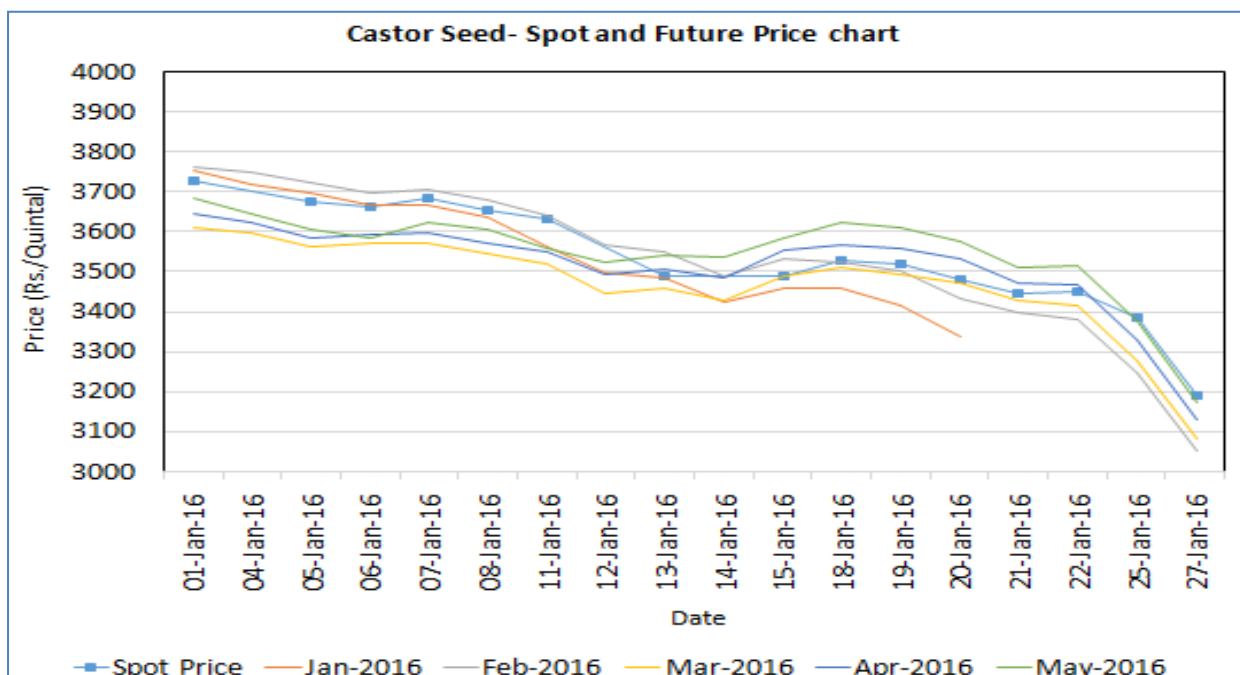


## SECURITIES AND EXCHANGE BOARD OF INDIA

***EX-PARTE AD-INTERIM ORDER*****UNDER SECTION 11 AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 IN THE MATTER OF TRADING IN CASTOR SEED CONTRACTS AT NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED.**

1. National Commodity & Derivatives Exchange Ltd. (hereinafter referred to as “NCDEX/the exchange”) under the provisions of its Rules, Bye-laws and Regulations suspended the trading in Castor Seed Contracts at the close of business hours, vide its circular (NCDEX/TRADING-007/2016/012) dated 27 January, 2016. Pursuant to the same, the Securities and Exchange Board of India (hereinafter referred to as “SEBI”) also undertook a preliminary examination in respect of trading in Castor Seed Contracts at NCDEX platform for the period January 01, 2016 to January 27, 2016 (hereinafter referred to as “examination period”).
2. It was observed that prices in Castor Seed February 2016 contract at NCDEX fell by around 20% during the period from January 01, 2016 to January 27, 2016 as against around 14% fall in spot prices (polled by NCDEX) during the same period. It was observed that futures prices of Castor Seed Contracts touched lower circuit of 4% on January 25, 2016 and hit lower circuit of 6% on January 27, 2016. An illustration of price movement in Castor Seed Contracts during the period January 01, 2016 to January 27, 2016 is given below:

**Price Movement from January 01, 2016 to January 27, 2016**

3. It was also observed that the open interest (OI) in Feb-16 contract increased from 2,16,690 Metric Ton (“MT”) as on January 7, 2016 to 3,38,990 MT as on January 11, 2016. Further on January 27, 2016 the outstanding open interest in Feb-2016 contract was 2,83,260 MT. Details of OI in Castor Seed Contracts during examination period are as follows:

**Castor Seed Contract-wise open interest from January 01, 2016 till January 27, 2016**

Date	20-Jan-2016	19-Feb-2016	18-Mar-2016	20-Apr-2016	20-May-2016	Total OI (in MT)
01-Jan-2016	203620	213980	76320	8300	0	502220
04-Jan-2016	198800	212250	77130	10830	0	499010
05-Jan-2016	200020	209970	81360	14560	0	505910
06-Jan-2016	174970	215090	80750	16490	10	487310
07-Jan-2016	163410	216690	81090	17000	10	478200
08-Jan-2016	129110	244770	82440	17260	30	473610
11-Jan-2016	30470	338990	88110	17720	120	475410
12-Jan-2016	18210	342280	91310	18210	120	470130
13-Jan-2016	9000	342940	95020	18890	130	465980
14-Jan-2016	8180	344700	98560	19400	140	470980
15-Jan-2016	5840	350030	97110	21930	930	475840
18-Jan-2016	2280	341090	93620	22950	950	460890
19-Jan-2016	1970	341610	94690	26040	1540	465850
20-Jan-2016	1270	330070	92340	24890	1820	450390
21-Jan-2016		324630	92210	28460	2590	447890
22-Jan-2016		320370	91170	35440	3080	450060
25-Jan-2016		300780	92130	47100	4030	444040
27-Jan-2016		283260	103600	42190	5550	434600

4. Examination in the matter also revealed that on January 25, 2016, one Commodities Trading Members, namely, Mid India Commodities Private Limited, who had large positions, expressed inability to collect Mark to Market (MTM) pay-in obligations from three of its clients, and asked the exchange to square off their positions. Further, on January 26, 2016 and January 27, 2016 three other Commodities Trading Members, namely, Neer-Ocean Multitrade Private Limited, Investsmart Commodities Limited and Leo Global Commodities Private Limited also expressed inability to collect MTM pay-in obligation from their clients and requested the exchange to square off their clients' positions.
5. On examination of daily margin shortages / delays with regard to payment of MTM obligations of abovementioned four Commodities Trading Members, it was noticed that there were continuous shortages/ delays on part of all four Commodities Trading Members in paying their obligations during the examination period.
6. It is noted that the exchange's 'settlement department' checks the status of funds to be received from its Commodities Trading Members by running files received from the banks six

times in a day. Timing of these bank runs is 09:30, 11:00, 12:00, 14:15, 15:00 and 17:00 hours daily. Commodities Trading Members are required to bring in funds before 09:30 'first run' for their obligation arising from previous days positions failing which their terminals are put on square off mode i.e. they are restricted from creating fresh positions.

7. It has been noted that there were delays in payments on the part of Commodities Trading Members. Details of which are as follows:
  - i. **Mid India Commodities Pvt. Limited:** There were 17 counts of 'first run' shortages between 29-Dec-2015 to 28-Jan-2016. Shortage amounts were in range of ₹4.62 Lakhs to ₹14.45 Crore.
  - ii. **Leo Global Commodities:** There were 10 counts of 'first run' shortages between 05-Jan -2016 to 28 Jan-2016. Shortage amounts were in range of ₹19.07 Lakhs to ₹9.39 Crore.
  - iii. **Investsmart Commodities Ltd:** There were 4 counts of 'first run' shortages between 21-Jan -2016 to 28 Jan-2016. Shortage amounts were in range of ₹1.6 crore to ₹15.66 Crore.
  - iv. **Neer Ocean Multitrade Pvt Ltd.:** There were 7 counts of 'first run' shortages between 13-Jan -2016 to 28 Jan-2016. Shortage amounts were in range of ₹25.20 Lakhs to ₹13.98 Crore.
8. Further, in case of all the above four Commodities Trading Members, the shortages/delays were carried till fifth bank run (at 15:00 hours) or last bank run of the day (at 17:00 hours) on most of the occasions. This indicates that there were repeated difficulties on part of these Commodities Trading Members in meeting their pay-in obligations.
9. It was observed that apart from the clients as informed by the said four Commodities Trading Members, one Commodities Trading Member, namely, Mid India Commodities Private Limited had also failed to honour MTM pay-in obligations. Details of such entities and their contract-wise position as on January 27, 2016 are as follows:

