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ADJUDICATING OFFICER

SEBI/HO/AFD-1/PoD/P/OW/2022/43295/1

12/08/2022

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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).



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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 columns **B, E/G, M, P** and **Z** respectively of 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:

S No	No. 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.



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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.

Sanjay Singh Bhati

ADJUDICATING OFFICER

- 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