

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: MADHABI PURI BUCH, WHOLE TIME MEMBER**

ORDER

Under Sections 11(1), 11(4) and 11B of the Securities and Exchange Board of India Act, 1992 in the matter of Illiquid Stock Options

1. Securities and Exchange Board of India (hereinafter referred to as ‘SEBI’), initiated a preliminary examination in the matter of Illiquid Stock Options for the period April 01, 2014 to March 31, 2015 during which it was noticed that a set of entities were repeatedly incurring significant losses by executing reversal trades in the Stock Options segment of BSE, and another set of entities were repeatedly making significant profits by becoming their counterparties in orchestrated trades with a common objective of intended execution of the non-genuine trades. Upon analysis of the trading activity of these entities, it was observed that the scheme, plan, device and artifice employed in executing reversal trades in illiquid stock option contracts at irrational, unrealistic and unreasonable prices, was prima-facie a fraud on the securities market inasmuch as it involved non-genuine/manipulative transactions in securities and misuse of the securities market.
2. In view of above, in order to protect the interests of investors and to preserve the safety and integrity of the market, SEBI passed an Interim Order dated August 20, 2015 (hereinafter referred to as “Interim Order”) restraining the following 59 persons/entities from buying, selling or dealing in the securities markets, either directly or indirectly, in any manner, till further directions:

Table 1

S. No.	Name	PAN
1	Adarsh Credit Co Op Society Ltd.	AAAJA0296J
2	Riddisiddhi Bullions Limited	AAACR6727L

Order in the matter of Illiquid Stock Options

S. No.	Name	PAN
3	Bharat Jayantilal Patel	AAAPP6652R
4	Quest Partners	AAAFQ3174B
5	Gajanan Enterprises	AAKFG7595A
6	Kundan Rice Mills Limited	AAACK7098P
7	J B Overseas	AAIFJ6651J
8	Raghav Commodities	AARFR1409D
9	Woodland Retails Pvt. Ltd.	AABCW1644A
10	Jaideep Halwasiya	AAWPH1706L
11	Kundan Care Products Limited	AACCK4743R
12	Anand Mining Corporation	AAGFA0187Q
13	Mahakaleshwar Mines & Metals Pvt. Ltd.	AAHCM1276E
14	Anantnath Vincom Pvt. Ltd.	AAKCA2146A
15	Pasha Finance Pvt Ltd	AAACP8316P
16	Xion Gems & Jewellers Pvt. Ltd.	AAFCA5667D
17	Ashok Kumar Damani	ACXPD6089R
18	Vinay Ramanlal Shah Huf	AABHV9007P
19	Swaran Financial Pvt. Ltd.	AAECS4024R
20	Vitrag Rajendrakumar Sheth	BSUPS7339K
21	Savitri Sons	AANFS6992C
22	Gyandeep Khemka	AGBPK0640F
23	Gandiv Investment Pvt. Ltd.	AACCG3017C
24	Rashi Commercial Company	AAAFR1026K
25	Priyasha Meven Finance Ltd.	AADCP2042F
26	Open Futures And Derivatives Pvt. Ltd	AABCO1139Q
27	Pragya Commodities Pvt. Ltd.	AABCP5764C
28	Nouvelle Advisory Services Pvt. Ltd.	AADCN1774A
29	GCK Stock Private Limited	AAACA5560C
30	Om Sales Corporation	AARPY4343F
31	Prompt Commodities Ltd	AADCP1910G
32	Gurmeet Singh	AAQPS9561E
33	N M Impex Pvt. Ltd.	AABCN0541M
34	Vision Sponge Iron Pvt. Ltd.	AABCV4791R
35	Umang Nemani	ABOPN7213K
36	Vsp Udyog Pvt. Ltd.	AABCV6318G
37	Shir Commodities & Futures (P) Ltd.	AAACU7902J
38	Jai Annanya Investments Pvt. Ltd.	AABCG0769Q
39	Sureshine Vintrade Pvt Ltd	AAUCS1804K
40	Motisons Commodities Pvt. Ltd.	AADCM7184M
41	Evergrowing Iron & Finvest Pvt. Ltd.	AAACE1287C
42	Rajbanshi Trading	AQEPR0750Q
43	Tradebulls Enterprise Pvt. Ltd.	AAECT2124M

