BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

(ADJUDICATION ORDER NO: Order/AK/VV/2022-23/25245)

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:

RTG Share Broking Ltd

(PAN: AADCR9629L)

in the matter of Trading Members in Illiquid Stock Options

BACKGROUND OF THE CASE

1. An Interim Order Ref. No. WTM/RKA/ISD/106/2015 dated August 20, 2015 was passed by SEBI in the matter of Illiquid Stock Options restraining 59 entities (clients) from buying, selling or dealing in the securities market, either directly or indirectly, in any manner. Thereafter, Confirmatory orders dated July 30, 2016, August 22, 2016 and August 24, 2016 ("**Confirmatory orders**"), were passed in the matter, confirming the directions issued, vide aforementioned Interim Order, against all 59 entities.

2. The modus operandi that was identified in the Interim order and Confirmatory orders was that certain entities (clients) had continuously made profits and certain entities (clients) had continuously made losses by reversing their trades or executing reversal trades in various individual Stock Options contracts on BSE's Stock Options segment. In the Interim order, these reversal trades were also referred to as "non-genuine trades". Reversal trades executed by clients through broker have been classified as those trades in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day.

3. Subsequent to passing of aforementioned Interim order against 59 entities, SEBI passed another Interim Order Ref. No. WTM/RKA/ISD/25/2016 dated February 17, 2016 against 22 Trading Members (Brokers) in the same matter of Illiquid

Stock Options. However, the said order was set aside by the Hon’ble Securities Appellate Tribunal (“**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. Pursuant to appeal, in terms of order of Hon’ble Supreme Court dated July 01, 2016, SEBI passed order no. WTM/RKA/ISD/94/2016 dated August 12, 2016 in the matter stating, inter alia, that a final view for appropriate action be taken after completion of ongoing investigation in the matter.

4. Investigation was carried out in the instant matter for the period April 01, 2014 to September 30, 2015 (**“I.P.” / “Investigation Period”**), which is same as the examination period referred in the Interim Order dated February 17, 2016 in respect of Brokers in the matter of Illiquid Stock Options.

5. Trade data of BSE's Stock Options segment during the I.P. for the Illiquid Stock Options was analyzed to identify reversal trades. Pursuant to analysis it was observed that a total of 2,91,744 non-genuine trades were executed by 14,720 entities through 192 Brokers that resulted in reversal trades during the I.P. Trade data pertaining to the said 2,91,744 non-genuine trades formed the source data for the instant case against the Brokers.

6. In view of the above, SEBI initiated Adjudication Proceedings against **RTG Share Broking Ltd** (hereinafter referred to as “**Noticee”**) under Section 15HB of SEBI Act, 1992, for not exercising care and diligence in the conduct of its business while dealing with its clients in violation of Clauses A(2) of Code of Conduct for Stock Brokers mentioned under Schedule II read with Regulation 9 (f) of the SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as **“Broker Regulations”)**.

APPOINTMENT OF ADJUDICATING OFFICER

7. Upon being satisfied that the Noticee has violated the provisions of Clauses A(2) of Code of Conduct for Stock Brokers mentioned under Schedule II read with Regulation 9 (f) of the Broker Regulations, SEBI in exercise of powers under Section 19 read with sub-section (1) of Section 15-I of the SEBI Act and Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules,

1995 (hereinafter referred to as the "**Adjudication Rules**"), initiated adjudication to inquire and adjudge under Section 15-I read with Section 15HB of the SEBI Act, the alleged violation by the Noticee. Undersigned was appointed as Adjudicating Officer (AO), vide communique dated September 19, 2022.

SHOW CAUSE NOTICE, REPLY AND HEARING

8. A Show Cause Notice sent vide email dated December 12, 2022 (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 in terms of Adjudication Rules read with Section 15-I of the SEBI Act, and penalty, if any, should not be imposed on the Noticee under Section 15HB of the SEBI Act for the aforesaid alleged contraventions. The SCN was served through digitally signed email, which constitutes valid service as per Rule 7 of the Adjudication Rules. The SCN was duly delivered without bouncing back.

9. I also note that vide the said SCN, the Noticee was, interalia, informed about the SEBI Settlement Scheme for Stock Brokers, 2022 (hereinafter referred to as **"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 and further, it was conveyed that in case Noticee did not wish to avail of the facility under the Settlement Scheme, 2022, it could file reply to the SCN within 30 days of its receipt. The settlement window under Settlement Scheme, 2022 was closed on January 19, 2023. In this regard, as per available records, I note that Noticee has not availed the facility under the Settlement Scheme, 2022. Consequently, Adjudication proceedings were resumed in the instant matter.

