BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/SM/S./2023-24/28545]

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 –

MONEYPLEX SECURITIES PVT. LTD.

[PAN: AAHCM9331N]

In the matter of Trading Members in Illiquid Stock Options at BSE.

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as, "**SEBI**") had examined trading in illiquid stock options at BSE for possible violation of the provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as, "**SEBI Act**") and various Rules and Regulation made thereunder.

2. An Interim Order No. WTM/RKA/ISD/106/2015 dated August 20, 2015 ('Interim Order') was passed by SEBI in the matter of Illiquid Stock Options restraining 59 persons/entities from buying, selling or dealing in the securities market, either directly or indirectly, in any manner, till further directions. Confirmatory Orders dated July 30, 2016, August 22, 2016 and August 24, 2016 (collectively "Confirmatory Orders" in short) in this regard, were passed by SEBI confirming the directions issued vide the Interim Order against all 59 persons/entities.

3. The modus operandi that was identified in the Interim order and Confirmatory Orders was that certain entities (clients) had continuously made profits and certain entities (clients) had continuously made losses by reversing their trades or executing reversal trades in various individual Stock Options contracts on BSE's Stock Options segment. In the Interim order, these reversal trades were also referred to as "non-genuine trades". Reversal trades executed by clients through brokers had been classified as those trades in which an entity (client) reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day.

4. Subsequent to passing of aforementioned Interim Order against 59 persons /entities, SEBI passed an Interim Order dated February 17, 2016 against 22 Trading Members ("Brokers") in the same matter of Illiquid Stock Options. However, the said order was set aside by Hon'ble Securities Appellate Tribunal ("SAT") vide its orders dated February 25, 2016, March 04, 2016, March 09, 2016, March 14, 2016, March 15, 2016, March 18, 2016 and April 05, 2016. Pursuant to appeal filed by SEBI against the aforesaid orders of Hon'ble SAT, the Hon'ble Supreme Court, vide its order dated July 1, 2016, *inter-alia* directed as under:

"*Looking at the facts of the case, we are of the view that the respondents should give reply to the show cause notice, which had been issued to them by the SEBI by virtue of order dated 17th February, 2016, within two weeks from today. Upon getting the reply, within four weeks thereafter the SEBI shall decide the matter finally after giving a hearing to the parties, to whom the show cause notice had been given by the SEBI In view of the above order, we dispose of these appeals. It is clarified that the SEBI shall pass an order after hearing the concerned parties and without being influenced by any observation made by the SAT. Looking at the facts of the case, the* *order passed by the SAT shall operate till the SEBI decides the case pending before it.*"

5. Subsequently, SEBI passed order no. WTM/RKA/ISD/94/2016 dated August 12, 2016 in the matter *inter alia* stating that a final view for appropriate action be taken after completion of ongoing investigation in the matter.

6. Pursuant to investigation for the period April 01, 2014 – September 30, 2015 (hereinafter referred to as "**IP/ Investigation Period**"), it was observed that during the investigation period, a total of 2,91,744 trades comprising 81.40% of all the trades executed in BSE Stock Options Segment were trades which involved reversal of buy and sell positions by the clients and counterparties in contracts through 192 Brokers. The reversal trades involved squaring off transactions, but with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly led to generation of artificial volumes. It was observed that brokers including Moneyplex Securities Pvt. Ltd. (hereinafter referred to as "**Noticee**") had failed to identify and generate alerts regarding the said reversal trades and thereby it was alleged that the said brokers including the Noticee had contravened the Schedule II A (2) of Code of Conduct for Stock Brokers r/w Regulation 9 (f) of the SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as "**Broker Regulations**").

7. Subsequently, SEBI initiated adjudication proceedings against Noticee under Section 15HB of SEBI Act, for allegedly not exercising due skill, care and diligence in the conduct of its business while dealing with its clients in violation of Schedule II A (2) of Code of Conduct for Stock Brokers r/w Regulation 9 (f) of the Broker Regulations.

