



DEPUTY GENERAL MANAGER &
ADJUDICATING OFFICER

भारतीय प्रतिभूति
और विनिमय बोर्ड
**Securities and Exchange
Board of India**
SEBI/SRO/AK/OW/2022/637/1

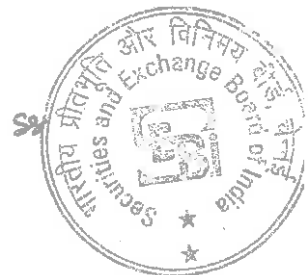
January 06, 2022

By Speed Post A.D.

Pankaj Kumar Agarwal (AGKPA4563A)
Akhitayarpur, 3rd Floor, Opp. Hira Kunj,
Near Old Arvind Mahila College Congress
Patna - 800003, Bihar
India

**Subject: Adjudication Proceedings in respect of Pankaj Kumar Agarwal in the matter of
dealings in Illiquid Stock Options at BSE.
Show Cause Notice under Rule 4(1) of the SEBI (Procedure for Holding Inquiry and
Imposing Penalties) Rules, 1995**

1. Securities and Exchange Board of India (hereinafter, referred to as "SEBI") has initiated adjudication proceedings in respect of Pankaj Kumar Agarwal (hereinafter, referred to as "Noticee"), bearing PAN - AGKPA4563A, for allegedly violating Regulations 3(a), 3(b), 3(c), 3(d) and 4(1), 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter, referred to as "PFUTP Regulations, 2003"), in the matter of trading in illiquid stock options on the Bombay Stock Exchange Ltd. ("BSE").
2. The undersigned was appointed as Adjudicating Officer vide order dated September 20, 2021, to enquire into and adjudge under Section 15 HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the "SEBI Act"), the alleged violations by the Noticee. A copy of the communiqué dated September 27, 2021 appointing the undersigned as Adjudicating Officer is placed at Annexure A.
3. As part of ongoing surveillance, SEBI came across large scale reversal of trades in Stock Options segment of the BSE. Subsequently, SEBI conducted an investigation into the trading activity in illiquid Stock Options at BSE (hereinafter, referred to as "investigation") for the period between April 1, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period").



दक्षिणी प्रादेशिक कार्यालय : 'ओवरसीज टॉवर्स' सातवी मंजिल, 756-एल, अन्ना सालै, चेन्नई - 600 002

Southern Regional Office : Overseas Towers, 7th Floor, 756-L, Anna Salai, Chennai - 600 002 Phone : 044 - 2852 6686, 2888 0222 Fax : 044 - 2888 0333 e-mail : sebisro@sebi.gov.in

सेबी भवन, प्लॉट सं, सी4-ए, "जी" ब्लॉक, बांद्रा - कुर्ला कॉम्प्लेक्स, बांद्रा (पूर्व), मुंबई - 400 051. "SEBI BHAVAN", Plot No.C4-A, "G" Block, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051.

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अनुवर्ती:
Continuation :

भारतीय प्रतिभूति
और विनिमय बोर्ड
**Securities and Exchange
Board of India**

4. Reversal trades are considered non-genuine trades if it involves an entity reversing its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. Artificial volume is considered as the volume (number of units) so reversed in non-genuine trades, comprising both original volume and reversed volume.
5. Pursuant to investigation, it was observed that during the investigation period, a total of 2,91,744 trades comprising 81.41% of all the trades executed in BSE Stock Options Segment were traded which involved reversal of buy and sell positions by the clients and counterparties in a contract. The reversal trades involved squaring off transactions, but with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly resulted into generation of artificial volumes.
6. The Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in the Stock Options Segment of BSE during the investigation period. The Noticee is alleged to have engaged in two (2) such reversal trade in one (1) unique contract (TGBL15MAR140.00CE), which led to generation of alleged artificial volume of 68,000 units. These trades of the Noticee involved reversal with the same counterparty on the same day, but at different prices. Details of all the trades & reversal trades of Noticee in TGBL15MAR140.00CE contract in the Stock Options segment of BSE during the investigation period are given in **Annexure B**.
7. The trade entered by the Noticee on March 18, 2015 under the contract TGBL15MAR140.00CE were reversed on the same day with same counterparty at a substantial price difference without any basis for significant change in the contract price which indicates that these trades are artificial and are non-genuine in nature.
8. A summary of aforementioned trade and reversal trade of Noticee in the contracts TGBL15MAR140.00CE during the investigation period, is as follows (details placed at **Annexure C**):





