

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/SM/S./2023-24/26594]

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

In respect of –

RELYBULLS STOCK BROKING PVT. LTD.

[PAN: AAPCS3322M]

In the matter of Illiquid Stock Options at BSE.

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as, “**SEBI**”) had examined trading in illiquid stock options at BSE for possible violation of the provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as, “**SEBI Act**”) and various Rules and Regulation made thereunder.
2. An Interim Order No. WTM/RKA/ISD/106/2015 dated August 20, 2015 (‘Interim Order’) was passed by SEBI in the matter of Illiquid Stock Options restraining 59 persons/entities from buying, selling or dealing in the securities market, either directly or indirectly, in any manner, till further directions. Confirmatory Orders dated July 30, 2016, August 22, 2016 and August 24, 2016 (collectively "Confirmatory Orders" in short) in this regard, were passed by SEBI confirming the directions issued vide the Interim Order against all 59 persons/entities.

3. 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 brokers had been classified as those trades in which an entity (client) reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day.
4. Subsequent to passing of aforementioned Interim Order against 59 persons /entities, SEBI passed an Interim Order 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 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 filed by SEBI against the aforesaid orders of Hon'ble SAT, the Hon'ble Supreme Court, vide its order dated July 1, 2016, *inter-alia* directed as under:
"Looking at the facts of the case, we are of the view that the respondents should give reply to the show cause notice, which had been issued to them by the SEBI by virtue of order dated 17th February, 2016, within two weeks from today. Upon getting the reply, within four weeks thereafter the SEBI shall decide the matter finally after giving a hearing to the parties, to whom the show cause notice had been given by the SEBI In view of the above order, we dispose of these appeals. It is clarified that the SEBI shall pass an order after hearing the concerned parties and without being influenced by any observation made by the SAT. Looking at the facts of the case, the

order passed by the SAT shall operate till the SEBI decides the case pending before it.”

5. Subsequently, SEBI passed order no. WTM/RKA/ISD/94/2016 dated August 12, 2016 in the matter *inter alia* stating that a final view for appropriate action be taken after completion of ongoing investigation in the matter.
6. Pursuant to investigation for the period April 01, 2014 – September 30, 2015 (hereinafter referred to as “**IP/ Investigation Period**”), it was observed that during the investigation period, a total of 2,91,744 trades comprising 81.40% of all the trades executed in BSE Stock Options Segment were trades which involved reversal of buy and sell positions by the clients and counterparties in contracts through 192 Brokers. The reversal trades involved squaring off transactions, but with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly led to generation of artificial volumes. It was observed that brokers including Relybulls Stock Broking Pvt. Ltd. (hereinafter referred to as “**Noticee**”) had failed to identify and generate alerts regarding the said reversal trades and thereby it was alleged that the said brokers including the Noticee had contravened the Schedule II A (2) of Code of Conduct for Stock Brokers r/w Regulation 9 (f) of the SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as “**Broker Regulations**”).
7. Subsequently, SEBI initiated adjudication proceedings against Noticee under Section 15HB of SEBI Act, for allegedly not exercising due skill, care and diligence in the conduct of its business while dealing with its clients in violation of Schedule II A (2) of Code of Conduct for Stock Brokers r/w Regulation 9 (f) of the Broker Regulations.

APPOINTMENT OF ADJUDICATING OFFICER

8. Vide order dated August 13, 2021, SEBI appointed the undersigned as Adjudicating Officer (**AO**) under Section 15-I read with Section 19 of SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**') to inquire into and adjudge under Section 15HB of the SEBI Act, the aforesaid alleged violations by Noticee. The appointment of the AO was communicated vide communique dated September 17, 2021.

SHOW CAUSE NOTICE, REPLY AND HEARING

9. A show-cause notice dated July 14, 2022 (hereinafter referred to as '**SCN**') was issued to Noticee under Rule 4(1) of the Adjudication Rules to show-cause as to why, an inquiry should not be initiated against Noticee and penalty, if any, should not be imposed upon it under the provision of Section 15HB of SEBI Act for the aforesaid violation alleged to have been committed by it.
10. The allegations levelled against Noticee in the SCN are briefly stated as under:
"BSE had issued notice to all the Trading Members (brokers) casting an obligation on the broker 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 will be generated by BSE which includes 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.