APPOINTMENT OF ADJUDICATING OFFICER

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

SHOW CAUSE NOTICE, REPLY AND HEARING

9. A show-cause notice dated July 14, 2022 (hereinafter referred to as '**SCN**') was issued to Noticee under Rule 4(1) of the Adjudication Rules to show-cause as to why, an inquiry should not be initiated against Noticee and penalty, if any, should not be imposed upon it under the provision of Section 15HB of SEBI Act for the aforesaid violation alleged to have been committed by it.

10. The allegations levelled against Noticee in the SCN are briefly stated as under:

"BSE had issued notice to all the Trading Members (brokers) casting an obligation on the broker to, inter alia, monitor and report reversal of trades in derivatives segment. BSE notice no 20130307-21 (addressed to all the trading members) dated March 07, 2013 pertaining to "e-Boss", inter alia, indicated the list of alerts that will be generated by BSE which includes reversal of trades in derivatives segment. Further, in terms of the aforesaid notice every broker was necessarily required to frame a surveillance policy, inter alia, covering suspicious/manipulative activity identification and reporting process.

…

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

…

Analysis of Source Data

On analysing the source data, the data was segregated based on scenarios so as to identify scenario-wise violations by a Broker. Scenarios in which the source data was segregated is as given below:

Table 2: Summary of scenarios

Scenario	**Particulars**	**Count of Brokers**	**Total number of non-genuine trades (both client and counterparty client)**	**Cumulative non-genuine trades through Brokers after removing duplicates (same broker for both clients)**	**As a % of total transactions**
1	Same Broker for both clients on both legs of trade reversal	19	8,528	4,264	0.74
2	Different Broker for both clients on both legs of trade reversal	189	5,74,900	5,74,900	99.25
3	Trade reversals involving three Brokers	8	60	59	0.01
	Total	**192***	**5,83,488**	**5,79,223**	**100**

**Note – There are 3 unique brokers appearing in Scenario 1 and the remaining 16 brokers of Scenario 1 are overlapping with 189 unique brokers appearing in Scenario 2. Accordingly, total Brokers through whom 2,91,744 non-genuine trades have been executed is 3+189 = 192 brokers. Names of 8 brokers appearing in scenario 3 are overlapping with names appearing in either Scenario 1 or Scenario 2.*

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

<u>Scenario 1: Same Broker for both clients on both legs of trade reversal</u>

14. As an illustration, in the instant scenario, two clients execute reversal trade through a common Broker. For the sake of clarity, a contract is shortlisted (i.e. "SUNP15SEP960.00CE") and trades that were executed in this contract on August 28, 2015 is shown below:

Table 3

SL NO	CLIENT PAN	CLIENTNAME	CP PAN	CP CLIENT NAME	ORDER TIME	CP ORDER TIME	TRADE TIME	TRADE RATE	TRADED QTY	MEMBERNAME	CP MEMBERNAME
1	AASPG3101C	Adi Narayan Gupta	AAKCA60628	Anurabh Vanijya Private Limited	13:55:50	13:55:50	13:55:50	12.1	12500	Kesarisuta Vinimay Pvt. Ltd.	Kesarisuta Vinimay Pvt. Ltd.
2	AAKCA60628	Anurabh Vanijya Private Limited	AASPG3101C	Adi Narayan Gupta	13:54:19	13:54:19	13:54:19	20	12500	Kesarisuta Vinimay Pvt. Ltd.	Kesarisuta Vinimay Pvt. Ltd.
3	AAKCA60628	Anurabh Vanijya Private Limited	AASPG3101C	Adi Narayan Guota	13:55:38	13:55:38	13:55:38	19	25000	Kesarisuta Vinimay Pvt. Ltd.	Kesarisuta Vinimay Pvt. Ltd.
4	AASPG3101C	Adi Narayan Guota	AAKCA60628	Anurabh Vanijya Private Limited	13:55:06	13:55:06	13:55:06	12.15	25000	Kesarisuta Vinimay Pvt. Ltd.	Kesarisuta Vinimay Pvt. Ltd.

