BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. ORDER/JS/RJ/2025-26/31807]

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
Modex International Securities Limited
PAN: AAACM2105K

In the matter of Trading Members in Illiquid Stock Options

FACTS OF THE CASE IN BRIEF

1. As part of ongoing surveillance, Securities and Exchange Board of India (‘**SEBI**’) came across instances/internal alerts wherein a set of entities were executing reversal trades in options on individual stocks (hereinafter referred to as ‘**stock options’**) in Equity Derivative Segment of BSE Ltd. (hereinafter referred to as ‘**BSE’**). Accordingly, examination of trading in stock options segment was conducted for the period April 1, 2014 to March 31, 2015. Pursuant thereto, an *ex-parte ad interim* Order No. WTM/RKA/ISD/106/2015 dated August 20, 2015 (hereinafter referred to as ‘**Interim Order**’) was passed by SEBI in the matter of Illiquid Stock Options (hereinafter referred to as ‘**ISO’**) restraining 59 entities from buying, selling or dealing in the securities market, either directly or indirectly, in any manner, till further directions.

2. Thereafter, Confirmatory Orders dated July 30, 2016, August 22, 2016 and August 24, 2016 (collectively referred to as ‘**Confirmatory Orders**’) were passed by SEBI confirming the directions issued vide the Interim Order against all 59 entities.

3. The Interim Order and Confirmatory Orders identified the modus operandi adopted by the aforesaid 59 entities where certain entities (clients) had continuously made profits and certain other 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’. Trades executed by clients through stock broker

in which an entity (client) reverses its buy or sell position in a contract with subsequent sell or buy position(s) with the same counterparty, are classified as 'reversal trades'.

4. Subsequent to passing of aforementioned Interim Order against 59 entities, SEBI passed an Interim Order dated February 17, 2016 against 22 trading members (hereinafter referred to as '**stock brokers'**) in the same matter of ISO. However, the said order was set aside by Hon'ble Securities Appellate Tribunal (hereinafter referred to as '**SAT'**) vide 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 would be taken after completion of ongoing investigation in the matter.

5. Accordingly, investigation was carried out in the instant matter for the period April 01, 2014 – September 30, 2015 (hereinafter referred to as '**IP**'/ '**Investigation Period**'), which is same as the examination period referred in the Interim Order dated February 17, 2016 in respect of stock brokers in the matter of ISO.

6. Trade data of BSE's stock options segment during the IP for the ISO was analysed to identify reversal trades. Pursuant to said analysis, it was observed that a total of 2,91,744 trades were executed by 14,720 entities through 192 stock brokers that resulted in reversal trades during the IP. The aforesaid trades comprised 81.40% of all the trades executed in BSE's stock options segment during the said period.

7. In this context, it was alleged that Modex International Securities Limited (hereinafter referred to as '**Noticee'**) being one of the aforementioned 192 stock brokers, did not exercise due care and diligence in the conduct of its business while dealing with its clients, which is in violation of Schedule II A (1) and (2) of Code of Conduct for Stock Brokers read with regulation 9 (f) of the SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as '**Broker Regulations**'). Further, it was alleged that the Noticee continued to enable its clients in execution of fraudulent transactions on stock exchange which is in violation of sections 12 A(a), (b), (c) of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the **'SEBI Act**') read with regulations 3 (a), (b), (c), (d) and 4(1) of SEBI (Prohibition of Fraudulent and Unfair

Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as **‘PFUTP Regulations**’).

8. In view of the above, SEBI had initiated Adjudication Proceedings against the Noticee.

APPOINTMENT OF ADJUDICATING OFFICER

9. Pursuant to transfer of the case from erstwhile Adjudicating Officer (hereinafter referred to as ‘**AO**’), the undersigned was appointed as AO in the matter vide order dated April 04, 2025, under section 15-I of the SEBI Act read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as **‘Rules’**), to inquire into and adjudge under the provisions of sections 15HB and 15HA of the SEBI Act for the alleged violations by the Noticee.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

10. A show cause notice bearing Ref. No. SEBI/EAD1/SBM/AK/25668/2022 dated June 16, 2022 (hereinafter referred to as ‘**SCN**’) was issued to Noticee by the erstwhile AO under rule 4(1) of the 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 sections 15HA and 15HB of SEBI Act for the aforesaid violation alleged to have been committed by it.

11. The allegations levelled against Noticee in the SCN are briefly stated as under:
    (i) *BSE had issued notice to all the Trading Members (stock brokers) casting an obligation on the stock 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 stock broker was necessarily required to frame a surveillance policy, inter alia, covering suspicious/manipulative activity identification and reporting process.*
    (ii) *However, as informed by BSE vide email dated November 06, 2020, no stock broker had reported any suspicious transactions to stock exchange being executed on Stock Options segment of BSE during IP. None of the stock brokers generated any alerts or reported any reversal of trades executed by their respective clients.*
    (iii) *Without a system in place to identify repeated trade reversals between the same clients, the stock brokers facilitated those clients in executing fraudulent*

transactions in the stock market who transferred profits and losses to each other in a pre-meditated manner.

<u>*Alerts generated by BSE during IP*</u>

(iv) *BSE vide email dated November 06, 2020, November 18, 2020, January 12, 2021 and February 05, 2021 informed that alerts were generated and communicated to 20 Brokers whose clients had executed trade reversals on same day as well as T+1 day. BSE further informed that no stock broker reported any suspicious transactions to stock exchange being executed on stock options segment of BSE during IP.*

(v) *Further, vide email dated December 28, 2020, BSE forwarded notice no 20130307-21 dated March 07, 2013 pertaining to "e-Boss" which, inter alia, gives the list of alerts which also includes reversal of trades in derivatives segment.*

(vi) *In terms of the aforesaid notice no 20130307-21 dated March 07, 2013, all the stock brokers should necessarily frame a surveillance policy so as to identify and report suspicious/manipulative activities. In line with the aforesaid notice from stock exchange, the stock brokers were expected to consider various factors including but not limited to repeated reversal trades on same day, reversal price, entities involved in repeated reversal transactions on same day in various scrips, etc. and accordingly put in place a system so as to identify and report suspicious/manipulative activities.*

(vii) *BSE generated and communicated alerts to 20 stock brokers whose clients had executed trade reversals on same day as well as T+1 day. Of the 20 stock brokers, clients executed trade reversals on same day through 18 stock brokers. Further, of the said 18 stock brokers, clients executed repeated reversals on same day as envisaged in Scenario 1 through 15 stock brokers. However, despite alerts being generated and communicated to these 15 stock brokers through whom clients executed repeated reversals, the stock brokers did not adopt any corrective measures to stop reversal of trades. This suggests negligence on part of stock brokers, though these stock brokers were made aware of the fact that reversal of trades were being executed through them. Further, by not taking necessary steps to generate alerts by putting a system in place to detect and curb reversal of trades, the stock brokers indirectly facilitated all the clients registered with the stock broker in executing reversal of trades. Names of said 15 stock brokers are as given below:*

Sl. No.	*Name of stock broker*	*Sl. No.*	*Name of stock broker*
1.	..	*2.*	..
3.	..	*4.*	..
5.	..	*6.*	*Modex International Securities Limited*
7.	..	*8.*	..
9.	..	*10.*	**..**
11.	..	*12.*	..
13.	..	*14.*	..
15.	..		