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However, as informed by BSE vide email dated November 06, 2020, no broker had reported any suspicious transactions to exchange being executed on Stock Options segment of BSE during I.P. None of the brokers generated any alerts or reported any reversal of trades executed by their respective clients.

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Analysis of Source Data

On analysing 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:

Table 2: 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.

In the instant proceedings, based on the analysis Scenario 2 is applicable, which is detailed below through illustrations:

Scenario 2: Different Broker for both clients on both legs of trade reversal

As an illustration, in the instant scenario, two clients execute reversal trade through two different Brokers. For the sake of clarity, a contract is shortlisted (i.e. "JPPW15JAN10.00CEW1") and trades that were executed in this contract on January 01, 2015 is shown below:

Table 3

SL N O.	CLIENT PAN	CLIENT NAME	CP PAN	CP CLIENT NAME	ORDER TIME	CP ORDER TIME	TRADE TIME	TRA DE RATE	TRA DED QTY	MEMBE R NAME	CP MEMBER NAME
1	AAGFC 5601H	Chanakya a Broking Compan y	BSUPS 7339K	Vitrag R Sheth	11:40:42	11:40:42	11:40:42	1.2	9000 0	Skung Tradelink Ltd	Prudent Broking Services Pvt.Ltd.
2	BSUPS 7339K	Vitrag R Sheth	AAGFC 5601H	Chanakya a Broking Company	11:41:03	11:41:03	11:41:03	2.8	9000 0	Prudent Broking Services Pvt.Ltd.	Skung Tradelink Ltd
3	AAGFC 5601H	Chanakya a Broking Compan y	BSUPS 7339K	Vitrag R Sheth	11:42:48	11:42:48	11:42:48	1.3	9000 0	Skung Tradelink Ltd	Prudent Broking Services Pvt.Ltd.
4	BSUPS 7339K	Vitrag R Sheth	AAGFC 5601H	Chanakya a Broking Company	11:43:15	11:43:14	11:43:15	2.8	9000 0	Prudent Broking Services Pvt.Ltd.	Skung Tradelink Ltd
5	AAGFC 5601H	Chanakya a Broking Compan y	BSUPS 7339K	Vitrag R Sheth	11:43:54	11:43:54	11:43:54	1.3	1500 0	Skung Tradelink Ltd	Prudent Broking Services Pvt.Ltd.
6	BSUPS 7339K	Vitrag R Sheth	AAGFC 5601H	Chanakya a Broking Company	11:44:17	11:44:17	11:44:17	2.8	1500 0	Prudent Broking Services Pvt.Ltd.	Skung Tradelink Ltd

It is observed from the above table that:

- a. In total 6 trades were executed in the contract "JPPW15JAN10.00CEW1" on January 01, 2015. Trade reversals are executed between clients Chanakya Broking Company and Vitrag R*

Sheth through Brokers Skung Tradelink Ltd and Prudent Broking Services Pvt. Ltd. respectively.

- b. Total number of non-genuine trades that were executed in the contract "JPPW15JAN10.00CEW1" were 6 (trades shown at S. No. 1 to 6 at Table above) and total artificial volume generated through such non genuine trades was 3,90,000 units.*
- c. The Broker-wise contribution to number of non-genuine trades and artificial volume in the above contract is as shown below:*

Table 4

S. No.	Entity Name	Artificial volume through non genuine trades	Number of Non genuine trades
1	Skung Tradelink Ltd	3,90,000	6
2	Prudent Broking Services Pvt. Ltd.	3,90,000	6
Total		7,80,000	12

In the above illustration, trade reversals were executed by Chanakya Broking Company through Broker Skung Tradelink Ltd through same modus operandi on 3 instances on a same day. In a similar manner, Trade reversals were executed by Vitrag R Sheth through Broker Prudent Broking Services Pvt. Ltd. on 3 instances on a same day. Despite the repeated reversals of identical quantity and with more than 100% difference in price in less than a minute, the brokers through whom such transactions went through failed to notice them immediately or even much after the said transactions as they did not have any system in place to identify trade reversals. Though the broker may not know the counterparty client or counterparty broker in a transaction, however, the fact that certain quantity transacted by his client is getting reversed within the same day in a repeated manner should have alerted the brokers concerned.

