to be an undesirable manipulative practice in the following manner-

> *'However, SEBI Act does not prescribe or specify as to which practice would be considered to be fraudulent and unfair trade practices. While the fraudulent and unfair trade practices are commonly understood, it would be desirable if these practices are defined specifically...this will bring about clarity among the intermediaries, issuers, investors and other connected persons in the securities markets about the practices that are prohibited, fraudulent and unfair. ...<u>The draft defines fraudulent and unfair trade practices. These regulations seek to cover market manipulation on the stock exchanges also. Practices like wash sales, **front-running**, price rigging, artificial increasing or decreasing the prices of the securities are brought within the ambit of the regulations'</u>*

15. Thus, I note from the above that any trading activity in securities having following features can be classified as front running: -
    a) Information regarding substantial order of the *Big client* in a particular security, which is not publicly available;
    b) Placing of order (directly or indirectly) by the *Front Runner* ahead of the orders of the *Big client*, while in possession of above-mentioned non-public information.

Types of Front Running

16. Placing of orders based on non-public information i.e. pre-existing knowledge about impending order of the Big client that can potentially change price of a security, can be executed in following two ways to extract economic gains: -

a) **Buy-Buy-Sell ("BBS")** –In this type of front running behaviour, the alleged Front Runner, by using the non-public information regarding an impending Buy order of the Big Client, places his Buy order before the execution of the Big Client's Buy order. As and when the Buy order of the Big Client gets executed, the price of the security rises and then the alleged Front Runner Sells the securities bought earlier, at the raised price, thereby, pocketing the difference between the new raised price of the security which is established during / post Big Client's Buy trade(s) and the price at which he had bought his securities. The BBS pattern of front running denotes 'Buy' by the alleged Front Runner, 'Buy' by the Big Client, 'Sell' by the alleged Front Runner in the sequence mentioned.

b) **Sell-Sell-Buy ("SSB")** -In this type of front running behaviour, the alleged Front Runner by using the non-public information regarding an impending Sell order of the Big Client, places his Sell order(s) before the execution of the Big Client's Sell order. As and when the Sell order of the Big Client gets executed, the price of the security falls which gives an opportunity to the alleged Front Runner to buy back the securities at a lower price to meet his obligations which he had created earlier by selling securities. Thus, pocketing the difference between the price at which he had sold his securities and the new lower price, which is established during / post Big Client's Sell trades. This pattern of front running is labelled as SSB denoting 'Sell' by the alleged Front Runner, 'Sell' by the Big Client, 'Buy' by the alleged Front Runner in the sequence mentioned.

17. The second leg of the Front Runner's order which encashes the "advantage" of the first leg, need not necessarily be placed after the Big Client order since the Stock Exchanges permit "limit orders" i.e., contingent orders like "sell if the price is more than Rs. X" or "buy if the price is lower than Rs. Y". Such limit orders can be placed in advance / "waiting" for the Big Client order to come and impact the price of the scrip.

18. The aforesaid front running behaviour, which is executed in the cash segment of the market, can also be mirrored in the derivative segment of the market. In this case the Front Runner, in anticipation of the impact of the imminent substantial Buy order of the Big Client, will take a long position i.e., he will buy the securities/contracts and when the price of the contracts has started being impacted by the Big Client order, the alleged Front Runner will exit his position. Similarly, the alleged Front Runner will take a short position i.e., he will sell the securities / contracts, if a substantial Sell order is imminent from the Big Client and will subsequently exit his position, as and when the impact of the Big Client order prices is felt. It is clarified that the first leg of the order placed by the Front Runner, prior to the order of the Big Client qualifies as front running while the second leg of the order does not qualify as front running, but is the leg where the FR enchases the advantage that has accrued to him by front running the order(s) of the Big Client(s).

19. The BBS or SSB pattern of front running behaviour, as discussed above, if executed intra-day has the potential for generating maximum proceeds. The reason being, the impact of the substantial order of the Big Client on the price of the scrip will be more on the same day as opposed to next day as the price of the scrip may "revert" post Big Client's trade. In other words, the probability of getting a better price difference between the two legs of the orders of the front-runner is higher, if executed on the same day, as opposed to the two legs being executed over two days.

Legal Position regarding Front Running

20. The act of front running involves dealing in securities, the law which is invoked in such cases, inter alia, is SEBI PFUTP Regulations. The specific provision in this regard is:

"4.Prohibition of manipulative, fraudulent and unfair trade practices

(1) …

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

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

21. The above provision was not part of the PFUTP Regulations initially but was added later. The above provision was substituted vide SEBI (PFUTP) (Amendment) Regulations, 2018, which came into force on February 1, 2019. Before the substitution the provision read as follows:

"(q) an intermediary buying or selling securities in advance of a substantial client order or whereby a futures or option position is taken about an impending transaction in the same or related futures or options contract;"

22. I note from the above that prior to February 01, 2019, as per erstwhile Regulation 4(2)(q), only *intermediaries* could be charged for front running the trades of clients with substantial orders. In the instant matter the period of investigation is spread over both the periods i.e. prior to and subsequent to the amendment of Regulation 4(2)(q) of PFUTP Regulations. However, both Hon'ble Supreme Court and Hon'ble Securities Appellate Tribunal (SAT) have resorted to liberal interpretation of the said erstwhile regulation and held that a non-intermediary can also be charged for front running under PFUTP regulations. The Hon'ble SAT in Order dated September 04, 2013 in the matter of ***Vibha Sharma and another vs. SEBI*** - Appeal No. 27 of 2013 has observed the following with respect to *front running*:

"33. A minute perusal of the judgment of Dipak Patel makes it evident that act of front running is always considered injurious be it an intermediary or any other person for that reasons. We would like to give a liberal interpretation to the concept of front running and would hold that any person, who is connected with the capital market, and indulges in front running is guilty of a fraudulent market practice as such liable to be punished as per law by the respondent. The definition of front running, therefore, cannot be put in a straight-jacket formula."

23. Similarly, the Hon'ble Supreme Court in ***Securities and Exchange Board of India and Ors. Vs. Kanaiyalal Baldevbhai Patel and Ors.*** *(Supra)* had held that:

"43. Accordingly, non-intermediary front running may be brought under the prohibition prescribed Under Regulations 3 and 4 (1), for being fraudulent or unfair trade practice, provided that the ingredients under those heads are satisfied as discussed above. From the above analysis, it is clear that in order to establish charges against tippee, Under

Regulations 3 (a), (b), (c) and (d) and 4 (1) of FUTP 2003, one needs to prove that a person who had provided the tip was under a duty to keep the non-public information under confidence, further such breach of duty was known to the tippee and he still trades thereby defrauding the person, whose orders were front-runned, by inducing him to deal at the price he did.

44. Taking into consideration the facts and circumstances of the case before us and the law laid down herein above and SEBI v. Kishore R. Ajmera (Supra) can only lead to one conclusion that concerned parties to the transaction were involved in an apparent fraudulent practice violating market integrity. The parting of information with regard to an imminent bulk purchase and the subsequent transaction thereto are so intrinsically connected that no other conclusion but one of joint liability of both the initiator of the fraudulent practice and the other party who had knowingly aided in the same is possible."

24. The Hon'ble SAT in ***Rajiv R.Sanghvi Neelam v.SEBI*** (Appeal 329 of 2014 decided on 21 December 2017) also held that even a non-intermediary can be found guilty of Front Running, provided that the trade under investigation ought to be shown to have been carried with the help of non-public information.

25. From the above judgments, I note that, prior to the amendment of 2018, which came in force on February 01, 2019, the entities other than intermediaries could be charged for front running under Regulation 3 and 4(1) of SEBI PFUTP Regulations. However, post amendment the provision 4(2) (q) was modified and the term '*person*' is used instead of *'intermediary'* resultantly widening the scope of its applicability.

Examination of Issue A

26. In the present case, SEBI found during the investigation that the entities whose trades were front run by the FRs had traded through two brokers – Sumedha Fiscal Services Limited and Eureka Stock and Share Broking Services Limited and those entities are collectively referred to as "**Big Clients"/ "BCs**". The same are detailed as under:

Table 1 (BC Orders placed through TM - Sumedha Fiscal Services Limited)

Front-runners/"FRs" – Entities that did front - running	**Big Client/"BCs"- Entities whose trades were front-run**
1. Om Prakash Khaitan 2. Neha Khaitan 3. Manju Khaitan 4. Nidhi Tibrewal	**<u>BCs whose orders were placed through Sumedha Fiscal Services Limited.</u>** 1. Ares Diversified 2. Arial Holding 1 3. Aditi Gupta 4. Sangita Gupta 5. Bhagirathi Pasari 6. Urmila Pasari 7. Rahul Pasari 8. Pramod Kumar Mundhra 9. National Insurance Co.Ltd 10. Ajay Gaggar 11. Ratan Lal Gaggar 12. Padrone Marketing Pvt Ltd 13. Vasundhara Pasari 14. Sumedha Fiscal Services 15. Bhagirath Pasari HUF
Persons facilitated/ aided/ abetted/ connived in front running	
Nikhil Khaitan -- Dealer at Sumedha Fiscal Services Limited and subsequently at Eureka Stock and Share Broking Services Limited.	

