

**BEFORE THE ADJUDICATING OFFICER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**  
**[ADJUDICATION ORDER NO. EAD/PM-AA/AO/35/2017-18]**

**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  
**Shri Prakash Shah**  
**(PAN: AOUPS4514H)**

In the matter of  
**Financial Technologies (India) Ltd.**  
**(Now known as 63 Moons Technologies Ltd.)**

**FACTS OF THE CASE IN BRIEF**

1. Securities and Exchange Board of India (**SEBI**) conducted investigation in the scrip of Financial Technologies (India) Ltd. (hereinafter referred to as "**Company/FTIL**") 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 FTIL which also holds 26% of the shareholding in Multi Commodity Exchange of India Limited ("**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 As per the Investigating Authority, the Unpublished Price Sensitive Information ("**UPSI**") in respect of the shares of FTIL was the implication of the DCA SCN dated April 27, 2012, issued to NSEL i.e.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, impending payment defaults by the members of NSEL and loss of reputation of Promoters and Management of FTIL. It was observed that any news impacting business of NSEL will automatically impact share price of its holding company (i.e. FTIL) and any news impacting credentials of Promoters and Management of FTIL, NSEL and MCX will also impact the share price of FTIL, 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 Prakash Shah ("**Noticee**") is an insider under SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as "**PIT Regulations, 1992**") being the father of Jignesh P Shah and Manjay P Shah who were Managing Director and Whole Time Director of FTIL respectively during the UPSI period. Further, Jignesh Shah was also holding position of Non-Executive director in NSEL during the UPSI period and as such 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 the Noticee, being an insider, before the outbreak of NSEL irregularities avoided losses by selling 10,000 shares of FTIL between August 22, 2012 and October 08, 2012 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 Noticee.

### **SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING**

6. A Show Cause Notice no. EAD/AO-PM/AA/OW/31690/2017 dated December 15, 2017 (hereinafter referred to as “**SCN**”) was issued to the Noticee 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 letter dated February 02, 2018, Finsec Law Advisors, filed preliminary reply to the SCN on behalf of the Noticee. It was stated that without going into the merits of the case, the Noticee intends to bring forth the following facts and submissions which will be helpful in deciding the adjudication proceedings pertaining to the SCN in a summary manner. The summary of submissions is as follows:
- *SEBI issued an Ex-Parte Ad-Interim Order dated August 2, 2017 ("**Interim Order**") against, inter alias, the Noticee under Sections 11(1), 11(4) and 11B of the SEBI Act, in the matter of insider trading in the scrip of FTIL, wherein certain directions were issued against the Noticee. Noticee had filed a detailed reply dated August 24, 2017 denying all the allegations levelled against her in the Interim Order.*

*The Noticee was thereafter provided a hearing by the Whole Time Member ("**WTM**") of SEBI.*

- The WTM had passed an order dated January 31, 2018 disposing the Interim Order in favour of the Noticee and revoking the directions issued against the Noticee ("**WTM Order**"). WTM has observed that a reader of the Economic Times article dated October 03, 2012 containing information relating to the issuance of the DCA SCN could have deduced the implications of its issuance. Therefore, the price sensitive information relating to the DCA SCN became public from the time the said article appeared in the Economic Times. Accordingly, the WTM determined that the period during which UPSI was in existence was from the date of the issuance of the DCA SCN to the date of publication of the said article, i.e. from April 27, 2012 to October 03, 2012.*
- Noticee sold 1000 shares of FTIL on August 22, 2012 ("Trade No.1") and sold 9000 shares of FTIL on October 08, 2012 ("Trade No.2"). It is submitted that the Noticee sold 9000 shares of FTIL on October 08, 2013, which is well after October 03, 2012 when the DCA SCN ceased to be UPSI, as decided by the WTM in the WTM Order. Therefore, at the time of the execution of Trade No.2, the UPSI was no longer in existence and the Noticee is not in violation of Regulation 3(i) of the PIT Regulations.*
- In para 45 of the WTM Order, the WTM observed that the Noticee had sold the shares of FTIL in small tranches on 19 occasions since May 2009 till August 22, 2012. The WTM found that the sale of 1000 shares of FTIL on August 22, 2012 is in line with the Noticee's trading behaviour. Further, the Noticee still holds more than 37,000 shares of FTIL. Therefore, the presumption that the Noticee, being an insider, executed Trade No.1 when in possession of UPSI was found to be rebutted.*
- In light of the above, it is submitted that the Noticee was not in possession of UPSI when he executed both the trades, i.e. Trade No. 1 and Trade No.2. Further, as observed in the WTM Order, the trades were consistent with the trading pattern of the Noticee. Therefore, the Noticee is not in violation of Regulation 3(i) of the PIT Regulations.*

- *The adjudication proceedings pertaining to the SCN are parallel proceedings initiated by the AO on a set of facts identical to that of the Interim Order and WTM Order. In light of the above-mentioned submissions, it is submitted that the Noticee was not in possession of UPS I when he traded in the scrip of FTIL and thereby, there has been no violation of the provisions of the PIT Regulations.*
8. Considering the facts and circumstances of the case, reply of Noticee and the Order dated January 31, 2018 by the WTM of SEBI under sections 11(1), 11(4) and 11B of SEBI Act in the scrip of FTIL, 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 Noticee.