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It was observed that since Skung Tradelink Ltd and Prudent Broking Services Pvt. Ltd. did not take necessary steps to generate alerts by putting a system in place to detect and curb reversal of trades, both Skung Tradelink Ltd and Prudent Broking Services Pvt. Ltd. failed to exercise care and diligence in the conduct of business while dealing with its respective clients.

Upon analysing all the 5,74,900 non-genuine trades in Scenario 2, it was observed that there were 189 unique brokers through whom clients had executed trade reversals. On further analysis, it was observed that there were 14,333 clients who had executed trade reversals in various combinations among each other.

While repeated transactions of at least 4 (2 cycles of reversal), it was observed that there are 5,316 unique set of PAN numbers who have executed repeated reversals with at least 4 transactions or more through 125 different Brokers. The Noticee was one of the 125 brokers.

S. No.	Name of Broker	S. No.	Name of Broker
115		116	SUMPOORNA PORTFOLIO LTD
117	...	118	RELYBULLS STOCK BROKING PVT. LTD. (Noticee)
119	...	120	SUNSTAR SECURITIES

*Hence, ... **it is alleged that the** Noticee, being one of the aforementioned 125 brokers **failed to exercise care and diligence in the conduct of business while dealing with its clients and therefore not in compliance with Schedule II A (2) of the Code of Conduct for Stock Brokers r/w regulation 9 (f) of the SEBI (Stock Brokers) Regulations, 1992.***

11. The SCN with reference no. SEBI/HO/EAD10/SM/AD/28874/1/2022 dated July 14, 2022 was served on the Noticee via digitally signed email dated July 18, 2022. The proof of service is on record.

12. Thereafter, vide email dated July 25, 2022, Noticee informed that its registered office address had changed and requested for another copy of the SCN on its new registered office address. Thereafter another copy of the SCN was served on the Noticee vide letter dated July 27, 2022. Thereafter, vide email dated August 09, 2022, Noticee requested for time till November 15, 2022 for furnishing its reply. Vide SEBI's email dated August 19, 2022, Noticee was advised to file its reply on or before September 05, 2022. Subsequently Noticee submitted its reply to the SCN vide email dated August 31, 2022.
13. Thereafter, vide Supplementary SCN ("**SSCN**") dated November 28, 2022, Noticee was informed regarding SEBI settlement scheme for Stock Brokers, 2022 framed by SEBI (hereinafter referred to as "**SEBI Settlement Scheme**") in the matter of Illiquid Stock Options. The intimation regarding settlement scheme given to the Noticee SCN is reproduced herein below:

"SEBI has framed the SEBI Settlement Scheme for Stock Brokers, 2022 in terms of Regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 whereby SEBI has introduced a onetime opportunity of settlement to all the Stock Brokers through whom trade reversals were executed by various clients/proprietary trades executed by the Stock Brokers in the Illiquid Stock Options segment of BSE during the period of April 1, 2014 to September 30, 2015 and against whom enforcement proceedings have been approved or initiated and are pending. The said scheme proposes payment of Settlement Amount as per the details given below:

- i. Settlement amount with respect to Stock Brokers through whom repeated reversals were executed by clients and the Stock Broker did not have a system in place to identify such repeated reversals*

resulting in violation of Code of Conduct for Stock Brokers of SEBI (Stock Brokers) Regulations, 1992:

SI No	Sum of all the repeated trade reversal transactions executed by clients	Settlement Amount (Rs.)
1	Upto 1000	1,00,000
2	1001-10000	2,00,000
3	10001 and above	5,00,000