(viii) *Five of the aforesaid 15 stock brokers including Modex International Securities Ltd. executed trade reversals through their proprietary accounts but also facilitated their clients in executing trade reversals during IP. Though these five stock brokers have been charged earlier for executing trade reversals through their proprietary account in their capacity as clients, in their capacity as stock brokers, they also* *facilitated clients to carry out reversal trades by not having a system in place to identify trade reversals despite having received alerts from stock exchange.*

(ix) *Hence, by continuing to enable their clients in executing fraudulent reversal trades on the stock exchange system despite having received alerts on reversal trades from the stock exchange during IP, the Noticee being one of the aforesaid 15 stock brokers, facilitated their clients too in execution of fraud in alleged violation of section 12 A(a), (b), (c) of SEBI Act read with regulations 3(a), (b), (c), (d) and 4(1) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.*

(x) *Further, by not taking necessary steps to generate alerts by putting a system in place to detect and curb reversal of trades, aforesaid 15 stock brokers have failed to exercise care and diligence in the conduct of business while dealing with its clients and are alleged to be in non-compliance with Schedule II A (1) and (2) of Code of Conduct for Stock Brokers read with regulation 9 (f) of the Broker Regulations.*

12. From the material on record, it is noted that the Hon'ble National Company Law Tribunal, New Delhi Bench (hereinafter referred to as '**NCLT'**) had allowed the corporate insolvency resolution process under section 7 of the Insolvency and Bankruptcy Code (hereinafter referred to as '**IBC'**) against the Noticee vide Order dated March 04, 2022 in C.P. No. (IB) 174(ND)/2021.

13. Meanwhile, SEBI framed 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 ISO. A public notice dated November 28, 2022 was issued about the Settlement Scheme 2022 and the modalities for availing the benefit of the said Scheme. Accordingly, a notice Ref. No. SEBI/HO/EAD2/NH/RJ/61611/2022 dated December 08, 2022, was issued to the Noticee and Noticee was, *inter alia*, informed about the Settlement Scheme 2022. Further, it was also mentioned in the aforesaid letter that in case the Noticee do not wish to avail the facility under the Settlement Scheme 2022, it could file further reply to the SCN within 30 days of its receipt. The said notice dated November 28, 2022 returned undelivered.

14. The Settlement Scheme 2022 was closed on January 19, 2023 and as per available records, Noticee did not avail the Settlement Scheme 2022. Consequently, Adjudication proceedings were resumed in the instant matter.

15. In the interest of natural justice, vide notice of hearing dated March 14, 2023, Noticee was granted an opportunity of being heard.

16. In this regard, authorized representative on behalf of the resolution professional of Noticee, vide email dated March 22, 2023, *inter alia,* stated that the Noticee is under CIRP and highlighted the mandate of section 238 of the IBC. Thereafter, the said authorized representative attended the hearing on March 27, 2023 and reiterated the submissions made vide email dated March 22, 2023. Further, vide additional submissions dated April 12, 2023, the said authorized representative emphasised that the Noticee is under CIRP.

17. It was observed that Hon'ble NCLT, New Delhi, vide order dated June 12, 2025, recalled the order dated March 04, 2022 which had initiated CIRP *qua* Noticee. Subsequently, further opportunities of hearing was granted to the Noticee vide hearing notices dated June 17, 2025, July 09, 2025, July 30, 2025 and August 25, 2025. However, the said hearing notices could not be served on the Noticee vide email, SPAD, affixture or through Market Infrastructure Institutions.

18. In view thereof and in the interest of natural justice, the service of the hearing notice was undertaken through newspaper publication in terms of the provisions of rule 7(3) of the Rules. The newspaper publication was made on September 04, 2025, in the following newspapers, viz., The Times of India and Dainik Jagran in the New Delhi edition.

19. Pursuant to the newspaper publication, the authorised representatives of the Noticee submitted authorisation and certain documents. In the interest of justice, Noticee was granted additional time to file a reply to the SCN and the hearing was rescheduled to October 14, 2025. Noticee, vide email dated October 13, 2023, submitted the following reply to the SCN:

(i) *The Noticee has been extending their full co-operation to the inspection team of NSE as also Forensic Auditors by remaining with them in office till late night on most of the days despite shortage of staff and stoppage of operations. The Noticee has continuously shared data with the stock exchange for releasing the securities before Axis Bank went to the Hon'ble Securities Appellate Tribunal and even after SAT's orders dated June 19, 2020, stressed that the appellant is holding securities worth more than Rs. 90 crore given by Respondent No.2 and the impugned direction is relating to only securities worth Rs. 34 crore. And SAT's order dated July 03, 2020 stated as follows:*

a) Securities mentioned in column E & G in the minutes dated June 29, 2020 to the limited affidavit may be sold by the Appellant for the purpose of recovery of their dues amounting to Rs. 21.61 crore within one month from today.

b) After recovery of Rs. 21.61 crore, the surplus, if any would be returned to the clients immediately thereafter.

c) Securities shown in column D to the minutes of the meeting dated June 29, 2020 to the limited Affidavit shall be released by the appellant within a week from today.

(ii) *The Noticees have worked with the stock exchange day night to prepare the data in accordance with the SAT order. We have also been continuously helping our investors by updating all the progress, transfer of shares, providing of statement, etc. even in lockdown and afterwards.*

(iii) *I say that a complete lockdown was declared in the whole country with effect from March 20, 2020 and consequently, the Noticee could not provide any further information / documents to NSE/ Forensic Auditors. However, NSE/ Forensic Auditors went ahead with finalizing their observations/ findings in the absence of vital information, which in turn has resulted in generation of inaccurate statement of the Company's assets and liabilities as on January 24, 2020. I say that the Hon'ble Supreme Court have granted exemption and extension of time which was not considered in this matter.*

(iv) *I say that in parallel proceedings initiated under Chapter 4 of NSE Rules, the NSE has issued show cause notice dated March 14, 2019 for purported violations observed during inspection for the period of October 01, 2016 to September 30, 2017; and show cause notice dated January 07, 2020 for the purported violations occurred during inspection period from March 01, 2019 to November 30, 2019 in CM and F&O Segments. Hence, both the proceedings, i.e., one by NSE and another by SEBI pursuant to the Interim Order in respect of the same alleged violations tantamount to double jeopardy as the Noticees are proposed to be penalized twice for the same set of violations. The current proceedings deserve to be dropped on this ground itself.*

(v) *I say that the Interim Order based on NSE Report (NSER) and Forensic Review Report(FRR) has made allegations against the Noticee without proper examination or analysis of the said reports and has failed to assess the impact of FRR's assumptions and limitations on the final outcome of the report. The interim Order fails to take note that FRR has specifically stated that the results of their work with respect to review of transactions should be considered only as a guide and not as a definitive pronouncement. Methodology adopted for arriving at the figures of shortfall in securities and shortfall of funds is flawed as the same does not provide holistic picture, particularly, because it makes certain exclusions which distort the fair and factual position of the securities and funds lying with the Company.*