Table 2 (BC Orders placed through TM – Eureka Stock and Share Broking Services Limited)

Front-runners/"FRs" – Entities that did front - running	**Big Client/"BCs"- Entities whose trades were front-run**
1. Om Prakash Khaitan 2. Neha Khaitan 3. Manju Khaitan 4. Nidhi Tibrewal	**<u>BCs whose orders were placed through Eureka Stock and Share Broking Services Limited.</u>** 1. Ares Diversified 2. Arial Holding 1 3. Assam roofing Limited 4. Jhalar Vincom Pvt Ltd 5. Bhagirathi Pasari 6. Urmila Pasari 7. Rahul Pasari 8. Superb Estate Services Private Limited 9. North East Roofing Pvt Ltd 10. Ramgopal Agencies Pvt Ltd 11. Ratan Lal Gaggar

	12. Purushottam Pasari HUF 13. Kamakhya Plastics Pvt Ltd 14. Purushottamdas Bhagirathi HUF 15. Vasundhara Pasari 16. Sumedha Fiscal Services 17. Purushottam Das Bhagirath HUF 18. Bhagirath Pasari HUF 19. Priti Saraf
Persons facilitated/ aided/ abetted/ connived in front running	
Nikhil Khaitan -- Dealer at Eureka Stock and Share Broking Services Limited	

27. Further, following relationship/connection amongst FRs and between FRs and Noticee No.1 were observed during the investigation based on details obtained from DWBIS, KYCs from KRAs and trading members and statements of the Noticees:

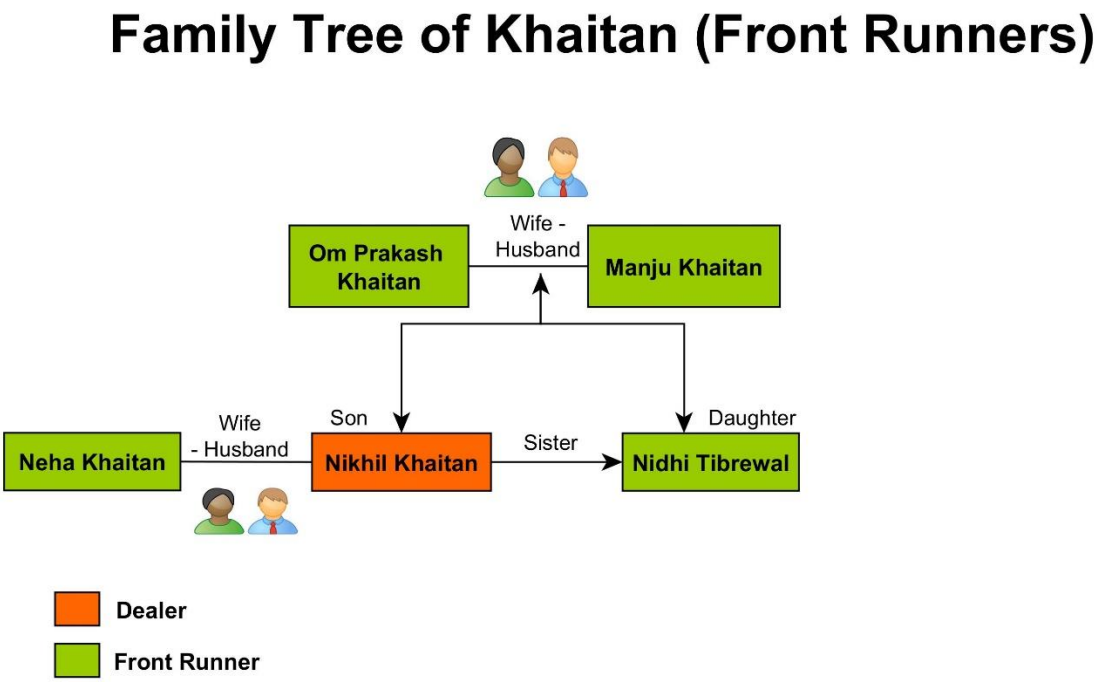
Table 3

Sr. No	Name/PAN	Basis of Connection
1	Om Prakash Khaitan (Noticee No.2) (PAN - AEZPK1725R)	i) Father of Nikhil Khaitan (Dealer at Sumedha Fiscal Services Limited and Eureka Stock and Share Broking Services Limited, the brokers through whom BC orders were executed) ii) Noticee 2 and Nikhil Khaitan have same address at 114 Dr L M Bhattacherjee Road Metro Height Flat 3d, Kolkata, West Bengal, India, 700014. iii) Email id (OMXXXX55@REDIFFMAIL.COM) and Mobile No. 93XXXXXX38 is common to trading accounts of Noticee No.2, 3 and 5 at trading member SMC Global Securities Limited.

		iv) As per entity master data of DWBIS, mobile no. 98XXXXXX40 is common to Noticee 2 and Nikhil Khaitan. v) Noticee 2 handles AP related operations at TM – SMC Global Securities on behalf of Noticee 4, Neha Khaitan as per statements of Neha Khaitan and Om Prakash Khaitan. vi) As per statements of Om Prakash Khaitan and Nikhil Khaitan, Landline No 033-22XXXX75 is common to Om Prakash Khaitan and Nikhil Khaitan.
2	Manju Khaitan (Noticee No.3) (AFZPK1582R)	i) Noticees are family members. ii) Noticee 3 is the mother of Nikhil Khaitan. Noticee 4 is the wife of Nikhil Khaitan and Noticee 5 is the sister of Nikhil Khaitan. iii) Noticee 2, 3 & 4 and Nikhil Khaitan have same address at 114 Dr L M Bhattacherjee Road Metro Height Flat3d, Kolkata, West Bengal, India, 700014. iv) Landline No 033-22XXXX75 is common to FR3 and Nikhil Khaitan as per statement of Neha Khaitan and Nikhil Khaitan.
3	Neha Khaitan (Noticee No.4) (AEJPA6879G)	
4	Nidhi Tibrewal (Noticee No.5) (AIJPT3094Q)	
Person facilitated/ aided/ abetted/ connived in front running		
5	Nikhil Khaitan (EDOPS7385P)	i) Son of Noticee 2 (Om Prakash Khaitan) and Noticee 3 (Manju Khaitan)

		ii) Husband of Noticee 4 (Neha Khaitan) and brother of Noticee 5 (Nidhi Tibrewal). iii) Dealer at trading member Sumedha Fiscal Services Limited during the period from September 26, 2008 to March 30, 2019 (Mail from Sumedha Fiscal Services Limited is attached as Annexure 2) and subsequently at trading member Eureka Stock and Share Broking Services Limited from April 01, 2019 to August 02, 2022 (Mail from Eureka Stock and Share Broking Services Limited is attached as Annexure 3) through whom big clients orders were placed.

The above Connection table is depicted pictorially as under:



28. Further, in order to collect evidence to establish the modus operandi, Search and Seizure operation was conducted at two locations in Kolkata against four entities, Noticee No.1, 2, 3 and 4.

29. Upon completion of the search operation, the following devices were seized from the locations where the searches were conducted and their backup was taken in the presence of Noticee No.1, 2 and 3 which was also acknowledged by them.

