

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. EAD/PM-AA/AO/46-47/2017-18]

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF
INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR
HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING
OFFICER) RULES, 1995

In respect of

1. Shri Shreekant Javalgekar	(PAN: AARPJ9648L)
2. Asha Shreekant Javalgekar	(PAN: ABRPJ2888H)

In the matter of

Multi Commodity Exchange of India Limited

FACTS OF THE CASE IN BRIEF

1. Securities and Exchange Board of India (**SEBI**) conducted investigation in the scrip of Multi Commodity Exchange of India Limited (hereinafter referred to as "**Company/MCX**") for the period of April 27, 2012 to July 31, 2013. It was observed in investigation that National Spot Exchange Limited ("**NSEL**") is a wholly owned subsidiary of Financial Technologies (India) Ltd. ("**FTIL**") which also holds 26% of the shareholding in MCX. Further, all three companies, i.e. NSEL, FTIL and MCX, are under a common management with common directors and employees.
2. A Show Cause Notice dated April 27, 2012 was issued by the Department of Consumer Affairs ("**DCA SCN**") to NSEL. As per the Investigating Authority, the Unpublished Price Sensitive Information ("**UPSI**") in respect of the shares of MCX was the implication of the DCA SCN dated April 27, 2012, issued to NSEL i.e. suspension of short selling by its Members, pairing of contracts and settlement of contracts beyond 11

days and impending payment defaults by the members of NSEL and loss of reputation of Promoters and Management of MCX. It was observed that any news impacting business of NSEL will automatically impact share price of its holding company (i.e. FTIL) and associate companies (i.e. MCX) and any news impacting credentials of Promoters and Management of FTIL, NSEL and MCX will also impact the share price of MCX, therefore suspension of trading by NSEL was a negative news. As per the Investigating Authority, the *UPSI* came into existence on April 27, 2012, upon the issuance of the SCN to NSEL, by the DCA and it ceased to exist when NSEL suspended trading in all contracts (except e-series contracts) and deferred settlement of all pending contracts on July 31, 2013.

3. It was observed that Shri Shreekant Javalgekar ("**Noticee no. 1**") is husband of Smt. Asha Shreekant Javalgekar ("**Noticee no. 2**") and was holding managerial position in MCX, FTIL and NSEL i.e. he i) was Managing Director and Chief Executive Officer of MCX during the period July 01, 2012 to October 22, 2013, ii) worked as an employee of FTIL from October 25, 2004 to June 30, 2012 and from October 01, 2014 till date, and iii) was a non-executive director of NSEL from February 25, 2011 to August 13, 2013. As such, Noticee no.1 is an insider and Noticee no.2 being his wife is deemed to be a connected person and an insider under SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as "**PIT Regulations, 1992**"). When DCA issued SCN dated April 27, 2012 to NSEL, Noticee no.1 was holding position of Non-Executive director in NSEL and he continued to be director in NSEL till August 13, 2013 i.e. after the announcement of suspension of trading by NSEL on July 31, 2013 and being a director, he was well aware of all

the developments in NSEL, right from issuance of SCN by DCA to NSEL till suspension of trading by NSEL.

4. It was alleged that Noticee no.1 & 2, being insiders, before the outbreak of NSEL irregularities avoided losses by selling 2,000 and 200 shares of MCX respectively between February 28, 2013 & March 08, 2013 when in possession of UPSI and thereby violated provisions of Regulation 3(i) of PIT Regulations, 1992 read with Regulation 12(2) of SEBI (Prohibition of Insider Trading) Regulations, 2015 (hereinafter referred to as “**PIT Regulations, 2015**”).

APPOINTMENT OF ADJUDICATING OFFICER

5. The undersigned was appointed as Adjudicating Officer under section 15I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**SEBI Act**”) read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalty by Adjudicating Officer) Rules, 1995 (hereinafter referred to as the ‘**Adjudication Rules**’) to inquire into and adjudge under section 15G of the SEBI Act the alleged violations of provisions of Regulation 3(i) of PIT Regulations, 1992 read with Regulation 12(2) of PIT Regulations, 2015 by the Noticees.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

6. Show Cause Notice EAD/AO-PM/AA/OW/31618 & 31619/2017 dated December 14, 2017 (hereinafter referred to as “**SCN**”) were issued to the Noticees under Rule 4 of the Adjudication Rules to show cause as to why an inquiry should not be initiated and penalty be not imposed under section 15G of the SEBI Act, 1992 for the alleged violations specified in the SCN.