- ii. *Settlement amount with respect to Stock Brokers who did not have a system in place to identify trade reversals executed through their proprietary accounts resulting in violation of Code of Conduct for Stock Brokers of SEBI (Stock Brokers) Regulations, 1992:*

SI No	Settlement Amount (Rs.)
1	1,00,000

- iii. *Additional Settlement amount with respect to Stock Brokers who failed to take any remedial measure despite having received alerts from BSE resulting in violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003:*

SI No	Settlement Amount (Rs.)
1	5,00,000

The Settlement amount applicable to you under the Settlement Scheme for Stock Brokers, 2022 is as under:

Name	PAN number	Director 1	PAN number	Director 2	PAN Number	Alerts generated by BSE (A)	Trades executed through proprietary accounts (B)	Sum of all repeated trade reversal transactions executed by clients through the broker	Execution of repeated reversals by clients (C)	Settlement amount for A	Settlement Amount for B or C or (B and C) (in Rs.)	Total Settlement Amount (in Rs.)
RELYBULLS STOCK BROKING PVT. LTD.	AAPCS3322M					No	No	29	Yes	-	1,00,000	1,00,000

*The period of the Settlement Scheme for Stock Brokers, 2022 will commence on **December 19, 2022** and will close on **January 19, 2023**, so as to provide an opportunity for settlement to the eligible stock brokers. 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.*

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 SS2022@sebi.gov.in.

In case you do not wish to avail of the facility under the SEBI Settlement Scheme for Stock Brokers, 2022, the adjudication proceedings initiated vide SCN shall stand automatically revived and the proceedings shall continue, from the stage at which the said proceedings were kept pending. In such case, you are advised to file your reply within 14 days of receipt of this Intimation, if not filed earlier.”

14. The aforesaid SSCN dated November 28, 2022 was sent and duly served to the Noticee through SPAD and email dated November 30, 2022. The aforesaid settlement scheme had commenced on December 19, 2022 and ended on January 19, 2023. However, it is noted that Noticee has not

availed the onetime opportunity of settlement provided by SEBI to stock brokers.

15. In view of the above, vide Hearing Notice dated April 17, 2023, Noticee was granted an opportunity of personal hearing on April 24, 2023. The aforesaid Hearing Notice was duly served on the Noticee through SPAD and Digitally Signed email dated April 17, 2023. The Noticee appeared for the hearing held on April 24, 2023 and reiterated their submissions made in their reply vide email dated August 31, 2022.

16. The submissions by Noticee are reproduced as under:

“

1. ... we had tried our level best to find out from your letter that what information you're seeking from us.

2. As far as we understand that we had executed a trade of eight parties as mentioned in your letter and we are attached herewith our trade log for your information.”

CONSIDERATION OF ISSUES AND FINDINGS

17. The issues that arise for consideration in the present case are:

Issue No.1 Whether Noticee has violated Schedule II A (2) of Code of Conduct for Stock Brokers read with Regulation 9(f) of the Broker Regulations?

Issue No.2 Does the violation, if any, attract monetary penalty under Section 15HB of SEBI Act?

Issue No.3 If the answer to issue no. 2 is in affirmative, then what should be the quantum of monetary penalty?

18. Before proceeding, it is pertinent to refer to the relevant provision of the Broker Regulations which was in force at the time of impugned transactions, which are reproduced as under.

Relevant provisions of Broker Regulations:

Conditions of registration

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

SCHEDULE II

CODE OF CONDUCT FOR STOCK BROKERS

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*

Issue No. 1- Whether Noticee has violated Schedule II A (2) of Code of Conduct for Stock Brokers read with Regulation 9(f) of the Broker Regulations?

19. It has been alleged in the SCN that Noticee had failed to exercise due skill, care and diligence in the conduct of its business in relation to reversal trades in the illiquid stock options executed by its clients and thereby allegedly violated the provisions of Schedule II Clauses A (2) of Code of Conduct for Stock Brokers read with Regulation 9(f) of the Broker Regulations.
20. I note that BSE circular vide 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 will be generated by BSE which includes reversal of trades in derivatives segment. Thus, I note that BSE had issued a notice to all the brokers who were Trading Members at BSE, casting upon them an obligation to, *inter alia*, monitor and report 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.

