

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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 IN RESPECT OF:

S. No.	TRADING MEMBER'S NAME	BSE TM ID	AUTHORIZED REPRESENTATIVE
1	Good Luck Securities / Mousumi Deb Roy	5156	Mr. Ketan Rupani, Chartered Accountant
2	Odyssey Securities Pvt Ltd	4029	Mr. Ketan Rupani, Chartered Accountant
3	Geometry Vanijya Pvt. Ltd.	4036	Mr. Bharat Redij, Advocate
4	Kayan Securities Pvt. Ltd.	6566	Mr. Ketan Rupani, Chartered Accountant
5	Aryav Securities Pvt. Ltd.	6493	Mr. Prakash Shah, Advocate
6	Giriraj Stock Broking Pvt. Ltd.	6551	Mr. Bharat Redij, Advocate
7	NS Broking Pvt. Ltd	4041	Not appeared for personal hearing
8	Concord Vinimay Pvt. Ltd.	6587	Mr. Bharat Redij, Advocate
9	MKB Securities Pvt. Ltd.	4035	Mr. Bharat Redij, Advocate
10	Bahubali Forex Pvt. Ltd.	4034	Not appeared for personal hearing
11	Sunstar Securities	6513	1. Mr. Ankit Lohia, Advocate, 2. Mr. Aditya Bhansali 3. Mr. Amit B. Dey, Advocate 4. Mr. Sunil Malik, Partner
12	MSB E-Trade Securities Ltd.	6395	Mr. Prakash Shah, Advocate
13	Best Bull Stock Trading Pvt. Ltd.	3135	Mr. Prakash Shah, Advocate
14	Skung Tradelink Ltd.	6372	1. Mr. Ankit Lohia, Advocate, 2. Mr. Aditya Bhansali 3. Mr. Amit B. Dey, Advocate 4. Mr. Piyush Gupta, CEO
15	Lalit Kumar Tulshyan	5155	Mr. Bharat Redij, Advocate
16	Subh Stock Broking Pvt. Ltd.	M0681	Mr. Ketan Rupani, Chartered Accountant
17	R.K.Stock Holding Pvt. Ltd.	3052	Mr. Manoj Joshi, Compliance Officer

18	Basan Equity Broking Limited	6122	1. Mr. Prakash Shah, Advocate 2. Mr. Basanth Agarwal, Director
19	Abans Securities Pvt. Ltd.	3287	1. Mr. Somasekhar Sundaresan, Advocate, 2. Mr. Dhaval Kothari, Advocate, 3. Mr. Karan Heda, Director, Mr. Abhishek Bansal, Director, 4. Mr. Brijesh Parekh 5. Mr. Devesh Vasawada
20	Mauzampur Securities Broking Pvt. Ltd.	4032	Mr. Bharat Redij, Advocate
21	Achintya Securities Pvt. Ltd.	6468	1. Mr. Somasekhar Sundaresan, Advocate, 2. Mr. Prakash Shah, Advocate, 3. Mr. Robin Shah 4. Mr. Arpit Agarwal, Director
22	Guiness Securities Ltd.	3027	1. Mr. Somasekhar Sundaresan, Advocate, 2. Mr. Dhaval Kothari, Advocate 3. Mr. Kamal K. Kothari, Director

1. Pursuant to the passing of the *ad interim ex parte interim* order in the matter of Illiquid Stock Options on August 20, 2015, Securities and Exchange Board of India (hereinafter referred to as “SEBI”) undertook a preliminary examination of the Trading Members (TMs/Stock Brokers) through whom the loss-making entities and profit-making entities (in total 59 entities against whom *interim* directions were issued vide the aforesaid order dated August 20, 2015), had executed reversal trades. From the preliminary examination of the trades entered by these TMs on behalf of their clients on Bombay Stock Exchange Ltd. (“BSE”)’s Stock options segment, it *prima facie* appeared that majority of the TMs executed reversal trades for majority of their clients and such reversal trades accounted for a significant proportion of the total turnover of these TMs on stock options segment on BSE.
2. The examination of trades executed by these TMs on behalf of their clients was done for the period April 1, 2014 to September 30, 2015 (hereinafter referred as "Examination Period"). For this examination, the TMs through whom the 59 entities had executed trades were further examined on the basis of the following criteria:
 - i) Reversal Turnover in BSE stock options segment to be more than ₹ 50 cr.
 - ii) Turnover due to the Reversal Transactions to be at least 50% of total turnover done by the TM in stock option segment of the exchange
 - iii) Of the total clients for which the trades were executed by TMs, at least 50% to have done reversal trades