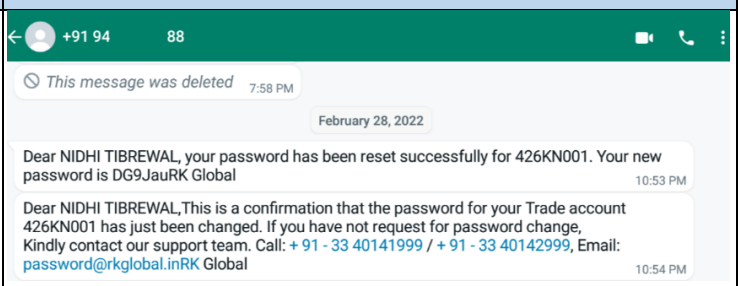
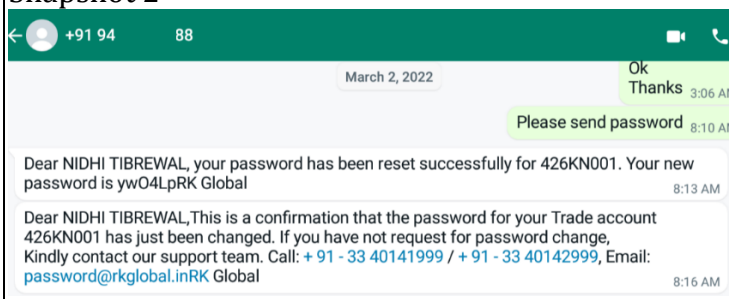
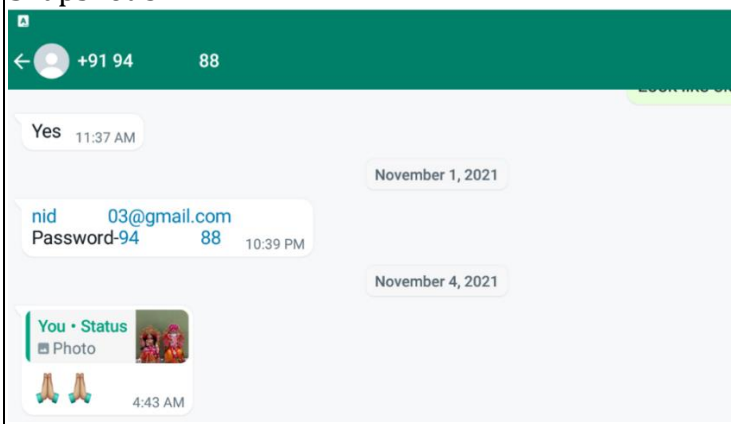
Table 4

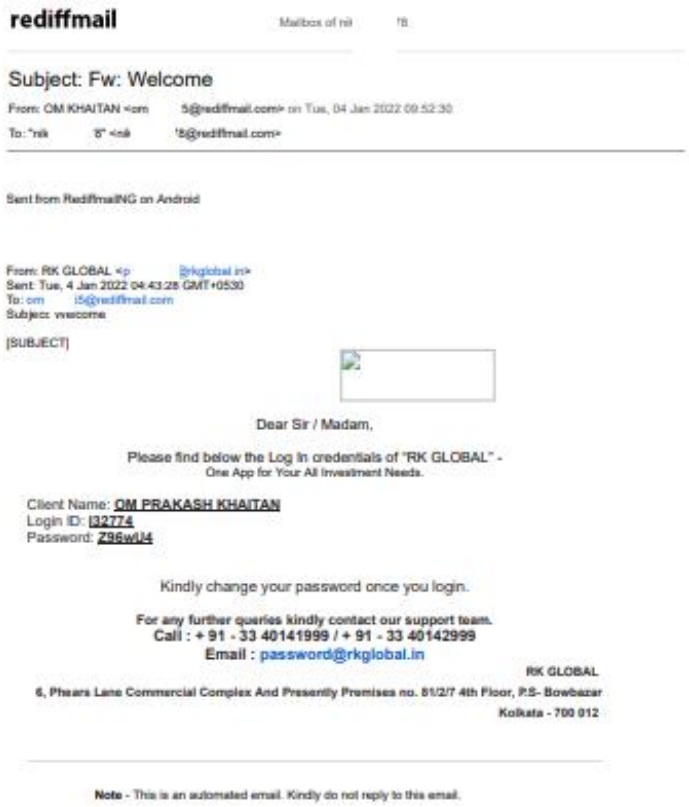
Sr. No	Device Description	IMEI	Name of Person operating device
1.	Mobile Phone – Samsung Galaxy A31	355XXXXXXXXX744 355XXXXXXXXX742	Nikhil Khaitan (Noticee No.1)
2.	Mobile Phone – Samsung Galaxy M02s	359XXXXXXXXX573 359XXXXXXXXX572	Om Prakash Khaitan (Noticee No.2)
3.	Mobile Phone – Xiomi Redmi 8A	864XXXXXXXXX193 864XXXXXXXXX201	Nikhil Khaitan (Noticee No.1)
4.	Desktop PC Dell Vostro 3470 - 1 TB	Hard Disk No - ZNXXXP36	Nikhil Khaitan (Noticee No.1)

30. On analysis of the seized devices of Noticee No.1 and 2, following was observed regarding the involvement of FRs and Nikhil Khaitan:

Table 5

Sr. No	Entity Name	Device Details	Important Evidence
1.	Nikhil Khaitan	Mobile Phone – Samsung Galaxy A31	Snapshots of Whatsapp chat between Nidhi Tibrewal – Noticee 5 (94XXXXXX88) and Nikhil Khaitan (98XXXXXX40) – Noticee 1 Snapshot 1

Sr. No	Entity Name	Device Details	Important Evidence
			 Snapshot 2  The above snapshots show that Noticee No. 5 had forwarded login details of her trading account registered with trading member R K Global Shares and Securities Limited to Noticee No. 1, on February 28, 2022 and March 02, 2022, Snapshot 3  The above snapshot shows that on November 01, 2021, Noticee No. 5 had forwarded her gmail account login details to Noticee No. 1, wherein all her trading related confirmations and other information is received.

Sr. No	Entity Name	Device Details	Important Evidence
2.	Nikhil Khaitan	Email ID – NikXXXXXXXX8@rediffmail.com	Snapshot of email forwarded to Nikhil Khaitan – Noticee 1 by Om Prakash Khaitan – Noticee 2 (omXXXXX5@rediffmail.com) Snapshot 1  rediffmail Subject: Fw: Welcome From: OM KHAITAN <om 5@rediffmail.com> on Tue, 04 Jan 2022 09:52:30 To: "nik 8" <nik 8@rediffmail.com> Sent from RediffmailNG on Android From: RK GLOBAL <p @rkglobal.in> Sent: Tue, 4 Jan 2022 04:43:28 GMT+0530 To: om i5@rediffmail.com Subject: welcome [SUBJECT] Dear Sir / Madam, Please find below the Log In credentials of "RK GLOBAL" - One App for Your All Investment Needs. Client Name: OM PRAKASH KHAITAN Login ID: I32774 Password: Z96wU4 Kindly change your password once you login. For any further queries kindly contact our support team. Call : + 91 - 33 40141999 / + 91 - 33 40142999 Email : password@rkglobal.in RK GLOBAL 6, Phears Lane Commercial Complex And Presently Premises no. 81/2/7 4th Floor, P.S- Bowbazar Kolkata - 700 012 Note - This is an automated email. Kindly do not reply to this email. The above snapshot shows that on January 04, 2022, Noticee No. 2 had forwarded the login details of his trading account registered with R K Global Shares and Securities Limited to Noticee No. 1. Snapshot 2

Sr. No	Entity Name	Device Details	Important Evidence
			rediffmail Mailbox of nik 8 Subject: Fw: Infinite From: OM KHAITAN <om i5@rediffmail.com> on Mon, 21 Mar 2022 12:39:48 To: "nik 8" <nik '8@rediffmail.com> Sent from RediffmailNG on Android From: infinite Rkglobal <infi @rkglobal.in> Sent: Mon, 21 Mar 2022 12.[illegible].07 GMT+0530 To: om i5@rediffmail.com Subjec[illegible]ite Dear Client, We tried contacting you on your registered mobile number but it was not reachable. Odin/Html/Mobile Software which you are currently using for trading purposes will be disabled from tomorrow please call the IT Team - 03340141950 for installation of New software urgently. Thanks & Regards, RKG IT TEAM The above snapshot shows that on March 21, 2022, mail received from RK Global Shares and Securities Limited regarding technical issue relating to mobile application was forwarded to Noticee No.1 by Noticee No. 2. Snapshot 3 **rediffmail** Mailbox of nik 8 Subject: SMC Global From: amit kumar <aay nt@gmail.com> on Wed, 12 Jan 2022 11:50:33 To: om i5@rediffmail.com Cc: nik '8@rediffmail.com **1 attachment(s)** - SMC_Global.pdf (388.12KB) The above snapshot is of an email dated January 12, 2022, sent by Amit Kumar (Husband of Noticee No. 5) forwarding authorization letter of Noticee No. 5 (attached as Annexure 9) to Noticee No. 1 and 2. Authorization letter refers to authorization given by Noticee No. 5 to Noticee No. 1 to trade on her behalf in her trading account registered with SMC Global Securities Limited.

31. From the above observations, it was concluded that Noticee No. 1 was in possession of login details of the trading accounts of Om Prakash Khaitan (Noticee No. 2) and

Nidhi Tibrewal (Noticee No.5) and therefore was in a position to place orders on their behalf.