**Contract-wise positions (in MT) of entities, as on 27<sup>th</sup> January 2016**

Sl. No	ENTITY / CLIENT NAME	19-FEB-16 expiry	18-MAR-16 expiry	20-APR-16 expiry	COMMODITY LEVEL	
					LONG OI	SHORT OI
<b>Trading Member Name - Mid India Commodities Private Limited</b>						
1	Stride Multitrade Private Limited	23910	-8260	0	23910	8260
2	Mr. Vijay Saraf	14340	-4050	0	14340	4050
3	Sisne Polymers Private Limited	12890	0	0	12890	0

4	Mid India Commodities Private Limited (Proprietary account)	8230	-5230	0	8230	5230
<b>Trading Member Name - Investsmart Commodities Limited</b>						
5	Ruchi Global Limited	16520	0	0	16520	0
6	Bharat Foods Co-operative Limited	13530	0	0	13530	0
7	Tanisha Multi Trading Private Limited	13080	0	0	13080	0
<b>Trading Member Name - Neer-Ocean Multitrade Private Ltd</b>						
8	Ms. Anju Jain	13080	-4300	0	13080	4300
9	Piyali Trading Pvt. Limited	16810	-690	0	16810	690
10	Vartika Mercantile Pvt. Limited	14230	-3810	0	14230	3810
<b>Trading Member Name - Leo Global Commodities Private Limited</b>						
11	Secunderabad Oils Limited	15700	10	1530	17240	0
12	UKS Oils Private Limited	14620	390	1180	16190	0
13	Mr. Narsinpuria Korodimal	50	0	0	50	0

10. On 27<sup>th</sup> January 2016, abovementioned 13 defaulting entities on Long Side collectively held OI of 176990 (62.48 % of OI of Feb-16 contract) out of total OI of 283260 for Feb-16 contract. Total value of OI held by defaulting clients was approximately ₹540 crores, details of which are follows:

**Details of OI of defaulting clients in Feb-16 Castor Seed Contract (as on January 27, 2016)**

Sl. No	CLIENT NAME	Position of client in Feb-16 contract (in MT)	Position of client in feb-16 (as % of market OI for Feb-16 contract)	*Position of client in Feb-16 contract (₹ Crore)
<b>Trading Member Name - Mid India Commodities Private Limited</b>				
1	Stride Multitrade Pvt. Limited	23910	8.44%	72.95
2	Mr. Vijay Saraf	14340	5.06%	43.75
3	Sisne Polymers Pvt. Limited	12890	4.55%	39.33
4	Mid India Commodities Private Limited	8230	2.91%	25.11
<b>Trading Member Name - Investsmart Commodities Limited</b>				
5	Ruchi Global Limited	16520	5.83%	50.40

6	Bharat Foods Co-operative Limited	13530	4.78%	41.28
7	Tanisha Multi Trading Private Limited	13080	4.62%	39.91
<b>Trading Member Name - Neer-Ocean Multitrade Private Ltd</b>				
8	Ms. Anju Jain	13080	4.62%	39.91
9	Piyali Trading Pvt. Limited	16810	5.93%	51.29
10	Vartika Mercantile Pvt. Limited	14230	5.02%	43.42
<b>Trading Member Name - Leo Global Commodities Private Limited</b>				
11	Secunderabad Oils Limited	15700	5.54%	47.90
12	UKS Oils Private Limited	14620	5.16%	44.61
13	Mr. Narsinpuria Korodimal	50	0.02%	0.15

\*For calculation of value, settlement price on 27 January 2016 has been considered (i.e. ₹3051 per 100kgs).