(vi) *I say that as per Chapter 2 Clause (6) of the FRR, "The Report is based on review of the limited information provided till "March 11, 2020" however, the FRR has failed to take into consideration several critical entries before making their observations and inferences. Some of such instances are given below for sake of brevity:*

a) FRR has failed to take into consideration the aggregate amount of Rs.39,09,139/- which has been paid by the Noticee during the period January 17 to January 21, 2020 to settle the claims of 222 clients while *determining the liability of the Company. Intimation regarding the same has been reported by the Company to NSE and SEBI vide its email dated January 27, 2020.*

b) *FRR, while determining the liability of the Company, has failed to take into consideration the aggregate amount of Rs. 48,300/- which has been paid by the Noticees to settle the claims of 17 clients. Intimation regarding the same has been reported by the Company to NSE and SEBI vide its email dated January 30, 2020.*

c) *FRR, while determining the liability of the Company, has failed to take into consideration the aggregate amount of Rs. 4,93,467/- which has been paid by the Noticees to settle the claims of 3 clients. Intimation regarding the same has been reported by the Company to NSE and SEBI vide its email dated February 18, 2020.*

d) *FRR, while determining the liability of the Company, has failed to take into consideration the aggregate amount of Rs.43,54,299/- which has been paid in February 2020 by the Noticees to settle the claims of 7 clients.*

e) *The Company's promoter Mr. D K. Arora has also paid an aggregate sum of Rs. 45,00,000/- to 3 clients.*

f) *The FRR has not taken into consideration the quantum of securities receivable by Noticee No. 1 (Negative List) while determining the liability of the Noticee 1 which has resulted in drawing perverse observations in the FRR.*

g) *The FRR dated March 27, 2020 on the basis of which SEBI has proceeded to pass the Impugned Order on April 30, 2020 is unsigned and only in draft format. The said FRR dated March 27, 2020 differs from the final FRR dated May 5, 2020 and no reasons for such variance and the implications thereof have been provided to the Noticee. The authenticity of the said FRR dated March 27, 2020 is, therefore, very much questionable and SEBI ought to have verified the correctness of the same before proceeding to pass the Impugned Order in a hasty manner.*

h) *The FRR and NSER suffer from several other errors and inconsistencies. The Noticees were not able to examine the said reports thoroughly on account of the recognized nature of the said reports, limitations on reviewing data due to nation-wide lockdown and paucity of time.*

(vii) *Though NSE completed inspection of the Company's affairs for the period from March 01, 2019 to December 11, 2019, it did not share the inspection report with the Company nor it sought any comments from the Company on its findings. In fact, instead of seeking the Company's comments on findings of the inspection, NSE rushed for appointing KPMG to undertake Forensic Review of the Company's books and records from April 01, 2017 to January 24, 2020 (Review Period).*

(viii) *I say that arbitrarily, Forensic Review Report of KPMG was also not shared with the Company, nor any comments of the Company were sought. It is a well-established regulatory norm mandated by principles of natural justice that the regulatory authority shall seek comments of the inspected entity before drawing any adverse inference based on the data and information collected by it during inspection.*

(ix) *I say that NSE has committed violation of principles of natural justice by not seeking comments of the Company on NSER and FRR. The Interim Order has further compounded the said violation by blindly acting upon the observations made in the said reports without conducting any independent examination or analysis thereof. Resultantly, the Noticees have been made to suffer harsh and unwarranted directions passed vide the Interim Order which are not sustainable either in law or in the facts of the case.*

(x) *That the ad- interim Order has been hastily passed against the Noticees based on Draft unsigned reports (i.e., NSE Report and Forensic Review Report), the facts and figures whereof were yet to be verified and confirmed by the persons concerned. It is submitted that the said draft reports which were circulated for internal discussion only could not have been relied upon by SEBI for passing an ad- interim ex- parte Order against the Noticees;*

(xi) *That the allegations have been made against the Noticee without taking into account the documents, records and information repeatedly shared by the Company with NSE. The conclusions or inferences drawn in the said reports would have been substantially different if they had paid due regard to the information provided to them by the Noticees.*

(xii) *<u>Non-Availability of Clients' securities</u>: As per the Interim Order, NSE Report states that on verification of the back office securities holding of MISL and securities available in its beneficiary accounts with Clearing members/ Clearing Corporation on January 24, 2020, purported shortfall of clients' securities amounting to Rs. 95.29 Crore was observed.*

- *It is submitted that the said shortfall of Rs. 95.29 crore have been wrongly worked out, particularly, because no consideration has been given to the Negative Securities of the value of Rs. 113.03 crore, i.e., securities recoverable from the clients as on January 24, 2020.*
- *It is clear from Table 7 of FRR that there were Negative/ recoverable securities of the value of Rs. 113.03 crore from Non- Pro clients. If the Negative securities (even partly) are set off against the net Positive Securities shortfall of Rs. 95.29 Crore payable to clients then the amount of shortfall will undergo change.*
- *In this connection, it is pertinent to observe from Annexure 18 to the FRR that there are several Non- Pro clients other than Non- Pro top 16 clients from whom securities of substantial value are recoverable.*
- *The Noticees deny the purported contention as well as the tabular representation pertaining to shortfall of clients securities as mentioned in the said Order. Further, no independent investigation/ inquiry has been conducted by SEBI in regard to the purported shortfall in the securities amounting to Rs. 95.29 crore as alleged in the said Order.*
- *It is true that out of Positive Securities of Rs. 233.02 Crore, the security holdings of seven (7) clients worth Rs. 46.30 Crore in three scrips are not payable to them as the same do not belong to them and were wrongly transferred to them by the Company through the demat accounts of its group company Modex Commodities Trade Private Limited (MCTPL).*

(xiii) *<u>Improper use of clients funds:</u> It is alleged that the Company had collected investments (securities) from certain clients with commitment of periodic payment as returns on their investment under branch codes starting with VD and VD2 or client code MX. The said contention is denied as the Company did not commit any* *fixed return or periodic payment on the investments, as is clear from the letters issued to a very few clients of erstwhile Director, Mr. Vikram Duggal.*

- *While it is true that the Company invested such funds/ securities in F&O segment which resulted in net F&O losses as alleged, it is however denied that no efforts were made to recover the losses. The concerned employees of the Company had been in constant touch with such client to recover the losses. Those clients were allowed to trade even after losses or they were made some periodic payments considering the long term relationship with such clients and their past track record in performance of their obligations.*
- *It is denied that the Company had collected investments form the clients on periodic payment commitment basis and could not recover the F & O losses from the customers as alleged and met its obligations pertaining to F &O losses by selling other clients' securities. The Company was in the process of initiating necessary steps to recover the said F & O losses in consultation with its legal advisors. It is pertinent to note that the Company is legally entitled to recover the said losses from the clients even after write off (so long as such debts have not become time barred). It is a standard practice for the banks/corporate bodies to write off the debts to clean the balance sheet but that does not take away their right to recover the debts which have not otherwise become time barred.*

(xiv) *It is denied that the Company had indulged in any kind of misappropriation of funds, as alleged. The FRR clearly brings out that there was no siphoning of funds or any fraudulent transfer but the funds were used only for purposes of the Company's business needs as under:*

- *Analysis of bank statements for the period April 1, 2019 to December 31, 2020 showed potential movement of sale proceeds ecognize ecogni. Rs. 100.27 crore from MISL's BSE/NSE cash settlement account with Induslnd bank to MISL's FAO settlement account with Axis bank.*
- *Periodic payments to clients (ecogni. Rs. 16.97 crore) despite FAO losses recoverable from them.*
- *Flat advance (ecogni. Rs. 10.47 crore) paid to beneficiaries connected with Mr. Pavan Sachdeva (Rs. 4.52 crore) and other parties (Rs. 5.95 crore). Based on available information, the relationship of other parties with MISL could not be established.*
- *I say that no funds of the Company have been misappropriated. Sale proceeds of Rs. 100.37 crore were transferred from Cash Settlement Account with Induslnd Bank to the Company's F&O Settlement Account with Axis Bank. In other words, the funds remained within the Company. Periodic payments of about Rs.16.87 crore to some clients despite F&O losses were made with a view to retain these clients who otherwise had good financial health and clean track record in performance of their past obligations.*
- *(FRR), the total flat advance amounts to Rs.10,47 crore. Out of this, an amount of Rs. 4.52 crore was reversed by M/s Klassy Construction Pvt. Ltd, in favour of MCTPL, due to the freezing of the MISL account. This Rs. 4.52 crore transaction pertains to Klassy Construction Pvt. Ltd., in which Mr. Pavan Kumar Sachdeva served as a Director. A cancellation agreement in respect of this transaction was executed on February 12, 2020 between M/s Klassy Construction and M/s Modex International Securities Ltd. Mr. Pavan Kumar Sachdeva executed the agreement on behalf of M/s Klassy Construction Pvt. Ltd., having been duly authorized by a Board Resolution dated February 11, 2020, it is submitted that*

these were all genuine transactions (supported by documents) whereunder the Company had acquired good and marketable title in those properties. In fact the Company had availed overdraft loan of Rs. 9.79 crore from Axis Bank against the said properties acquired by the Company.

