

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[SETTLEMENT ORDER NO. SO/SM/AD/2022-23/6797]

**UNDER SECTION 15JB OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992
READ WITH REGULATION 23(1) OF THE SEBI (SETTLEMENT PROCEEDINGS)
REGULATIONS, 2018**

In respect of:

Settlement application no. 6797/2022 submitted by:

Name of Entity	PAN
Morgan Stanley France S.A.	AAKCM6204B

In the matter of Box trade activities in long dated Nifty options expiring on December 28, 2017

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1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') conducted an investigation in the trades done in long dated NIFTY options between Reliance Strategic Investments Ltd and Morgan Stanley France S.A. (hereinafter referred to as '**Applicant**'), on July 31, August 08 and August 10, 2017. The focus of investigation was to ascertain whether there was any violation of the provisions of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**') and SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as '**PFUTP Regulations**') by Reliance Strategic Investments Ltd and Applicant, while trading in long dated Nifty Options expiring on December 28, 2017 on the trade dates viz., July 31, August 08 and August 10, 2017 on the National Stock Exchange of India Ltd (hereinafter referred to as '**NSE**').
 2. Based on the findings of investigation, SEBI alleged violations of Sections 12A(c) of SEBI Act read with Regulations 3(d), 4(1) and 4(2)(e) of PFUTP Regulations by Reliance Strategic Investments Ltd and the Applicant.
 3. Thus, SEBI, vide order dated May 18, 2021, appointed the undersigned as the Adjudicating Officer under Section 19 of SEBI Act read with Section 15I(1) and Rule 3 of SEBI (Procedure

Settlement Order in respect of Morgan Stanley France S.A. in the matter of Box trade activities in long dated Nifty options expiring on December 28, 2017

for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**') to inquire into and adjudge under the provisions of Section 15HA of the SEBI Act, the alleged violations of Sections 12A(c) of SEBI Act read with Regulations 3(d), 4(1) and 4(2)(e) of PFUTP Regulations by Reliance Strategic Investments Ltd and Applicant.

4. In this regard, a Show Cause Notice bearing reference no. SEBI/EAD10/SM/KH/35427/1/2021 dated December 02, 2021 (hereinafter referred to as '**SCN**') was issued to Applicant under Rule 4(1) of Adjudication Rules to show-cause as to why an inquiry should not be initiated against Applicant and penalty, if any, not be imposed upon Applicant for the aforesaid violations alleged to have been committed by Applicant
5. The observation/allegations levelled against Applicant in the SCN are summarized hereunder:
 - a) On July 31, August 08 and August 10 of 2017, Reliance Strategic Investments Ltd. (RSIL) executed various combinations of long dated deep in the money options on NIFTY expiring on December 28, 2017 with Applicant.
 - b) On all three (3) days, deep-in-the money calls were traded approximately within 1% of Intrinsic Value (hereinafter referred to as 'IV') whereas deep-in-the money puts (11400 PE) were traded at a discount ranging from 15% to 37% of IV.
 - c) No specific computation with regard to quotes in the aforementioned days and in general quote of 11400 PE was provided by Reliance Strategic Investments Ltd and Applicant. Instead, it was submitted that all the costs were adjusted on one side of the trade (i.e. 11400 PE in this case) resulting into trading price of 11400 PE at significant discount to its IV. It was also noted that the parameters provided by Applicant did not reconcile the traded price of 11400 PE across 3 days of relevant period in similar contracts.
 - d) Investigation further noted that although at the time of entering into the trade for 11400 PE, Reliance Strategic Investments Ltd and Applicant knew that on the basis of their research / understanding, the eventual traded of 11400 PE was not the correct price, nonetheless, Reliance Strategic Investments Ltd and Applicant executed trades in 11400 PE at discount of 15%, 35% and 37% of IV on July 31, August 08 and August 10 of 2017 respectively, because of the mutual arrangement to adjust all the costs of running various positions on just one strike (away from the fair price of an instrument) which was not observed to be a valid reason to execute the trade on the NSE platform.
 - e) Accordingly, allegedly such act of trading 11400 put options at a price on the basis of mutual arrangement amounted to active concealment of understanding of Reliance

Strategic Investments Ltd and Applicant with regard to the fair price of the option and the arrangement with regard to possible cost adjustment amounts to fraud as defined in Regulation 2(1)(c)(3) of PFUTP Regulations. Further, it was alleged that trading pattern of Reliance Strategic Investments Ltd and Applicant, i.e., negotiating prices of various long dated deep in the money illiquid index options expiring on December 28, 2017 through trading member and thereafter executing them with mutual understanding so that one leg of options (i.e. 11400 PE) was traded significantly away from its fair price i.e. at discount of 15%, 35% and 37% of its then prevalent Intrinsic Value on July 31, August 08 and August 10 of 2017 respectively, amounted to / resulted into manipulation of the price of 11400 PE.