11. Based on above stated facts and analysis, I *prima facie* find that:

- Few clients had taken huge long positions beyond their ability to fulfil the commitment.
- There was huge concentration and lack of liquidity in the contract.
- There was failure on the part of clients and as well as trading members to assess and anticipate the risk associated with the trading activity in Castor Seed Contract.
- The abovementioned defaulting clients had taken exposure beyond their known financial means causing systemic risk.

12. It has been observed that defaulting clients were collectively holding 62.48% of open position in Feb-16 contract of Castor Seed which in value terms was approximately to the tune of ₹540 crores. Therefore, it is evident from the very fact that despite the clients having highly concentrated position which was also very high in value terms; combined with the continuous incidents of clearing member's delay which directly points towards delay/problem in collecting obligation from their clients, suggested vulnerability of clients position in the Castor Seed Contracts. Further, on one fine day all of them defaulted in payment of their Mark to Market margins and through their members expressed their inability to pay margins and asked the Exchange to square off their positions. Such highly concentrated position in Castor Seed Contracts by defaulting clients of these four members coupled with their inability to pay MTM obligations has potential to disturb market equilibrium and harm market integrity and poses systemic risks to the functioning of the market as much as it has interfered with market forces. It is also noted that the positions collectively held by these clients is approximately 10% of annual production of the entire country. I, *prima facie*, find that these clients who had such huge positions in Castor Seed Contracts, must have been aware of their financial health and could have orderly exited from their position in case they were facing financial difficulties but

on the contrary they all held their position till the point when market fell by 10% on 25<sup>th</sup> and 26<sup>th</sup> January 2016. The facts of this case are too much of a coincidence. They, therefore, *prima facie* indicate predetermined manipulative design of the Commodities Trading Member and their defaulting clients, who have been holding dominant open positions without having financial capabilities to meet their obligations.

13. Considering the above facts and circumstances, I, *prima facie*, find that the act and omissions of the defaulting clients, not only disturbed market equilibrium but also indicate manipulative and fraudulent design to maintain the price and/or to benefit the position they were having in physical market. I further, *prima facie* find that the Commodities Trading Members have actively facilitated and helped these defaulting clients in such dubious plan, device and artifice as they have not only failed to assess the financial capacity of such clients but allowed them in such manipulative transactions in high magnitude which have potential to disturb the market equilibrium and harm market integrity.
14. I, therefore, *prima facie* find that four Commodities Trading Members and their above mentioned defaulting clients have contravened the provisions of the Securities and Exchange Board of India Act, 1992 (the SEBI Act) and have acted in fraudulent and deceitful manner which attracts prohibitions enshrined in section 12A (a) (b) and (c) of the SEBI Act and regulation 3(d) and regulation 4(1) and 4(2) (a) and (g) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 which read as following:-

**Section 12A of the 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 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 this Act or the rules or the regulations made there under;*

*(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;"*

**PFUTP Regulations -**

**"3. Prohibition of certain dealings in securities**

*No person shall directly or indirectly—*

*(a).....*

*(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 fraudulent or an unfair trade practice in securities.*

*(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—*

*(a) indulging in an act which creates false or misleading appearance of trading in the securities market;*

*(g) entering into a transaction in securities without intention of performing it or without intention of change of ownership of such security;*

