BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

(ADJUDICATION ORDER NO: Order/AK/AS/2022-23/25190)

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:

Greenbucks Securities Pvt Ltd

(PAN: AADCG6149A)

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 **Greenbucks Securities Pvt 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(1), (2), (3) and (4) 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(1), (2), (3) and (4) 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 dated December 05, 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 Satveer Singh, Director of the Noticee, availed of the opportunity of personal hearing on March 03, 2023

via video conferencing. Pursuant to the hearing, Noticee submitted the following vide email dated March 03, 2023:

"With reference to the subjected matter, I wish to inform you that I have attended the show cause notice via ZOOM meeting in the capacity of Director - Greenbucks Securities Pvt. Ltd. It was negligence on our part that we overlooked the settlement letter sent by your good offices earlier.
We now request you to kindly treat us with leniency for which we shall forever remain grateful to you."

CONSIDERATION OF ISSUES AND FINDINGS

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

Issue No. I: Whether the Noticee has violated provisions of Clauses A(1), (2), (3) and (4) 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?

12. Before moving forward, it is pertinent to refer to the text of Clauses A(1), (2), (3) and (4) 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.

(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

(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.

(3) Manipulation: A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) Malpractices: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stockbroker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

13. 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.

14. 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."

15. 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.

16. 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.*

17. 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.

18. I note from the trade data of the Noticee that during the I.P., the clients of the Noticee had engaged in 94 non-genuine reversal trades in 17 unique contracts, resulting in artificial volume of 6,16,750 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.

19. The same is illustrated through the dealings of one of the clients of the Noticee viz. Sanjeev Mittal, in the contract “ADEL15MAR720.00CEW2” executed on February 26, 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	AAIPM7332D	SANJEEV MITTAL	AAMFB8544J	BHARAT POWER INC	10:40:57.119539	10:40:47.333762	10:40:57.119539	17.3	500	GREENBUCKS SECURITIES PVT.LTD	VISHWAS FINCAP SERVICES PVT.LTD.
2	AAMFB8544J	BHARAT POWER INC	AAIPM7332D	SANJEEV MITTAL	10:50:08.745772	10:50:09.504278	10:50:09.504278	1.45	500	VISHWAS FINCAP SERVICES PVT.LTD.	GREENBUCKS SECURITIES PVT.LTD
3	AAMFB8544J	BHARAT POWER INC	AAIPM7332D	SANJEEV MITTAL	10:53:59.688218	10:54:00.369005	10:54:00.369005	1.85	500		
4	AAIPM7332D	SANJEEV MITTAL	AAMFB8544J	BHARAT POWER INC	10:42:02.438872	10:41:41.225380	10:42:02.438872	17.3	500	GREENBUCKS SECURITIES PVT.LTD	VISHWAS FINCAP SERVICES PVT.LTD.

20. I note from the table above that trade reversals were executed between clients viz. Sanjeev Mittal and Bharat Power Inc through Brokers Greenbucks Securities Pvt Ltd (Noticee) and Vishwas Fincap Services Pvt Ltd respectively, resulting in

execution of 4 non-genuine trades in the aforesaid contract. I further note that Reversal trades were executed by Bharat Power Inc through Broker Vishwas Fincap Services Pvt Ltd through same modus operandi on 2 instances on February 26, 2015, and in a similar manner, trade reversals were executed by Sanjeev Mittal through Noticee on 2 instances on the same day.

21. 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.

22. 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.

23. 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.

24. In conclusion, I note from perusal of the Noticee's trade data, that during the Investigation Period, the clients of the Noticee had executed 94 non genuine reversal trades in 17 different contracts, wherein the positions taken were reversed with the same counterparty on the same day, at a significant price difference.

25. 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.

26. 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(1), (2), (3) and (4) 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?

27. 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(1), (2), (3) and (4) of Code of Conduct for Stock Brokers mentioned under Schedule II read with Regulation 9 (f) of the Brokers Regulations.

28. 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.

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

<u>SEBI Act, 1992</u>

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?

30. 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: -

    SEBI Act, 1992

    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.

31. 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. However, I note that AO Order Ref no SS/AS/2019-20/4964 dated October 16, 2019 was passed against the Noticee in the matter of Illiquid Stock Options, dealing as a client. 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

32. 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., Greenbucks Securities Pvt Ltd, under Section 15HB of the SEBI Act.

33. 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.

34. 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

35. 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.

36. 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**