



भारतीय प्रतिभूति
और विनिमय बोर्ड
Securities and Exchange
Board of India

By Speed Post A.D./Email

ADJUDICATING OFFICER

Outward No.LAD-2/DRA-3/KW/39421/1/2022

10/08/2022

SUBHAS CHANDRA AGARWALA

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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 (ISO) at BSE

PART - A

1. Securities and Exchange Board of India (SEBI) has initiated Adjudication Proceedings against you (Noticee), under SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (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 (PFUTP Regulations), in the matter of trading in illiquid stock options at Bombay Stock Exchange Ltd. (BSE).
2. SEBI had conducted an investigation into large scale reversal of trades in Stock Options segment of the BSE during the period of April 01, 2014 to September 30, 2015 (Copy of relevant portion of Investigation Report is placed at Annexure 1).



पेडी भवन, जलिस, सी 4-ए, "सी" ब्लॉक, बॉम्बे स्टॉक एक्सचेंज, बॉम्बे (पूर्व), मुंबई - 400 051.

दूरभाष : 2644 9950 / 4045 9950 (आई.बी.एस.ए.), 2644 9000 / 4045 9000 फैक्स : 2644 9019 से 2644 9022 ईमेल : sebi@sebi.gov.in Page 2 of 5

SEBI Bhawan, Plot No. C4-A, 'C' Block, BSE-Market Complex, BSE, Mumbai - 400 051.
T: 2644 9950 / 4045 9950 (MRS), 2644 9000 / 4045 9000 Fax: 2644 9019 to 2644 9022 Web: www.sebi.gov.in



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3. Pursuant to investigation, it was observed that during the investigation period, there were trades executed in BSE Stock Options Segment involving reversal of buy and sell positions by clients and counterparties in the same contract (refer Paragraph 6 of Investigation Report/Annexure 1). The reversal trades involved squaring off trades (either buy or sell), with significant difference in the price. You are 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 indicate that these trades were allegedly artificial and non-genuine in nature.
4. In this connection, the undersigned was appointed as Adjudicating Officer under Section 15-I of the Securities and Exchange Board of India Act, 1992 (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. Copy of communication appointing undersigned as Adjudicating Officer is placed at Annexure 2.
5. All the entities identified by the investigation including you, indulged in reversal trades. Your trade details including the trade dates, name of the counterparties, time, price and volume are available in the Reversal Trade Data placed at Annexure 3. Additionally, a summary of your reversal trades in the Stock Options contracts executed during the investigation period is placed at Annexure 4.
6. In view of the above, it is alleged that the Noticee herein, by indulging in execution of non-genuine reversal trades in Stock Options, created false and misleading appearance of trading in securities market and thereby, violated provisions of Regulation 3(a),(b),(c),(d), 4(1), 4(2)(a) of PFUTP Regulations.





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7. The aforesaid alleged violations, if established, make the Noticee liable for monetary penalty under section 15HA of the SEBI Act, which reads as below:

"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."

(Emphasis Supplied)

PART - B

8. Meanwhile, SEBI has framed the SEBI Settlement Scheme, 2022 pursuant to the Order dated May 13, 2022 passed by the Hon'ble Securities Appellate Tribunal (Annexure 5), wherein the following directions were issued to SEBI:

"17. We are, thus, of the opinion that SEBI should reconsider and seriously give a thought in coming out with a fresh scheme under Clause 26 of the Settlement Regulations, 2018. Such scheme can be a onetime scheme for this class of person. The terms of settlement should be attractive so that It could attract the noticees / entities to come forward and settle the matter which will ameliorate the harassment of penalty proceedings to the noticees and at the same time would help to clear the backlog of these pending matters before various AOs." (Emphasis Supplied)

9. In compliance with the above directions of the Hon'ble Securities Appellate Tribunal, SEBI has introduced a onetime settlement scheme called the SEBI Settlement Scheme, 2022, in terms of Regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 in the matter of Illiquid Stock Options. The said scheme proposes payment of Settlement Amount as per the details given below:





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S No	Number of Contracts*	Settlement Amount (Rs.)
1	1-5	1,00,000/-
2	6-50	2,00,000/-
3	51 and above	5,00,000/- base amount + 10,000 per contract

* You may refer to the relevant Annexure/table of the SCN which contains a summary of the contracts you entered to determine the applicable slab for settlement.