S. No.	Name	PAN
44	Avijit Saha	DCIPS3813Q
45	Ketan Ramanlal Shah Huf	AACHK9724K
46	Steel Crackers Pvt. Ltd.	AADCS6663F
47	Prime Gold International Ltd.	AACCK3755F
48	Raj Ratan Smelters Pvt Ltd	AADCR8689N
49	Sourabh H Bora	ADIPB7693R
50	Eden Trading Services Pvt. Ltd.	AADEC1272A
51	Mammon Concast Pvt. Ltd.	AAGCM5635G
52	Bhawani Ferrous Pvt Ltd	AACCB3369A
53	Vsp Steel Pvt Ltd	AACCT2881K
54	Panem Steel Pvt. Ltd.	AAACP8592R
55	Deepak NatvarlalPankhiyaniHuf	AAJHP3250L
56	KirtiRamji Kothari	AAEPK3216C
57	Skeet Comsec Trading LLP	ACBFS5896B
58	Gee Bee Securities Pvt Ltd	AACCG3141P
59	Umesh Malani	BDHPM5310A

The aforementioned 59 entities were shortlisted in the preliminary examination based on various parameters including reversal of trades with the same counterparty either on the same day or the next day, buying and selling equal units of stock options of scrip, profit made or loss incurred by each entity by reversing the transactions in excess of Rs. 5 crores, etc.

3. The interim directions in respect of aforementioned entities were confirmed by SEBI vide Orders dated July 30, 2016 and August 22, 2016 (hereinafter referred to as “Confirmatory Order”) after providing certain relaxations as mentioned therein.
4. Meanwhile, SEBI initiated a detailed investigation relating to trading in Stock Options segment of BSE, *inter alia*, to ascertain the alleged violation of the provisions of the Securities and Exchange Board of India Act, 1992 ("**SEBI Act**") and the Rules and Regulations made thereunder. The period of Investigation was taken as April 01, 2014 to September 30, 2015 (hereinafter referred to as "**Investigation period**"). The said period was considered in view of the continuing trading by the entities until the passing of Interim Order and Order dated February 17, 2016 in a similar matter in respect of trading members

in the matter of Illiquid Stock Options wherein the examination period was considered from April 01, 2014 to September 30, 2015. As directed in the Confirmatory Order, the scope of investigation was enhanced to cover all entities that had indulged in executing reversal trades in BSE's Stock Options segment during the investigation period. During investigation, entities were shortlisted on the basis of various parameters including reversal of trades with the same counterparty on the same day, the number of units of stock options reversed with the same counterparty may or may not be the same (since partial trade reversals also constitute violations), all entities that had traded on BSE's Stock Options segment were examined irrespective of the quantum of profit made / loss incurred by them.

5. The investigation in the matter has been completed. The investigation has found that 14,720 entities were involved in executing non-genuine trades in BSE's Stock Options segment during the investigation period. Out of the 59 entities (against whom directions were issued vide Interim Order and Confirmatory Order), 2 entities (mentioned at S. No. 58 and 59 in Table 1) were not found to meet the parameters outlined in Paragraph 4 above. Thus no adverse finding is observed in the Investigation Report in respect of aforementioned 2 entities and so the directions issued earlier vide Interim Order dated August 20, 2015 which were confirmed vide Order dated August 22, 2016, need not be continued since the prima facie findings against these two entities are no more sustainable in view of the findings of the investigation.
6. With reference to the remaining 57 entities (mentioned at S. No. 1 to 57 in Table 1), investigation has found that these 57 entities along with 14,663 other entities, were involved in executing non-genuine trades thereby violating Regulations 3(a), (b), (c), (d), 4(1), 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.
7. The investigation has also found that pursuant to passing of Interim Order in the matter, BSE had taken various measures to prevent occurrence of such reversal / non-genuine

trades on its exchange platform. Some of the measures as noted in the investigation include:

- a) Introduction of Reversal Trade Prevention Check (“RTPC”) for the Stock Options segment of BSE with effect from March 14, 2016. In this measure, the second leg (latest leg) of a reversal trade is automatically cancelled by the Exchange at the time of order matching in an on-line real time manner in the trading system.”
- b) Introduction of Price Reasonability Check (“PRC”) functionality in the Stock Options segment of BSE in January 2016.
- c) Discontinuation of weekly stock options contracts with effect from March 03, 2016 as it was observed that the contracts that were used by the entities for exchanging their positions were mostly weekly contracts.
- d) Reduction in number of strikes in the Stock Options segment to curb trading in far Out Of The Money contracts.

8. I also note that in light of the Order of Hon’ble Supreme Court in the matter of Rakhi Trading Pvt. Ltd. (C.A. No. 1969 of 2011), a decision has been taken by SEBI to take appropriate action in respect of all 14,720 entities in a phased manner. I further note that SEBI Act, 1992 provides for various tools of enforcement in order to deal with violation of securities laws. Imposition of monetary penalty and debarring the entities for violation of securities laws are a few of such measures. The appropriateness of subjecting the entities to any particular enforcement tool depends on various factors including the gravity of the violations and the effectiveness of the particular enforcement action in discharging the objective of investor protection and development of capital market. In the present case the investigation has found that the entities have indulged in fraudulent and unfair trade practice by virtue of reversal trades. The same, if established, is a serious violation affecting the integrity of securities market and investor confidence. The regulatory objective of investor protection and ensuring market integrity would be served only when such entities indulging in reversal trades are dealt with sternly. It is noted that Section 15HA of SEBI Act, 1992 provides for penalty which can extend upto three times of profit

or rupees twenty five crores whichever is higher. It is further noted that in terms of disgorgement proceedings, SEBI can disgorge only to the extent of illegal profit and interest thereon. In this instance, initiation of Adjudication Proceedings which can result into a more severe monetary penalty, if the violations are established, would act as a strong deterrent on the perpetrators of such unfair trade practices. It would not be out of place to mention that deterrent monetary penalty acts as a continuing safeguard to investors and market integrity because the effectiveness of such deterrence lies in deterring any unfair trade practice in future.

9. In consonance with the regulatory objective that imposition of monetary penalty as per law in respect of similarly placed entities would meet the ends of justice, Adjudication Proceedings have been initiated by SEBI in the 1st Phase against 567 entities including 56 out of the 57 entities (as mentioned at S. No. 1 to 56 in Table 1 above). Action against one entity (mentioned at S. No. 57 in Table 1 above) would be taken up in the subsequent phases of enforcement as per the classification of entities that was determined during the investigation.
10. I have considered the findings of the investigation report. I have also noted that pursuant to completion of investigation, 14,720 entities in all have been identified as having violated the provisions of SEBI (PFUTP) Regulations, 2003. I note that Adjudication Proceedings have been initiated against 567 entities in Phase 1 including 56 entities (mentioned at S. No. 1 to 56 in Table 1 above), who were involved in executing non-genuine trades.
11. It is appropriate now to consider the matter whether the interim directions against the aforementioned 57 entities issued vide Interim Order dated August 20, 2015 and as confirmed vide Orders dated July 30, 2016 and August 22, 2016, need to be continued or not in the context of the need to have some similarity of approach in dealing with all the 14,720 entities even though the amount of profit made / loss incurred through the non-genuine trades varies and can be the basis of some differences.