(xv) *Shortfall in funds available with the Company: As per the Interim Order, there is a shortfall of funds available with the Company of Rs. 79.61 crore which comprises creditors of Rs. 30.63 Crore and net overdraft balance with banks of Rs. 49.09 crore and margin of Rs. 0.11 crore with BSE as alleged*

- *That while calculating the trade payable of Rs. 30.63 crore to the creditors (clients), the securities receivable from credit clients (who have sold securities of other clients) have been adjusted to the extent of Rs. 71.86 crore from the aggregate Trade payable of Rs. 102.49.*
- *That as per section 6.7 of FRR, "In 11 out of 259 creditors, TP of ecogni. Rs. 71.86 crore can be considered good to set off against net securities receivable of approximate Rs. 99.39 crore (i.e., securities receivable of Rs. 106.04 Crore minus securities payable of Rs. 6.65 Crore), 10 out of these 11 creditors are those whose accounts were used to sell securities of other clients".*
- *Conspicuously, while FRR read with the summary of Funds and Securities payable as on June 24, 2020 has considered Rs. 71.86 crore out of aggregate receivable of Rs. 106.86 crore good to set off, no consideration whatsoever has been given to the remaining Trade Receivables from Rs. 106.04 crore.*
- *Further, the Axis Bank's dues of Rs. 41.98 crore included Rs. 21.98 crore debt due to shortfall of obligation which has since been allowed to be paid off from Margin held by Axis Bank as per Order dated July 03, 2020 of SAT in Appeal No. 146 / 2020 filed by Axis Bank. Accordingly, the Axis Bank's liability will be reduced. Further, Axis Bank's loan of Rs. 10 Crore against property and Rs. 10 Crore non- funded portion of BG is adequately secured.*
- *That no consideration has been provided to the value of such securities. If the market value of such securities is taken into account then the quantum of bank dues may also substantially come down. In view of the aforementioned, it is respectfully submitted that the shortfall has not been worked out properly and it does not reflect the correct factual position. Hence, the Noticees deny the correctness and genuineness of the purported table reflecting the shortfall of funds available.*

(xvi) *It may be observed from "Details of the Debtors Funds Receivable" in the aforementioned Summary of Funds and Securities that while NSE / SEBI have taken note of Rs. 40.65 crore recoverable from unsecured debtors and Rs. 34.18 crore recoverable from 11 Creditors out of 259 creditors, no weightage whatsoever has been given to the value of such recoverable for the purpose of set off against the trade payable by the Company. If some reasonable value is assigned to such recoverable(s) for the purpose of set off then the liability of the Company may further come down*

(xvii) *The amount of TP/TR may further undergo change if the following are taken into consideration:*

- *The Company vide its email dated January 27, 2020 has reported to NSE and SEBI that it has paid aggregate amount of Rs. 3909139/-to settle the claims of 222 clients, However, FRR as well as NSER have not considered the said payment while determining the liability of the Company.*

- *The Company had reported to NSE and SEBI about payment of Rs. 48,300/- to 17 clients vide its email dated January 30, 2020 which has also not been considered while determining the liability of the Company.*
- *The Company had reported to NSE and SEBI the payment of Rs. 4,93,467/- to 3 clients vide its email dated February 18, 2020 which has also not been considered while determining the liability of the Company.*
- *The Company has also paid an aggregate sum of Rs. 43,54,299/- to 7 clients. Further the Company's promoter Mr. D.K. Arora has also paid an aggregate sum of Rs. 4500000/- to 3 clients. The said payments have also not been considered by NSE during inspection as the said payments were made afterwards.*
- *As per Hon'ble SAT's Order dated July 03, 2020 passed in Appeal No. 146/2020 of Axis Bank, the securities of several clients lying in margin with the Axis Bank as CM has to be returned. It is submitted that the same will also reduce current liability of the Company*
- *On verification of the Financial Balances mentioned in Annexure 28 of FRR, it is observed that the FRR has not considered margin money which was lying with the Company resulting in flawed status of financial balances.*
- *On verification of Paragraph 7 of FRR pertaining to securities of the clients, it is observed that NSE has not correctly calculated the securities holding of clients.*

(xviii)*<u>Periodic payment to clients (Rs. 16.87 crore):</u> It is alleged that on the basis of analysis of sample financial ledgers of 78 out of 197 VD clients, it has been observed that MISL made a periodic payment totaling Rs.16.87crore to 50 VD clients during the Review Period. In 47 out of those 50 VD clients, F&O losses of Rs. 98.60 crore was recorded during the Review Period. Further, periodic payments totaling Rs, 0.07 crore were observed in one Non-VD client despite F&O losses of Rs. 2.1 crore. As submitted earlier somewhere in this reply, the Company has not entered into any arrangement for fixed or assured returns on investment with any client as alleged.*

- *It is however pertinent to note that Noticee No. 9, Mr. Vikram Duggal was managing the complete VD Group trading by leading marketing team and continuously holding meetings with VD group clients for development of business. Mr. Duggal was exclusively responsible on full-time basis to provide service to VD clients and for that purpose he was drawing remuneration from the Company. Hence, violation if any is attributable to him and he should be required to provide clarification in this regard.*
- *It is therefore denied that MISL is in prima facie violation of section 12(1) of SEBI Act read with rule 8 (1) (f) and 8(3) (f) of SCRR and regulation 3 & of SEBI (Portfolio Managers) Regulations, 1993.*
- *That a complete lockdown was declared in the whole country with effect from March 20, 2020 and consequently, the Noticees could not provide any further information/documents to NSE/Forensic Auditors. However, NSE/Forensic Auditors went ahead with finalizing their observations/findings in the absence of vital information, which in turn has resulted in generation of inaccurate statement of the Company's assets and liabilities as on January 24, 2020.*

(xix) *I therefore state that on the grounds stated above has Noticee has not*

a) *Diversion/ misappropriation and shortfall of clients securities;*
b) *Misappropriation and shortfall of clients funds;*
c) *Misrepresentation of books and accounts; and*

d) Periodic payments to certain clients which were in the nature of returns on investment by MISL.