32. Further, investigation observed the following with respect to the work environment of Eureka Stock and Share Broking Services:
    a. During the search and seizure operation, it was observed that all the dealers at trading member, Eureka Stock and Share Broking Services Limited had access to their personal mobiles at their desks in the dealing room in addition to the mobiles phones provided by the trading member.
    b. Nikhil Khaitan (Noticee No.1), in his deposition, admitted that he used to receive the orders of Big Clients on his personal mobile number (Whatsapp chat with one of the Big Client was available). The same was also confirmed by trading member Eureka Stock & Share Securities Limited.
    c. Further, during Covid pandemic, dealers of Eureka Stock and Share Broking Services Limited had the option to work from home. The available records indicated that during this period, Noticee No.1 was working from home as well as from office.
    d. During the statement recording, Noticee No.1 admitted that he possessed personal mobile number + 91 98XXXXXX40, and had access to home landline number 033-22XXXX75. Analysis of the call recordings received from trading member SMC Global Securities Limited showed that the FR orders were placed through either of the two phone numbers mentioned above.
    e. Further, during the statement recording, Noticee No.1 admitted that he placed orders on behalf of his family members i.e. Om Prakash Khaitan (Noticee No.2), Manju Khaitan (Noticee No.3), Neha Khaitan (Noticee No.4) and Nidhi Tibrewal (Noticee No.5) for some instances whenever Om Prakash Khaitan had faced some issues while placing orders.
    f. Thus, investigation observed that Noticee No.1 had access to personal mobile number as well as landline number at home, providing him the opportunity and means to place orders on behalf of his family members while working from home.
    g. Therefore, it was observed that Noticee No.1 had the opportunity and means to place orders on behalf of his family members while utilizing the non-public material information about the impending orders of the Big Clients.

33. Thereafter, I note that summons were issued to the Noticees and subsequently, they appeared before the Investigating Authority (IA) and statements were recorded.

Analysis of trading activities:

34. A comparison of the trading activities of Noticee No.2 to 5 during the Pre-Investigation Period (September 01, 2015 – August 31, 2016), Investigation Period (September 01, 2016 – August 02, 2022) and Post-Investigation Period (August 03, 2022 – December 31, 2022) in Equity and Derivative Segment was done and following was observed:

Table 6

Noticees	Pre - Investigation Period (from 01-Sep-15 to 31-Aug-16)					
	Equity	Derivatives	Equity		Derivatives	
	Gross Trade Value (in lakh)	Gross Trade Value (in lakh)	Intra Day scrip days	Intra day profit (in lakh)	Intra Day contract days	Intra day profit (in lakh)
Om Prakash Khaitan	278.55	64.50	104	0.28	-	-
Manju Khaitan	-	-	-	-	-	-
Neha Khaitan	15.63	-	5	0.15	-	-
Nidhi Tibrewal	-	-	-	-	-	-

Table 7

Noticees	Investigation Period (from 01-Sep-16 to 02-Aug-22)						
	Equity	Derivatives	Equity		Derivatives		Total Profit (in lakh)
	Gross Trade Value (in lakh)	Gross Trade Value (in lakh)	Intra Day scrip days	Intra day profit (in lakh)	Intra Day contract days	Intra day profit (in lakh)	
Om Prakash Khaitan	18,068.64	985.20	329	47.88	16	1.05	48.93
Manju Khaitan	11,340.24	2,196.78	228	35.51	52	6.09	41.60
Neha Khaitan	3,438.09	1,443.14	138	14.13	98	6.86	20.99
Nidhi Tibrewal	11,102.22	1,794.65	227	38.69	31	7.17	45.86

Table 8

Noticees	Post Investigation Period (from 03-Aug-22 to 31-Dec-22)					
	Equity	Derivatives	Equity		Derivatives	
	Gross Trade Value (in lakh)	Gross Trade Value (in lakh)	Intra Day scrip days	Intra day profit (in lakh)	Intra Day contract days	Intra day profit (in lakh)
Om Prakash Khaitan	12.22	-	-	-	-	-
Manju Khaitan	29.54	-	-	-	-	-
Neha Khaitan	15.50	-	-	-	-	-
Nidhi Tibrewal	1,727.85	14.01	16	8.95	2	0.21

a. It was observed from Table 6 that during pre-investigation period, there was no significant trading activity by Noticee No. 2 and 4 and there was no trading activity by Noticee No. 3 and 5.

b. From Tables 7 and 8, it was observed that the trading activity of FRs was concentrated during the investigation period and decreased considerably in the post-investigation period.

c. During the investigation period, FRs were observed to be carrying out intra-day trading activity wherein the FRs were arranging their buy and sell trades around the BC's orders depending upon the buy or sell nature of the impending BC order.

Details of order placement of Front Runners:

35. In this regard, I note that following was observed with regards to the order placement by the FRs:

a. During the investigation period, it was observed that FRs traded through two trading members i.e. SMC Global Securities Limited and RK Global Shares and Securities Limited.

b. The details of order placement of FRs as per the information received from R K Global Shares & Securities Ltd and SMC Global Securities Ltd are as follows:

Table 9

Trading Member	Noticees	UCC Code	Mode of Placements i.e. Telephone /IBT/Mobile (STWT)	Name of the Person placing the order	Mode of Instruction* (Written/Telephonic/ Mobile
R K Global Shares & Securities Ltd	Noticee 2	I32774	WEB	In-person	self-trade
	Noticee 3	I32776		In-person	self-trade
	Noticee 4	I3525		In-person	self-trade
	Noticee 5	426KN001		In-person	self-trade
SMC Global Securities Ltd	Noticee 2	CO2005	AP Terminal/Broker Terminal	In-person	In person
	Noticee 3	CM2174		In-person by authorized person	In person by authorized person
	Noticee 4	CAD2847		In-person	In person
	Noticee 5	CAD2935		In-person by authorized person	In person by authorized person

SMC Global Securities Limited

c. Data was sought to ascertain the manner in which orders were placed in the trading accounts of FRs. On examination of the data received, the orders were found to be placed in the FRs accounts by calling the dealer at broker terminal, call recordings were analysed on sample basis.

d. It was observed that Noticee No.1 was placing the orders in the trading accounts of the FRs registered with SMC Global Securities from mobile no 98XXXXXX40 and landline no 033-22XXXX75.

e. Below is a conversation extracted from the call recording of April 15, 2021 at 9:56 hrs (filename:59-40827014-A-983XXXX840---20210415094534ICICI) received from SMC Global Securities Limited:-

Dealer at SMC – "Hello boliye"

Nikhil Khaitan – " Ye ICICI securities ka daam dekho na kya hai"

Dealer at SMC – " 398/399"

Nikhil Khaitan – "Limit kya hai. Do do ka lena hai"

Dealer at SMC – "Konsa code"

Nikhil Khaitan – "CAD2935"

Dealer at SMC – " 2000 lena hai kya"

Hands over the phone to another dealer

Nikhil Khaitan – "Me Nikhil bol raha hun"

Dealer 2 at SMC – " Ha Nikhil ji"

Nikhil Khaitan – " woh CAD2005 ka"

Dealer 2 at SMC – " Ha Ha boliye"

Nikhil Khaitan – "Kya problem aa raha hai"

Dealer 2 at SMC – " Margin karwayenge…toh 3 margin ka sabhi jayega"

Nikhil Khaitan – " Share pledge karenge shaamko…3500 lelo"

Dealer 2 at SMC – " Konsa code"

Nikhil Khaitan – Code 2935…399

Dealer 2 at SMC – "2000 maara 399 par"

Nikhil Khaitan – " CM2174 CAD2847…"

Dealer 2 at SMC – "Thike daal diya chaaro me…2935 kiya…usme 668 share aya tha"

Nikhil Khaitan – "401 tak lelo na isec ko"

Dealer 2 at SMC – "sab kar diya…400…kuch kuch me aya… 2935 me poora 2000 aya…2847 me aya nahi…2174 me 116 shares aya…2005 me kuch mnahi aya"

Nikhil Khaitan – " 403..2174..403..2005"

Dealer 2 at SMC – "sab me daal diya"

Nikhil Khaitan – " 2935 ko bech daaliye…404.90"

Dealer 2 at SMC – "2174…404.90..2000..2847…2000..404.90..2005..2000…404.90…daala hai sab"

f. Thus, from the above extract of conversation between Noticee No.1 and the dealer at trading member, it was observed that Noticee No.1 was placing orders w.r.t. UCC codes pertaining to all the FRs and accordingly it was understood that Nikhil Khaitan was placing the orders in the trading accounts of all the FRs.

g. During the statement recording, it was admitted by Noticee No.2, 3 and 4 that the person placing the order in the call recording of April 13, 2020 34-40827019-A-983XXXX840---20200413130555 was Noticee No.1. It was also admitted by Noticee No.3 that the person placing the order in the call recording of June 23, 2020 37-66127016-A-22XXXX75---20200623145537 was Noticee No.1. Further, it was admitted by Noticee No.4 that the person placing the order in the call recording of April 28, 2021 with file nos 31-66127014-A-22XXXX75---20210428131600 and 32-66127014-A-22XXXX7---20210428131041 was Noticee No.1.

h. Further, Noticee No.3 and 4 submitted authorization letters to trading member SMC Global Securities Limited mentioning Noticee No.1 as an authorized person to trade on their behalf.

i. Also, the timing of orders of the Big Client were found to be considerably close to the order timings of the front runners. For instance, on April 15, 2021, the big client orders were placed at 10:03 hrs by Noticee No. 1 whereas the orders on behalf of FRs were placed at 9:56 hrs which clearly indicated the pattern of front running (as can be seen from the extract produced above).