It is observed from the above table that:

a. *In total 4 trades were executed in the contract "SUNP15SEP960.00CE" on August 28, 2015. Trade reversals are executed between clients Adi Narayan Gupta and Anurabh Vanijya Private Limited through a common broker Kesarisuta Vinimay Pvt. Ltd.*
b. *Total number of non-genuine trades that were executed in the contract "SUNP15SEP960.00CE" were 4 (trades shown at S. No. 1 to 4 at Table above) and total artificial volume generated through such non genuine trades was 75,000 units.*

c. *The Broker-wise contribution to number of non-genuine trades and artificial volume in the above contract is as shown below*:

Table 4

S.No.	Entity Name	Artificial volume through non genuine trades (units)	Number of Non genuine trades
1	Kesarisuta Vinimay Pvt. Ltd.	75,000	4
Total		**75,000**	**4**

16. From the above illustration, trade reversals were executed by the clients of same Broker Kesarisuta Vinimay Pvt. Ltd. through a similar modus operando on 2 instances on a same day. Despite the repeated reversals of identical quantity and with more than 40% difference in price within few seconds, the brokers through whom such transactions went through failed to notice them immediately or even much after the said transactions as they did not have any system in place to identify trade reversals.

…

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

Upon analysis of all 4,264 non-genuine trades in Scenario 1, it was observed that there were 19 unique Brokers through whom clients had executed 1867 instances of trade reversals. There were 557 clients who had executed trade reversals in various combination among each other.

…

21. Accordingly, it was observed that there are 64 unique set of PAN numbers who have executed repeated reversals with at least 4 transactions *or more (2 cycles of reversal) through 7 different Brokers. Noticee was one of the seven brokers*

S.No.	Name of Broker	S.No.	Name of Broker
1.		2.	
3.	**MONEYPLEX SECURITIES PVT. LTD.** (Noticee)	4.	
5.		6.	
7.			

*Hence, … **it is alleged that the** Noticee, being one of the aforementioned 7 Brokers **failed to exercise care and diligence in the conduct of business while dealing with its clients and therefore not in compliance with Schedule II A (2) of the Code of Conduct for Stock Brokers r/w regulation 9 (f) of the SEBI (Stock Brokers) Regulations, 1992**."*

11. The SCN with reference no. SEBI/HO/EAD10/SM/AE/28869/1/2022 dated July 14, 2022 was served on the Noticee via digitally signed email dated July 18, 2022. The proof of service is on record.

12. Thereafter, vide email dated August 19, 2022, Noticee requested for additional time to submit its reply to the SCN which was acceded to vide email dated August 30, 2022. Thereafter, vide email dated September 16, 2022, Noticee submitted its reply to the SCN.

13. Thereafter, vide Supplementary SCN ("**SSCN**") dated November 28, 2022, Noticee was informed regarding SEBI settlement scheme for Stock Brokers, 2022 framed by SEBI (hereinafter referred to as "**SEBI Settlement Scheme**") in the matter of Illiquid Stock Options. The intimation regarding settlement scheme given to the Noticee SCN is reproduced herein below:

"*SEBI has framed the SEBI Settlement Scheme for Stock Brokers, 2022 in terms of Regulation 26 of the Securities and Exchange Board of India*

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

i. *Settlement amount with respect to Stock Brokers through whom repeated reversals were executed by clients and the Stock Broker did not have a system in place to identify such repeated reversals resulting in violation of Code of Conduct for Stock Brokers of SEBI (Stock Brokers) Regulations, 1992:*

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

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

Sl No	**Settlement Amount (Rs.)**
1	1,00,000

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

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

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

Name	PAN number	Director 1	PAN number	Director 2	PAN Number	Alerts generated by BSE (A)	Trades executed through proprietary accounts (B)	Sum of all repeated trade reversal transactions executed by clients through the broker	Execution of repeated reversals by clients (C)	Settlement amount for A	Settlement Amount for B or C or (B and C) (in Rs.)	Total Settlement Amount (in Rs.)
MONEYPLEX SECURITIES PVT. LTD.	AAHCM9331N					No	No	104	Yes	-	1,00,000	1,00,000