- f) It is further alleged that such acts which resulted into manipulation of the price of the contract could potentially mislead other traders/investors with regard to likely future price of the underlying/ contract who were unaware of arrangement between Reliance Strategic Investments Ltd and Applicant and would not be desirable practice for orderly functioning of the market.
- g) In view of the above, it is alleged that Reliance Strategic Investments Ltd and Applicant violated Section 12A(c) of SEBI Act read with Regulations 3(d), 4(1) and 4(2)(e) of PFUTP Regulations.

- 6. I note from the records that pending adjudication proceedings, Applicant proposed to settle the instant proceedings initiated against it, without admitting or denying the findings of fact and conclusions of law, through a settlement order and filed settlement application dated February 25, 2022 (application no. 6797/2022) with SEBI in terms of Regulations 3(1) and 3(2) of the SEBI (Settlement Proceedings) Regulations, 2018 (hereinafter referred to as “**Settlement Regulations**”).
- 7. Pursuant to the receipt of the application, the authorized representatives of Applicant had a meeting with the Internal Committee of SEBI (hereinafter referred to as “**IC**”) on September 28, 2022. IC considered factors enumerated under Regulation 10 and Scheduled II of Settlement Regulations and recommended the terms of settlement. Thereafter, Applicant *vide* e-mail dated October 12, 2022 proposed revised settlement terms to settle the proceedings initiated against it.
- 8. The High Powered Advisory Committee (hereinafter referred to as “**HPAC**”) in its meeting held on December 27, 2022 considered the revised settlement terms proposed and recommended

the case for settlement qua Applicant upon payment of Rs. 25,35,000/- (Rupees Twenty Five Lakh Thirty Five Thousand only) and the recovery of settlement amount of Rs. 25,35,000/- (Rupees Twenty Five Lakh Thirty Five Thousand only) from the 'officer in default' so that investors are not penalised.

9. The Panel of Whole Time Members of SEBI approved the said recommendation of the HPAC on January 20, 2023 and the same was communicated by SEBI to Applicant on January 30, 2023. Accordingly, Applicant viz. Morgan Stanley France S.A, remitted to SEBI, the settlement amount of Rs. 25,35,000/- (Rupees Twenty Five Lakh Thirty Five Thousand only) on March 01, 2023 and same was duly received by SEBI.
10. Further, vide email dated March 20, 2023 to SEBI, authorised representatives of Applicant communicated the Applicant's acceptance of the additional term of settlement. The extract of the aforementioned email is reproduced hereunder:

"On behalf of our client, Morgan Stanley France S.A. (Applicant), we confirm the Applicant's acceptance of the additional term of settlement requiring recovery of the settlement amount from an officer. As instructed by you previously, the Applicant undertakes to file a compliance letter confirming recovery of settlement amount from such officer, in due course following the issuance of the settlement order by SEBI."

11. Therefore, in view of the receipt of the above mentioned settlement amount by SEBI and the acceptance of the aforementioned additional non-monetary term of the settlement, the instant adjudication proceedings initiated against Applicant viz. Morgan Stanley France S.A. by way of issuance of SCN bearing reference no. SEBI/EAD10/SM/KH/35427/1/2021 dated December 02, 2021 are disposed of in terms of Section 15JB of the SEBI Act read with Regulation 23(1) of the Settlement Regulations.
12. This order shall come into force with immediate effect. Further, in terms of Regulation 28 of the Settlement Regulations, this order is without prejudice to the right of SEBI to take any enforcement action including restoring or initiating the proceedings in respect to which this settlement order is passed, if:
 - i. Any representation made by Applicant in the settlement proceedings are subsequently discovered to be untrue; or

ii. Applicant breaches any of the clauses/conditions of undertakings/waivers filed during the current settlement proceedings.

13. In terms of Regulation 25 of the Settlement Regulations, a copy of this order is being sent to the Applicant viz. Morgan Stanley France S.A. and the order is also published on the website of SEBI.

Date: March 23, 2023

Place: Mumbai

SOMA MAJUMDER

Adjudicating Officer