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Why did SEBI fined Mukesh Ambani?

A detailed thread. ■

On January 1st SEBI ordered billionaire Mukesh Ambani and his conglomerate Reliance Industries Ltd. to pay a combined penalty of Rs 40 crores for alleged manipulative and fraudulent trading in the month of November 2007.

#mukeshambani #SEBI #RIL #Reliance

During the first week of November 2007, 12 entities — all connected to Reliance Industries Limited decided to bet against Reliance Petroleum limited.
The12 agents decided to bet against RPL using what is called a futures contract.

In this context, it means, the agents were hoping to make a windfall on the back of a steep decline in RPL's stock price. The steeper the decline in stock price, the more money the agents were standing to make.

And if the stock price rallied, they were looking at losing a lot of money as well. So you have to have a fair bit of gumption to make such a trade. Unless… you knew for certain that the stock price was poised to tumble — Which is what SEBI believes actually happened.

On November 29, 2007, just 10 minutes before the end of trading, Reliance Industries limited sold close to 2 crore shares of RPL. The selling triggered mass panic and within a moment's notice, the stock price collapsed.

So SEBI contests that RIL and the agents colluded together in a bid to profit off of this transaction. How much money did they make?

Rs447 crores according to the regulator!

Making such trades isn't illegal per se. But the thing is — The agents hadn't disclosed their relationship with RIL when placing their bets, giving regular retail investors the impression that these were independent trades made by random people not associated with RIL.

That is a bit dubious. But there is more — Together they were trading volumes far beyond the permissible limit. Now the counsel for RIL argued that this is a farce. None of them had individually breached the limits imposed by SEBI — except for two agents, which was dealt with.

However, SEBI refused to look at the equation this way. They knew the 12 agents were acting at the behest of Reliance Industries Limited. They knew they could only make trades authorized by RIL.

So even if they hadn't breached the limits at the individual level, they most certainly did so as a group. And since RIL had no authority to trade such large volumes, it was illegal for them to ask the agents to do so.

But RIL had one more defence. See, the company had already decided to sell shares of Reliance Petroleum Limited in a board meeting earlier. They were doing this in a bid to raise some extra money and it was perfectly legal for them to do so.

But here's the thing — At the time they believed RPL's stock price was overvalued and they knew that if it suffered a sharp erosion in value, they wouldn't have been able to raise the money they originally intended.

So they claimed they were simply asking their agents to trade those futures just so that they could make some extra money in the event the stock price did collapse.

Offsetting their losses.
Protecting their downside.
“Hedging,” their bets so to speak.
But SEBI notes that there is no documentary evidence to support this claim.

So clearly SEBI wasn't buying this argument. And back in 2017, the regulator mandated RIL and its agents to pay Rs 1,000 crores for their misdeeds. In addition, the Friday's judgment imposes an additional penalty on RIL, Mukesh Ambani and two other entities.

Now this one is a bit tricky because RIL has always contested that two senior officers were responsible for the trades. They argued that Mukesh Ambani had nothing to do with this. But once again, SEBI refused to acknowledge this assessment.

And in the end, imposed fines of Rs 25 crores and Rs 15 crores on Reliance Industries Ltd. and Ambani, respectively.

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