

BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/BM/DS/2022-23/25690]

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

Kartikey Brokers Private Limited

(PAN: AAFCK4655F)

In the matter of Trading in Illiquid Stock Options on BSE

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) observed large scale reversal of trades in stock options segment of Bombay Stock Exchange (hereinafter referred to as “**BSE**”). SEBI observed that such large scale reversal of trades in stock options lead to creation of artificial volume at BSE. In view of the same, SEBI conducted an investigation into the trading activities of certain entities in illiquid stock options at BSE for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as “**IP**”).
2. Pursuant to investigation, it was observed that total 2,91,744 trades comprising substantial 81.40% of all the trades executed in stock options segment of BSE during the IP were non genuine trades. The aforesaid non-genuine trades resulted into creation of artificial volume in stock options segment of BSE during the IP. It was observed that Kartikey Brokers Private Limited (PAN – AAFCK4655F) (hereinafter referred to as the “**Noticee**”) was one of the various entities who indulged in execution of reversal trades in stock options segment of BSE during the IP. Such trades were observed to be non-genuine in nature and created false or misleading appearance of trading in terms of artificial

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volumes in stock options and therefore were alleged to be manipulative, deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for violation of the provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as “**PFUTP Regulations, 2003**”).

APPOINTMENT OF ADJUDICATING OFFICER

3. The undersigned was appointed as the Adjudicating Officer (hereinafter referred to as “**AO**”) vide Order dated November 12, 2021 under Section 19 read with Section 15(l) of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**SEBI Act**”) and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as “**SEBI Adjudication Rules**”) to inquire into and adjudge in the manner specified under Rule 4 of Adjudication Rules read with Section 15-I(1) and (2) of SEBI Act, 1992, and if satisfied that penalty is liable, impose such penalty as deemed fit in terms of Rule 5 of Adjudication Rules and section 15HA of SEBI Act.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice No. EAD-3/BM/JR/44266/2022 dated August 8, 2022 (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 them and why penalty should not be imposed under section 15HA of the SEBI Act, for the aforesaid alleged violations. In the SCN, the Noticee was informed about the SEBI Settlement Scheme, 2022, in terms of regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 in the matter of Illiquid Stock Options and in case, Noticee does not wish to avail of the facility under the SEBI Settlement

Scheme, 2022, Noticee was advised to file a reply to the SCN within 30 days of the receipt of the SCN.

5. I note from the website of Ministry of Corporate Affairs (MCA) that the status of the Noticee is being shown as "Strike Off". Copy of the Company Master data of the Noticee from the MCA website placed in the file. On perusal of the various 'Form No. STK-7, Notice of Striking Off and Dissolution', as available on the MCA website, I note that Registrar of Companies, New Delhi, have declared pursuant to Section 248(5) of the Companies Act, 2013, that the Noticee companies have been struck off the Register of Companies, through notice dated September 4, 2018.
6. The applicable provision of the Companies Act, 2013 are reproduced for reference as follows:-

Effect of company notified as dissolved

250. Where a company stands dissolved under section 248, it shall on and from the date mentioned in the notice under sub-section (5) of that section cease to operate as a company and the Certificate of Incorporation issued to it shall be deemed to have been cancelled from such date except for the purpose of realising the amount due to the company and for the payment or discharge of the liabilities or obligations of the company.

7. I note that it is an established fact that when a company is struck-off, it is a non-existing company and the adjudication proceedings against the non-existing company is thus nullity. In this context, I would like to rely upon the judgment of the Hon'ble Delhi High Court in the case of Commissioner of Income Tax (CIT) vs. Vived Marketing Services (P) Ltd., ITA NO. 273/2009 dated September 17, 2009 in which it was held that - "*When the Assessing Officer passed the order of assessment against the respondent company, it had already been dissolved and struck off the register of the Registrar of companies under Section 560 of the Companies Act. In these circumstances, the Tribunal rightly held that there*

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could not have been any assessment order passed against the company which was not in existence as on that date in the eyes of law it had already been dissolved. We are of the opinion that the view taken by the Tribunal is perfectly valid and in accordance with law.”

8. Strike off essentially means removing the name of the company from the Register maintained by the Registrar of Companies. It is like closure of the company and the company will not be in existence after being struck-off and cannot perform any operations. In view of the fact that the Noticee has been struck-off and liabilities in respect of the present proceedings had not accrued as on the date of dissolution of the Noticee, it would not be appropriate to determine liability against a company which no longer exists. Hence, the proceedings are hereby disposed of without going into the merits of the case. Should the Noticee stand revived or restored at any stage, a decision to initiate proceedings may be taken afresh at that stage.

9. I further note that the SEBI Act in section 28B states the following in respect of liability for penalty in the case of a death of a person:-

Continuance of proceedings

28B(1) Where a person dies, his legal representative shall be liable to pay any sum which the deceased would have been liable to pay, if he had not died, in the like manner and to the same extent as the deceased: Provided that, in case of any penalty payable under this Act, a legal representative shall be liable only in case the penalty has been imposed before the death of the deceased person.

10. In view of my findings noted in the preceding paragraphs and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby dispose of the Adjudication Proceedings

initiated against Noticee viz. Kartikey Brokers Private Limited, vide SCN dated August 08, 2022, without going into the merits of the case.

11. In terms of rule 6 of the Adjudication Rules, 1995, copy of this order is sent to the Noticee's last known address and also to SEBI.

Place: Mumbai

Date: April 6, 2023

BARNALI MUKHERJEE
ADJUDICATING OFFICER