21. From a perusal of the BSE trade log, I find that Noticee was the broker for 3 clients in 58 reversal trades executed by them in 4 contracts on March 24, 2015 and March 25, 2015 wherein Noticee's clients executed buy and sell trades in which they reversed their positions with the same counterparties within a short period of time and there was significant variation in the buy and sell price of the aforesaid trades.

22. The trades executed by the Noticee's clients is illustrated through the dealings of the Noticee for one of the clients in the contract viz, "NTPC15MAR175.00CE" executed on March 24, 2015, during the Investigation Period which is stated as under:

Sr No	Client Pan	Client Name	CP Pan	CP Name	Trade Time	Order Time	CP Order Time	Trade Rate (In Rs.)	Traded Qty	Member Name	CP Member Name
1	AAACW 3125H	WINSHER COMMERCIAL PRIVATE LIMITED	AAIHA 2177C	AJAY KUMAR DAGA HUF	13:53:05.89	13:53:05.89	13:45:20.21	1.65	80000	RELYBULLS STOCK BROKING PVT. LTD	SARA SECURITIES PVT. LTD.
2	AAACW 3125H	WINSHER COMMERCIAL PRIVATE LIMITED	AAIHA 2177C	AJAY KUMAR DAGA HUF	13:53:05.89	13:53:05.89	13:45:32.70	1.6	80000	RELYBULLS STOCK BROKING PVT. LTD	SARA SECURITIES PVT. LTD.
3	AAACW 3125H	WINSHER COMMERCIAL PRIVATE LIMITED	AAIHA 2177C	AJAY KUMAR DAGA HUF	13:53:05.89	13:53:05.89	13:36:21.47	1	2000	RELYBULLS STOCK BROKING PVT. LTD	SARA SECURITIES PVT. LTD.
4	AAIHA 2177C	AJAY KUMAR DAGA HUF	AAACW 3125H	WINSHER COMMERCIAL PRIVATE LIMITED	14:07:14.89	14:07:14.89	14:00:27.35	0.05	62000	SARA SECURITIES PVT. LTD.	RELYBULLS STOCK BROKING PVT. LTD

5	AAIHA 2177C	AJAY KUMAR DAGA HUF	AAACW 3125H	WINSH ER COMM ERCIAL PRIVAT E LIMITE D	14:04:04.11	14:04:04.11	14:00:27.3 5	0.05	10000 0	SARA SECURITIE S PVT. LTD.	RELYBULL S STOCK BROKING PVT. LTD
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23. It is seen that in Stock option contract “NTPC15MAR175.00CE” on March 24, 2015, at 13:53:05.89 hrs Noticee’s client executed 3 buy trades for 1,62,000 units at the average buy rate of Rs 1.65/- per unit with counterparty viz. AJAY KUMAR DAGA HUF. Thereafter, at 14:04:04.11 and 14:07:14.89 hrs i.e., 11 minutes to 14 minutes from the aforementioned buy trades, the Noticee’s client executed 2 sell trades for 1,62,000 units at the average sell rate of Rs. 0.05/- per unit, in the said contract with the same counterparty. The aforesaid reversal trades were executed within 15 minutes to 24 minutes of each other, thus generating volume to the extent of 3,24,000 units in the said contract which was 65.32% of the total market volume in the said contract during the IP.
24. I note that buy order and sell order for 3,24,000 units in the NTPC15MAR175.00CE contract were placed within a short time gap of within 4 minutes to 17 minutes of each other. I also note that there was wide variation in the buy and sell prices of the reversal trades i.e. 1,62,000 units were bought at an average buy rate of Rs 1.65/- per unit at 13:53:05.89 hrs; and then 1,62,000 units were sold at an average sell rate of Rs. 0.05/- per unit at 14:04:04.11 and 14:07:14.89 hrs within 11 minutes to 14 minutes from the said buy trades, without there being any significant movement in the price of the underlying scrip in the cash segment.
25. Thus, I note from the above table that trade reversals were executed between Noticee’s client, Winsher Commercial Private Limited and its counterparty, named Ajay Kumar Daga HUF through the Noticee, Relybulls

Stock Broking Pvt. Ltd. and counterparty broker, Sara Securities Pvt. Ltd., respectively (indicating 5 trades that were executed in the aforesaid contract on the same day).