The period of the Settlement Scheme for Stock Brokers, 2022 will commence on ***December 19, 2022*** *and will close on* ***January 19, 2023****, so as to provide an opportunity for settlement to the eligible stock brokers. In case you wish to avail the benefit of the said Scheme, you may access the details of the said Scheme, which would be available on the website of SEBI i.e. www.sebi.gov.in, during the said period.*

Necessary application for settlement may be filed within the validity period of the scheme and payment of the settlement amount shall be made online. Additionally, for any clarification in regard to settlement scheme, you may refer to the FAQs at SEBI website or send email to SS2022@sebi.gov.in.

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

14. The aforesaid SSCN dated November 28, 2022 was duly served to the Noticee through Digitally signed email dated November 30, 2022. The aforesaid settlement scheme had commenced on December 19, 2022 and ended on January 19, 2023. However, it is noted that Noticee has not availed the onetime opportunity of settlement provided by SEBI to stock brokers.

15. In view of the above, vide Hearing Notice dated April 17, 2023, Noticee was granted an opportunity of personal hearing on April 24, 2023. The aforesaid Hearing Notice was duly served on the Noticee through Digitally Signed email dated April 17, 2023. Subsequently, vide email dated April 20, 2023, Noticee requested for adjournment of hearing. Considering the said request, vide email dated April 21, 2023, Noticee was granted another opportunity of hearing on May 04, 2023. However, Noticee failed to appear for the said hearing. Subsequently, vide Hearing notice dated July 6, 2023, Noticee was granted another opportunity of hearing on July 18, 2023. Thereafter, Noticee made another request for adjournment vide email dated July 17, 2023, stating that its Authorised Representative was not available for attending hearing due to personal difficulty, which was considered and Noticee was accorded another opportunity of hearing on July 27, 2023, which Noticee failed to avail. Thus, a final opportunity of hearing was granted to the Noticee on August 03, 2023, vide email dated July 28, 2023. The Noticee appeared for the hearing held on August 03, 2023 and reiterated the submissions made in its reply vide email dated September 16, 2022.

16. The submissions by Noticee are reproduced as under:

"1. … we say that the said alleged Trade. data of BSE's Stock Options segment arc allegedly called upon as non-genuine trades of total being 2,91,744 executed by 14,720 entities through 192 brokers and the instant case against brokers. However we say that we not be termed as such brokers as we were absolutely not aware and known of such alleged trades

being "non genuine"... Thus be pleased to quash this proceeding against us.

2. …we say that you admit that there was absolutely no system in place to identify repeated trade reversals and we further state that it would be incorrect to alleged as the broker who facilitated alleged fraudulent transaction. We say that we have not facilitated any such alleged trades for transferring profits and losses with a pre-meditated manner.

3. …we say that such are the statistics of the alleged trades being alleged as fraudulent and non-genuine trades. These alleged trades have illustrations of been carried out by said broker Kesarisuta Vinimay Pvt. Ltd. We say that it is alleged that out of these 19 brokers we are framed as one of these brokers and same is incorrect. We say that without giving any reasoning or illustration of any such trade as violation. you have incorrectly alleged us as the aforesaid 7 Brokers as not in compliance with Schedule II A (2) of Code of Conduct for Stock Brokers r/w Regulation 9 (f) of the SEBl (Stock Brokers) Regulations. 1992. We say that we have carried out several trades for our clients in the said investigating Period and we are certain that we have not carried out any non-genuine trades as alleged nor we have committed any violations. At the outset you have not mentioned any particulars in the caption Show Cause Notice and thus, there is no question of alleging us of any non-genuine trades.

