BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO.: OIAE/IGRD/AO/MS/GK/2021-22/15778

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

In respect of

Agra Capitals Private Limited

PAN: AABCA7194F

78, Bentinck St,
2nd Floor, Room No.13B,
Kolkata 700001
West Bengal

In the matter of dealings in Illiquid Stock Options at the BSE

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") observed large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange (hereinafter referred to as "BSE") leading to the alleged creation of artificial volume in the stock options segment. In this regard, SEBI conducted an investigation into the trading activity in the illiquid Stock Options segment at the BSE for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period").

2. It was observed during the course of investigation that a total of 2,91,744 trades comprising 81.40% of all the trades executed in the Stock Options Segment at the BSE during the investigation period were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract on the same day. It was observed that Agra Capitals Private Limited (hereinafter referred to as "Noticee") was one such client whose reversal trades involved squaring off open positions with a significant difference without any basis for such change in the contract price. The aforesaid reversal trades allegedly resulted into generation of artificial volumes, leading to allegations that the Noticee had violated the provisions of regulations 3(a),(b),(c),(d) and regulations 4(1),4(2)(a) of the SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter referred to as " PFUTP Regulations, 2003").

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "SEBI Act") read with rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "Adjudication Rules") vide order dated June 28, 2021 to inquire into and adjudge under section 15HA of the SEBI Act against the Noticee for the alleged violation of the aforesaid provisions of PFUTP Regulations, 2003.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A Show Cause Notice bearing reference no. OIAE/IGRD/MJS/18347/2021 dated August 11, 2021 (hereinafter referred to as "SCN") was issued to the Noticee under Rule 4(1) of the Adjudication Rules to show cause as to why an inquiry should not be initiated against the Noticee and why penalty should not be imposed upon the Noticee under Section 15HA of the SEBI Act for the violations alleged to have been committed by the Noticee.

5. It was, inter alia, alleged in the SCN that the Noticee, through his trades, had indulged in creation of artificial volume of 8000 units through 2 non-genuine trades in one stock option contract during the investigation period.

6. A summary of dealings of Noticee in LNTF15MAR65.00CE Stock Options contracts in which the said Noticee allegedly executed reversal trades during the investigation period, is as follows:-

Summary of dealings in contracts wherein the Noticee executed reversal trades

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 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	LNTF15MAR65.00CE	2.6	560000	0.1	4000	0.50%	0.04%

Note: *"Unit" refers to lot size in contract multiplied by number of contracts traded.*

7. The abovementioned reversal trades and volumes are illustrated through the dealings of Noticee in one contract viz, "LNTF15MAR65.00CE" during the investigation period, as follows:-

   (a). During the investigation period, 2 trades for 564000 units were executed by the Noticee in the said contract on 25/03/2015.

   (b) While dealing in the said contract on 25/03/2015, at 10:14:29.49 hrs the Noticee entered into a buy trade with counterparty Makhan Lal Ashok Kumar Private Limited for 560000 units at Rs.2.6 per unit. At 11:27:12.31 hrs the

Noticee entered into a sell trade with the same counterparty, for 4000 units at Rs.0.1 per unit.

(c) The Noticee's two trades while dealing in the above said contract during the investigation period allegedly generated artificial volume of 8000 units, which made up 0.04% of total market volume in the said contract during this period.

8. In view of the foregoing, it is alleged that Noticee, by indulging in execution of non-genuine reversal of trades in Stock Options with same entities on the same day, created false and misleading appearance of trading in stock options and therefore allegedly violated Regulation 3(a),(b),(c),(d), 4(1), 4(2)(a) of PFUTP Regulations, 2003.

9. The SCN with reference number OIAE/IGRD/MJS/18347/2021 dated August 11, 2021 was issued to the Noticee via Speed Post Acknowledgement Due (SPAD), which was undelivered as per the Tracking details obtained from the India Post website and the SCN was also sent to Noticee via email dated August 11, 2021 which was duly delivered to the Noticee. The Noticee requested for additional time for submitting reply to the SCN as it being a very old transaction they needed some time to find details and submit reply. They also sought 4 weeks adjournment to prepare reply which was granted vide email dated September 29, 2021.

10. Vide a letter SEBI/HO/AO/MJS/30357/2021 dated October 27, 2021, the Noticee was granted an opportunity of personal hearing over Webex/zoom on November 23, 2021at 2:30 PM.

11. The hearing took place telephonically. The hearing was attended by Shri Ajay Kumar Agarwal Director of Agra Capitals Private Limited (Noticee). During the hearing he submitted that the transactions were conducted over the legal platform. The transactions were bought sold on same day. It is a single transaction and will not make a dent. There was no intention of going beyond the law. He stated that he did not deserve any penalty and requested to drop the penalty. He said there will be no such repetition again. He was given 7 days time for submission, if any.

12. The Noticee, did not give any further submissions post hearing.

CONSIDERATION OF ISSUES AND FINDINGS:

13. I have carefully perused the charges levelled against the Noticee and the documents / material available on record. The issues that arise for consideration in the present case are:

(a) Whether the Noticee has violated regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations?

(b) Does the violation, if any, attract monetary penalty under Section 15HA of the SEBI Act?