(xx) *I say that the Noticee is not liable or responsible for the conduct of the Business of the company and hence are not liable for the violations listed above in terms of sections 27(1) and 27(2) of the SEBI Act.*

(xxi) *I say that on the basis of the interim order, and NSE forensic audit report dated May 05, 2019 to SEBI referred as FAR and order dated September 11, 2020 confirmed by SEBI against the noticee be vacated and set aside and quashed with liberty to the noticee to commence their regular Business.*

20. Mr. Subhash Bhalwal, authorised representative of Noticee (hereinafter referred to as '**AR**') attended the hearing on October 14, 2025. During the hearing, it was brought to the notice of the Noticee that the reply dated October 13, 2025 appeared to deal with some other matter. In light of the request of the Noticee, it was granted time till October 28, 2025 to submit further reply to the SCN.

21. The Noticee submitted its additional reply on October 27, 2025 enclosing a letter dated August 2, 2022 sent to SEBI. The relevant extract of said reply dated October 27, 2025 is as under:

(i) *SEBI has wrongly initiated proceeding against Modex International Securities Ltd. under section 15HB of SEBI Act for not exercising care and diligence in the conduct of all its business while dealing with its client/s while dealing with their proprietary accounts in violation of schedule II A (1) and (2) of Code of Conduct for Stock Broker r/w regulation 9 (f) of the Broker Regulations.*

(ii) *I deny that under section 15HA of SEBI Act, I have violated provisions of sections 12A (a),(b),(c) of SEBI Act r/w regulation 3(a), (b), (c), (d) and 4 (1) of SEBI Prohibition of Fraudulent and Unfair Tariff Practices relating to Securities Market Regulation, 2003 (hereinafter referred to as "PFUTP Regulations).*

(iii) *I say that show cause notice dated June 16, 2022 again is received by the company on October 10, 2025 and have to reply as under:*

a) I say that the company has exercised proper care and diligence in the conduct of all its business while dealing with the clients and have not violated the provision of schedule 2 A (1) & 2 of Code of Conduct for Broker Regulations. I say that the company or it's director have not violated the provision as alleged.

(iv) *I say that all the points raised in show cause notice is already replied by the company on August 02, 2022 and again deal with the same.*

(v) *I say that the company has exercised proper care and diligence in the conduct of all its Business while dealing with the clients and have not violated the provision of schedule 2 A(1) & 2 of Code of Conduct for Broker Regulations as alleged.*

(vi) *In Continuation to the additional submission dated July 26, 2022 made before your good office regarding my role as a whole time director in Modex International Securities Ltd. Please find enclosed the relevant portion of 9 judgments of Hon'ble Supreme Court of India in which law about "liability of a director with regards to company has been settled.*

(vii) *The present hearing arises from the show cause notice dated December 8, 2022 and the Notice of Hearing issued under rule 4 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995. The Noticees its Director respectfully submit that the company has been a SEBI-registered intermediary since 1996 (Regn No. INZ000211434), member of NSE and BSE in Capital Market, F&O and Currency Segments, and a Depository Participant of CDSL (DP ID 205-2016). Over nearly three decades of operation, Modex has enjoyed a clean regulatory record and the confidence of more than 13,000 clients attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein. The company has at all times acted in good faith and complied with all circulars, bye-laws, and directions issued by SEBI and the stock exchanges.*

a) PROCEDURAL DEFECTS AND VIOLATION: The entire adjudication is vitiated by a serious breach of natural justice. The Forensic Review Report (FRR) prepared by KPMG and the NSE Inspection Report (NSER) were never supplied to the Noticees before drawing adverse conclusions. The FRR dated March 27, 2020 was only a draft, unsigned document that materially differed from the final version dated May 5, 2020. No explanation was given for these differences attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein.

b) Despite repeated requests, Modex was denied an opportunity to comment upon or clarify the findings. This omission violates the cardinal principle of audi alteram partem—that no person should be condemned unheard. Consequently, all actions based on such undisclosed or draft material stand tainted with procedural irregularity and deserve to be set aside.

c)LOCKDOWN CONSTRAINTS AND SUPREME COURT EXEMPTION The FRR and NSER were finalized during the nation-wide lockdown imposed from March 20, 2020. Physical verification of data and production of books was impossible. The Hon'ble Supreme Court, by its Order dated March 23, 2020, expressly extended limitation and compliance periods owing to the pandemic attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein. SEBI, however, disregarded this judicial protection and relied upon incomplete records. As a result, the conclusions drawn in the FRR are factually incorrect and cannot be the basis of punitive action.

d)DUPLICATE PROCEEDINGS - DOUBLE JEOPARDY: It is submitted that identical allegations are the subject of ongoing NSE disciplinary proceedings under Chapter IV of the NSE Rules through show cause notices dated March 14, 2019 and January 7, 2020. The present SEBI proceeding on the same cause of action amounts to double jeopardy. Two parallel inquiries for the same set of facts offend both fairness and law. The Company therefore prays that these adjudication proceedings be dropped on that ground alone.

(viii) *FACTUAL AND COMPUTATIONAL ERRORS IN FRR:*

a) Ignored Client Payments: Between January and February 2020 the Company settled numerous client claims which the FRR ignored: Rs. 39,09,139 to 222 clients (January 27, 2020); Rs. 48,300 to 17 clients (January 30, 2020); Rs. 4,93,467 to 3 clients (February 18, 2020); Rs. 43,54,299 to 7 clients attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein. and Rs. 45 lakh paid personally by promoter Mr. D. K. Arora attached to my Affidavit in Reply dated October 10, 2025 and the *same be treated as incorporated herein. These bonafide payments drastically reduce the supposed liability but were never incorporated.*

b) Negative Securities Omitted: The FRR ignored securities recoverable from clients worth Rs. 113.03 crore ("Negative List") as of January 24, 2020 attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein. Once adjusted against the alleged positive shortfall of 95.29 crore, no deficiency survives.

c)Incorrect Fund Shortfall: Section 6.7 of the FRR itself recognises 71.86 crore of good set-off against trade receivables, but this was not applied attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein. Axis Bank's dues of Rs. 41.98 crore stand reduced by the Hon'ble SAT Order dated July 03, 2020 attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein.. Margin money and other recoverable ignored by the FRR further reduced any alleged gap attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein. Accordingly, the figure of Rs. 79.61 crore cited as fund shortfall is erroneous.

(ix) *NO MISAPPROPRIATION OR DIVERSION OF FUNDS: There is no evidence of siphoning or diversion of client assets. The FRR itself notes that Rs. 100.27 crore was merely an internal transfer between Modex's settlement accounts with IndusInd Bank and Axis Bank. The Rs. 10.47 crore "flat advance" referred to in the FRR was a genuine property transaction, subsequently reversed by Klassy Construction Pvt. Ltd. through a duly executed Cancellation Deed dated February 12, 2020 attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein. The company even obtained an overdraft of Rs. 9.79 crore against these properties-clear evidence that the transactions were legitimate and fully documented. Hence, the allegation of misappropriation is baseless.*

(x) *ALLEGED FIXED RETURN SCHEME – DENIED: It is specifically denied that the company ever offered fixed or assured returns. A few communications sent to clients managed by former director Mr. Vikram Duggal relate to his personal dealings with the "VD Group" of clients. The company as a whole did not enter any portfolio or collective investment arrangement. The sample letters produced attached to my Affidavit in Reply dated October 10, 2025 and the same be treated as incorporated herein. Were expressions of goodwill, not investment contracts? Consequently, there is no violation of regulation 3 and 14(1) (a) of the SEBI (Portfolio Managers) Regulations, 1993.*

(xi) *NON-LIABILITY UNDER SECTION 27 OF SEBI ACT: No material demonstrates that the directors or officers were personally involved in, or consented to, any alleged irregularities. Under section 27(1) and (2) of the SEBI Act, liability arises only where contraventions occur with the consent or connivance of, or due to neglect by, those in charge. In the absence of such evidence, personal liability cannot be imposed upon the Noticees. Based on the facts stated above, I have fully complied with all provisions of the SEBI Act, the applicable Rules, and section 15HB. Therefore, I am not liable for any of the penalties as alleged. I have already explained the true and correct facts, and accordingly, no penalty should be imposed under the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, read with section 15I of the SEBI Act, or under sections 15HA and 15HB of the SEBI Act, as may apply.*

22. Further, vide the said email dated October 28, 2025, Noticee requested for further opportunity of hearing. The request of the Noticee was acceded to, and it was granted an opportunity of hearing on November 06, 2025. AR of the Noticee attended the hearing and reiterated the submissions made vide email dated October 27, 2025. AR also requested time to make additional submissions in the matter which was acceded to. Noticee made its submissions vide email dated November 14, 2025.