- iv) At least 50% of transactions forming part of the reversal trades to be reversed within 60 minutes of entering the first leg of the trade
 - v) At least 50% of turnover forming part of the reversal trades to be reversed within 60 minutes of entering the first leg of trade.
3. Subsequent to the examination of TMs, SEBI vide its *ad interim ex-parte order* dated February 17, 2016 (hereinafter referred to as “*interim order*”), restrained 22 TMs from buying, selling or dealing in the securities markets, either directly or indirectly, in any manner, except as a stock broker for their existing clients in the cash segment, till further directions. Further, these TMs were restrained from accepting registration of any new client until further directions.
4. Being aggrieved by the *interim order*, the TMs filed separate appeals before Hon’ble Securities Appellate Tribunal (“Hon’ble SAT”) challenging the said *interim order*. Hon’ble SAT, vide separate orders dated 25/02/2016, 04/03/2016, 09/03/2016, 14/03/2016, 15/03/2016, 18/03/2016 and 05/04/2016 quashed and set aside the *interim order qua* the 22 TMs against whom the *interim order* was passed. Hon’ble SAT, *inter alia*, recorded the following reasons in its aforesaid orders while setting aside the *interim order*:
- a) *By ex-parte ad-interim order dated 20.08.2015 the WTM of SEBI had passed restraint order against 59 clients who were found to have executed non-genuine trades in the stock options segment during the period from 01.04.2014 to 31.03.2015. The said 59 clients had traded through 18 stock brokers (including some of the appellants herein). In the said ex-parte order dated 20.08.2015, it was held that 59 clients had devised a fraudulent plan to execute non-genuine trades and nothing was imputed against the 18 stock brokers through whom 59 clients had traded. Accordingly, the said 18 stock brokers (including some of the appellants herein) carried on trading activities in accordance with law even after the ex parte ad-interim order was passed against the 59 clients on 20.08.2015. Therefore, the WTM of SEBI having recorded in the order dated 20.08.2015 that only 59 clients had devised a fraudulent plan to execute non-genuine trades, could not have arrived at a conclusion that the stock brokers (including some of the appellants herein) were parties to the fraudulent transactions merely because large number of reversal trades were executed by the said clients through the 18 stock brokers (including the appellants).*
 - b) *It is interesting to note that all the 18 stock brokers who had executed trades on behalf of 59 clients are not restrained by the impugned order dated 17.02.2016. It is only 11 stock brokers out of 18 stock brokers are sought to be restrained by the impugned order. Thus, in respect of 7 stock brokers whose clients by executing reversal trades in the stock options segment had made profits exceeding ₹5 crore are permitted to carry on trade without any restraint order. The Calcutta Stock Exchange Ltd. is one such stock broker (Trading Member) whose client viz. Umang Nemani was restrained by ex-parte ad-interim order dated 20.08.2015. However, the Calcutta Stock Exchange Ltd. has not been restrained by either of the orders. In such a case, if SEBI considers that the stock broker viz. the Calcutta Stock Exchange Ltd. need not be restrained on account of its client viz. Umang Nemani making unlawful gains by resorting to nongenuine trades, then there is no reason to restrain the appellants for the acts of their clients, that too by*

passing ex-parte ad-interim order on 17.02.2016. There is no intelligible criteria employed while passing the ex parte ad-interim order on 17.02.2016.