10. Thereafter, vide Hearing Notice dated February 22, 2023, Noticee was granted opportunity of personal hearing on March 03, 2023. Shri Ripunjay Singh availed of the opportunity of personal hearing on March 03, 2023 via video conferencing, on behalf of the Noticee. During the course of hearing, Authorized Representative of the Noticee (AR) submitted the following:

- The operations of Noticee were closed.
- Director of the Noticee viz. Ms Rachna Chandan was busy due to personal reasons, and therefore, the Noticee could not look into the SCN issued in the instant matter.

Further, the AR sought additional time for making submissions in the matter. Acceding to the request, Noticee was granted time till March 13, 2023 to submit reply to the SCN, and also, was granted another opportunity of personal hearing on March 13, 2023.

11. Vide email dated March 13, 2023, Noticee submitted the following:
    - Noticee was not operational since a long time, and they did not have any business activity since 4 to 5 years. They do not have any employees either.
    - Ms Rachna Chandan was the only caretaker of the Noticee, who could not concentrate on the day to day operations of the Noticee since past 3-4 months due to personal reasons.
    - A request was made for allowing to settle the matter under Settlement Scheme, 2022.

12. Noticee availed of the opportunity of personal hearing on March 13, 2023. During the course of hearing, Ms Rachna Chandan, Director and Shri Ripunjay Singh reiterated the submissions made vide email dated March 13, 2023. Further, they requested for settlement of proceedings under the Settlement Scheme, 2022. They also requested for a lenient view to be taken in the matter, while imposition of penalty, if any. In this regard, it was informed that the Settlement Scheme, 2022 had been closed and the same could not be availed. Noticee did not make any submissions on merits in the matter.

CONSIDERATION OF ISSUES AND FINDINGS

13. The issues that arise for consideration in the instant matter are:

Issue No. I: Whether the Noticee has violated provisions of Clauses A(2) of Code of Conduct for Stock Brokers mentioned under Schedule II read with Regulation 9 (f) of the Broker Regulations?

Issue No. II: If yes, whether the violation, on the part of the Noticee would attract monetary penalty under Section 15HB of the SEBI Act?

Issue No. 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?

14. Before moving forward, it is pertinent to refer to the text of Clauses A (2) of Code of Conduct for Stock Brokers mentioned under Schedule II read with Regulation 9 (f) of the Broker Regulations, which reads as under:

Stock Brokers Regulations, 1992

Conditions of registration.

9. *Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely, -*

(f) he shall at all times abide by the Code of Conduct as specified in Schedule II; and

SCHEDULE II

CODE OF CONDUCT FOR STOCK BROKERS

[Regulation 9]

A. General.

(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.

15. I note that BSE had issued notice to all the Brokers casting an obligation upon them to, inter alia, monitor and report reversal of trades in derivatives segment. BSE notice no 20130307-21 (addressed to all the trading members) dated March 07, 2013 pertaining to "e-Boss", inter alia, indicated the list of alerts that would be generated by BSE which included reversal of trades in derivatives segment. Further, in terms of the aforesaid notice, every Broker was necessarily required to frame a surveillance policy, inter alia, covering suspicious/manipulative activity identification and reporting process.

16. The aforesaid BSE notice also casted obligation on the Broker to monitor and report alerts specifically mentioning the following:

"…..

The trading members are hereby further informed that the aforementioned transactional alerts are indicative in nature and the trading members can derive their own alerts in addition to the said transactional alerts as per their surveillance policy.

……

Monitoring and reporting:

1. For effective monitoring, Trading Member shall:

a. Frame a surveillance policy covering:

i….

ii….

iii. Suspicious / Manipulative activity identification and reporting process.

iv…..

b. The surveillance policy of the Trading Member shall be approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be.

c. A quarterly MIS shall be put up to the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of alerts pending at the beginning of the quarter, generated during the quarter, disposed off during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed and appropriate action taken. Also, the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) shall be apprised of any exception noticed during the disposition of alerts.

d. The surveillance process shall be conducted under overall supervision of its Compliance Officer.

e. Designated directors / partners / proprietor / Compliance Officer would be responsible for all surveillance activities carried out by the Trading Member and for the record maintenance and reporting of such activities.

2. Internal auditor of Trading Member shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of *audit. Internal auditor shall record the observations with respect to the same in their report."*

17. In terms of the aforesaid notice, all the Brokers are required to necessarily frame a surveillance policy so as to identify and report suspicious/manipulative activities. However, BSE, vide email dated November 06, 2020, submitted that no broker had reported any suspicious transactions to it being executed on Stock Options segment of BSE during I.P. Further, none of the Brokers generated any alerts or reported any reversal of trades executed by their respective clients. Thus, by not having system in place to identify repeated trade reversals which they were required to do as per the aforesaid notice of BSE, the brokers facilitated those clients in executing fraudulent transactions in the illiquid stock options of BSE, who transferred profits and losses to each other in a premeditated manner.