10. The period of the SEBI Settlement Scheme, 2022 will commence on August 22, 2022 and will close on November 21, 2022, so as to provide an opportunity for settlement to the entities who have executed reversal trades in the stock options segment of BSE during the period April 01, 2014 to September 30, 2015, against whom enforcement proceedings have been initiated and are pending. In case you wish to avail the benefit of the said Scheme, you may access the details of the said Scheme, which would be available on the website of SEBI i.e. www.sebi.gov.in, during the said period.
11. Necessary application for settlement may be filed within the validity period of the scheme and payment of the settlement amount shall be made online. Additionally, for any clarification in regard to settlement scheme, you may refer to the FAQs at SEBI website or send email to scheme2022@sebi.gov.in.
12. In case you do not wish to avail of the facility under the SEBI Settlement Scheme, 2022, the adjudication proceedings in respect of the allegations contained in Part A of the SCN shall resume. Accordingly, an inquiry shall be held against you in terms of Adjudication Rules read with section 15-I of the SEBI Act, and penalty, if any, shall be imposed under section 15HA of the SEBI Act. In such case, you are called upon to file your reply within 30 days of receipt of this Show Cause Notice.


Kshama Waghmare
ADJUDICATING OFFICER

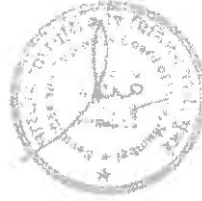




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- Enclosures: 1) Annexure 1 - Relevant Extract of Investigation Report
2) Annexure 2 - Copy of the communication appointing the
Adjudicating Officer
3) Annexure 3 - Details of all the reversal trades of the Noticee
4) Annexure 4 - Summary of reversal trades of the Noticee
5) Annexure 5 - Copy of SAT Judgment dated May 13, 2022





Investigation in the matter of trading activities of certain entities in Illiquid Stock Options (02 case)

- i. An Interim order dated August 20, 2015 (hereinafter referred to as "Interim order") (placed at Annexure 1) was passed by SEBI in the matter of Illiquid Stock Options restraining 59 entities from buying, selling or dealing in the securities markets, either directly or indirectly, in any manner, till further directions. Confirmatory orders dated July 30, 2016, August 22, 2016 and August 24, 2016 (hereinafter referred to as "Confirmatory order") (placed at Annexure 2) in this regard, were passed by SEBI confirming the directions issued vide aforementioned Interim order against all 59 entities.
- ii. After passing of Interim order, ISD forwarded the matter to IVD for necessary action.
- iii. Subsequent to passing of aforementioned Interim order against 59 entities, SEBI also passed an Interim order dated February 17, 2016 (placed at Annexure 3) against 22 trading members in the same matter of Illiquid Stock Options. However, the said order was set aside by Hon'ble SAT vide its orders dated February 25, 2016, March 04, 2016, March 09, 2016, March 14, 2016, March 15, 2016, March 18, 2016 and April 05, 2016 (placed at Annexure 4). Thereafter, SEBI challenged the aforesaid Hon'ble SAT order in the Hon'ble Supreme Court and Hon'ble Supreme Court vide its order dated July 01, 2016 (placed at Annexure 5) directed SEBI to pass another order after hearing the concerned entities and also directed that till SEBI decides the case pending before it, the order passed by SAT shall remain operative.
- iv. Thereafter, SEBI passed another order dated August 12, 2016 (placed at Annexure 6) in the matter of trading members in Illiquid Stock Options wherein it was mentioned that reversal transactions have diminished on BSE Stock Options segment pursuant to regulatory interventions and BSE had taken various corrective measures including discontinuation of weekly stock options contracts and introduction of Reversal Trade Prevention Check system for the equity derivatives segment. In the said order, no interim directions were issued against the 22 trading members and it was mentioned that a final view for appropriate action should be taken after completion of ongoing investigation in the matter. This matter is being dealt separately in "Investigation in the matter of certain Trading Members in Illiquid Stock Options". The present report deals with the trading activities of certain entities in Illiquid Stock Options.
- v. Pursuant to investigation by IVD, the following is noted:
 - i) The volume in the BSE's Stock Options segment increased significantly during the year 2011-12 when BSE introduced "Liquidity Enhancement Incentive Programme" (hereinafter referred to as "LEIPS") in its derivatives segment. (Page 13-14)
 - ii) During investigation, it is observed that majority of the volume that was generated in BSE's Stock Options segment during the I.P. was artificial volume that was generated by large scale execution of reversal trades / non-genuine trades (54.68% of total market volume) by large number of entities (14720 entities). However, this generation of artificial volume was not restricted to any specific contract or between any specific set of entities. This executing of reversal trades was a market wide phenomenon that existed in BSE's Stock Options segment during the I.P. (Page 7-13)
 - iii) The aforementioned execution of reversal trades on a large scale was noticed by SEBI's surveillance system and an Interim order dated August 20, 2015 was passed against 59 top entities that had contributed to artificial volume by executing reversal trades. (Page 2-4)
 - iv) After passing of Interim order & Confirmatory order by SEBI, BSE discontinued the LEIPS scheme from the Stock Options segment with effect from October 16, 2015 and