*....."*

15. Further, Commodities Trading Members are expected to be diligent and use required skill and care while acting as a trading member and have obligations to have a check on risk arising due to their clients. Commodities Trading Members are the first gatekeeper and have direct visibility to the risk profile/financial health of the client and must take precautionary steps to maintain market integrity. However, in this case none of the member took any prudent measures or raised alert with respect to the position of their clients and have harmed the market integrity severely. Rather, it has been noted that Mid India Commodities Private Limited had defaulted in its proprietary account, as well. The acts and omissions of the defaulting Commodities Trading Members *viz*: Mid India Commodities Pvt. Limited, Neer-Ocean Multitrade Private Limited, Investsmart Commodities Limited and Leo Global Commodities Pvt. Limited apart from being fraudulent and manipulative, amount to failure on their part in abiding by their code of conduct. I further find that they have, *prima facie* failed to act with due skill, care and diligence in the conduct of their business in discharging their responsibilities and thereby violated clauses A(1), A(2) and A(4) of Code of Conduct for Brokers as specified in Schedule II under regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as "Stock Brokers Regulations"). The relevant legal provisions, the contravention of which have been alleged in this case are reproduced hereunder:

***Regulation 7 of the Stock Brokers Regulations:***

***Stock-Brokers to abide by Code of Conduct.***

*The stock-broker holding a certificate shall at all times abide by the Code of Conduct as specified at Schedule II.*

## **Code of Conduct- Schedule II**

### **A. General**

Clause (1) **Integrity:** A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

Clause (2) **Exercise of Due Skill and Care:** A stock-broker, shall act with due skill, care and diligence in the conduct of all his business.

Clause (4) **Malpractices:** A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stockbroker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

16. SEBI has always striven to maintain the integrity of the Indian securities market. It has been a point of concern when behaviour of few intermediaries/entities put entire market at systemic risk and disturbs the market equilibrium and integrity through their activities. In view of the aforesaid *prima facie* findings, it is felt necessary to intervene in this matter to safeguard the interest of the investors and protect the integrity of the commodities market. I am convinced that this is also a case where, pending investigation, effective and expeditious action is required to be taken to prevent any further harm to investors.
17. Therefore, in order to protect the interest of investors and the integrity of the securities market, I, in exercise of the powers conferred upon me by virtue of section 19 read with sections 11 and 11B of the SEBI Act, pending investigation, by way of this *ad-interim ex-parte* order restrain following Commodities Trading Members and their defaulting clients from buying, selling or dealing in the securities market, either directly or indirectly, in any manner whatsoever, till further directions:

<b>Sr. No.</b>	<b>NAME</b>	<b>PAN</b>
1	Mid India Commodities Private Limited	AABCT1983F
2	Neer-Ocean Multitrade Private Limited	AADCN3061E
3	Investmart Commodities Limited	AAECM3447N
4	Leo Global Commodities Pvt. Limited	AAACL6967A
5	Stride Multitrade Pvt. Limited	AAGCS5768N
6	Mr. Vijay Saraf	AERPS2485J
7	Sisne Polymers Pvt. Limited	AAPCS4092L
8	Ruchi Global Limited	AAACR7202A
9	Bharat Foods Co-operative Limited	AAAAB3160D
10	Tanisha Multi Trading Private Limited	AAECT2559E
11	Ms. Anju Jain	ABEPJ8083F



12	Piyali Trading Pvt. Limited	AABCR1604D
13	Vartika Mercantile Pvt. Limited	AAECV0551G
14	Secunderabad Oils Limited	AACCS8208H
15	UKS Oils Private Limited	AAACU4566C
16	Mr. Narsinpuria Korodimal	AGXPK2223Q

18. The commodity exchanges, stock exchanges and the depositories are directed to ensure that the above directions are strictly enforced.
19. The above order is without prejudice the right of SEBI to take any other action that may be initiated against the abovementioned entities in accordance with law.
20. The entities against whom this order is being passed may file their objections, if any, within twenty one days from the date of this Order and, if they so desire, may avail themselves of an opportunity of personal hearing before the Securities and Exchange Board of India at its Head Office at SEBI Bhavan, C4-A, G-Block, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 on a specific request in this regard.
21. This order shall come into force with immediate effect.

**DATE: March 2<sup>nd</sup>, 2016**  
**PLACE: MUMBAI**

**Sd/-**  
**RAJEEV KUMAR AGARWAL**  
**WHOLE TIME MEMBER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**