18. I note that upon analyzing the source data, the data was segregated based on scenarios so as to identify scenario-wise violations by a Broker. Scenarios in which the source data was segregated is as given below:

Summary of scenarios

Scenario	**Particulars**	**Count of Brokers**	**Total number of non-genuine trades (both client and counterparty client)**	**Cumulative non-genuine trades through Brokers after removing duplicates (same broker for both clients)**	**As a % of total transactions**
1	Same Broker for both clients on both legs of trade reversal	19	8,528	4,264	0.74
2	Different Broker for both clients on both legs of trade reversal	189	5,74,900	5,74,900	99.25
3	Trade reversals involving three Brokers	8	60	59	0.01
	Total	**192***	**5,83,488**	**5,79,223**	**100**

**Note – There are 3 unique brokers appearing in Scenario 1 and the remaining 16 brokers of Scenario 1 are overlapping with 189 unique brokers appearing in Scenario 2. Accordingly, total Brokers through whom 2,91,744 non-genuine trades have been executed is 3+189 = 192 brokers. Names of 8 brokers appearing in scenario 3 are overlapping with names appearing in either Scenario 1 or Scenario 2.*

19. I note that allegation against the Noticee is that it did not exercise due skill, care and diligence in the conduct of its business while dealing with its clients during the IP, that it had facilitated reversal trades which were allegedly non-genuine and the same had resulted in generation of artificial volume in stock option contracts at BSE. I further note that Reversal trades are the trades in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversal trades are alleged to be non-genuine trades as they are not executed in the normal course of trading, lack basic trading rationale, lead to false or misleading appearance of trading in terms of generation of artificial volumes and hence, are deceptive and manipulative.

20. I note from the trade data of the Noticee that during the I.P., the clients of the Noticee had engaged in 102 non-genuine reversal trades, resulting in artificial volume of 13,09,038 shares, wherein the position taken were reversed with the same counterparty on the same day, at a substantial price difference. The aforementioned non-genuine reversal trades by the clients of Noticee were falling in the Scenario 2 as described above i.e. different Brokers for both clients on both legs of trade reversal in respective illiquid stock option contract of BSE.

21. The same is illustrated through the dealings of one of the clients of the Noticee viz. Sanjeev Mittal, in the contract "IOBL15AUG34.00CE" executed on August 21, 2015 during the Investigation Period, mentioned as follows:

Sl. No.	Client Pan	Client Name	CP PAN	CP Client Name	Order Time	CP Order Time	Trade Time	Trade Rate	Traded Qty	Member Name	CP Member Name
1	ABLPM3417H	DEEPAKKUMAR SUBHASCHANDRA MEHTA	AAEHJ8387H	JATIN MAHENDRA SHAH HUF	14:19:11.150652	14:19:11.693880	14:19:11.693880	3.8	8000	RTG SHARE BROKING LTD.	SKUNG TRADELINK LTD
2	AAEHJ8387H	JATIN MAHENDRA SHAH HUF	ABLPM3417H	DEEPAKKUMAR SUBHASCHANDRA MEHTA	14:18:40.161006	14:18:39.311486	14:18:40.161006	2.45	8000	SKUNG TRADELINK LTD	RTG SHARE BROKING LTD.

Sl. No.	Client Pan	Client Name	CP PAN	CP Client Name	Order Time	CP Order Time	Trade Time	Trade Rate	Traded Qty	Member Name	CP Member Name
3	ABLPM3417H	DEEPAKKUMAR SUBHASCHANDRA MEHTA	AAEHJ8387H	JATIN MAHENDRA SHAH HUF	14:44:20.978211	14:44:21.956262	14:44:21.956262	3.7	24000	RTG SHARE BROKING LTD.	SKUNG TRADELINK LTD
4	AAEHJ8387H	JATIN MAHENDRA SHAH HUF	ABLPM3417H	DEEPAKKUMAR SUBHASCHANDRA MEHTA	14:44:00.789142	14:43:59.964242	14:44:00.789142	2.45	24000	SKUNG TRADELINK LTD	RTG SHARE BROKING LTD.

22. I note from the table above that trade reversals were executed between clients viz. Deepakkumar Subhaschandra Mehta and Jatin Mahendra Shah HUF through Brokers RTG Share Broking Ltd (Noticee) and Skung Tradelink Ltd respectively, resulting in execution of 4 non-genuine trades in the aforesaid contract. I further note that Reversal trades were executed by Deepakkumar Subhaschandra Mehta through the Noticee through same modus operandi on 2 instances on August 21, 2015, and in a similar manner, trade reversals were executed by Jatin Mahendra Shah HUF through Broker Skung Tradelink Ltd on 2 instances on the same day.