23. The Noticee, vide reply dated November 14, 2025, *inter alia,* stated the following:

(i) *Modex International Securities Ltd. has not executed trade reversals through their proprietary accounts and not facilitated their clients I deny that the company enabled their clients in executing fraudulent reversals. I say that the true facts are as under:*

(ii) *That in response to mail received about mismatch in holding statement as on April 19, 2019 uploaded by us through BEFS, this has occurred due to software error in creating a file for the required data and were in regular touch with vendors to get it rectified and updated as per required format so that next enhancement file, the date is shown correctly. The aforesaid fact were stated in our mail dated April 19, 2019 being reminder no 1.*

(iii) *That the company vide their mail dated August 23, 2019 informed that there are mismatches in the weekly holding files due to some technical issues and are trying to resolve the issue at the earliest.*

(iv) *I say that MISL have good record before 2019 from 1995-2018.1t is due to this technical glitch it has happened. I say that there was no malafide intention and no gain has been availed by Mr. Pavan Sachdeva.*

(v) *He has already paid to Axis Bank dues which Axis Bank could pay to investors to the tune of Rs. 23 crore approx though property mortgage was worth of Rs. 45 crore I say that if company was to adopt these practices as alleged Mr. Pavan Sachdeva could not have taken any loan for Modex by giving personal property of his wife name. It is pertinent to mention that maximum investors got the shares in these Account and many has been satisfied as well as paid. I say that NSE is also claiming the same amount of IPF form Mr. Pavan Sachdeva.*

(vi) *I say that the Company has a good track record of its performance and it has been operating as a stock broker in the securities market in accordance with the SEBI Regulations as well as Rules and Bye Law of stock exchanges. The current alleged violation, if any, are technical or procedural in nature and deserve to be viewed leniently. It is pertinent to note that there is no allegation of any fraudulent practice and no money whatsoever has been siphoned off by the Noticee for their personal benefit or use.*

(vii) *Breaches if any have been committed while acting bonafide in the interest of the Company's clients. shareholders and other stakeholders. The Noticees are committed to resume the business operations of the Company at the earliest by returning the securities and funds to the client [investor under supervision of the stock exchange as per the Interim order. I say that whatever is stated in my two Affidavit filed, be treated as incorporated herein. I say that on the grounds stated above, I be discharged from the allegation made in show cause notice dated June*

16, 2022, under rule 4(1) of the SEBI (Procedure for holding inquiry and Imposing Penalties) Rules 1995 in the matter of Trading Members in Liquid Stock Options imposing penalties in the matter of trading members in Liquid Stock options.

24. In view of the above and in view of the facts and circumstances of the matter, I deem it appropriate to proceed against the Noticee, based on the material available on record.

CONSIDERATION OF ISSUES, EVIDENCE AND FINDINGS

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

I. Whether the Noticee has violated the provisions of Schedule II A(1) and (2) of Code of Conduct for Stock Brokers read with regulation 9(f) of the Broker Regulations?

II. Whether the Noticee has violated the provisions of section 12 A(a), (b), (c) of SEBI Act read with regulations 3(a), (b), (c), (d) and 4(1) of PFUTP Regulations?

III. Does the violation, if any, attract monetary penalty under section 15HA and section 15HB of SEBI Act?

IV. If so, what would be the quantum of monetary penalty that can be imposed on Noticee after taking into consideration the factors stipulated in section 15J of the SEBI Act?

26. Before proceeding further, it is pertinent to refer to the relevant provisions of the SEBI Act, Broker Regulations and PFUTP Regulations, in force at the time of impugned transactions, which are reproduced as under:

SEBI Act

"Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control

12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;"

PFUTP Regulations

"3. Prohibition of certain dealings in securities.

No person shall directly or indirectly-

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities markets."

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."*

<u>Preliminary issue</u>

27. The Noticee has contended that the Forensic Review Report prepared by KPMG and NSE Inspection Report were not supplied to the Noticee before drawing adverse conclusions. Further, Noticee has stated that, despite repeated requests, Noticee was denied an opportunity to comment upon or clarify the findings. In this regard, I note that no reliance has been placed on any Forensic Review Report prepared by KPMG or on the NSE Inspection Report during the present proceedings. Consequently, the question of providing an opportunity to the Noticee to comment upon or clarify the

findings of the alleged Forensic Review Report prepared by KPMG or the NSE Inspection Report does not arise. Therefore, the objection raised by the Noticee is without merit.

28. Noticee has contended that identical allegations are the subject of ongoing NSE disciplinary proceedings under Chapter IV of the NSE Rules through show cause Notices dated March 14, 2019 and January 7, 2020. In this regard, I note that no material, including the said show cause notices, has been provided by the Noticee to substantiate this submission. Thus, in the absence of any supporting evidence, it cannot be discerned whether the nature of proceedings and cause of action of the present proceedings are the same as that of the NSE disciplinary proceedings. Hence, the submission of the Noticee cannot be accepted.

29. Further, Noticee has made submissions regarding factual and computational errors in FRR, no misappropriation or diversion of funds/securities, fixed return scheme and mismatch in holding statement, liability of directors, etc. In this regard, I note that the ambit of the present proceedings is confined to allegations set out in the SCN which include failure to exercise due care and diligence in the conduct of its business while dealing with its clients and failure to stop its clients from executing fraudulent reversal trades on the stock exchange system. There are no allegations in the present proceedings regarding misappropriation or diversion of funds, fixed return scheme, mismatch in holding statement, etc. Hence, the submissions made by Noticee regarding factual and computational errors in FRR, no misappropriation or diversion of funds/securities, fixed return scheme and mismatch in holding statement, liability of directors, etc., have no bearing on the present proceedings.

<u>Consideration</u>

I. Whether the Noticee has violated Schedule II A(1) and (2) of Code of Conduct for Stock Brokers read with regulation 9(f) of the Broker Regulations?

30. It was alleged that Noticee has failed to exercise due care, skill and diligence in the conduct of its business while dealing with its clients during the IP which in turn facilitated the execution of reversal trades by its clients in ISO contracts at BSE.

31. I note that BSE issued notice Ref. No. 20130307-21 dated March 07, 2013 (hereinafter referred to as '**BSE notice dated March 07, 2013'**), to all the stock brokers casting an obligation upon them to, *inter alia,* monitor and report reversal of trades in derivatives segment. The said notice pertains to 'e-Boss' system, which, *inter alia*, indicated the list of alerts that would be generated by BSE, including reversal of trades in the derivatives segment. Further, in terms of the said notice, every stock broker was required to frame a surveillance policy, *inter alia,* covering suspicious/manipulative activity identification and reporting process. The notice further stated that the trading members were required to put in place the required procedures and processes duly approved by their relevant authority latest by May 15, 2013.

