

AMRAPALI AADYA TRADING & INVESTMENTS PVT. LTD.
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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

PART- A

1. Securities and Exchange Board of India (hereinafter referred to as, “**SEBI**”) has initiated Adjudication Proceedings against **AMRAPALI AADYA TRADING & INVESTMENTS PVT. LTD.** (PAN: AAECA3909P) (hereinafter referred to as “**Noticee**”) under Section 15HB of SEBI Act, 1992 for not exercising care and diligence in the conduct of its business while dealing with its clients and/or, while dealing with their proprietary accounts in violation of Clauses A(2) of Code of Conduct for Stock Brokers given under Schedule II of the SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as “**Broker Regulations**”) read with Regulation 9(f) of the Broker Regulations.
2. The undersigned was appointed as Adjudicating Officer under Section 15-I (1) of the SEBI Act, 1992 read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as ‘**Adjudication Rules**’), *vide* Order dated September 05, 2022 to enquire into and adjudge under Section 15HB for the alleged violations by the Noticee. Copy of *communiqué* dated September 05, 2022 appointing the undersigned as Adjudicating Officer is placed as **Annexure 1**.

Background

3. An Interim Order *WTM/RKA/ISD/106/2015* dated August 20, 2015 was passed by SEBI in the matter of Illiquid Stock Options restraining 59 entities (clients) 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 entities (clients).

4. The *modus operandi* that was identified in the Interim order and Confirmatory order 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*".
5. Subsequent to passing of aforementioned Interim order against 59 entities (clients), 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, 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.
6. 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. Relevant extract of the investigation report is attached as **Annexure 2**.
7. Trade data of BSE's Stock Options segment during the I.P. for the Illiquid Stock Options was analysed to identify trade reversals. 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 trade reversals 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.

8. Total number of contracts during the I.P. was 23,885 contracts. The details of trading in such 23,885 contracts are shown as follows:

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

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

9. BSE had issued notice to all of its 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. The aforesaid BSE notice also casts obligation on the brokers 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 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.”

10. In terms of the aforesaid notice no 20130307-21 dated March 07, 2013, all the Brokers should necessarily frame a surveillance policy so as to identify and report suspicious/manipulative activities. In line with the aforesaid notice from exchange, the brokers were expected to consider various factors including but not limited to repeated reversal trades on same day, reversal price, entities involved in repeated reversal transactions on same day in various scrips, etc. and

accordingly put in place a system so as to identify and report suspicious/manipulative activities.

11. 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, without a system in place to identify repeated trade reversals between the same clients, 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 3**.

1.

Analysis of Source Data

12. On analyzing 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.*

13. 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 non-genuine trades wherein the position taken were reversed by the clients. Details of all the repeated reversal trades of the Noticee during investigation period are given in **Annexure 4**.
14. In view of the above, 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. 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.
15. Hence, it is alleged that Noticee has 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.

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.

16. The aforesaid alleged violations, if established, make the Noticee liable for monetary penalty under Section 15HB of the SEBI Act, which is reproduced as follows:

SEBI Act, 1992

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.*

17. Accordingly, this Show Cause Notice (hereinafter referred to as ‘**SCN**’) is being issued to you in terms of Rule 4(1) of the Adjudication Rules and you are hereby called upon to show cause as to why an inquiry should not be held against you in terms of Rule 4 of the Adjudication Rules and why penalty, if any, should not be imposed under Section 15HB of the SEBI Act.
18. The reply, if any, of the Noticee should reach the undersigned, at the address given below, as well as in softcopy (in MSWORD format) through email at amitk@sebi.gov.in and balbirs@sebi.gov.in within 14 days from the date of receipt of this notice.

Securities and Exchange Board of India

SEBI Bhavan II, Plot No. C-7, ‘G’ Block,

Bandra Kurla Complex, Bandra (East), Mumbai – 400 051.

19. The Noticee may also indicate in its reply whether it desire a personal hearing in the matter. In case, a reply to this notice is not received within the stipulated timelines, it shall be presumed that the Noticee has no reply to submit and the matter shall be proceeded on the basis of the material available on record in terms of sub-rule (7) of Rule (4) of the Adjudication Rules. The Noticee is also

advised to submit a photocopy of its Income Tax Permanent Account Number Card (PAN Card) for our records. Please also keep the undersigned informed about the change in your correspondence address/ e-mail id, if any, till the proceedings are concluded. This Office shall not be responsible for any late receipt of your correspondence if not addressed to this office specifically.

PART – B

20. Meanwhile, SEBI has framed the SEBI Settlement Scheme 2022 for Stock Brokers, 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	1,00,000

21. 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)	Total Settlement Amount
ANIRAPALI ANDYA TRADING & INVESTMENTS PVT. LTD.	AABCA3909P	SANJEEV AKUMAR SINHA	ALEPS6005L	NARAYAN JEE THAKUR	ADIFTB7T4F	No	No	55	Yes	0	100000	100000

22. 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.
23. 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.
24. 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.

AMIT
KAPOOR

Digitally signed
by AMIT KAPOOR
Date: 2022.11.29
09:24:19 +05'30'

Amit Kapoor
Adjudicating Officer

List of Annexures:

S.N.	Particulars	Annexure
1	Copy of communique dated September 05, 2022	1
2	Relevant Extract of Investigation report	2
3	BSE e-mail dated November 06, 2020	3
4	Copy of Trade Data of the Noticee.	4