- c) Argument of SEBI that by the ex-parte ad-interim order dated 20.08.2015 only the clients who had made profits or loss exceeding ₹ 5 crore under the reversal trades carried out during the period from 01.04.2014 to 31.03.2015 were considered and the role of stock brokers has been examined thereafter by enhancing the examination period from 01.04.2014 till 30.09.2015 is not convincing, because, firstly, as noted earlier all stock brokers whose 59 clients were investigated and restrained from entering the securities market by ex-parte order dated 20.08.2015, have not been restrained from entering the securities market by impugned order dated 17.02.2016, even though the trades executed by those stock brokers on behalf of their clients resulted in loss or profit exceeding ₹ 5 crore.*
- d) Secondly, as per Table-2 set out in the impugned order, in all 12584 clients had traded through 22 stock brokers (including some of the appellants herein) during the period from 01.04.2014 till 30.09.2015 and out of 12584 clients, 11228 clients of the 22 stock brokers did reversal trades in the stock options segment whereby abnormal trading profit has been caused to one set of clients and abnormal loss has been caused to another set of clients. If 11228 clients of 22 stock brokers (including some of the appellants herein) have indulged in abnormal trades which are detrimental to the interests of the securities market then the WTM of SEBI ought to have passed restraint order against those clients first and then proceed against the stock brokers to find out as to whether they were parties to the objectional trades carried out by the clients. In the present case, we are informed that investigation against the 11228 clients (of 22 stock brokers) who are supposed to have indulged in objectional trades are in progress and on completion of investigation appropriate action would be taken against those clients. If SEBI finds it difficult to take action against 11228 clients who are alleged to have indulged in non-genuine trades without carrying out further investigation, then, by applying the same yard stick, SEBI could not have passed ex-parte order against the stock brokers when the investigation is still in progress.*
- e) In the impugned order, the 22 stock brokers (including the appellants herein) are prima facie found guilty of colluding with their clients in executing fraudulent trades mainly on the ground that the percentage of reversal trades carried out by the stock brokers on behalf of their clients range between 60% to 100% and in majority of instances, the clients and the counterparty orders forming part of reversal trades were entered within few seconds of each other. As noted earlier, if the WTM of SEBI finds it difficult to take a prima facie view that the 11228 clients have indulged in trades which are fraudulent in nature and accordingly deems it fit not to take any action against those clients, then, in respect of the very same trades, the WTM of SEBI could not have formed a contrary view and proceed to pass ex-parte order against the stock brokers who have traded on behalf of the clients.*
- f) If the prima facie view is that the trades of the 11228 clients were not genuine, then to take action against 22 stock brokers but not against the 11228 clients amounts to applying double standard i.e. one standard for the stock brokers and another standard for clients, which is not proper.*
- g) Taking a prima facie view, only against the stock brokers that the trades in question are not genuine would amounts to promoting execution of nongenuine trades, because, the said 11228 clients would be emboldened to execute such trades through some other stock broker which would be detrimental to the*

interests of the securities market. Moreover, while permitting the appellants to trade in the cash segment, prohibiting the appellants from accepting registration of any new client is also illogical because, there is no basis to presume that the new clients would be indulging in non-genuine trades.

5. While disposing the appeal filed by SEBI against the aforesaid orders of Hon'ble SAT, 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.”

6. Pursuant to the aforesaid order of the Hon'ble Supreme Court, all the TMs (except Bahubali Forex Pvt. Ltd.) filed their written submissions and sought inspection of documents. An opportunity of inspection of the records/documents which were relied upon by SEBI for the purpose of the *interim order* was provided to the TMs. Further, based upon the request of the TMs and the directions of the Hon'ble Supreme Court, an opportunity of personal hearing was granted to all the TMs. The dates of replies/ written submissions, inspection and hearing opportunity granted in the matter are provided in the following table :

S. No	TM Name	Inspection Date	Date of reply/Written Submissions	Hearing Date
1	Good Luck Securities / Mousumi Deb Roy	25/07/2016	13/07/2016 29/07/2016	04/08/2016
2	Odyssey Securities Pvt Ltd	25/07/2016	13/07/2016 02/08/2016	04/08/2016
3	Geometry Vanijya Pvt. Ltd.	25/07/2016	13/07/2016 30/07/2016	04/08/2016
4	Kayan Securities Pvt. Ltd.	25/07/2016	18/02/2016 13/07/2016 27/07/2016 30/07/2016	04/08/2016
5	Aryav Securities Pvt. Ltd.	25/07/2016	11/07/2016 28/07/2016	04/08/2016
6	Giriraj Stock Broking Pvt. Ltd.	25/07/2016	12/07/2016 29/07/2016	04/08/2016