32. The relevant extract of the aforesaid notice is reproduced below:

> *"…..*
> *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:*
> *…*
> *iii. Suspicious / Manipulative activity identification and reporting process.*
> *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."*

33. Therefore, in terms of the said notice, Noticee was required to frame a surveillance policy to identify and report suspicious/manipulative activities. Further, Noticee was mandated to put in place the required procedures and processes duly approved by their relevant authority latest by May 15, 2013.

34. From the perusal of the material on record, I note that the clients of the Noticee had executed 12 non-genuine reversal trades on BSE at a substantial price difference during the IP through the Noticee. The details of the said non-genuine reversal trades are as under:

Table 1

TRADE_DATE	clnt_name	cp_name	ORDER_TIME	TRADE_RATE	TRADED_QTY	MEMBER_NAME	CP_MEMBER_NAME	SCRIPNAME
10/03/2015	Nutan Bhargava	Sankait Dhawan	15:25:32	3.2	200000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHRT15MAR350.00PEW3
10/03/2015	Sankait Dhawan	Nutan Bhargava	15:24:48	12	200000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHRT15MAR350.00PEW3
11/03/2015	Virmati Dhawan	Sunita Puri	15:26:21	11.3	200000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHRT15MAR380.00PEW3
11/03/2015	Sunita Puri	Virmati Dhawan	15:26:54	6.3	200000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHRT15MAR380.00PEW3
11/03/2015	Mandeep Kumar Balwada	Neeraj Tandon	15:22:29	9.9	220000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHRT15MAR370.00PEW3
11/03/2015	Neeraj Tandon	Mandeep Kumar Balwada	15:22:52	3	220000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHRT15MAR370.00PEW3
11/03/2015	Sankait Dhawan	P S Fincap P Ltd	15:19:38	5.2	250000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHRT15MAR370.00PEW2
11/03/2015	P S Fincap P Ltd	Sankait Dhawan	15:20:02	1.15	250000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHRT15MAR370.00PEW2
13/03/2015	Shagorika Heryani	Parul	14:36:58	8	292000	Modex International	Modex International Securities Ltd.	BHEL15MAR260.00CEW3

						Securities Ltd.		
13/03/2015	Parul	Shagorika Heryani	14:37:37	3.85	292000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHEL15MAR260.00CEW3
13/03/2015	Surendra Kumar Hooda	Modex International Sec. Ltd,	14:50:49	3.35	364000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHEL15MAR260.00CEW3
13/03/2015	Modex International Sec. Ltd,	Surendra Kumar Hooda	14:39:20	7.9	365000	Modex International Securities Ltd.	Modex International Securities Ltd.	BHEL15MAR260.00CEW3

35. In this regard, modus operandi of the clients of Noticee is illustrated through one of the contracts, viz. “BHRT15MAR350.00PEW3” which was executed on March 10, 2015 during the IP below:

Table 2

SL. NO.	1	2
CLNT_NAME	Nutan Bhargava	Sankait Dhawan
CP_NAME	Sankait Dhawan	Nutan Bhargava
ORDER_TIME	15:25:32	15:24:48
CP_ORDER_TIME	15:25:25	15:24:48
ORDER_RATE	3.2	12
CP_ORDER_RATE	3.2	12
TRADE_TIME	15:25:33	15:24:48
TRADED_QTY	200000	200000
TRADE_RATE	3.2	12
MEMBER_NO	3106	3106
MEMBER_NAME	Modex International Securities Ltd.	Modex International Securities Ltd.
CP_MEMBER_NO	3106	3106
CP_MEMBER_NAME	Modex International Securities Ltd.	Modex International Securities Ltd.
RQTY	200000	200000

36. It is noted that reversal trades, involving those with identical quantities, with substantial differences in buy and sell rates, were executed through the Noticee on the stock options segment of BSE during the IP. Further, I note that the position taken was reversed between the clients, amongst the same counterparty, on the same day, at a substantial price difference. 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 period, the clients of the Noticee reversed the position with their counterparties with significant price differences. The execution reversal trades, with identical quantities, between the same parties and substantial price differences cannot be attributed to sheer coincidence.

37. In this regard, reference is drawn to the judgment of Hon'ble Supreme Court in the matter of *SEBI v. Rakhi Trading Private Limited*[1] wherein it was held that:

> *"….Orchestrated trades are a misuse of the market mechanism. It is playing the market and it affects the market integrity.*
>
> *…The stock market is not a platform for any fraudulent or unfair trade practice. The field is open to all the investors. By synchronization and rapid reverse trade, as has been carried out by the traders in the instant case, the price discovery system itself is affected. Except the parties who have pre-fixed the price nobody is in the position to participate in the trade. It also has an adverse impact on the fairness, integrity and transparency of the stock market."*

38. In view of the aforesaid, it is noted that the reversal trades affect the price discovery system and have an adverse impact on the fairness, integrity and transparency of the stock market.

39. In this regard, I note that BSE vide email dated November 06, 2020 submitted to SEBI that Noticee had not reported any suspicious transactions being executed on stock options segment of BSE during the IP. Further, the investigation of SEBI shows that none of the stock brokers including the Noticee generated any alerts or reported any reversal of trades executed by their respective clients.

40. I note that Hon'ble SAT in the matter of *M/s. Triveni Management Consultancy Services Ltd. v. SEBI*[2], it was held that:

> *"..15*
>
> *.. Clearly in almost all deals, orders are placed so as to ensure matching of buy and sell quantity and buy and sell price with counter party, with whom prior tacit understanding existed.* ***Buy and sell orders are placed at almost same time***

[1] Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011.

[2] Appeal no. 33 of 2013.

between counter party clients, with just difference of a few seconds. Matching of these trades was not noted in a solitary incident or two*, instead, a large number of synchronized trades got matched regularly,* ***most of which were also reversed****.*

.. This Tribunal in Ketan Parekh Vs. Securities & Exchange Board of India (Appeal No. 2 of 2004) held that in order to find out whether a transaction has been executed with intention to manipulate market or defeat its mechanism will depend upon intention of parties which could be inferred from attending circumstances because direct evidence in such cases may not be available.

..16.

From foregoing it can be seen that Appellant by allowing its client to trade in fashion as described above which led to manipulation of the market, ***cannot be absolved of responsibility bestowed on him as a market intermediary to provide access to clients without conducting due diligence as required under provisions of law****. Basic duty of due diligence could be least expected from any market participant and failure on part of Appellant in this basic duty and has led to manipulation through synchronized, structured trades,* ***which were also found to be reversal in nature too****, among Mehta Group entities."*

(Emphasis supplied)

41. As noted above, Noticee failed to notice or report these reversal trades executed by its clients. These lapses can only be attributed to the negligence of the Noticee in setting up an adequate systems and effective surveillance policy in place to identify and report such trades.

42. Thus, by not having a system in place to identify repeated trade reversals, which it was required to have as per the aforesaid notice of BSE, the Noticee facilitated its clients in executing non-genuine reversal trades in the ISO segment of BSE. Further, I note that the Noticee failed to identify the impugned reversal trades executed by its clients in the instant matter right away or even later, which substantiates the fact that it lacked a system in place to identify such trade reversals. Therefore, I note that there was a clear lapse on the part of the Noticee to comply with the said notice of BSE.