### **CONSIDERATION OF ISSUES AND FINDINGS**

9. The issues that arise for consideration in the present case are :
- I. Whether Noticee avoided losses by selling 10,000 shares of FTIL between August 22, 2012 and October 08, 2012 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 Noticee, documents available on record and the WTM order dated January 31, 2018 in the

same matter in different proceedings. Having considered the same, I record my findings hereunder.

12. I find that it is not in dispute that Noticee is the father of Jignesh P Shah and Manjay P Shah who were Managing Director and Whole Time Director of FTIL respectively during the UPSI period. Further, Jignesh Shah was also holding position of Non-Executive director in NSEL during the UPSI period. In that capacity, Noticee is deemed to be a connected person in terms of Regulation 2(h)(viii) of PIT Regulations, 1992 and thus an insider as he is an immediate relative covered under the definition of "relative" as per section 6(c) of Companies Act, 1956 read with section 2(77) of Companies Act, 2013. Further, the transaction in question i.e. sale of 10,000 shares of FTIL between August 22, 2012 and October 08, 2012 as specified in the SCN is also a matter of record.

13. Noticee has brought to my attention the fact that WTM of SEBI vide Order dated January 31, 2018 (**WTM order**) in a separate proceedings against the noticee under sections 11(1), 11(4) 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:

*"26. 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 after deciding the period of UPSI as April 27, 2012 to October 3, 2012, inter alia, observed that the following trade of the Noticee was during the UPSI period:

<b>Date</b>	<b>No. of shares sold</b>	<b>Amount (in ₹)</b>
22.08.2012	1000	8,52,525

15. WTM, further, held as under as regards the trades of the Noticee:

*“43. As observed above, Shri Prakash Shah was an “insider” having access to UPSI under regulation 2(e) of the PIT Regulations, 1992 and therefore, there is a presumption that he traded when in possession of the unpublished price sensitive information. Consequently, it becomes necessary to examine whether Shri Prakash Shah has been able to rebut the said presumption in the facts and circumstances of the case.*

*44. Shri Prakash Shah has submitted that even assuming that the alleged information regarding implications of SCN was price sensitive and unpublished, he was not at all aware of the same. He submitted that he was not a director of FTIL, NSEL or MCX. Further, only because of the fact that he was the father of directors of FTIL, it could not be assumed that he was aware of issuance of SCN dated 27-04-12 to NSEL by DCA and NSEL’s reply dated May 29, 2012. He also submitted that no such information was communicated to him. Mr. Prakash Shah further submitted that he had been holding the shares of FTIL for long and he had also been selling the shares of FTIL in small tranches since May 2009 and prior to his sale under consideration dated August 22, 2012, he had sold the shares of FTIL on around 19 occasions. Subsequently, he sold 9000 shares of FTIL after October 3, 2012 (when the alleged UPSI had become “published”). He further submitted that he had sold the*



*shares from time to time based on his personal requirements and even as on date he continues to hold more than 37,000 shares of FTIL.*

*45. From the above submissions of Shri Prakash Shah, it appears that the sale of 1,000 shares by him during the period when the price sensitive information was unpublished (i.e. from April 27, 2012 to October 3, 2012) was in line with his trading behavior which he had exhibited since the year 2009 as he had been selling shares of FTIL since then in lots ranging from 50 to 1,000. Further, Shri Prakash Shah still holds more than 37,000 shares of FTIL. Thus, the presumption under law that as an insider, his trades were carried out when in possession of UPSI stands rebutted. In view of the facts, circumstances and observations discussed above, the violation of regulation 3(i) and 4 of the PIT Regulations, 1992 and section 12A(d) of the SEBI Act does not stand established against Shri Prakash Shah.”*

16. I have also gone through the charges leveled against the Noticee 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 and that the sale of 1,000 shares by the Noticee was in line with his trading behavior which he had exhibited since the year 2009. I also agree with the view of the WTM that the presumption under law that as an insider, his trades were carried out when in possession of UPSI stands rebutted.

17. I note that the prohibition contained in regulation 3 of the PIT Regulations, 1992 apply only when an insider trades or deals in securities on the basis of any UPSI and not otherwise and the Noticee has been able to show through his trading pattern that he did not trade on the basis of UPSI rather he had been selling shares of FTIL since 2009 in lots ranging from 50 to 1,000. The fact that the Noticee is still holding 37,000 shares of FTIL goes on to further rebut the presumption that he

did not trade on the basis of UPSI but on some other basis. In view of the same, I am inclined to conclude that violation of Regulation 3(i) of the PIT Regulations, 1992 by the Noticee as alleged in the SCN dated December 15, 2017 do not stand established. Since the alleged violation is not established against the Noticee, Issue No. 2 requires no consideration.

**ORDER**

18. For the aforesaid reasons, Show Cause Notice EAD/AO-PM/AA/OW/31690/2017 dated December 15, 2017 alleging violations of provisions of Regulation 3(i) of PIT Regulations, 1992 read with Regulation 12(2) of PIT Regulations, 2015 by the Noticee i.e. Shri Prakash Shah, is disposed of without imposition of any penalty.

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

**Date: February 23, 2018**  
**Place: Mumbai**

**Prasanta Mahapatra**  
**Adjudicating Officer**