



भारतीय प्रतिभूति
और विनिमय बोर्ड
Securities and Exchange
Board of India

ASHA SHETTY
CHIEF GENERAL MANAGER &
ADJUDICATING OFFICER

By SPAD /Email

SEBI/EAD8/AS/GD/44036/1/2022
August 19 ,2022

F6 FINSERVE PVT. LTD.

(PAN : AABCF0080D)

Unit no.206, 2nd floor, sewa corporate park,
M.G. Road, Gurgaon-122002, Haryana

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Contact No- 0124-4750000 / 8130391910

Subject : Show Cause Notice under Rule 4(1) of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 in the matter of Trading Members In Illiquid Stock Options

1. Securities and Exchange Board of India (hereinafter referred to as, "SEBI") has 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. SEBI has initiated Adjudication Proceedings against **F6 Finserve Pvt. Ltd.** (hereinafter referred to as "Noticee/You") under Section 15HB of SEBI Act, 1992 for not exercising care and diligence in the conduct of its business while dealing with its clients in violation of 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**).
3. SEBI vide order dated August 13, 2021 appointed Shri Prasanta Mahapatra, as Adjudicating Officer under Section 15-I (1) of the SEBI Act, 1992 and read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by

सेबी भवन, प्लॉट सं. सी 4-ए, "जी" ब्लॉक, बांद्रा कुर्ला कॉम्प्लेक्स, बांद्रा (पूर्व), मुंबई - 400 051.

दूरभाष : 2644 9950 / 4045 9950 (आई.वी.आर. एस.), 2644 9000 / 4045 9000 फैक्स : 2644 9019 से 2644 9022 वेब : www.sebi.gov.in



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Adjudicating Officer) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**') read with section 19 of SEBI Act, to enquire into and adjudge under Section 15HB for the alleged violations by the Noticee. Pursuant to transfer of erstwhile Adjudicating officer Shri Prasanta Mahapatra, vide order dated June 06, 2022, the case has been transferred to the undersigned. Copies of commuques dated September 17, 2021 and June 07, 2022 appointing the Adjudicating Officers is placed as Annexure- "A".

Background

4. An Interim Order No. WTM/RKA/ISD/106/2015 dated August 20, 2015 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 ("**Confirmatory orders**") in this regard, were passed by SEBI confirming the directions issued vide aforementioned Interim order against all 59 persons/entities.
5. The modus operandi that was identified in the Interim order and Confirmatory orders was that certain entities (clients) had continuously made profits and certain entities (clients) had continuously made losses by reversing their trades or executing reversal trades in various individual Stock Options contracts on BSE's Stock Options segment. In the Interim order, these reversal trades were also referred to as "non-genuine trades". Reversal trades executed by clients through broker have been classified as those trades in which an entity (client) reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day.
6. 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.



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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, in terms of order of Hon'ble Supreme Court dated July 01, 2016, SEBI passed order no. WTM/RKA/ISD/94/2016 dated August 12, 2016 in the matter stating, inter alia, that a final view for appropriate action be taken after completion of ongoing investigation in the matter.

7. Investigation was carried out in the instant matter for the period April 01, 2014 – September 30, 2015 ("I.P." / "investigation period"), which is same as the examination period referred in the Interim Order dated February 17, 2016 in respect of Brokers in the matter of Illiquid Stock Options.
8. Trade data of BSE's Stock Options segment during the I.P. for the Illiquid Stock Options was analysed to identify reversal trades. Pursuant to analysis it was observed that a total of 2,91,744 non-genuine trades were executed by 14,720 entities through 192 Brokers that resulted in reversal trades during the I.P. Trade data pertaining to these 2,91,744 non-genuine trades formed the source data for the instant case against brokers.
9. Total number of contracts during the I.P. was 23,885 contracts. The details of trading in such 23,885 contracts are shown in table below:

Table 1 - Details of trading in all contracts of BSE' Stock Options segment during the I.P.

Particulars	TOTAL
Number of contracts	23,885
Total Number of entities	21,652
Number of trades	3,58,372
Number of Non genuine trades	2,91,744
Number of entities involved in executing non genuine trades	14,720
Number of Brokers through which non-genuine trades were executed	192



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BSE notice to brokers on e-Boss dated March 07, 2013:

10. BSE had issued notice to all the Trading Members ("**brokers**") casting an obligation upon them to, *inter alia*, monitor and report reversal of trades in derivatives segment. BSE notice no 20130307-21 (addressed to all the trading members) dated March 07, 2013 pertaining to "e-Boss", *inter alia*, indicated the list of alerts that 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.
11. The aforesaid BSE notice also casts obligation on the Trading Member (Broker) to monitor and report alerts specifically mentioning the following:

"

.....

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

.....

Monitoring and reporting:

1. For effective monitoring, Trading Member shall:

a. Frame a surveillance policy covering:

i....

ii....

iii. Suspicious / Manipulative activity identification and reporting process.

iv.....

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

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



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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."

12. In terms of the aforesaid notice no 20130307-21 dated March 07, 2013, all the Brokers are required to necessarily frame a surveillance policy so as to identify and report suspicious/manipulative activities.
13. However, BSE vide email dated November 06, 2020, submitted that no broker had reported any suspicious transactions to it being executed on Stock Options segment of BSE during I.P. Further, none of the brokers generated any alerts or reported any reversal of trades executed by their respective clients. Thus, by not having system in place to identify repeated trade reversals which they were required to do as per the aforesaid notice of BSE, the brokers facilitated those clients in executing fraudulent transactions in the illiquid stock options of BSE, who transferred profits and losses to each other in a pre-meditated manner. Copy of BSE e-mail dated November 06, 2020 enclosed as **Annexure-"B"**.

Analysis of Source Data

14. 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



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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.

15. On further analysis of the trade data of the Noticee, it was observed that during the investigation period, the clients of the Noticee had engaged in 317 non genuine reversal trades in 48 unique contracts wherein the position taken were reversed with the same counterparty on the same day, at a substantial price difference. The aforementioned non-genuine reversal trades by the clients of Noticee were falling in the Scenario 2 as described above i.e. different broker for both clients on both legs of trade reversal in respective illiquid stock option contract of BSE. Details of all the repeated reversal trades of the Noticee during investigation period are given in **Annexure- “C”**.

16. For the purpose of illustration of non-genuine trades where two clients execute reversal trade through two different brokers and where the Noticee was one of the



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brokers involved, a contract is shortlisted i.e. "AUPL15AUG800.00CE" and trades that were executed in this contract on December 11, 2015 is shown below:

Table 3

Sl. No.	Client Pan	Client Name	CP PAN	CP Client Name	Order Time	CP Order Time	Trade Time	Trade Rate	Trade Qty	Member Name	CP Member Name
1	AAIPM7321C	AKSHI MITTAL	BHDPS2618M	KUMER SINGH	12:36:52.079379	12:36:52.079379	12:36:52.079379	12.5	500	F6 FINSERVE PVT. LTD.	LKP SECURITIES LTD.
2	BHDPS2618M	KUMER SINGH	AAIPM7321C	AKSHI MITTAL	12:42:49.922890	12:42:49.922890	12:42:50.848334	5	1000	LKP SECURITIES LTD.	F6 FINSERVE PVT. LTD.
3	AAIPM7321C	AKSHI MITTAL	BHDPS2618M	KUMER SINGH	12:36:40.399160	12:36:40.399160	12:36:40.399160	12.55	1000	F6 FINSERVE PVT. LTD.	LKP SECURITIES LTD.
4	BHDPS2618M	KUMER SINGH	AAIPM7321C	AKSHI MITTAL	12:41:43.1429663	12:41:43.1429663	12:41:43.965413	2	500	LKP SECURITIES LTD.	F6 FINSERVE PVT. LTD.