RK Global Shares and Securities Limited

a. RK Global Shares and Securities Limited, in its reply dated September 23, 2022, informed that FRs placed orders through web portal with the IP address 182.75.141.242 from October 2021 to December 2021 and through other multiple IP addresses from January 2022 to August 02, 2022.

b. It was observed that the IP address 182.75.141.242 belonged to the trading member Eureka Stock and Share Broking Services Limited.

c. Figure attached below for reference: -

Figure 2

Fri 10/06/2022 19:01

Nik ria <nik ria@eurekasec.com>

Re: Details Required

To Joshua Mendes (INVSG)

Cc Rakesh Somani; Sareesh Koroth (INVSG); Riddhi Shethna (INVSG); Atish Agarwal (INVSG); KSHITIZ GUPTA (INVSG); Invg_nse

If there are problems with how this message is displayed, click here to view it in a web browser.
Click here to download pictures. To help protect your privacy, Outlook prevented automatic download of some pictures in this message.

GILLANDER.pdf 73 KB | MERLIN.pdf 74 KB

Sheet 3 of the previous attachment was some previous rough working and contains old data.

We are once again submitting the response.

Please note the WAN /Static IP details below --

SL NO	Static IP	Location	Device	ISP
1	182.75.141.242	Merlin DN-51	Peplink Link Load Balancer	Airtel
2	115.112.161.238	Merlin DN-51	Peplink Link Load Balancer	TCL
3	121.242.110.178	Gillander House	Kerio Firewall PC	TCL

d. It is pertinent to note that the dealer (Noticee No.1) who was placing orders for BCs from Eureka Stock and Share Broking Services Limited, worked at the same location Merlin DN-51 which was given as the location of IP address 182.75.141.242 by Eureka Stock and Share Broking Services Limited.
e. During the statement recording by all the FRs, it was stated that none of them had ever visited Eureka Stock Broker's office. It was also stated by Noticee No.1 that he could access the websites of R K Global Shares and Securities Limited and SMC Global Securities Limited and can place orders from his office system at Eureka Stock and Share Broking Services Limited.
f. From the above, it was inferred that the trading accounts of FRs were under control/managed/used by Nikhil Khaitan, Dealer of Eureka Stock and Share Broking Services Limited, for front running the trades of BCs.

36. In this regard, I note that the Noticees has contended that though Noticee No.1 had access to the trading account, it does not necessarily indicate that he traded on their behalf; or the other Noticees traded on the instruction of Noticee No.1 and that he does not handle trading accounts of the other Noticees. It is also contended that Noticee no.1 is not involved in placing orders/ any other activity related to trading in any of the Demat/ Trading accounts and he do not take trading decisions in respect to their trading account. Further, they have contended that Noticee No.1 had not sent any messages relating to placing orders/trading in demat/trading account of Noticee No. 2 to 5. They also contended that they were totally unaware of authorization letters issued by Noticee No.3 and 4 to Noticee No.1 and it is not possible for them to validate whether the said letter was submitted at the time of KYC i.e. opening of accounts or not. They further contended that in merely some instances the IP is matching with that of Eureka (i.e. 182.75.141.242) and in majority of the instances IPs are different than that of Eureka.

In this regard, I note that though they have denied that Noticee No.1 was handling trading accounts of Noticee No.2 to 5 or placing orders in their accounts and denied being aware of any authorization letter issued by Noticee No.3 & 4 to Noticee No.1, however, at the same time, contradictorily they have also admitted that Noticee No.1 used to place orders on behalf of other Noticees when Noticee No.2 used to face issue in placing orders and that in some instances, Noticee No.1 had called the SMC (Broker)

to place orders on behalf of his family Members as well as, that he sometimes used to advise Noticee No.5 on trading strategies. Apart from the above, I also note from the transcript of the call recording of April 15, 2021 at 9:56 hrs (filename:59-40827014-A-983XXXX840---20210415094534ICICI) received from SMC Global Securities Limited between Noticee No.1 and the dealers of SMC (as mentioned at para 35(e) above), that Noticee No.1 indeed had placed orders on behalf of other Noticees. Further, it is also evident from the record that Noticee No.3 & 4 had authorized Noticee No.1 to trade on their behalf. I further note that the Noticees have also admitted that in some instances, the IP of FRs placing orders, matched with that of Eureka (i.e. 182.75.141.242), where Noticee No.1 was employed, which confirm that Noticee No.1 placed orders in the account of other Noticees as Noticee No.2 to 4 had mentioned during the statement recording, at the time of investigation, that they never visited the office of Eureka. I also note that apart from the self-declaration of Noticee No.3 to 5 stating that Noticee No.2 used to do all the trades in their account, Noticees had not submitted any documentary evidence in support of the said claim that majority of the trades were done by Noticee No.2 on behalf of them. Based on the above observations, I am of the opinion that the aforesaid submissions of the Noticees are fallacious, deceptive and are devoid of any merit.

Analysis of trading activities:

37. I note that order placement analysis of the FRs was undertaken for sample scrip days wherein the clients (FRs) were observed to be making substantial profits and also their trades were matching with that of the BC. Sample instances (scrip days), as observed during investigation, are explained below.

A. <u>KIRI INDUSTRIES LIMITED:</u>

Date	ISIN	Instrument Type
20/09/2016	INE415I01015	Equity-Cash

Front runner – Om Prakash Khaitan, Noticee No.2 (Big Client – Ares Diversified)

Table 10

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee 2 Sell	10,000	09:56:44	09:56:56	346 - 347	346.76	09:56:44	09:56:56	
BC Sell	30,000	09:57:22	09:57:22	345.00	345.41	09:57:22	09:57:22	
Noticee 2 Buy	10,000	09:57:17	09:57:22	345.10	345.10	09:57:22	09:57:22	10,000

It was noted that Noticee No.2 placed sell order just before the BC's order during 09:56:44 hrs – 09:56:56 hrs for 10,000 shares at price range of Rs.346 - Rs.347. Subsequently, Noticee No. 2 placed buy limit order during 09:57:17 - 09:57:22 hrs to square off his trades. The BC placed sell limit order at 09:57:22 hrs and sold 30,000 shares. It was observed that buy orders placed by the FR1 at limit price Rs.345.10 exactly matched with the sell orders placed by BC at limit price Rs.345. Noticee No. 2's second leg orders matched 100% with the orders of BC. Noticee No.2, by selling the shares ahead of the orders of BC and subsequently placing buy orders in a manner that would ensure that these orders would get matched with the sell orders of the BC, made a profit of Rs.16,600.00. Further, he followed the same pattern multiple times on the same day and earned a total profit of Rs.47,779.60 on September 20, 2016.

B. UPL LIMITED:

Date	ISIN	Instrument Type
13/04/2017	INE628A01036	Equity-Cash

Front runner – Manju Khaitan, Noticee No.3 (Big Client – Ares Diversified)

Table 11

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee 3 Sell	6,000	11:45:31	11:45:31	732 - 733	732.76	11:47:14	11:50:55	
BC Sell	99,500	11:51:35	11:51:35	730.05	730.48	11:51:35	11:51:35	
Noticee 3 Buy	6,000	11:47:49	11:51:35	730.15	730.15	11:51:35	11:51:35	6,000

It was noted that Noticee No.3 placed sell order just before the BC's order at 11:45:31 hrs for 6,000 shares at price range of Rs.732 - Rs.733. Subsequently, Noticee No.3 placed buy limit order during 11:47:49 hrs – 11:51:35 hrs to square off her trades. The BC placed sell limit order at 11:51:35 hrs and sold 99,500 shares. It was observed that sell orders placed by the Noticee No. 3 at limit price Rs.730.15 exactly matched with the buy orders placed by BC at limit price Rs.730.05. Noticee No.3's second leg orders matched 100% with the orders of BC. Noticee No.3, by selling the shares ahead of the orders of BC and subsequently placing buy orders in a manner that would ensure that these orders would get matched with the sell orders of the BC, made a profit of Rs.15,660. Further, she followed the same pattern multiple times on the same day and earned a total profit of Rs.32,861.25 on April 13, 2017.