43. In view of the above, I hold that the Noticee failed to exercise care and diligence in the conduct of business while dealing with its clients and violated Schedule II A(1) and (2) of Code of Conduct for Stock Brokers read with regulation 9(f) of the Broker Regulations.

II. Whether the Noticee has violated provisions of sections 12 A (a), (b), (c) of SEBI Act read with regulations 3(a), (b), (c), (d) and 4(1) of PFUTP Regulations?

44. It was alleged in the SCN that, despite having received alerts on reversal trades from the stock exchange during IP, the clients of the Noticee continued to execute fraudulent reversal trades on the stock exchange system.

45. I note that BSE vide email dated November 06, 2020, informed SEBI that alerts were generated and communicated to 20 stock brokers, including Noticee, whose clients had executed trade reversals on the same day as well as T+1 day. BSE further informed that no stock broker reported any suspicious transactions to the stock exchange pertaining to trades executed on the stock options segment of BSE during IP.

46. On perusal of the above and the material available on record, I note that Noticee has not disputed the communication of the alerts from BSE regarding trade reversals during the IP. Further, the total number alerts communicated by BSE to the Noticee were noted to be 24 alerts in the period starting from March 10, 2015 to March 16, 2015. In this context, I note that upon receiving the alerts, the Noticee as a registered stock broker and a market intermediary, was expected to carry out due diligence to detect and avoid non-genuine trades such as reversal trades by its clients. It was further expected of Noticee to identify and put in place systems to avoid execution of non-genuine trades by its clients. However, the fact that reversal trades were executed by the clients of Noticee during the IP despite Noticee having receipt BSE alerts, indicates that Noticee continued to enable and facilitate its clients in the execution of such trades. Further, I note that despite making Noticee aware of the reversal trades through BSE alerts, Noticee failed to prevent the execution of such trades by its clients. Here, it is reiterated that Noticee was obligated to monitor and report reversal of trades in the derivatives segment and have a surveillance policy in terms of BSE notice dated March 07, 2013 at the first instance. However, as noted in the preceding paragraphs,

Noticee failed to fulfil the aforementioned obligations. Such acts of omission by Noticee who failed to act despite being alerted by BSE can only be construed as deliberate and flagrant violations of securities laws.

47. In this regard it is pertinent to refer to the following orders of Hon'ble SAT:

a. In the matter of *M/s. Triveni Management Consultancy Services Ltd. v. SEBI*[3], it was held that:

"..17. Regulation 4(1) of PFUTP lays that no person shall indulge in fraudulent or an unfair trade practice in securities. Regulation 4(2) (a) of PFUTP, prohibits a person from indulging in an act which creates false or misleading appearance of trading in securities market. Regulation 4(2)(b) of PFUTP prohibits dealing in a security not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in price of such security for wrongful gain or avoidance of loss. Regulation 4(2)(e) lays down that any act or omission amounting to manipulation of price of a security will amount to manipulation. Regulation 4(2)(o) prohibits encouraging client by an intermediary to dealt in securities solely with object of enhancing his brokerage or commission. Clauses A (1) to A (5) of Code of Conduct in Broker Regulations state that a broker shall maintain integrity, exercise due skill and care in his business and not indulge in manipulative, fraudulent or deceptive transactions with a view to distort market equilibrium or shall not create false market singly or in concert with others that leads to inference with fair and smooth functioning of the market. Furthermore, a broker shall abide by all provisions and statutory requirements of SEBI Act and rules.
18. It is noted from submissions made by Appellant that Appellant has not substantiated its claim that they were in fact acting in the prudent manner. Appellant was expected to be diligent and use required skill and care while acting as a broker, in which Appellant has failed. ***Appellant cannot plead ignorance and shrug off its responsibility as a broker. Therefore, explanations of Appellant are not satisfactory.***
19. ***In the light of the above transactions, it is established that Appellant has violated Regulations 4(1), (2) (a), (b), (e) & (o) of PFUTP and Regulation 7 read with Clauses A(1), A(2), A(3) A(4) & A(5) of Code of Conduct for Stock Brokers as specified in Schedule II of the Broker Regulations****…."*
(Emphasis supplied)

b. In the matter of *Sunil Shares and Stock Pvt. Ltd. v. SEBI*[4]*,* it was held that:

[3] *Ibid.*
[4] Appeal No. 24 of 2007.

"5.

..We have also no hesitation in rejecting the plea of the appellant that because the terminal had been used by the client, it (the appellant) was not liable for the manipulative trades. ***No matter who used the terminal, the appellant as a stock broker cannot escape its liability for the orders that were punched through its terminals.*** *For the reasons recorded above, we find no merit in the appeal and the same stands dismissed with no order as to costs."* (Emphasis supplied)

48. In view of the observations made above and in respect of the fact that reversal trades were executed by the clients of Noticee during the IP, I hold that the Noticee not only failed to identify such non-genuine trades but also continued to enable its clients in execution of fraudulent transactions (reversal trades) on stock exchange despite being alerted by BSE, which is in violation of section 12 A(a), (b), (c) of SEBI Act read with regulations 3(a), (b), (c), (d) and 4(1) of PFUTP Regulations.

III. Does the violation attract monetary penalty under section 15HA and section 15HB of SEBI Act?

49. As the violations were established against the Noticee as observed in the previous paragraphs, I note that the Noticee is liable for monetary penalty under sections 15HA and 15HB of the SEBI Act. The text of sections 15HA and 15HB of the SEBI Act is reproduced 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."*

"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."*

IV. If so, what would be the quantum of monetary penalty that can be imposed on Noticee after taking into consideration the factors stipulated in section 15J of the SEBI Act??

50. While determining the quantum of penalty under sections 15HA and 15HB of the SEBI Act, the following factors as stipulated in section 15J of the SEBI Act are taken into account:

Factors to be taken into account while adjudging quantum of penalty.

***"Section 15J** - While adjudging quantum of penalty under section 15-I, 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."

51. I note 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 said Noticee. There is nothing on record to indicate that the violations committed by Noticee are repetitive.

ORDER

52. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in preceding paragraphs and in exercise of powers conferred upon me under section 15-I of the SEBI Act, read with rule 5 of the Rules, I hereby impose the monetary penalty on the Noticee as given in the table below:

Table 3

Noticee	Violations established	Charging Provisions	Penalty (in Rs.)
Modex International Securities Limited	Section 12 A (a), (b), (c) of SEBI Act read with regulations 3 (a), (b), (c), (d) and 4(1) of PFUTP Regulations.	Section 15HA of the SEBI Act	Rs. 5,00,000/- (Rupees Five Lakh only)
	Schedule II A (1) and (2) of Code of Conduct for Stock Brokers read with regulation 9 (f) of the Broker Regulations.	Section 15HB of the SEBI Act	Rs. 1,00,000/- (Rupees One Lakh only)
Total amount of penalty			**Rs. 6,00,000/- (Rupees Six Lakh Only)**

53. I am of the view that the penalty imposed on the Noticee as mentioned above will be commensurate with the violations committed by the Noticee.

54. Noticee shall remit/pay the said amount of penalty within 45 days of receipt of this order through the 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.

55. A copy of this order is being sent to the Noticee and to SEBI in terms of rule 6 of the Rules.

JAI SEBASTIAN

Digitally signed by JAI SEBASTIAN
Date: 2025.11.26 16:36:48 +05'30'

Date: November 26, 2025 **JAI SEBASTIAN**

Place: Mumbai **ADJUDICATING OFFICER**