17. It is observed from the table 3 that:

- Total 4 trades were executed in the aforesaid contract on December 11, 2015
- Trade reversals were executed between clients Akshi Mittal and Kumer Singh through Brokers F6 finserve pvt. Ltd. (noticee) and LKP Securities Ltd. respectively.
- Total number of non-genuine trades that were executed in the aforesaid contract were 4 (trades shown at S. No. 1 to 4 at Table 3) and total artificial volume generated through such non genuine trades was 3000 units.
- 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
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1	F6 finserve pvt. Ltd (noticee)	3000	4
2	LKP Securities Ltd.	3000	4

18. Reversal trades were executed by Akshi Mittal and through Broker F6 finserve pvt. Ltd (Noticee) through same modus operandi on 2 instances on a same day. In a similar manner, trade reversals were executed by Kumer Singh through Broker LKP Securities Ltd. on 2 instances on a same day. Despite the repeated reversals of identical quantity and with substantial difference in price on the same day, the brokers including the Noticee 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 (including the Noticee) concerned.
19. In view of the above observations and illustrations, it is alleged that, without a system in place to identify repeated trade reversals by its clients, Noticee facilitated its clients in executing fraudulent transactions in the stock market in a pre-meditated manner.
20. Further, Noticee did not take necessary steps to generate alerts by putting a system in place to detect and curb reversal of trades and has failed to exercise due care and diligence in the conduct of their business while dealing with its clients.
21. Hence, it is alleged that Noticee have 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)



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of the SEBI (Stock Brokers) Regulations, 1992. The aforesaid alleged violations of the Broker Regulations are reproduced as under:

Stock Brokers Regulations, 1992

Conditions of registration.

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

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

SCHEDULE II

Stock Brokers Regulations, 1992

CODE OF CONDUCT FOR STOCK BROKERS

[Regulation 9]

A. General.

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

22. The aforesaid alleged violations, if established, makes the Noticee liable for monetary penalty under section 15HB of SEBI Act and which is reproduced as under:

SEBI Act

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



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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.

23. You are, therefore, called upon to show cause as to why an inquiry should not be held against you in terms of Rule 4 of the SEBI (Procedure for holding Inquiry and Imposing Penalties) Rules, 1995 read with Section 15I of the SEBI Act (hereinafter referred to as '**Adjudication Rules**'); and why penalty should not be imposed under section 15HB of SEBI Act .
24. Your reply, if any, should reach the undersigned at the address given below and also through email at gauravd@sebi.gov.in and ashas@sebi.gov.in within 14 days from the date of receipt of this notice, failing which it shall be presumed that you have no reply to submit and the matter would be further proceeded with on the basis of the evidence available on record in terms of Sub-Rule (7) of Rule (4) of the Adjudication Rules, 1995. You may also indicate whether you desire a personal hearing in the matter.
25. You are also requested to submit a photocopy of your PAN card and update your correspondence address, email ids, phone numbers, fax numbers, etc., in case of change, if any, to have a clear line of communication until the conclusion of these proceedings.
26. For all correspondence in these proceedings, please quote the subject of your letter as mentioned in this notice and reference of this letter be mentioned in your correspondence. Your correspondence should invariably be addressed to Enquiries and Adjudication Department, SEBI. This Office shall not be responsible for any late receipt of your correspondence if not addressed to this office specifically.



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27. You may also note that a settlement mechanism is provided under the SEBI (Settlement Proceedings) Regulations, 2018. If you wish to opt for the settlement process, you may apply for the same in the manner given in the aforesaid regulations under intimation to the undersigned.

ASHA SHETTY
ADJUDICATING OFFICER

Enclosure(s):

Annexure	Copy of relevant documents enclosed with this SCN
A	Copies of the communiques dated September 17, 2021 and June 07, 2022
B	Copy of BSE e-mail dated November 06, 2020
C	Copy of extract of trade log from BSE