C. POLPLEX CORPORATION LIMITED

Date	ISIN	Instrument Type
01/06/2018	INE633B01018	Equity-Cash

Front runner – Nidhi Tibrewal, Noticee No.5 (Big Client – Rahul Pasari)

Table 12

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee No. 5 Buy	1,000	11:32:00	11:32:00	510	507.99	11:32:00	11:32:00	
BC Buy	20,000	11:32:13	11:32:13	519	518.83	11:32:13	11:32:13	
Noticee No. 5 Sell	1,000	11:32:13	11:32:13	518	518.00	11:32:13	11:32:13	1,000

Noticee No.5 placed buy order just before the BC's order at 11:32:00 hrs for 1,000 shares at price of Rs.510. Subsequently, Noticee No.5 placed sell limit order at 11:32:13 hrs to square off his trades. The BC placed buy limit order at 11:32:13 hrs and bought 20,000 shares. It was observed that sell orders placed by Noticee No.5 at limit price of Rs.518 exactly matched with the buy orders placed by BC at limit

price of Rs.519. Noticee No.5's second leg orders matched 100% with the orders of the BC. Noticee No. 5, by buying the shares ahead of the orders of BC and subsequently placing sell orders in a manner that would ensure that these orders would get matched with the buy orders of the BC, made a profit of Rs.10,002.70.

D. SWAN ENERGY LTD:

Date	ISIN	Instrument Type
20/09/2019	INE665A01038	Equity-Cash

Front runner – Nidhi Tibrewal, Noticee No.5 (Big Client – Ares Diversified)

Table 13

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee No. 5 Buy	3,000	12:03:43	12:03:43	236	235.22	12:03:43	12:03:43	
BC Buy	27,399	12:04:49	12:04:49	238	237.90	12:04:49	12:04:49	
Noticee No. 5 Sell	3,000	12:03:54	12:03:54	238	238.00	12:04:49	12:04:49	3,000

Noticee No.5 placed buy order just before the BC's order at 12:03:43 hrs for 3,000 shares at price of Rs.236. Subsequently, Noticee No.5 placed sell limit order at 12:03:54 hrs to square off her trades. The BC placed buy limit order at 12:04:49 hrs and bought 27,399 shares. It was observed that sell orders placed by Noticee No.5 at limit price of Rs.238 exactly matched with the buy orders placed by BC at limit price of Rs.238. Noticee No.5's second leg trades matched 100% with BC. Noticee No.5, by buying the shares ahead of the orders of BC and subsequently placing sell orders in a manner that would ensure that these orders would get matched with the buy orders of the BC, made a profit of Rs.8,340. Further, she followed the same pattern multiple times on the same day and earned a total profit of Rs.24,704.85 on September 20, 2019.

E. UPL LIMITED:

Date	ISIN	Segment
23/06/2020	INE628A01036	Derivative - FF

Front runner – Manju Khaitan, Noticee No.3 (Big Client – Arial Holdings 1)

Table 14

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee No. 3 Sell	9,000	15:02:34	15:02:34	462.00	462.01	15:02:41	15:02:41	
BC Sell	99,900	15:06:44	15:06:44	460.20	460.70	15:06:44	15:06:44	
Noticee No. 3 Buy	9,000	15:06:44	15:06:44	460.60	460.60	15:06:44	15:06:44	9,000

Noticee No.3 placed sell order just before the BC's order at 15:02:34 hrs for 9,000 shares at price of Rs.462.00. Subsequently, Noticee No.3 placed buy limit order at 15:06:44 hrs to square off her trades. The BC placed sell limit order at 15:06:44 hrs and bought 99,900 shares. It was observed that buy orders placed by Noticee No.3 at limit price of Rs.460.60 exactly matched with the sell orders placed by BC at limit price of Rs.460.20. Noticee No.3's second leg orders matched 100% with the orders of the BC. Noticee No.3, by selling the shares ahead of the orders of BC and subsequently placing buy orders in a manner that would ensure that these orders would get matched with the sell orders of the BC, made a profit of Rs.12,735.

Front runner – Nidhi Tibrewal, Noticee No.5 (Big Client – Arial Holdings 1)

Table 15

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee No. 5 Sell	12,600	15:02:58	15:07:35	461 - 462	461.41	15:04:00	15:07:35	
BC Sell	99,900	15:06:44	15:06:44	460.20	460.70	15:06:44	15:06:44	
Noticee No. 5 Buy	12,600	15:04:58	15:05:23	460.20 - 460.60	460.48	15:06:44	15:06:44	12,600

Noticee No.5 placed sell order just before the BC's order at 15:02:58 hrs for 12,600 shares at a price range of Rs.461 – Rs.462. Subsequently, Noticee No.5 placed buy limit order at 15:04:58 hrs to square off her trades. The BC placed sell limit order at 15:06:44 hrs and bought 99,900 shares. It was observed that buy orders placed by Noticee No.5 at limit price range of Rs.460.20 to Rs.460.60 exactly matched with the sell orders placed by BC at limit price of Rs.460.20. Noticee No.5's second leg orders matched 100% with the orders of the BC. Noticee No.5, by selling the shares ahead of the orders of BC and subsequently placing buy orders in a manner that would ensure that these orders would get matched with the sell orders of the BC, made a profit of Rs.11,655.

F. ICICI SECURITIES LIMITED:

Date	ISIN	Instrument Type
15/04/2021	INE763G01038	Equity-Cash

Front runner – Nidhi Tibrewal, Noticee No.5 (Big Client – Assam Roofing)

Table 16

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee No. 5 Buy	2,000	09:56:55	09:56:55	399-400	399.65	09:56:55	09:59:04	
BC Buy	18,818	10:03:09	10:03:09	404.95	404.59	10:03:09	10:03:09	
Noticee No. 5 Sell	2,000	10:01:29	10:01:29	404.95	404.95	10:03:09	10:03:09	2,000

Noticee No.5 placed buy order just before the BC's order at 09:56:55 hrs for 2,000 shares at price range of Rs.399-Rs.400. Subsequently, Noticee No.5 placed sell limit order at 10:01:29 hrs to square off her trades. The BC placed buy limit order at 10:03:09 hrs and bought 18,818 shares. It was observed that sell orders placed by Noticee No.5 at limit price of Rs.404.95 exactly matched with the buy orders placed by BC at limit price of Rs.404.95. Noticee No.5's second leg orders matched 100% with the orders of the BC. Noticee No.5, by buying the shares ahead of the orders of BC and subsequently placing sell orders in a manner that would ensure that these orders would get matched with the buy orders of the BC, made a profit of

Rs.10,605.95. Further, she followed the same pattern multiple times on the same day and earned a total profit of Rs.48,247.60 on April 15, 2021.

Front runner – Om Prakash Khaitan, Noticee No.2 (Big Client – Assam Roofing)

Table 17

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
FR 1 Buy	2,000	09:57:31	10:00:43	403.00	403.00	10:02:33	10:02:36	
BC Buy	18,818	10:03:09	10:03:09	404.95	404.59	10:03:09	10:03:09	
FR 1 Sell	2,000	10:02:43	10:02:43	404.95	404.95	10:03:09	10:03:09	2,000

Noticee No.2 placed buy order just before the BC's order at 09:57:31 hrs for 2,000 shares at price of Rs.403.00. Subsequently, Noticee No.2 placed sell limit order at 10:02:43 hrs to square off his trades. The BC placed buy limit order at 10:03:09 hrs and bought 18,818 shares. It was observed that sell orders placed by Noticee No.2 at limit price of Rs.404.95 exactly matched with the buy orders placed by BC at limit price of Rs.404.95. Noticee No.2's second leg orders matched 100% with the orders of the BC. Noticee No.2, by buying the shares ahead of the orders of BC and subsequently placing sell orders in a manner that would ensure that these orders would get matched with the buy orders of the BC, made a profit of Rs.3,900.00. Further, he followed the same pattern multiple times on the same day and earned a total profit of Rs.28,381.55 on April 15, 2021.