7. Vide separate letters dated January 24, 2018, Noticees filed their reply to the SCN and the summary of submissions is as follows:

- Noticee no. 1 was a Non-executive director of NSEL and Managing Director of MCX. He was not aware of the issuance of SCN by the DCA nor about the reply filed by NSEL to the said SCN as the said information was not made known to the board of the NSEL. As a Non-executive director of NSEL, he was not concerned with the management of the affairs of the NSEL.
- Noticees are not insiders as it has not been substantiated as to how Noticee no.1 was reasonably expected to have access to UPSI in respect of securities of NSEL.
- UPSI pertaining to NSEL cannot be treated as UPSI pertaining to MCX and the said UPSI had already become public on 03.10.2012 when an article on the subject was published in the Economic Times.
- Noticees have not traded on the basis of alleged UPSI. Their reason for sale of shares was that CIT (at the rate of 0.01%) being introduced by the then Finance Minister on February 28, 2013 while presenting the Union Budget, would culminate into an increase in the transaction cost upon persons trading on MCX and this would adversely affect the commodity futures volume which in turn would adversely affect the price of MCX's shares.
- In the instant case there is no evidence at all to establish that the noticees have indulged in insider trading as alleged and in the facts and circumstances of the case any imposition of penalty would be unjustified and unwarranted.
- Significantly, with regard to the alleged violation of Regulation 3(i) of PIT Regulations, 1992, we may highlight that the said violation is an offshoot of same investigation report, based on which Ex- parte Order No. SEBI/WTMISRIIVD/ID-6/45/08/20 17 dated August 2, 2017 was passed by the Whole Time Member, SEBI against us and other persons/entities named therein alleging violation of provisions of Regulation 3(i) of PIT Regulations. It may be noted that post filing of

reply/written submission and grant of personal hearing the Whole Time Member. SEBI vide Order dated January 05, 2018 *inter alia* concluded that there has been no violation of Regulation 3(i) of PIT Regulations, 1992 by us and others.

- Since the Notice under reference is also based on the same facts and same Investigation Report and vide the Order dated January 05, 2018 the Whole Time Member, SEBI had already concluded that there is no violation of Regulation 3(i) of PIT Regulations, 1992, we respectfully submit that the allegations of violation Regulation 3(i) of PIT Regulations, 1992 cannot survive. Needless to state that the said findings of the Whole Time Member, SEBI are binding on you.

8. Considering the facts and circumstances of the case, reply of Noticees and the Order dated January 05, 2018 by the WTM of SEBI under sections 11(1), 11(4)(b) and 11B of SEBI Act in the scrip of MCX, the undersigned is of the opinion that the present matter can be decided on the basis of facts/materials available on record without personally hearing the Noticees.

CONSIDERATION OF ISSUES AND FINDINGS

9. The issues that arise for consideration in the present case are :
- I. Whether Noticee no.1 & 2 avoided losses by selling 2,000 and 200 shares of MCX respectively between February 28, 2013 & March 08, 2013 when in possession of UPSI and thereby violated provisions of Regulation 3(i) of PIT Regulations, 1992? and
 - II. Does the violation, if any, attract monetary penalty under section 15G of SEBI Act?
10. Before moving forward, it is pertinent to refer to the relevant provisions of PIT Regulations, 1992 which reads as under:-

***“Prohibition on dealing, communicating or counselling on matters relating to insider trading.*”**

3. No insider shall—

(i) either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange when in possession of any unpublished price sensitive information; or”

11.I have perused the written submissions of the Noticees, documents available on record and the WTM order dated January 05, 2018 in the same matter in different proceedings. Having considered the same, I record my findings hereunder.

12.I find that admittedly Noticee no.1 is husband of Noticee no.2 and was Managing Director of MCX during the period July 01, 2012 to October 22, 2013 and also a non-executive director of NSEL from February 25, 2011 to August 13, 2013. In that capacity Noticee no. 1 was reasonably expected of having access to the UPSI which emanated from NSEL. Further, the transactions in question i.e. sale of 2,000 and 200 shares of MCX respectively by them between February 28, 2013 & March 08, 2013 as specified in the SCN is also a matter of record.