26. I note from the trade log and order log that there were only 10 trades executed in the NTPC15MAR175.00CE a total trading volume of 4,96,000 units on one day during the IP. Thus, I note that there was minimal trading activity in the aforesaid stock options contracts traded by the Noticee's clients. Therefore, I note from the number of trades and trading volume in the stock option contracts traded by Noticee's clients that these contracts were illiquid in nature.
27. A perusal of the BSE trade log shows the contribution of Noticee's clients to the number of reversal trades during the IP, as shown below:

S.No.	Trading Member Name	Total traded quantity/ Total volume generated in reversal trades through the Trading Member	Number of clients	Number of Contracts	Number of reversal trades (buy trades + sell trades)
1.	RELYBULLS STOCK BROKING PVT. LTD.	27,72,000	3	4	58

28. In view of the aforesaid, I note that Noticee acted as a broker for 3 clients in 58 reversal trades for 27,72,000 units in 4 illiquid stock options contracts, wherein Noticee's clients reversed their positions with the same counterparties within a short period of time with a significant variation in their buy and sell price for the aforesaid trades in the said illiquid stock options contracts.
29. I note that in terms of the BSE circular vide notice no. 20130307-21 dated March 07, 2013 mentioned in the preceding paragraph, all the Brokers are

required to frame a surveillance policy and implement a system to identify and report reversal trades as well as suspicious trades to BSE.

30. However, BSE, vide email dated November 06, 2020, submitted to SEBI that no broker, including the Noticee, had reported to BSE any reversal or suspicious trades being executed on Stock Options segment of BSE during the IP.
31. I further note that 58 non-genuine reversal trades in 4 different contracts were executed through the Noticee, wherein the positions taken were reversed with the same counterparty on the same day, at a significant price difference. Therefore, I note that though there were multiple instances of such reversal trades on the same day in the illiquid stock options contracts traded by its clients, the Noticee failed to generate any alerts regarding them and failed to report them to BSE as the Noticee did not implement a system to identify and generate alerts in response to trade reversals by its clients.
32. In terms of Regulation 9(f) of Broker Regulations read with Code of Conduct as specified in Schedule II, a stock broker is obligated to act with due skill, care and diligence and abide by various provisions of the SEBI Act and rules and regulations framed by SEBI and the stock exchange from time to time. Thus, Noticee was under an obligation to abide by the BSE circular vide notice no. 20130307-21 dated March 07, 2013 as part of diligent conduct of its business by implementing a system for identification and generation of alerts regarding reversal trades and suspicious trades executed by its clients and reporting the said trades to BSE. However, I find that by failing to identify and generate alerts in respect of reversal of trades by its clients and by failing to frame a surveillance mechanism to identify and generate alerts of suspicious activity by its clients and reporting such trades to BSE, the Noticee had failed to abide by the aforesaid BSE circular and thereby, failed to exercise due skill, care and diligence in the conduct of its business

in relation to the trades executed by its clients in illiquid stock options on the BSE platform.