Front runner – Manju Khaitan, Noticee No.3 (Big Client – Assam Roofing)

Table 18

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee No. 3 Buy	2,000	09:57:58	10:00:50	400-403	402.83	09:59:12	10:02:33	
BC Buy	18,818	10:03:09	10:03:09	404.95	404.59	10:03:09	10:03:09	
Noticee No. 3 Sell	2,000	10:03:04	10:03:04	404.90	404.90	10:03:09	10:03:09	2,000

Noticee No.3 placed buy order just before the BC's order at 09:57:58 hrs for 2,000 shares at price range of Rs.400 – Rs.403. Subsequently, Noticee No.3 placed sell limit order at 10:03:04 hrs to square off her trades. The BC placed buy limit order at 10:03:09 hrs and bought 18,818 shares. It was observed that sell orders placed by Noticee No.3 at limit price of Rs.404.90 exactly matched with the buy orders placed by BC at limit price of Rs.404.95. Noticee No.3's second leg orders matched 100% with the orders of the BC. Noticee No.3, by buying the shares ahead of the orders of BC and subsequently placing sell orders in a manner that would ensure that these orders would get matched with the buy orders of the BC, made a profit of Rs.4,148.00. Further, she followed the same pattern multiple times on the same day and earned a total profit of Rs.38,443 on April 15, 2021.

Front runner – Neha Khaitan, Noticee No.4 (Big Client – Assam Roofing)

Table 19

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee No. 4 Buy	2,000	09:58:06	10:01:01	403.00	403.00	10:02:33	10:02:36	
BC Buy	18,818	10:03:09	10:03:09	404.95	404.59	10:03:09	10:03:09	
Noticee No. 4 Sell	2,000	10:03:04	10:03:04	404.90	404.90	10:03:09	10:03:09	2000

Noticee No.4 placed buy order just before the BC's order at 09:58:06 hrs for 2,000 shares at price of Rs.403.00. Subsequently, Noticee No.4 placed sell limit order at 10:03:04 hrs to square off her trades. The BC placed buy limit order at 10:03:09 hrs and bought 18,818 shares. It was observed that sell orders placed by Noticee No.4 at limit price of Rs.404.90 exactly matched with the buy orders placed by BC at limit price of Rs.404.95. Noticee No.4's second leg orders matched 100% with the orders of the BC. Noticee No.4, by buying the shares ahead of the orders of BC and subsequently placing sell orders in a manner that would ensure that these orders would get matched with the buy orders of the BC, made a profit of Rs.3,800.00.

Further, she followed the same pattern multiple times on the same day and earned a total profit of Rs.33,337 on April 15, 2021.

G. KIRLOSKAR FERROUS INDUSTRIES LTD:

Date	ISIN	Instrument Type
02/02/2022	INE884B01025	Equity-Cash

Front runner – Om Prakash Khaitan, Noticee No.2 (Big Client – Bhagirath Pasari)

Table 20

Buy/Sell Client Name	Trade Qty	Order Start Time	Order End Time	Limit Price (Rs.)	Avg Trade Price (Rs.)	Trade Start Time	Trade End Time	Match QTY with BC
Noticee No. 2 Buy	3,000	12:03:43	12:03:43	236	235.22	12:03:43	12:03:43	
BC Buy	27,399	12:04:49	12:04:49	238	237.90	12:04:49	12:04:49	
Noticee No. 2 Sell	3,000	12:03:54	12:03:54	238	238	12:04:49	12:04:49	3,000

Noticee No.2 placed buy order just before the BC's order at 12:03:43 hrs for 3,000 shares at price of Rs.236. Subsequently, Noticee No.2 placed sell limit order at 12:03:54 hrs to square off his trades. The BC placed buy limit order at 12:04:49 hrs and bought 27,399 shares. It was observed that sell orders placed by Noticee No.2 at limit price of Rs.238 exactly matched with the buy orders placed by BC at limit price of Rs.238. Noticee No.2's second leg orders matched 100% with the orders of the BC. Noticee No.2, by buying the shares ahead of the orders of BC and subsequently placing sell orders in a manner that would ensure that these orders would get matched with the buy orders of the BC, made a profit of Rs.8,340. Further, he followed the same pattern multiple times on the same day and earned a total profit of Rs.23,570.30 on February 02, 2022.

38. Based on such examination, it was observed that orders of front runners were getting matched with that of BC on both buy and sell side. Further, the matched value as percentage of total traded value of second leg of FRs during the investigation period was found to be significant. The details observed are as below:

Table 21

Noticees	Total trade value of the second leg of trade of FR (in Rs.)	Total matched value of second leg of FR with BC (in Rs.)	Percentage of trade matching of second leg of FR with BC
Om Prakash Khaitan (Noticee No. 2)	87,56,84,505.55	70,92,64,106.62	81.00%
Manju Khaitan (Noticee No. 3)	62,42,42,535.95	50,63,30,298.86	81.11%
Neha Khaitan (Noticee No. 4)	19,08,47,124.65	14,21,59,285.33	74.49%
Nidhi Tibrewal (Noticee No. 5)	60,11,47,524.75	48,83,08,907.79	81.23%

39. From the above sample instances, it was observed that the FRs, by buying/selling the shares ahead of the orders of BC and subsequently placing sell/buy orders in a manner that would ensure that these orders get matched with the buy/sell orders of the BC, had made profit. Further, percentage of trade matching of second leg of FRs with BCs was observed to be within the range of 74.49% - 81.23%. Given the highly liquid nature of securities/contracts, it could not have been a coincidence that the orders got matched with the BC with such precision as given in table above. Thus, it was noted that the trading pattern of the FRs pointed towards front running the orders of BC.

40. Taking into account the above, I note that irrefutable inference was drawn that the order related information of BCs was misused by the dealer Nikhil Khaitan (Noticee No.1) through trading accounts of Noticee No.2 to 5.

In this regard, Noticee No.1 has contended that the alleged front running trades ought to be in respect of certain pattern i.e. alleged Buy Buy Sell ("BBS") or a Sell Sell Buy ("SSB") and in view thereof a separate column for whether the trade is a BBS or an SSB has to be provided to him. Further, it is contended that in some instances, the Buy and the Sell Order end time of the FR was even before the BC placed its first Buy Order. Hence, it is not even in anyone's control to whom the trades get matched. Noticee has further contended that out of the total 966 instances, in case of 68 instances, neither buy trades nor sell trades matched with the BC and in some instances, there is only matching of the orders and nothing in respect of how did the FR gain advantage due to the subsequent price change because of the Order of the

BC. Noticee has also stated that Annexure-20 has 2 Instances less than what is alleged in the SCN, however the profit in the SCN as well as Annexure-20 has remained the same.

In this regard, as already mentioned at para 17 above, the second leg of the Front Runner's order which capitalizes on the advantage gained from the first leg, does not necessarily have to be placed after the Big Client's order. This is because the Stock Exchanges permit "limit orders" i.e., contingent orders like "sell if the price is more than Rs. X" or "buy if the price is lower than Rs. Y". Such limit orders can be placed in advance, effectively "waiting" for the Big Client's order to influence the price of the scrip. Therefore, a front running trade need not be necessarily in a specific pattern like BBS or SSB but can take various form to exploit the order of the Big Client. Furthermore, it is important to note that engaging in front running does not always require directly matching of one leg of the trade of the FR with that of the Big Client. With prior knowledge of the Big Client's order details, a FR can strategically place limit orders in advance to take advantage of the anticipated price movement. The aforementioned fact also contradicts the contention of the Noticees that the Buy and the Sell Order end time of the FR was even before the BC placed its first Buy Order. I also note that for a trade to be considered a front running trade, there need not be any profit earned by the FR. Further, with regards to the discrepancy in the number of instances mentioned in SCN, I note that it was already clarified to the Noticee during the course of proceeding that the number calculated from the annexure is the correct figure as the SCN is derived from the annexures. In view of the aforesaid observations, I find no merit in the aforementioned contentions of the Noticees.

Profit made by FRs:

41. In this regard, I note that front running activity of the aforementioned entities was observed to be an intra-day activity where the front running entities arranged their buy and sell trades around the BC orders depending upon the buy or sell nature of the impending BC order.

42. Accordingly, profit of the front running entities was thus calculated by subtracting the buy value of the trade from the sell value on that particular scrip day. Consolidated profit of all the FRs was observed to be as below:

Table 22

Noticee	Trading Accounts	No of FR trades	Total Buy Value of FR trades (in Rs.)	Total Sell value of FR trades (in Rs.)	Profit (in Rs.)
Noticee No. 2	Om Prakash Khaitan (AEZPK1725R)	217	87,31,52,455.7	87,78,45,499.4	46,93,043.70
Noticee No. 3	Manju Khaitan (AFZPK1582R)	218	62,21,72,146.8	62,61,79,722.5	40,07,575.69
Noticee No. 4	Neha Khaitan (AEJPA6879G)	144	18,95,21,999.7	19,15,48,784.9	20,26,785.20
Noticee No. 5	Nidhi Tibrewal (AIJPT3094Q)	215	59,90,22,679	60,35,86,213.2	45,63,534.15
	Total (in Rs.)	**794**	**2,28,38,69,281**	**2,29,91,60,220**	**1,52,90,938.74**

43. With regards to the alleged profit amount, Noticees has contended that the profit as mentioned under Annexure No.19 of Rs.1,96,48,756.04/- does not match with the alleged Front Running profit of Rs.1,52,90,938.74/- which is derived from Annexure—20 of the SCN. In this regard, I note that said Annexure 19 of the SCN refers to FR instances where Noticee No.2 to 5 have traded and made intraday profits. However, since there were instances where a front runner had two or more big clients in the counterparty for the same instances, such duplicate instances were removed and the alleged profit was computed in Annexure 20. I further note that, along with the Annexure 19 and 20, order log and trade log of Noticee No.2 to 5 for the examination period was also provided to the Noticees, facilitating them to verify the aforesaid calculation. Therefore, I find no merit in the said submission of the Noticee.

