BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

(ADJUDICATION ORDER NO: Order/SV/RM/2023-24/29086)

UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995.

In respect of

Nand Kishore Agarwal (HUF)

(PAN: AADHN6117L)

In the matter of dealings in Illiquid Stock Options at BSE

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') had conducted an investigation into large scale reversal of trades in Stock Options segment of Bombay Stock Exchange (hereinafter referred to as '**BSE**') during the period of April 01, 2014 to September 30, 2015 (hereinafter referred to as **'investigation period'**).Pursuant to investigation, it was observed that there were trades executed in BSE Stock Options Segment involving reversal of buy and sell positions by clients and counterparties in the same contract. The reversal trades involved squaring off trades (either buy or sell), with significant difference in the price. Nand Kishore Agarwal (HUF) (hereinafter referred to as '**Noticee**') was one among the entities who indulged in reversal trades, which allegedly created false and misleading appearance of trading thereby generated artificial volumes in the Stock Options Segment of BSE during the investigation period. The trades entered in the unique contracts were reversed on the same day with same counterparties, at a price difference which had no underlying basis and without an intention of performing it or there being a change of ownership / rights in the contracts. These factors indicated that these trades were allegedly artificial and non- genuine in nature.

APPOINTMENT OF ADJUDICATING OFFICER

2. In this connection, SEBI had initiated adjudication proceedings against Noticee, under SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules'**) for allegedly violating Regulations 3(a),(b),(c),(d) and 4(1), 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trading Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as '**PFUTP Regulations'**), in the matter of trading in illiquid stock options at BSE. Ms. Aradhana Verma was appointed as Adjudicating Officer communique dated July 06, 2021 under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act'**) to inquire into and adjudge the alleged violations by the Noticee and determine whether penalty under Section 15HA of the SEBI Act is liable to be imposed. Pursuant to the transfer of erstwhile Adjudicating officer Ms. Aradhana Verma, vide communique dated March 17, 2023, the matter was transferred to Ms. Asha Shetty, subsequently upon transfer of Ms. Asha Shetty vide communique dated April 17, 2023, the instant matter was transferred to the undersigned.

SHOW CAUSE NOTICE, REPLY AND HEARING

3. A Show Cause Notice no. SEBI/AO/AV/P/OW/2021/19834/1 dated August 17, 2021 (hereinafter referred to as **'SCN'**) was served on the Noticee, in terms of the provisions of rule 4 of the Adjudication Rules read with section 15-I of the SEBI Act, requiring the Noticee to show cause as to why an inquiry should not be held against him in terms of Adjudication Rules read with section 15-I of the SEBI Act, and penalty, if any, should not be imposed on Noticee under section 15HA of the SEBI Act for the aforesaid alleged contraventions done by him. This SCN was sent by SPAD and email.

4. The allegations levelled against the Noticees in the SCN are summarized as below:

a. 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.
b. The Noticee is alleged to have engaged in 2 such reversal trades in 1 unique contracts, which led to generation of artificial volume of 80000 units. These trades of the Noticee involved reversal with the same counterparty on the same day, but at different prices.
c. The trades entered by the Noticee 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.
d. A summary of dealings of Noticee in 1 Stock Options contracts in which Noticee allegedly executed reversal trades during the investigation period, provided in the SCN is reproduced below:

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Total vol 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	CSEC15APR 580. 00PEW4	2	40000	12	40000	80000	100	22.22

5. Noticee by indulging in execution of aforesaid non-genuine reversal trades, was alleged to have violated Regulation 3(a),(b),(c),(d), 4(1), 4(2)(a) of PFUTP Regulations, which are reproduced as follows:

*"**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 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"

6. Noticee vide its letter dated September 14, 2021 *inter alia* submitted that the impugned artificial, non-genuine, reversal trades were not carried out by the Noticee. The impugned trades were on account of the 'fat finger error' by its Stock broker (Giriraj Stock Broking Pvt Ltd) while placing the impugned trade, erroneously executing the trade in the code of the Noticee in place of its another client (Mr. Umang M Shah HUF, UCC:U027). Further, the broker rectified the error in its back office and the impugned trade was then rightfully executed and transferred to the account of Umang M Shah HUF. The Noticee also submitted that no profit was booked by the Noticee on account of impugned transaction. In support of the contention, the Noticee submitted the letter dated September 14, 2021 from Giriraj Stock Broking Pvt Ltd, Noticee's P&L and Balance Sheet and its annexures for the Year ending March 31, 2015. In view of the same, the Noticee requested that no inquiry should be held against the Noticee in the terms of Adjudication Rules.

7. Subsequently a notice of hearing dated May 25, 2023 under Rule 4(3) of the Adjudication Rules was issued to the Noticee, and the personal hearing was conducted on June 12, 2023. Mr. Siddharth Agarwal, Advocate, the Authorised Representative of the Noticee appeared for the personal hearing on behalf of the Noticee and reiterated the submissions made by Noticee in its letter dated September 14, 2021.

8. In view of the submissions made by the Noticee in its reply and during the personal hearing, the Stock Broker (Giriraj Stock Broking Pvt Ltd), vide email dated July 04, 2023 was advised to confirm the veracity of the its letter dated September 14, 2021 and content written therein. Giriraj Stock Broking Pvt Ltd vide its letter dated July 06, 2023 confirmed the letter dated September 14, 2021 was provided by them to the Noticee and the content stated therein.

CONSIDERATION OF ISSUES AND FINDINGS

9. The issues arising for consideration in the instant proceedings are:-
   I. Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?
   II. If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?
   III. If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?

ISSUE I Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?

10. Before going into the merits of the case, I observe that the Noticee has contended that the impugned trades were not carried out by it, and were on account of fat finger error by its broker, erroneously executed in his client code.

I note from the records submitted by the Noticee and the Stock Broker - Giriraj Stock Broking Pvt Ltd.'s letter dated July 06, 2023 that the Broker erroneously executed the impugned trade in the code of the Noticee (UCC: N010) in place of its another client (Mr. Umang M Shah HUF, UCC:U027), which broker corrected, by transferring trade in the account of Mr. Umang M Shah HUF's. I also note that Noticee has not booked any profit in its P&L or its Balance Sheet for the FY 2014-15. In view of the above, I find that the impugned reversal trades were not carried out by the Noticee. In view of the above, the allegation against Noticee of indulging in reversal trades, creating false and misleading appearance of trading, and thereby generating artificial volumes in the Stock Options Segment of BSE is not established.

11. As the violations alleged against the Noticee is not established, issues II and III do not merit consideration.

ORDER

12. In view of the findings noted in the preceding paragraphs, the adjudication proceedings initiated against the Noticee vide SCN dated August 17, 2021 are disposed of.

13. Copy of this Adjudication Order is being sent to the Noticee and also to SEBI in terms of Rule 6 of the Adjudication Rules.

Place: Mumbai **SHASHI KUMAR VALSAKUMAR**

Date: August 31, 2023 **ADJUDICATING OFFICER**