12. I shall now examine whether under the current scenario, the revocation of interim directions would result in resumption of undesirable activity for which the interim directions were issued. In this regard, I note that BSE undertook a series of corrective measures to prevent occurrence of such non-genuine trades in its Stock Options segment. The investigation report also reveals that pursuant to regulatory intervention by SEBI by way of Interim Order dated August 20, 2015 and corrective measures taken by BSE, the turnover in BSE's Stock Options segment saw a marked decline with the average daily turnover declining from a high of Rs.720 crores (approximately) during 2014-15 to Rs.300 crores (approximately) during 2015-2016 and thereafter reduced to almost nil during 2016-2017.
13. Considering the above factors, it would be reasonable to anticipate that in view of the regulatory intervention by SEBI and the various corrective / preventive measures taken by BSE in its Stock Options segment, there is low probability that the entities shall indulge in execution of reversal / non-genuine trades in Stock Options.
14. In summary,
- a) As per the investigation report, 14,720 entities have been found to have executed non-genuine trades.
 - b) The Hon'ble Supreme Court in the case of Rakhi Trading Pvt. Ltd. has upheld that similar trades are in violation of SEBI (PFUTP) Regulations, 2003.
 - c) SEBI has decided to take appropriate action against all 14,720 entities in phases.
 - d) In the 1st Phase, Adjudication Proceedings have been initiated against 567 entities including 56 of the 59 entities (against whom directions were issued vide Interim Order and Confirmatory Order). One entity (out of the 59 entities) would fall in a subsequent phase of action. Two entities (out of the 59 entities) do not meet the criteria as detailed in paragraph 4 of this order.
 - e) Any person found to be in violation of SEBI (PFUTP) Regulations, 2003, is 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.

- f) BSE has taken steps to prevent / significantly reduce the possibility of misuse of the exchange platform in such a manner.
- g) There is a need for some similarity of approach in taking action against the various entities even though the difference in amount of profit made / loss incurred through the non-genuine trades varies and can be the basis of some differences.

15. As stated earlier, SEBI has decided, in furtherance of its objective to deal with the unfair trade practice, to initiate appropriate action in respect of all entities including initiation of Adjudication Proceedings against 567 entities in Phase 1 who, as per the investigation findings, are similarly placed like the 57 entities (mentioned at S. No. 1 to 57 in Table 1 above). Therefore, ends of justice and the regulatory objectives of SEBI would be better served if Adjudication Proceedings are continued against the aforesaid 57 entities. Accordingly, the present proceedings are liable to be disposed of with a direction to continue Adjudication Proceedings against the aforesaid 57 entities (excluding entities mentioned at S. No. 58 and 59 in Table 1). Appropriate direction in this regard is made in this order.

16. Based on the above, without going into the merits of the case, I am of the view that there is no need to continue the directions issued against the entities mentioned at Table 1 above vide Interim Order dated August 20, 2015 and Confirmatory Orders dated July 30, 2016 and August 22, 2016, and that the Adjudication Proceedings initiated by SEBI would adequately meet the ends of justice and regulatory objectives.

17. I, therefore, in exercise of the powers conferred upon me under section 19 of the Securities and Exchange Board of India Act, 1992 read with sections 11, 11(4) and 11B thereof, do hereby dispose of the proceedings initiated vide Interim Order dated August 20, 2015 as confirmed vide Orders dated July 30, 2016 and August 22, 2016, against all the entities mentioned in Table 1, with immediate effect without any further directions.

The Adjudication Officer shall continue and conclude the proceedings in accordance with the SEBI Act, 1992 and SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995, and pass appropriate order on merits, at the earliest, uninfluenced by this order, since this order is passed without examining the merits, in consonance with the regulatory objective that imposition of monetary penalty as per law in line with similarly placed entities would meet the ends of justice.

18. I further note that the entity mentioned at S. No 38 of Table 1 above viz., Jai Annanya Investments Pvt. Limited had filed representations dated August 02, 2017 and February 26, 2018 seeking modification/revocation of the Confirmatory Order dated July 30, 2016. In view of the directions mentioned at paragraph 17 above, the directions issued against the aforementioned entity vide Interim Order dated August 20, 2015 and Confirmatory Order dated July 30, 2016 cease to be in force. Consequently, the said representations of Jai Annanya Investments Pvt. Limited stand disposed of.

19. A copy of this Order shall be served on the Stock Exchanges and Depositories, for necessary action.

DATE: April 05, 2018

PLACE: Mumbai

MADHABI PURI BUCH

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA