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भारतीय प्रतिभूति
और विनिमय बोर्ड
Securities and Exchange
Board of India

By Speed Post A.D.

DEPUTY GENERAL MANAGER &
ADJUDICATING OFFICER

NRO/AO/VSS/2101/1/2022
January 17, 2022

Krati Agarwal
15, Anand Nagar Extension,
Chitawad Road, Indore,
Madhya Pradesh-452 001.

Subject: Adjudication Proceedings in respect of Krati Agarwal in the matter of dealings in Illiquid Stock Options at BSE- Show Cause Notice under Rule 4(1) of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995

1. Securities and Exchange Board of India (hereinafter, referred to as "SEBI") has initiated adjudication proceedings in respect of **Krati Agarwal** (hereinafter, referred to as "Noticee"), bearing PAN – BPOPA9886C for allegedly violating Regulations 3(a), (b), (c), (d) and 4(1), 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter, referred to as "PFUTP Regulations, 2003"), in the matter of trading in illiquid stock options on the Bombay Stock Exchange Limited ("BSE").
2. The undersigned was appointed as Adjudicating Officer vide order dated September 20, 2021 to enquire into and adjudge under Section 15HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the "SEBI Act"), the alleged violations by the Noticee. A copy of the communiqué dated September 27, 2021 appointing the undersigned as Adjudicating Officer is placed at **Annexure-A**.
3. As part of ongoing surveillance, SEBI came across reversal of trades in Stock Options segment of the BSE. Subsequently, SEBI conducted an investigation into the trading activity in illiquid Stock Options at BSE (hereinafter, referred to as "investigation") for the period between April 01, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period").

“हम हिन्दी पत्राचार का स्वागत करते हैं।”

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उत्तरी प्रादेशिक कार्यालय : प्लेट-बी, आठवीं मंजिल, ऑफिस टॉवर-1, एन बी सी सी कॉम्प्लेक्स, पूर्व किदवई नगर, नई दिल्ली - 110023

Northern Regional Office : Plate-B, 8th Floor, Office Tower-1, NBCC Complex, East Kidwai Nagar, New Delhi-110023 दूरभाष (Phone) : 011 - 69012998

प्रधान कार्यालय : सेबी भवन, प्लॉट सं. सी-4 'अ', जी-ब्लॉक, बान्द्रा कुर्ला कॉम्प्लेक्स, बान्द्रा (पूर्व) मुंबई - 400051 दूरभाष (Phone) : 022 - 26449000

Head Office : SEBI Bhavan, Plot No. C-4A, G-Block, Bandra Kurla Complex, Bandra (E) Mumbai - 400051 Web : www.sebi.gov.in



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4. Pursuant to investigation, 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 a contract. 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 resulted into generation of artificial volumes.
5. The Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in the Stock Options Segment of BSE during the investigation period. The Noticee is alleged to have engaged in 2 reversal trades in a contract, which led to generation of alleged artificial volume of 30,000 units. These trades of the Noticee involved reversal with the same counterparty on the same day, but at different prices. Details of all the reversal trades of the Noticee in Stock Option Segment of BSE during investigation period are given in **Annexure-B**.
6. The trades entered by the Noticee were reversed on the same day with same counterparty at a substantial price difference without any basis for significant change in the contract price which indicates that these trades are artificial and are non-genuine in nature.
7. A summary of dealings of Noticee in Stock Options contract 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	Buy Rate (Rs.)	Total Buy Volume (no. of units)	Sell Rate (Re.)	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	SMIL15MAR400.00CE	25.00	15000	38.40	15000	100%	100%

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



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8. The abovementioned reversal trades and volumes are illustrated through the dealings of Noticee in a contract i.e. "Contract Name SMIL15MAR400.00CE" during the investigation period, as follows:-

(a) During the investigation period, 2 non-genuine trades for 30,000 units were executed by the Noticee in the said contract on 23.03.2015.

(b) While dealing in the said contract on 23.03.2015 at 14:22:02 hrs., the Noticee entered into a sell trade with counterparty Shashi Arora for 15,000 units @ Rs. 38.4 per unit and entered into a buy trade on the same day with the same counterparty for 15,000 units @ Rs. 25.00 at 14:29:11 hrs.

(c) The Noticee's trades while dealing in the above-said contract during the investigation period allegedly generated artificial volume of 30,000 units, which made up 100% of total market volume in the said contract during this period.

9. 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 Regulations 3(a), (b), (c), (d), 4(1), 4(2)(a) of SEBI (PFUTP) Regulations, 2003.

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;*



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(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 [manipulative,] fraudulent or an unfair trade practice in securities [markets].

(2) Dealing in securities shall be deemed to be a [manipulative] fraudulent or an unfair trade practice if it involves [any of the following]:—

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

10. The aforesaid alleged violations, if established, make the Noticee liable for monetary penalty under section 15HA of the 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].

11. You are, therefore, called upon to show cause as to why an inquiry should not be held against you in terms of Rule 4 of the 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 should not be imposed section 15HA of the SEBI Act.

12. Your reply, if any, should reach the undersigned within 21 days from the date of receipt of this Notice, failing which it shall be presumed that you have no reply to submit and the matter would be further proceeded with on the basis of the evidence available on record in terms of sub-rule (7) of Rule (4) of the Adjudication Rules. You may also indicate whether you desire a personal hearing in the matter and send a copy of the reply through email at virsahabs@sebi.gov.in.



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13. This notice is issued without prejudice to the rights of SEBI to issue a supplementary notice and to initiate any other proceedings/actions for the aforesaid violations in terms of the SEBI Act and rules or regulations made there under.
14. Further, you are required to keep the undersigned informed about the change in your correspondence address, if any, till the conclusion of the proceedings. You are also required to submit a photocopy of your PAN card and contact details viz. Telephone numbers / Fax numbers / e-mail IDs and details of contact persons for records.

VIR SAHAB SINGH
ADJUDICATING OFFICER

Enclosures: Documents relied upon are as follows: -

Annexure	Copy of relevant documents enclosed with this SCN
A	Communique dated September 27, 2021 appointing Adjudicating Officer
B	Reversal trades (Non-Geniune Trades) of Noticee in Stock Option segment of BSE during the investigation period i.e. April 01, 2014 to September 30, 2015.