7	NS Broking Pvt. Ltd	25/07/2016	15/07/2016 29/07/2016	Did not attend the scheduled hearing on 04.08.2016
8	Concord Vinimay Pvt. Ltd.	25/07/2016	12/07/2016 29/07/2016	04/08/2016
9	MKB Securities Pvt. Ltd.	25/07/2016	13/07/2016 30/07/2016	04/08/2016
10	Bahubali Forex Pvt. Ltd.	Not sought inspection	Did not Reply	Did not attend the scheduled hearing on 04.08.2016
11	Sunstar Securities	25/07/2016	18/02/2016 20/02/2016 22/02/2016 13/07/2016	01/08/2016
12	MSB E-Trade Securities Ltd.	25/07/2016	13/07/2016 31/07/2016	04/08/2016
13	Best Bull Stock Trading Pvt. Ltd.	25/07/2016	14/07/2016 30/07/2016	04/08/2016
14	Skung Tradelink Ltd.	25/07/2016	18/02/2016 20/02/2016 22/02/2016 13/07/2016	01/08/2016
15	Lalit Kumar Tulshyan	25/07/2016	12/07/2016 30/07/2016	04/08/2016
16	Subh Stock Broking Pvt. Ltd.	25/07/2016	08/03/2016 12/07/2016 26/07/2016 02/08/2016	04/08/2016
17	R.K.Stock Holding Pvt. Ltd.	25/07/2016	22/02/2016 14/07/2016 29/07/2016	28/07/2016
18	Basan Equity Broking Limited	25/07/2016	11/07/2016	28/07/2016
19	Abans Securities Pvt. Ltd.	25/07/2016	15/07/2016 29/07/2016	28/07/2016
20	Mauzampur Securities Broking Pvt. Ltd.	25/07/2016	12/07/2016 01/08/2016	04/08/2016
21	Achintya Securities Pvt. Ltd.	25/07/2016	13/07/2016 03/08/2016	01/08/2016
22	Guiness Securities Ltd.	25/07/2016	12/07/2016 01/08/2016	28/07/2016

7. The TMs, vide their replies/written submissions (mentioned in the table above), *inter alia*, submitted the following :-

- 1) There was no reason for any emergent directions in the matter against them and that no direction whatsoever was warranted in the present matter.

- 2) The impugned order does not provide the name of even a single client on whose behalf the TM has been alleged to have executed the subject trades nor has the impugned order provided details of even a single instance of the alleged reversed/matched trades making it impossible for the TM to represent their cases effectively. Further the TMs had sought inspection of documents.
- 3) SEBI has erred in assuming that there cannot exist a situation that a client may have naked open position in the market. SEBI has further erred in assuming that entities selling stock options were required to have corresponding offsetting positions in the underlying scrip.
- 4) The Principle of Parity has not been followed. The Hon'ble SAT order dated 25-2-2016 states that only 11 out of 18 TMs have been suspended for trades executed on behalf of the 59 clients (order dated 20-08-2015) leading to the fact that the rest of the brokers are still allowed to trade which is justice being denied to those 11 brokers. Since an order has been passed by the Hon'ble SAT in favour of the TMs, they believe that SEBI will take a similar view in their case also. The balance of convenience lies in favour of the TMs and not in favour of the restraints being continued or issued yet again.
- 5) The purported "intrinsic value" of a stock is subject matter of detailed econometric analysis.
- 6) The role of stock exchange as a first level regulator to the TM has not been looked into.
- 7) The mere executing trades on behalf of clients does not constitute abatement. A TM cannot be held liable for the fraudulent trades of his client, if any, unless it is proved that the TM and his client together had acted in concert to manipulate the scrip or that there was an arrangement between the parties to engage in manipulative trades. The observations of the Hon'ble SAT in the matter of *Kasat Securities Pvt. Ltd vs SEBI* and *Kishor R Ajmera vs SEBI* are noteworthy.
- 8) The judgment of the Hon'ble SAT on similar nature of transaction executed by client and the TM in the matter *Rakhi Trading Pvt Ltd v/s SEBI* and *Indiabulls Securities Ltd. V/s SEBI* may be taken into account.
- 9) There is a high degree of Probability required to charge someone of fraud under the PFUTP regulations. There is no correlation between the two orders dated 20.08.2015 and 17.02.2016. The reasoning in the two orders are self-contradictory. Making such a serious allegation of fraud and unfair trade practice is incorrect especially when the earlier order alleges fraud on the part of the client with no allegation against the TM and yet suddenly attribute fraud and irregularities on the part of the TM.
- 10) There are a catena of cases and judgments wherein the Hon'ble SAT has upheld that a TM cannot be held liable for the alleged actions of the client unless it is established that the TM was aware of the fraud being perpetrated or there is an established link or collusion for wrongdoing between the broker and the client.