4. We state that prima facie reading the allegations in the said Notice it can he made out that our trades are just a fraction out of entire transaction and it would be unjust and against the equity of balance of justice to allege us for non-genuine trades as we have committed none…

5. We state that prima facie upon reading the allegations as stated in the caption. we almost have no role in the entire transaction other than we been brokers to our Client and carrying out trade as instructed by our Client…

6. We state that we have observed complete due diligence and utmost care in carrying out the transactions and in any case, alleged transactions were *for profit and loss of the Clients as stated in the caption and we, brokers, have no role or benefit out of the same…*

7. We say that as the trades are pertaining to be 8 years old now. We do not have do not have documents that are available to us and thus we have no document as of date to enclose herewith."

17. Before proceeding to decide the case on merits, I first deal with the preliminary objection raised by Noticee. The Noticee has contended that there is a delay in the instant proceedings and that SCN has been issued after 8 years and thus they do not have documents regarding trades the trades which were executed 8 years ago. In this regard, I note that pursuant to initial examination, an Interim Order 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. The directions issued vide the aforementioned Interim order were confirmed vide confirmatory orders dated July 30, 2016, August 22, 2016 and August 24, 2016.

18. Subsequent to passing of aforementioned Interim order against 59 persons/entities, SEBI passed an Interim order dated February 17, 2016 against 22 Trading Members ("Brokers") in the same matter of Illiquid Stock Options. However, the said order was set aside by Hon'ble 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 the 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. Thereafter, Investigation was carried out in the instant matter for the period, April 01, 2014 – September 30, 2015, 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. During the course of investigation, trade data of BSE's Stock Options segment during the I.P. for the Illiquid Stock Options was analyzed 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 case against brokers. Owing to the humungous number of entities involved and sheer scale of logistics in the adjudication process in the matter, SEBI initiated adjudication proceedings in the matter in phased manner. It is also noted that the onset of the Covid pandemic during 2020-21 also placed constraints in the resources being allocated in this regard. I note that adjudication proceedings in the instant case was initiated through appointment of AO vide SEBI’s order dated August 13, 2021. Thereafter, a show cause notice was issued to Noticee on July 14, 2022. Noticee was provided with all the relevant and relied upon documents during the course of the adjudication proceedings along with the SCN as well as in enclosures with the emails dated June 22, 2023 and June 23, 2023. The Noticee submitted its reply to the SCN on September 16, 2022. I also note that during the course of hearing the AR has stated that Noticee did not wish to further pursue its request for documents, trade log, and investigation report, made in paragraphs 1, 12 and 18 of Noticee’s reply dated September 16, 2022 in view of the relevant and relied upon documents which were provided vide the emails dated June 22, 2023 and June 23, 2022.

19. In this regard, it is pertinent to note that, in the matter of SEBI vs. Bhavesh Pabari (decided on February 28, 2019), the Hon’ble Supreme Court of India has, inter alia, has held that –

“*…There are judgments which hold that when the period of limitation is not prescribed, such power must be exercised within a reasonable time. What would be reasonable time, would depend upon the facts and circumstances* *of the case, nature of the default/statute, prejudice caused, whether the third party rights had been created etc*."

20. Therefore, considering the facts and circumstances in totality, I find that the instant adjudication proceedings were initiated within a reasonable time and no prejudice has been caused to the Noticee.

21. Having dealt with the preliminary objection of Noticee, I now proceed to deal with the case on merits.

CONSIDERATION OF ISSUES AND FINDINGS

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

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

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

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

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

Relevant provisions of Broker Regulations:

Conditions of registration

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

SCHEDULE II

CODE OF CONDUCT FOR STOCK BROKERS

A. General

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

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

24. It has been alleged in the SCN that Noticee had failed to exercise due skill, care and diligence in the conduct of its business in relation to reversal trades in the illiquid stock options executed by its clients and thereby allegedly violated the provisions of Schedule II Clauses A (2) of Code of Conduct for Stock Brokers read with Regulation 9(f) of the Broker Regulations.

