भारतीय प्रतिभूति
और विनिमय बोर्ड
Securities and Exchange Board of India

ADJUDICATING OFFICER

Enquiries and Adjudication Department

Through Email and SPAD

SEBI/HO/EAD1/SBM/AK/ 5 6 3 त **/2022**
February 10 **, 2022**

MR. ANIL KUMAR AGARWAL
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Notice under Rule 4(1) of Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**'), vide communiqué dated July 27, 2021 (**Annexure-A**), appointed the undersigned as Adjudicating Officer (hereinafter referred to as '**AO**') under Section 19 read with Section 15-I(1) of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**') read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 to inquire into and adjudge under the provisions of Section 15HA of the SEBI Act, the violation of the relevant provisions of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices related to Securities Market) Regulations, 2003 (hereinafter referred to as '**PFUTP Regulations**'), alleged to have been committed by Mr. Anil Kumar Agarwal (hereinafter referred to as '**Noticee**') by carrying out non-genuine trades in illiquid stock options at Bombay Stock Exchange (**BSE**).

2. SEBI observed large scale reversal of trades in Stock Options segment of BSE leading to creation of artificial volume. Pursuant to the same, SEBI conducted an investigation

into the trading activities of certain entities in illiquid Stock Options at BSE for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as '**Investigation Period**'/'**relevant period**').

3. It may be noted that reversal trades are considered non-genuine trades if it involves an entity reversing its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. In this regard, artificial volume is considered as the volume (no. of units) reversed in non-genuine trades, comprising both original volume and reversed volume while keeping out the volume which is not reversed.

4. Pursuant to the investigation, it is alleged that, during the investigation period, a total of 2,91,643 trades comprising substantial 81.38% of all the trades executed by various entities in Stock Options Segment of BSE were non-genuine trades. The aforesaid alleged non genuine trades resulted into creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in Stock Options segment of BSE during the Investigation period.

5. It is further noted that said alleged non-genuine trades were not restricted to any specific contract or between any specific set of entities. It is noted that Noticee was one of the various persons/ entities which were indulged in execution of such alleged non-genuine trades in Stock Options Segment of BSE during the Investigation period. Following points deals with the dealings of Noticee during the Investigation period and allegations against his execution of non-genuine trades.

6. For the purpose of illustration of non-genuine trades and creation of artificial volume by the Noticee, details of trading done by the Noticee in the contract viz. "CRGL15APR155.00CEW2" on March 17, 2015 is given below:

Date	Buyer	Seller	Buy Order Time	Sell Order Time	Trade Time	Trade Rate (Rs.)	Trade Quantity
17/03/2015	SHRINATHJI COMMODITIES PRIVATE LIMITED	ANIL KUMAR AGARWAL	12:38:28	12:38:28	12:38:28	14.5	20000
17/03/2015	ANIL KUMAR AGARWAL	SHRINATHJI COMMODITIES PRIVATE LIMITED	12:38:34	12:38:34	12:38:34	19.9	20000

7. It is observed from the table above that the trades entered by the Noticee in the contract of "CRGL15APR155.00CEW2" on March 17, 2015, with the counterparty viz Shrinathji Commodities Private Limited were reversed between the Noticee and the same counterparty on the same day resulting in reversal of trades which are, *prima facie*, considered to be as non-genuine. Therefore, in the process, artificial volume in the stock option contract at BSE has been generated by the Noticee through such non-genuine trades. From the table above, it is observed that the artificial volume created as no. of units reversed in non-genuine trades is 40,000 units comprising both volume of initial trade and volume of reversal trade while not considering the volume which is not reversed. In the process, it is observed that the Noticee had made a loss of Rs. 1,08,000.

8. It is further observed from the trade data of the Noticee that he has allegedly entered into non-genuine trades in 3 contracts wherein he executed a total of 6 trades all of which were, *prima facie*, non-genuine trades. In view of this, it is alleged that such fraudulent trades of the Noticee had resulted into creation of artificial volume of total 1,20,000 units.

9. In this regard, details of all the alleged non-genuine trades of the Noticee in Stock Option Segment of BSE during relevant period are attached as **Annexure B**. From the perusal of the trade data of the alleged non-genuine trades of the Noticee, it

is observed that Noticee has allegedly executed non-genuine trades in 3 contracts. The total volume of 1,20,000 units generated by the Noticee in the said 3 contracts, due to his alleged non-genuine trades artificial volume was generated by the Noticee in the stock option segment of BSE. These alleged non-genuine trades, executed by Noticee in above contracts, had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

10. Further, summary of dealings of Noticee in 3 Stock Options contracts in which he had allegedly executed non genuine trades during the relevant period is enclosed as **Annexure C**. The details of artificial volume generated by the Noticee through the alleged Non- Genuine trades are mentioned in the table below:

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades in the Contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	CRGL15APR155.00CEW2	19.9	20000	14.5	20000	100	50	100	44.44
2	CRGL15APR190.00PEW1	19.3	20000	12.3	20000	100	100	100	100
3	INCM15APR110.00PEW1	18.9	20000	11.5	20000	100	33.33	100	33.33

11. In view of the foregoing, it is alleged that the Noticee, by indulging in execution of reversal trades in Stock Options with same entities on the same day, which were non-genuine in nature, has created false or misleading appearance of trading in the aforementioned contracts traded in the option segment of BSE. In view of the fact that these options contracts were illiquid in nature, having very small volume in trading, the Noticee allegedly created artificial volumes in stock options which was manipulative and deceptive in nature. Therefore, in view of above, it is alleged that the Noticee has violated Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003. The text of aforementioned provisions of law is being reproduced below:

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.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—

(a) indulging in an act which creates false or misleading appearance of trading in the securities market;

12. The alleged violation of the aforementioned provisions of the PFUTP Regulations, if proved, makes the Noticee liable for penalty under the provisions of Section 15HA of the SEBI Act. The text of the said provisions is reproduced below:

SEBI Act

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.*

13. In view of the above, the Noticee is required to Show Cause as to why an inquiry should not be held against him in terms of Rule 4 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 read with Section 15 I of the SEBI Act and why penalty, if any, should not be imposed on him under the provisions of Section 15HA of the SEBI Act.

14. Your reply, along with supporting enclosures and documents, should reach the undersigned at the address mentioned below as well as through email at sureshm@sebi.gov.in and avinashk@sebi.gov.in in pdf and MS Word format within 15 (fifteen) days from the date of receipt of this notice, failing which it shall be presumed that you have no submissions to make, in which case, the matter shall be proceeded with on the basis of material/facts on record. You may also

indicate in your reply if you desire a personal hearing in the matter. You are also required to submit a copy of your PAN Card and your contact details (contac tperson, phone number, email details, fax etc.) for our records. Further, in case there is any change in your address or contact details during the period of the current Adjudication Proceedings, the same may be brought to the notice of the Adjudicating Officer immediately.

SURESH B. MENON

Enclosures:

Annexure A: Copy of the Appointment Order dated July 27, 2021.

Annexure B: Trade log depicting all non-genuine trades of Noticee in Stock Option segment of BSE during investigation period

Annexure C: Summary of dealings of Noticee in contracts wherein he executed non-genuine trades