BARNALI MUKHERJEE
CHIEF GENERAL MANAGER &
ADJUDICATING OFFICER
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By SPAD/ DIGITALLY SIGNED E-MAIL

SEBI/HO/EAD/EAD-3/BM/DS/OW/2022/12302/1
March 24, 2022

Raj Kumar Banka HUF
(PAN: AACHR7615A)
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Subject: Show Cause Notice under Rule 4(1) of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 in the matter of dealings in Illiquid Stock Options against Raj Kumar Banka HUF

1) Securities and Exchange Board of India (hereinafter, referred to as "**SEBI**") has initiated adjudication proceedings against Raj Kumar Banka HUF (hereinafter referred to as the "**Noticee/ You**") for alleged violation of the provisions of regulations 3(a), (b), (c), (d) and 4(1), 4(2)(a) of the SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter, referred to as the "**PFUTP Regulations, 2003**"), in the matter of trading in illiquid stock options on the BSE Ltd (hereinafter, referred to as "**BSE**").

2) The undersigned has been appointed as the adjudicating officer vide order dated November 12, 2021, under section 19 read with sub-section (1) of section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the "**SEBI Act, 1992"**) and rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as the "**Adjudication Rules, 1995**") to enquire into and adjudge the alleged violation committed by the Noticee, under section 15HA of the SEBI Act, 1992. A copy of the communiqué dated November 12, 2021 appointing the undersigned as the adjudicating officer is hereby enclosed as **Annexure "A".**

3) SEBI observed large scale reversal of trades in the Stock Options segment of BSE. Subsequently, upon investigation of the trading done during the period from April 1, 2014 to September 30, 2015 (hereinafter referred to as the "**Investigation Period" / "IP**") in the stock options traded on BSE, SEBI observed large scale reversal of trades by various entities including the Noticee. The reversal trades comprised of 81.40% (2,91,744 trades) of all the trades executed in BSE stock options segment wherein the open positions were squared off with a significant price difference without any basis for such change in the contract price. It is alleged that the aforesaid reversal trades were non-genuine in nature and resulted into generation of artificial volumes.

4) The Noticee is alleged to have engaged in 6 reversal trades (2 buy trade and 4 sell trade) in two (2) unique contracts wherein the position taken was reversed with the same counterparty on the same day, but at a substantial price difference. Details of all the trades of Noticee in Stock Options segment of BSE during the I.P. are enclosed as **Annexure "B"**, and details of all the alleged non-genuine trades of Noticee in Stock Option Segment of BSE during IP are enclosed as **Annexure "C"**

respectively. An analysis of dealings of the Noticee in 2 Stock Options contracts in which the said Noticee allegedly executed reversal trades during the IP is given in **Annexure "D**".

5) A summary of dealings of the Noticee in two (2) Stock Options contract in which the Noticee allegedly executed non genuine reversal trades during the IP, is as follows:

Summary of dealings of Noticee in contracts wherein the Noticee executed reversal trades

Sl. no	Contract name	Avg. buy rate (Rs.)	Total buy volume (no. of units)	Avg. sell rate (Rs.)	Total sell volume (no. of units)	% of Non-genuine trades of the Noticee in the contract to Noticee's total trades in the contract	% of Non Genuine trades of Noticee in the contract to Total trades in the contract	% 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
1.	NMDC15APR 120.00CE	4.00	60000	9.00	60000	100	25	100	26.32
2.	SYND15SEP7 0.00CEW3	5.30	70000	10.27	70000	100	66.67	100	56.45

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

6) The abovementioned reversal trades and volumes are illustrated through the dealings of the Noticee in the contract viz, "NMDC15APR120.00CE" during the IP,

(Serial number 1 of the above table) (Annexure – C may be referred to for details of the contract given below in the illustration) which is as follows:

(a) On March 30, 2015, the Noticee bought 60000 units of the aforesaid contract at 13:50:26 hrs (Buy order placed at 13:50:26; Sell Order placed at 13:50:26) from Open Futures and Derivatives Private Limited at a price of ₹4.00.

(b) On the same day, the Noticee reversed its position by selling 60000 units to the same counterparty (i.e. Open Futures and Derivatives Private Limited) at 13:50:29 (Sell order placed at 13:50:29; Buy Order placed at 13:50:29) at an average price of ₹9.00.

(c) From the above, it is noted that while dealing in aforesaid contract during the IP, the Noticee executed total 2 trades (1 buy trade and 1 sell trade). This constituted 26.32% of the total market volume in the contract, and thereby the Noticee allegedly generated artificial volume of 120000 units.

7) From the table above and Annexure C, following is noted as regards to dealings of the Noticee:

a) While dealing in two unique contracts during the IP, the Noticee executed total 6 reversal trades (2 buy trades and 4 sell trades), which resulted in artificial volume of total 260000 units.

b) Percentage of alleged non-genuine trades of the Noticee in stock options contracts to total trades in the contracts was in the range of 25% to 66.67%. The alleged non-genuine trades of the Noticee have significantly contributed to total trades in the market in the above contracts.

c) Percentage of artificial volume allegedly generated by the Noticee in the contracts to the total volume in the contracts was in the range of 26.32% to 56.45%. Therefore, substantial volume generated by the Noticee in each of the above contracts were alleged to be artificial volume.

8) In view of the foregoing, it is alleged that the 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 regulations 3(a), (b), (c), (d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

9) The aforesaid alleged violations, if established, make the Noticee liable for monetary penalty under section 15HA of the SEBI Act, 1992, the provisions of which are reproduced hereunder:
***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".*

10) 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 Adjudication Rules, 1995 read with section 15-I of the SEBI Act, 1992 and why penalty should not be imposed under section 15HA of the SEBI Act, 1992.

11) Your reply, if any, should reach the undersigned through email at barnalim@sebi.gov.in and dhavals@sebi.gov.in within 21 days from the date of receipt of this Notice, failing which it shall be presumed that the allegations levelled in this notice have been accepted by you and that you have waived the

notice under rule 4(3) of Adjudication Rules, 1995 and the matter would be further proceeded on the basis of the evidence available on record.

12) You may also indicate whether you desire a personal hearing in the matter further, you are required to keep the undersigned informed about 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 / email ids and details of contact persons for records.

BARNALI MUKHERJEE
Digitally signed by BARNALI MUKHERJEE
Date: 2022.03.29 16:07:56 +05'30'

BARNALI MUKHERJEE

Enclosures: Documents relied upon are as follows:

Annexure	Copy of relevant documents enclosed with this SCN in a CD
A	Communique dated November 12, 2021 appointing the Adjudicating Officer
B	Integrated trade log of all trades of Noticee in Stock Option segment of BSE during I.P. i.e, 01/04/2014 to 30/09/2015
C	Integrated trade log of all reversal trades of Noticee in the stock options segment of BSE during the period April 1, 2014 to September 30, 2015
D	Summary of all reversal trades
E	Copy of extracts of Investigation Report for your reference