25. I note that BSE circular vide notice no. 20130307-21 dated March 07, 2013, addressed to and circulated to all the Trading Members (**Brokers**) pertaining to "e-Boss", *inter alia*, indicated the list of alerts that will be generated by BSE which includes reversal of trades in derivatives segment. Thus, I note that BSE had issued a notice to all the brokers who were Trading Members at BSE, casting upon them an obligation to, *inter alia*, monitor and report reversal of trades in derivatives segment. Further, in terms of the aforesaid notice every broker was necessarily required to frame a surveillance policy, *inter alia*, covering suspicious/manipulative activity identification and reporting process.

26. From a perusal of the BSE trade log, I find that Noticee was the broker for 8 clients in 104 reversal trades executed by them in 17 contracts on March 24, 2015 and August 19, 2015 wherein Noticee's clients executed buy and sell trades in which they reversed their positions with the same counterparties

within a short period of time and there was significant variation in the buy and sell price of the aforesaid trades.

27. The trades executed by the Noticee's clients is illustrated through the dealings of the Noticee for one of the clients in the contract viz, "UBIL15APR140.00CEW2" executed on March 31, 2015, during the Investigation Period which is stated as under:

Sr No	*Client Pan*	*Client Name*	*CP Pan*	*CP Name*	*Trade Time*	*Order Time*	*CP Order Time*	*Trade Rate (In Rs.)*	*Traded Qty*	*Member Name*	*CP Member Name*
1	ABRPD 9126G	MUNIN CHANDRA DAS	AXUPK 3004F	ASHISH SUNIL KAREKAR	12:04:57.786450	12:04:57.786450	12:04:51.137738	20.00	1000	MONEYPLEX SECURITIES PVT. LTD.	MONEYPLEX SECURITIES PVT. LTD.
2	AXUPK 3004F	ASHISH SUNIL KAREKAR	ABRPD 9126G	MUNIN CHANDRA DAS	12:04:43.269180	12:04:37.922034	12:04:43.269180	12.00	1000	MONEYPLEX SECURITIES PVT. LTD.	MONEYPLEX SECURITIES PVT. LTD.
3	AXUPK 3004F	ASHISH SUNIL KAREKAR	ABRPD 9126G	MUNIN CHANDRA DAS	12:06:34.224037	12:06:29.581127	12:06:34.224037	12.00	1000	MONEYPLEX SECURITIES PVT. LTD.	MONEYPLEX SECURITIES PVT. LTD.
4	ABRPD 9126G	MUNIN CHANDRA DAS	AXUPK 3004F	ASHISH SUNIL KAREKAR	12:06:46.374682	12:06:46.374682	12:06:41.696165	20.00	1000	MONEYPLEX SECURITIES PVT. LTD.	MONEYPLEX SECURITIES PVT. LTD.

28. It is seen that in Stock option contract "UBIL15APR140.00CEW2" on March 31, 2015, at 12:04:43.26 hrs, 12:04:57.78 hrs, 12:06:34.22 hrs, 12:06:46.37 hrs, Noticee's client viz. Ashish Sunil Karekar executed 2 buy trades for 2000 at the average buy rate of Rs 12.00/- per unit at 12:04:43.26 hrs and 12:06:34.22 hrs, and also executed 2 sell trades for 2,000 units at 12:04:57.78 hrs and 12:06:46.37 hrs at the average sell rate of Rs. 20.00/- with another client of Noticee, Munin Chandra Das. The aforesaid reversal trades were executed within 12 seconds to 2 minutes of each other, thus

generating volume to the extent of 4,000 units in the said contract during the IP.

29. I note that buy order and sell order for 4,000 units in the UBIL15APR140.00CEW2 contract were placed within a short time gap of within 5 seconds to 6 seconds of each other. I also note that there was wide variation in the buy and sell prices of the reversal trades i.e. 2,000 units were bought at an average buy rate of Rs 12/- per unit at 12:04:43.26 hrs and 12:06:34.22 hrs; and then 2,000 units were sold at an average sell rate of Rs. 20.00/- per unit at 12:04:57.78 hrs and 12:06:46.37 hrs within 12 seconds to 2 minutes from the said buy trades, without there being any significant movement in the price of the underlying scrip in the cash segment.