अनुवर्ती:
Continuation :

भारतीय प्रतिभूति
और विनिमय बोर्ड
**Securities and Exchange
Board of India**

Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume, in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
TGBL15MAR140.00CE	23.45	34,000	16.85	34,000	100	14.05

Note: "Unit" refers to lot size in contract multiplied by number of contracts traded.

9. From the trades executed by the Noticee in the contract of TGBL15MAR140.00CE, it is observed that:

9.1. During the investigation period, 2 trades for 34,000 units each were executed by the Noticee in the TGBL15MAR140.00CE contract on March 18, 2015.

9.2. While dealing in the said contract on March 18, 2015, at 13:21:44.58 hrs the Noticee entered into a buy trade with counterparty Priti Damani for 34,000 units at Rs.23.45 per unit. At 14:22:00.95 hrs the Noticee entered into a sell trade with the same counterparty, for 34,000 units at Rs.16.85.

9.3. The Noticee's two trades while dealing in the TGBL15MAR140.00CE contract during the investigation period allegedly generated artificial volume of 68,000 units, which made up 14.05% of total market volume in the said contract during this period.

10. In view of the foregoing, it is alleged that Noticee, by indulging in execution of non-genuine reversal of trades in Stock Options with same entities on the same day, created false and misleading appearance of trading in stock options and therefore allegedly violated Regulation 3(a), 3(b), 3(c), 3(d), 4(1), 4(2)(a) of PFUTP Regulations, 2003, which read as under:

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b) 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



अनुवर्ती:
(Continuation :

भारतीय प्रतिभूति
और विनिमय बोर्ड
**Securities and Exchange
Board of India**

deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(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;

11. The aforesaid alleged violations, if established, make the Noticees liable for monetary penalty under section 15HA of the SEBI Act, 1992, which *inter-alia* read as under.

Penalty for fraudulent and unfair trade practices

15HA. If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty - five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

12. You are, therefore, called upon to show cause as to why an inquiry should not be held against you in terms of Rule 4 of the SEBI (Procedure for holding Inquiry and Imposing Penalties) Rules, 1995 read with section 15 I of the SEBI Act, and why penalty should not be imposed section 15HA of the SEBI Act.





अनुवर्ती:
Continuation :

भारतीय प्रतिभूति
और विनिमय बोर्ड
**Securities and Exchange
Board of India**

13. Your reply, if any, should reach the undersigned or through email at gomathis@sebi.gov.in and anujk@sebi.gov.in within 14 days from the date of receipt of this Notice, failing which it shall be presumed that you have no reply to submit and the matter would be further proceeded with on the basis of the evidence available on record in terms of sub-rule (7) of Rule (4) of the Adjudication Rules. You may also indicate whether you desire a personal hearing in the matter.
14. Further, you are required to keep the undersigned informed about the change in your correspondence address, if any, till the conclusion of the proceedings. You are also required to submit a photocopy of your PAN card and contact details viz. Telephone numbers / Fax numbers / e-mail IDs and details of contact persons for records.

S. Gomathi

S. GOMATHI
ADJUDICATING OFFICER



Enclosures: Documents relied upon are as follows:-

Annexure	Copy of relevant documents enclosed with this SCN	No. of pages
A	Communique dated September 27, 2021 appointing Adjudicating Officer	3
B	Integrated trade log of all trades of Noticee in the Stock Option segment of BSE during the investigation period i.e, April 1, 2014 to September 30, 2015	1
C	Analysis of dealings of Noticee in the contract in which the Noticee allegedly executed reversal trades during the investigation period	1