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

14. Before moving forward, the relevant provisions of law allegedly violated by the Noticee and as mentioned in the SCN are 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;

15. I note from the trade log that the Noticee had executed 2 trades in one contract. I further note that the above-mentioned trades of the Noticee had resulted in the creation of volume of a total of 8000 units in the said one contract. Summary of trades of Noticee is as follows:

Stock Option Contract	Buy Quantity	Sell Quantity	No. of alleged non-genuine trades executed by Entity in the Contract	Total no. of trades executed by the entity in the contract	Total no. of trades executed in the contract	Alleged artificial volume generated by entity in the Contract	Total volume generated by entity in the contract	Total Volume in the contract	% ofalleged non-genuine trades of entity in the contract to entity's total trades in the Contract =(D/E)	% of Non-Genuine trades of Entity in the contract to Total trades in the Contract = (D/F)	% of alleged artificial Volume generated by Entity in the contract to Entity's Total Volume in the	alleged artificial Volume generated by Entity in the contract to Total Volume in the Contract = (G/I)
A	B	C	D	E	F	G	H	I	J	K	L	M
LNTF15MAR65.00CE	560000	4000	2	9	85	8000	1600000	17912000	22.22	2.35	0.5	0.04

Trade Date	Scrip Name	Strike Price	Buy Client Name	Sell Client Name	Buy Order Time	Sell Oder Time	Trade Time	Buy Order Rate	Sell Order Rate	Trade Rate	Buy Order Qty	Sell Order Qty	Traded Qty
25/03/2015	LNTF15MAR65.00CE	6500	Agra Capitals Private Limited	Makhan Lal Ashok Kumar Private Limited	10:14:29.494415	10:07:08.378535	10:14:29.494415	2.6	2.6	2.6	560000	800000	560000
25/03/2015	LNTF15MAR65.00CE	6500	Makhan Lal Ashok Kumar Private Limited	Agra Capitals Private Limited	11:02:32.733171	11:27:12.310874	11:27:12.310874	0.1	0.1	0.1	800000	500000	4000

16. I note that while dealing in the said contract during the Investigation Period, the Noticee executed two reversal trades (1 buy trade + 1 sell trade) with same counterparty viz., Makhan Lal Ashok Kumar Private Limited on the same day. The Noticee on March 25, 2015 at 10:14:29.494415 hrs entered into 1 buy trade with counterparty viz., Makhan Lal Ashok Kumar Private Limited for 560000 units at rate of Rs.2.6 per unit in the contract "LNTF15MAR65.00CE". Thereafter, on the same day, the Noticee, at 11:27:12.310874 hrs entered into one sell trade with same counterparty for 4000 units at the rate of Rs.0.10 per unit in the same contract. The trades executed by the Noticee in a contract were squared up in an one hour with his counterparty. The Noticee, through his dealing in the contract viz., "LNTF15MAR65.00CE" during the Investigation Period, executed nine trades. Noticee generated volume of 8000 units which is 0.04% of the volume traded in the said contract from the market during the Investigation Period.

17. I note that the quantities ordered by the noticee and by his counterparty in case of first trade were not the same. The noticee had ordered buy quantity of 560000 units whereas the counterparty wanted to sell 800000 units of the same contract. There was a difference in the price of the second trade. Such difference in option premium, though rare, is likely. I also note from the trade log of the Noticee that the time taken by the Noticee for reversing his non-genuine trades is around one hour and fourteen minutes. The fact that the transactions in a particular contract were reversed with the same counterparty does not indicate prior meeting of mind with a view to execute the reversal trades. However, based on the fact that the

order quantity was different, it cannot be conclusively proved that the Noticee had indulged in reversal trades with his counterparty in the stock options segment of BSE and the same were non-genuine trades. Even if, it is proved that the trades were non-genuine, the quantum of artificial volume generated as a result of the same is miniscule.

18. I note from the impugned SCN that the allegations against the Noticee that he had indulged in execution of non-genuine reversal of trades in illiquid stock option with same entity, created false and misleading appearance of trading in stock options and therefore violated Regulation 3(a), (b), (c) & (d) and 4(1) & 4(2) (a) of PFUTP Regulations, 2003 are solely based on the aforesaid transactions.

19. With regard to contention of Noticee that, the circumstances surrounding the trade is relevant. What is relevant for the purpose of this proceedings is whether the Noticee indulged in an act which created false or misleading appearance of trading in the securities market. I note that even if the Noticee's trades generated artificial volume of 8,000 units, (buy side + sell side), the overall contribution of the Noticee's trade to total trades during the investigation period is small at 0.5% and in terms of volume it is smaller at 0.04% and hence I feel that the said trades did not create misleading appearance of trading in the securities market.

20. Accordingly, I find that the Noticee has not violated the provisions of Regulation 3(a), (b), (c) & (d) and 4(1) & 4(2)(a) of PFUTP Regulations, 2003 and there is no case for imposition of penalty.

ORDER

21. In view of the findings, I hereby dispose of the Adjudication Proceedings initiated against the Noticee, Agra Capitals Private Limited [PAN: AABCA7194F], vide the SCN bearing ref. no.: OIAE/IGRD/MJS/18347/2021 dated August 11, 2021, in the matter of dealings in Illiquid Stock Options at BSE.

22. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

DATE: March 31, 2022 **MEDHA SONPAROTE**

PLACE: MUMBAI **ADJUDICATING OFFICER**