33. In its reply vide email dated August 31, 2022, Noticee has merely stated that it had executed trades for eight parties in illiquid stock options segment as mentioned in the SCN. Noticee has also furnished a copy of the trade log of all eight clients. I note that the allegations made in the SCN against the Noticee pertain to the reversal trades executed on behalf of 3 of its clients. Apart from merely stating that it had executed trades for eight parties in the illiquid stock options segment, Noticee has not made any other submissions in respect of the specific allegations in the SCN. Therefore, I am of the view that Noticee has admitted to the allegations made in the SCN.
34. I further note that an Adjudicating Order (Adjudication Order No. EAD-9/AO/SM/13/2019-20) dated May 23, 2019 was passed against the Noticee's client, Winsher Commercial Private Limited (AAACW3125H) imposing a penalty of Rs. 5,00,000/- on it under Section 15HA of SEBI Act for violation of Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations in respect of the reversal trades in illiquid stock options executed by the said client of the Noticee at BSE.
35. In view of the foregoing, I conclude that the charge that Noticee has failed to exercise care and diligence in the conduct of business while dealing with its clients and thereby, has violated the provisions of Clause A (2) of the Code of Conduct for Stock Brokers under Schedule II read with Regulation 9 (f) of the Brokers Regulations, stands established.

Issue II If yes, whether the failure, on the part of the Noticees would attract monetary penalty under Section 15HB of the SEBI Act?

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Issue 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?

36. It has been established in the foregoing paragraphs that the Noticee has violated Clause A (2) of the Code of Conduct for Stock Brokers under Schedule II read with Regulation 9 (f) of the Brokers Regulations. In the context of the above, I refer to the observations of Hon'ble Supreme Court in the matter of Chairman, SEBI vs. Shriram Mutual Fund [2006] 5 SCC 361} wherein the Hon'ble Court had held that: *"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established....."*
37. Therefore, in view of the foregoing findings and placing reliance on the above judgment of Hon'ble Supreme Court, I find that the Noticee is liable for monetary penalty under Section 15HB of SEBI Act, which is reproduced as follows:

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.*

38. While determining the quantum of penalty under Section 15HB of SEBI Act, the following factors stipulated in Section 15J of the SEBI Act have to be given due regard:
- 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.*

39. As established above, the material available on record shows that the Noticee has failed to exercise due skill, care and diligence in the conduct of its business. I observe that the material available on record does not quantify any disproportionate gains or unfair advantage, if any, made by the Noticee and the losses, if any, suffered by the investors due to such violations on the part of the Noticee. As regards the repetitive nature of the default, I do not find from material available on record any regulatory action taken by SEBI in past against the Noticee for similar violations. However, it is pertinent to note that the broker is the first point of contact for the majority of investors. In this regard, the role of a Broker is crucial as a facilitator of investors into the securities market. So, it is of utmost importance that every Broker abides by the relevant regulations, provisions of SEBI/ Stock Exchange circulars and various guidelines issued by SEBI/ Stock Exchanges. I cannot ignore the fact that the Noticee was under a statutory obligation to abide by the provisions of the SEBI Act, rules and regulations and circulars / directions issued thereunder, which it failed to do during the investigation period. The violations on the part of the Noticee as brought out in the preceding paragraphs clearly show that it has failed to exercise due care and diligence in the conduct of its business while dealing with the clients.

ORDER

40. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in section 15J of the SEBI Act and in exercise of power conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Adjudication Rules, 1995, I hereby impose a

penalty of Rs. 1,00,000/- (Rupees One Lakh only) on Noticee i.e. Relybulls Stock Broking Pvt. Ltd. under Section 15HB of the SEBI Act.

41. 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 SEBI website www.sebi.gov.in on the following path, by clicking on the payment link-

ENFORCEMENT → Orders → Orders of AO → PAY NOW

42. The Noticee shall forward the confirmation of penalty so paid to the Enforcement Department –Division of Regulatory Action –I of SEBI.
43. The Noticee shall provide the following details while forwarding confirmation of e-payment in the following format:
- a) Name and PAN of the entity (Noticee)
 - b) Name of the case / matter
 - c) Purpose of Payment –Payment of penalty under AO proceedings
 - d) Bank Name and Account Number
 - e) Transaction Number
44. In case of any difficulties in payment of penalties, Noticee may contact the support at portalhelp@sebi.gov.in.
45. 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 of Noticee.

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

DATE: May 23, 2023

PLACE: MUMBAI

SOMA MAJUMDER

ADJUDICATING OFFICER