23. The non-genuineness of these transactions executed by the clients of the Noticee is evident from the fact that there was no commercial basis as to why, within a short span of time, the clients of the Noticee reversed the position with their counterparties with significant price differences.

24. I note that such reversal trades, involving identical quantities, with substantial differences in buy and sell rates, were executed in large numbers on Stock Options segment at BSE during the I.P.. However, Brokers, including the Noticee, failed to notice them right away or even later, as they lacked a system in place to identify such trade reversals.

25. I further note that even though the Brokers might not have been aware of the counterparty client or counterparty broker in a transaction, the fact that a certain amount transacted by clients was being reversed repeatedly within the same day

should have alerted the Brokers, including the Noticee. Therefore, I note that there is clear lapse on part of the Noticee.

26. Noticee has submitted that it was not operational since a long time, and had failed to avail the Settlement Scheme, 2022 as the Director was occupied due to personal reasons. Further, the Noticee requested for an opportunity to take part in the said scheme. In this regard, I note that SEBI had come up with the facility of the said Settlement Scheme, for 150 brokers, interalia, including the Noticee, in the matter of Illiquid Stock options. The period of said Settlement Scheme ended on January 19, 2023. Thereafter, as the Noticee had not availed of the facility under the said Settlement Scheme, the instant Adjudication proceedings in respect of the Noticee in the matter were resumed.

27. In conclusion, I note from perusal of the Noticee's trade data, that during the Investigation Period, the clients of the Noticee had executed 102 non genuine reversal trades, wherein the positions taken were reversed with the same counterparty on the same day, at a significant price difference.

28. In light of the aforementioned findings and illustrations, I note that Noticee had assisted its clients in performing manipulative reversal trades in the stock market, without having a mechanism in place to recognize the same. I note that Noticee failed to exercise reasonable care and diligence in the conduct of their business when dealing with their clients and failed to put the essential measures in place to detect and stop trade reversals in order to generate alerts.

29. In view of the above, I hold that Noticee has failed to exercise care and diligence in the conduct of business while dealing with its clients, resulting in violation of provisions of Clauses A(2) of Code of Conduct for Stock Brokers mentioned under Schedule II read with Regulation 9 (f) of the Brokers Regulations.

Issue II. Does the violation, if any, attract monetary penalty under Section 15HB of the SEBI Act?

30. In the light of findings and observations made against the Noticee brought out in the foregoing paragraphs, it is evident that the Noticee has violated provisions of Clauses A(2) of Code of Conduct for Stock Brokers mentioned under Schedule II read with Regulation 9 (f) of the Brokers Regulations.

31. I find from the material available on record that the Noticee has failed in performing its duties as a registered stock broker and also failed to adhere to high standards of service to its clients by not exercising due skill, care and diligence in the conduct of all his business. The above violation makes the Noticee liable for monetary penalty under the provisions of Section 15HB of the SEBI Act.

32. The contents of Section 15HB of the SEBI Act are reproduced herein below:

> ***SEBI Act, 1992***
>
> ***Penalty for contravention where no separate penalty has been provided.***
>
> ***15HB.*** *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees*

Issue III. If so, 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?

33. While determining the quantum of penalty, it is important to consider the factors stipulated in Section 15J of the SEBI Act, which read as under: -

<u>SEBI Act, 1992</u>

Factors to be taken into account while adjudging quantum of penalty

15J *While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely :—*

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

34. In the present matter, I note that no quantifiable figures are available to assess the disproportionate gain or unfair advantage made as a result of such default by the Noticee. With respect to the repetitive nature of the default, I find that there is nothing on record to indicate any past violations committed by the Noticee. Further from the material available on record, it may not be possible to ascertain the exact monetary loss to the investors on account of non-compliance of SEBI regulations by the Noticee. However, the investigation findings do bring out the number of trades and illiquid stock options contracts in which such trades were executed by the clients of the Noticee, wherein the Noticee had not been complying with the requirements of SEBI regulations.

ORDER

35. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15-I(2) of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of ₹5,00,000/- (Rupees Five Lakhs only) upon the Noticee i.e., RTG Share Broking Ltd, under Section 15HB of the SEBI Act.

36. The said penalty imposed on the Noticee, as mentioned above, is commensurate with the violations committed by the Noticee and acts as a deterrent factor for the Noticee and others in protecting the interest of investors.

37. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT → ORDERS → ORDERS OF AO → PAY NOW

38. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under Section 28A of the SEBI Act for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

39. In terms of Rule 6 of the Adjudication Rules, copy of this order is being sent to the Noticee and also to SEBI.

Place: Mumbai	**AMIT KAPOOR**
Date: March 31, 2023	**ADJUDICATING OFFICER**