44. Further, I refer and rely on the following observations made by the Hon'ble SAT in the matter of ***V. Natarajan vs. SEBI*** (Order dated June 29, 2011 in Appeal No. 104 of 2011):

> *"... we are satisfied that the provisions of Regulations 3 and 4 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 were violated. These regulations, among others, prohibit any person from employing 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 an exchange. They also prohibit persons from engaging 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 that are listed on stock exchanges. ....."*

45. Also, in *Kanhaiyalal Baldevbhai Patel* (supra), the Hon'ble Supreme Court held, *"It should be noted that the provisions of Regulations 3 (a), (b), (c), (d) and 4(1) are couched in general terms to cover diverse situations and possibilities. Once a conclusion, that fraud has been committed while dealing in securities, is arrived at, all these provisions get attracted…"*

46. The above said facts w.r.t. connection among the FRs and Noticee No.1, access to non-public information by Noticee No.1 and trading pattern of FRs, clearly demonstrates that Noticee No.1 was privy to the non-public information of the orders of the BC while working with trading member, Sumedha Fiscal Services Limited and subsequently at trading member, Eureka Stock and Share Broking Services Limited, had control of the trading accounts of the FRs, traded in their accounts in the scrips/contracts in which the Big Client traded and gained benefit from such trades based on non-public information. Therefore, I note that Noticee No.1 and the FRs (Noticee No.2 to 5), together in collusion, took advantage of the orders/trades of Big Client by front running the orders/trades of Big Client and earned huge profits.

47. Thus keeping in mind the aforesaid findings, I note that Noticee No.1, while being dealer of the Big Clients and having knowledge of Big clients' impending orders, front ran the trades of Big Clients by using trading account of the FRs (Noticee No.2, 3, 4

and 5) during the IP and gained benefit from non-public information. I also note that the Noticees in the process of front running trades of the Big Client have not only interfered with the market forces of supply and demand of a particular scrip but have also artificially influenced the price and volume of the scrip and have thus, prima facie distorted them. Therefore, I note that Noticee No.1 to 5 have violated Section 12A(a), (b) and (c) of the SEBI Act and Regulation 3(a), 3(b), 3(c), 3(d), 4(1) and 4(2)(q) read of PFUTP Regulations.

B. If the answer to the above issue is in affirmative, what directions, if any, including monetary penalty, is required to be imposed on the Noticees?

48. I note that the charges against the Noticees are established above. As observed in the previous parts of this order, Noticee No.1, while having access and possession of information about impending trades of the Big clients, executed trades in the account of the FRs (Noticee No.2 to 5), based on impending orders of the Big clients. Accordingly, I find that Noticee No.1 to 5 are liable to be imposed with appropriate penalty under Section 15HA of the SEBI Act. Further, I find that appropriate directions need to be issued to Noticees for such violations.

49. Section 15HA of the SEBI Act provides for penalty which shall not be less than Rs.5 Lakh but which may extend to Rs. 25 Crore or 3 times the amount of profits made out of such practices, whichever is higher. While determining the quantum of penalty under the SEBI Act, it is important to consider the factors stipulated in section 15J of the SEBI Act which are as follows: -

    (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

50. Further, as mentioned at para 42 above, the FRs made a total profit of Rs.1,52,90,938.74 by engaging in front running activities.

51. As regards the appropriate direction under the SEBI Act, I note that the Black's Law Dictionary defines 'disgorgement' as, *"disgorgement is the act of giving up something, such as illegally obtained profits, on demand or by legal compulsion'.* Further, regarding the nature of the direction of disgorgement, Hon'ble Securities Appellate Tribunal (SAT) has held in Dushyant N. Dalal v/s SEBI 2010 SCC Online SAT 328, *"disgorgement is not a penal action but only an equitable remedy*".

52. With regard to the liability to disgorge the unlawful gains when the same has changed hands in due course of time, the order of the Hon'ble SAT in Gagan Rastogi and Anr vs. SEBI (Appeal No. 91 of 2015 decided on 12.07.2019) needs to be referred wherein it was held as under,

"18. … equitable remedy demands that disgorgement has to be made from the point of unjust enrichment or where the chickens come to roost. However, we cannot accept the arguments that no such unjust enrichment has been made by the appellants nor disgorgement has to be made from where the unjust enrichment rests finally. If one entity who has unjustly enriched knowingly transferring those proceeds further to some other entity does not prevent the authorities from disgorging the same from the original beneficiary of unjust enrichment. The choice is clearly that of the authority to pursue and disgorge an illegal gain from any point of a chain, if such a chain exists."

53. Keeping in view the above legal provisions and the precedents surrounding the concept of disgorgement and in the instant matter, since Noticee No.1, through Noticee No.2 to 5's account, engaged in Front Running trades during the IP i.e. for 6 years, I note that all the Noticees are liable to disgorge the wrongful gains which were made by front running the trades of Big Client and necessary directions are required to be issued and appropriate penalty is required to be imposed on all the Noticees.

DIRECTIONS

54. In view of the above, I, in exercise of powers conferred on me in terms of Section 11(4), 11(4A), 11B(1), 11B(2) and 19 of the SEBI Act, 1992, and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, do hereby pass the following directions, in the interest of investors and market integrity:

a. Noticees are directed to disgorge, jointly and severally, a sum of **Rs.1,52,90,938.74** (Rupees One crore fifty two lakhs ninety thousand nine hundred and thirty eight and seventy four paise) within 45 days from the date of this order and the same shall be credited into the Investor Protection and Education Fund (IPEF) referred to in Section 11(5) of the SEBI Act, within 45 days from the date of this order;

b. Noticee No.1 to 5 are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities (including units of mutual funds), directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of **One (1) Year**, from the date of this order;

c. Noticee No.1 is hereby imposed with penalty of **Rs.10,00,000/- (Rupees Ten Lakhs Only)** and Noticee No.2 to 5 are hereby imposed with penalty of **Rs.5,00,000/- (Rupees Five Lakhs Only)** under Section 15HA of the SEBI Act, 1992.

d. Noticee No.1 to 5 are prohibited from selling their assets, properties including mutual funds/shares/securities held by them in demat and physical form except for the purpose of effecting disgorgement as directed in point (a) above. Further, the banks are directed to allow debit from the bank accounts of the Noticees, only for the purpose of compliance of this order. This direction shall cease to operate upon the payment of respective disgorgement and penalty amount.

e. The Noticees shall remit / pay the said amount of penalty, within a period of forty-five (45) days from the date of receipt of this order, through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT -> Orders -> Orders of EDs/CGMs -> PAY NOW. In case of any difficulty in online payment of penalty, the Noticee(s) may contact the support at portalhelp@sebi.gov.in.

f. The Noticee(s) shall forward details of the online payment made in compliance with the directions contained in this Order to the Division Chief, IVD-ID-2, SEBI, 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 as given in table:

Case Name	
Name of the Payee	
Date of Payment	
Amount Paid	
Transaction No.	
Bank details in which payment is made	
Payment is made for: Penalty or Disgorgement	

g. The obligation of the Noticees, restrained/ prohibited by this Order, in respect of settlement of securities, if any, purchased or sold in the cash segment of the recognized stock exchange(s), as existing on the date of this Order, are allowed to be discharged irrespective of the restraint/prohibition imposed by this Order. Further, all open positions, if any, of such Noticee(s) in the F&O segment of the recognised stock exchange(s) are permitted to be squared off, irrespective of the restraint/prohibition imposed by this Order.

55. This order shall come into force with immediate effect.

56. A copy of this order shall be sent to the Noticees, all the recognized Stock Exchanges, Depositories, Banks and Registrar, Transfer Agents of Mutual Funds to ensure that the directions given above are strictly complied with.

Date: March 28, 2025
Place: Mumbai

G RAMAR
QUASI-JUDICIAL AUTHORITY
SECURITIES AND EXCHANGE BOARD OF INDIA