13.Noticees have brought to my attention the fact that WTM of SEBI vide Order dated January 05, 2018 (**WTM order**) in a separate proceedings against the noticee under sections 11(1), 11(4)(b) and 11B of SEBI Act, on the same set of facts and allegations, had exonerated him of the charges leveled against him. I note that in the said WTM order, there was a specific finding with regard to the periodicity of the UPSI which is as under:

“25. Having answered the first issue in the affirmative, the next issue for consideration is whether the “price sensitive information” was unpublished during the period of investigation. In this regard, it is noted that on October 3, 2012 an article appeared in the Economic Times, a widely distributed financial newspaper, which contained information relating to the issuance of SCN dated April 27, 2012 to NSEL, majority of the contents of the SCN, allegations against NSEL with regard to

violation of conditions of DCA notification dated June 5, 2007 and the gist of NSEL's reply to the SCN. The article also covered the possible action that could be taken by DCA against NSEL i.e. withdrawal of exemption granted to NSEL vide the notification dated June 5, 2007.

26. On a careful perusal of the newspaper article dated October 3, 2012, I find that the publication of the said article made the following information public:

- DCA had issued a show cause notice dated April 27, 2012 to NSEL hereby it had found fault with certain types of contracts which were being traded on NSEL.*
- There were allegations against NSEL that it was permitting short selling on its platform. It was also alleged that NSEL did not have a stock check facility for validating a member's position.*
- SCN also alleged that all contracts traded on NSEL with a settlement period exceeding 11 days were in violation of the provisions of FCRA.*
- The conduct of NSEL was allegedly in violation of the conditions stipulated in the DCA notification dated June 5, 2007.*
- NSEL had filed its reply to the SCN issued by DCA.*
- In the event of NSEL failing to file a satisfactory explanation, DCA would withdraw the exemption granted vide notification dated June 5, 2007 without any further communication.*

27. In my view, a reader of the newspaper article dated October 3, 2012 (containing the information noted above) could have deduced the implications of the SCN dated April 27, 2012 to a lesser or greater extent depending on his/her exposure to the subject matter covered in the newspaper article. In my view, the newspaper article was not speculative in nature as it published precise facts relating to the issuance of SCN and also brought out specific contents of the SCN summarizing the allegations levelled against NSEL and the possible consequences thereof. The article categorically mentioned that failure on part of NSEL to provide a satisfactory explanation to the allegations levelled in the SCN would result in withdrawal of exemption granted to NSEL vide notification dated June 5, 2007. The said withdrawal of exemption in turn would have had a cascading effect on the contracts being traded on

NSEL, payment defaults in relation thereto and the eventual loss to the reputation of the promoters / management of NSEL. Considering the above, I find that the price sensitive information, relating to the implication of the SCN dated April 27, 2012 became public from the time when the article relating to the SCN dated April 27, 2012 appeared in Economic Times on October 3, 2012, and as such ceased to be UPSI from that date. Accordingly, the period during which the period the UPSI existed was from the issuance of the SCN to its publication i.e. from April 27, 2012 to October 3, 2012.”

14. I note that in the said order, WTM, inter alia, held that since Noticees did not trade in the shares of MCX when in possession of UPSI, the violation of regulation 3(i) of the PIT Regulations, 1992 cannot be established against them. I have also gone through the charges leveled against the Noticees in the SCN which have arisen out of the same set of facts identical to that of in the WTM Order and I do not find any reason to disagree with the view taken by the WTM about the periodicity of UPSI i.e. from April 27, 2012 to October 3, 2012. Since there was no UPSI in existence at the time of sale of 2,000 and 200 shares of MCX respectively between February 28, 2013 & March 08, 2013 by the Noticees, therefore, I am inclined to conclude that violation of Regulation 3(i) of the PIT Regulations, 1992 by the Noticees as alleged in the SCN dated December 14, 2017 do not stand established. Since the alleged violation is not established against the Noticees, Issue No. 2 requires no consideration.

ORDER

15. For the aforesaid reasons, Show Cause Notice EAD/AO-PM/AA/OW/31618 & 31619/2017 dated December 14, 2017 alleging violations of provisions of Regulation 3(i) of PIT Regulations, 1992 read with Regulation 12(2) of PIT Regulations, 2015 by the Noticees i.e. Shri

Shreekant Javalgekar and Smt. Asha Shreekant Javalgekar, is disposed of without imposition of any penalty.

16. In terms of rule 6 of the Adjudication Rules, copies of this order are sent to Noticees and also to the Securities and Exchange Board of India.

Date: March 13, 2018
Place: Mumbai

Prasanta Mahapatra
Adjudicating Officer