30. Thus, I note from the above table that trade reversals were executed between Noticee's clients, Ashish Sunil Karekar and Munin Chandra Das through the Noticee, Moneyplex Securities Pvt. Ltd., indicating 4 trades that were executed in the aforesaid contract on the same day. Noticee acted as broker for both the clients and executed reversal trades on behalf of them.

31. I note from the trade log and order log that there were only 54 trades executed in the UBIL15APR140.00CEW2 a total trading volume of 28,45,000 units on three days during the IP. Thus, I note that there was minimal trading activity in the aforesaid stock options contracts traded by the Noticee's clients. Therefore, I note from the number of trades and trading volume in the stock option contracts traded by Noticee's clients that these contracts were illiquid in nature.

32. A perusal of the BSE trade log shows the contribution of Noticee's clients to the number of reversal trades during the IP, as shown below:

S.No.	Trading Member Name	Total traded quantity/ Total volume generated in reversal trades through the Trading Member	Number of clients	Number of Contracts	Number of reversal trades (buy trades + sell trades)
1.	MONEYPLEX SECURITIES PVT. LTD.	370500	8	17	104

33. In view of the aforesaid, I note that Noticee acted as a broker for 8 clients in 104 reversal trades for 3,70,500 units in 17 illiquid stock options contracts, wherein Noticee's clients reversed their positions with the same counterparties within a short period of time with a significant variation in their buy and sell price for the aforesaid trades in the said illiquid stock options contracts.

34. I note that in terms of the BSE circular vide notice no. 20130307-21 dated March 07, 2013 mentioned in the preceding paragraph, all the Brokers are required to frame a surveillance policy and implement a system to identify and report reversal trades as well as suspicious trades to BSE.

35. However, BSE, vide email dated November 06, 2020, submitted to SEBI that no broker, including the Noticee, had reported to BSE any reversal or suspicious trades being executed on Stock Options segment of BSE during the IP.

36. I further note that 104 non-genuine reversal trades in 17 different contracts were executed through the Noticee, wherein the positions taken were reversed with the same counterparty on the same day, at a significant price difference. Therefore, I note that though there were multiple instances of such reversal trades on the same day in the illiquid stock options contracts traded by its clients, the Noticee failed to generate any alerts regarding them and failed to report them to BSE as the Noticee did not implement a system to identify and generate alerts in response to trade reversals by its clients.

37. In terms of Regulation 9(f) of Broker Regulations read with Code of Conduct as specified in Schedule II, a stock broker is obligated to act with due skill, care and diligence and abide by various provisions of the SEBI Act and rules and regulations framed by SEBI and the stock exchange from time to time. Thus, Noticee was under an obligation to abide by the BSE circular vide notice no. 20130307-21 dated March 07, 2013 ("**BSE Circular dated March 07, 2013**") as part of diligent conduct of its business by implementing a system for identification and generation of alerts regarding reversal trades and suspicious trades executed by its clients and reporting the said trades to BSE. However, I find that by failing to identify and generate alerts in respect of reversal of trades by its clients and by failing to frame a surveillance mechanism to identify and generate alerts of suspicious activity by its clients and reporting such trades to BSE, the Noticee had failed to abide by the aforesaid BSE circular and thereby, failed to exercise due skill, care and diligence in the conduct of its business in relation to the trades executed by its clients in illiquid stock options on the BSE platform.

38. I have perused the submissions made by Noticee and I note that it has not disputed the allegations in the SCN that it did not report the reversal trades of its clients to the BSE. In its reply vide email dated September 16, 2022, Noticee has merely stated that it was not aware of the non-genuine trades executed by 14,720 entities in illiquid stock options segment by 192 brokers as mentioned in the SCN and that Noticee should not be termed as such brokers as Noticee was absolutely not aware and known of such alleged trades being "non genuine". I note that the allegations made in the SCN against the Noticee pertain to its failure to report the reversal trades executed by Noticee's clients to BSE in terms of BSE Circular dated March 07, 2013. I note that Noticee has merely pleaded ignorance of the trades being non-genuine. I also cannot accept Noticee's plea that the reversal trades executed by Noticee's clients were not known to the Noticee since

such trades were executed in the trading platform of the exchange and as a broker, which is registered as a trading member of BSE, Noticee ought to have known about the regulatory compliances expected of it, based on the nature of transactions being carried out by it on behalf of its clients. Therefore, I find the aforesaid contention of Noticee to be baseless.

39. Noticee has contended in its reply that it is incorrect to allege it facilitated alleged fraudulent transactions and that it had not facilitated any such alleged trades for transferring profits and losses with a pre-meditated manner. Noticee has also contended that no particulars are mentioned in the SCN to show that Noticee carried out non-genuine trades and there is no reasoning for alleging the Noticee had carried out non-genuine trades. Noticee has also contended that it had no role in the entire transactions except as broker for its own clients. I note that it is not SEBI's case that Noticee itself carried out non-genuine trades or that it facilitated trades for transferring profits and losses with a pre-meditated manner. I note that the allegation against Noticee is that it did not report the reversal trades executed by its clients to BSE in terms of the aforesaid BSE Circular dated March 07, 2013. I find that Noticee has not furnished any proof to the effect that it had reported the reversal trades of its clients to the BSE during the IP. I also find that the evidence in respect of the alleged violation has been clearly provided along with the SCN i.e. a copy of the BSE's email of November 06, 2020, and the BSE trade log showing that Noticee's clients executed 104 reversal trades in 17 illiquid stock options contracts during the IP but these were never reported to the BSE by the Noticee. The aforesaid evidence of BSE's email as well as the trade log make it abundantly clear that the Noticee had failed to report the reversal trades of its clients to the BSE during the IP. Thus, I find the aforesaid contentions to be baseless.

40. In view of the foregoing, I conclude that the charge that Noticee has failed to exercise care and diligence in the conduct of business while dealing with its

clients and thereby, has violated the provisions of Clause A (2) of the Code of Conduct for Stock Brokers under Schedule II read with Regulation 9 (f) of the Brokers Regulations, stands established.

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

&

Issue III If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act?

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

42. Therefore, in view of the foregoing findings and placing reliance on the above judgment of Hon'ble Supreme Court, I find that the Noticee is liable for monetary penalty under Section 15HB of SEBI Act, which is reproduced as follows:

Penalty for contravention where no separate penalty has been provided

***15HB**. Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

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

a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

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

ORDER

45. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in section 15J of the SEBI Act and in exercise of power conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Adjudication Rules, 1995, I hereby impose a penalty of Rs. 1,00,000/- (Rupees One Lakh only) on Noticee i.e. Moneyplex Securities Pvt. Ltd. under Section 15HB of the SEBI Act.

46. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the SEBI website www.sebi.gov.in on the following path, by clicking on the payment link-

ENFORCEMENT → Orders → Orders of AO → PAY NOW

47. The Noticee shall forward the confirmation of penalty so paid to the Enforcement Department –Division of Regulatory Action –I of SEBI and also to e-mail id:- tad@sebi.gov.in.

48. The Noticee shall provide the following details while forwarding confirmation of e-payment in the following format:

a) Name and PAN of the entity (Noticee)
b) Name of the case / matter
c) Purpose of Payment –Payment of penalty under AO proceedings
d) Bank Name and Account Number
e) Transaction Number

49. In case of any difficulties in payment of penalties, Noticee may contact the support at portalhelp@sebi.gov.in.

50. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including

but not limited to recovery proceedings under section 28A of the SEBI Act, for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties of Noticee.

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

DATE: August 07, 2023 **SOMA MAJUMDER**

PLACE: MUMBAI **ADJUDICATING OFFICER**