- 11) The TMs had exercised ongoing and continuous due diligence with respect to the clients and all transactions that were carried out by them were in line with parameters laid out by regulators and no grievance was raised by the exchange at the relevant time.
- 12) Neither SEBI nor BSE had prescribed what ought to be the normal range to trade in the option segment. In absence of any such guideline, an ordinary TM cannot be put to fault if trading is done at the available market rate.
- 13) All the impugned transactions had been carried out on the floor of the stock exchange. All the pre-trade, trade and post trade activities were carried out on the trading, clearing and settlement system of the stock exchange which itself had a sophisticated on-line surveillance software and systems in place. SEBI had failed to appreciate that the orders in options in individual stocks placed by the TM on behalf of its clients were well within the price band set by the Stock Exchange.
- 14) The turnover in BSE F&O segment is less and hence it is possible that turnover of single TM might show a distorted picture. Adverse inferences have been drawn in the *interim order* on the basis of miniscule turnovers of their clients indulging in reversal transactions in comparison to the total turnover of TMs.
- 15) Further, by executing said transactions, save and except legitimate brokerage the TMs have not gained anything. Therefore, insinuation that they "connived" in alleged scheme, plan, device and artifice is misplaced and unwarranted. They have submitted that they have no links connection/nexus with said clients and except for client broker relationship they have no relationship of whatsoever nature with said clients.
- 16) That the Exchange only provides the top five price points for bid and offer along with the quantity and number of orders associated with each of the price point in the order book. The Exchange provides information on the total quantity of shares/contracts outstanding in the order book for both bid and offer separately. SEBI failed to appreciate that additional details regarding the price points of the remaining quantity being bid for are not provided to the market and are unknown to the TM. Similarly, the counter party is also not known to the TM. The alleged manipulation by way of synchronization/reversal and matched trades must involve prior knowledge of counterparty, which has not been established in the *interim order*.
- 17) SEBI failed to consider that the orders in options in individual stocks got executed based on the best orders and best price-time priority. Both the buy and the sell orders were valid, as the buy bids and offers were within the applicable price band for the subject options contracts. That the prices at which the trades in options in individual stocks got executed were a direct result of the market rate orders, and were executed based on valid order placements merely based on demand and supply. The subject options in individual stocks were illiquid in nature as set forth in the impugned order and therefore the matching of trades if any were merely co incidental.

- 18) The impugned transactions of clients were considered valid, acceptable and normal by the stock exchange for which pay-in / pay-out obligation has already been carried out by the clearing and settlement mechanism of stock exchange.
- 19) They had not rendered any advisory services to any of their clients for execution of trades or otherwise.
- 20) They had merely acted as the TM and there was no relationship of any nature, beyond broker-client relation, between them and aforesaid clients. They had not rendered any advice for buying and selling any security in option segment and decision to buy or sell shares was by client themselves (on their own)
- 21) Their dealings were in due compliance of all the requirements of stock exchanges and SEBI and that they had fully complied with all guidelines issued from time to time by the regulatory authorities on the subject of dealings with the client.
- 22) It is the prerogative of the clients to decide time, rate & quantity for placing the orders. They never spread any "unauthenticated news" or advice for buy / sell any option contract. The decision to trade in the options contract is fully the responsibility of client and they were solely responsible for the outcome of such trading for which the broker should not be held responsible.
- 23) At the relevant point of time, the technology / infrastructure support to track the client trades for order matching for alleged 'reversal' trading in equity derivative segment was not available. However, it was only recently that exchange has started providing said alerts to Trading Members.
- 24) BSE as a self-regulatory organization had also carried out examination /investigation into the Trading activity of its members in Equity Derivative Segment and proceedings were initiated for erring members. Pursuant thereto, Disciplinary Action Committee had penalized 5 Trading Members by way of deactivation of terminal for one trading day i.e. 17.02.2016. It is pertinent to note that BSE had not observed any irregularity in trading activities of all the 22 TMs.
- 25) SEBI has already commenced investigations in the matter. SEBI's primary concern that the restraint is necessary to protect the integrity of market and to avoid recurrence of such alleged reversal transaction for tax avoidance does not exist anymore after the BSE issued a Circular after the Ex Parte Order which specifically prohibits reversal of trades.
- 26) If at all SEBI were to determine upon completion of its investigation that there has been a *prima facie* violation of any of the provisions of law, it would be just and proper for SEBI to initiate appropriate proceedings like the adjudication proceedings.
- 27) No regulatory intervention of the manner envisaged under Sections 11 and 11B are called for in these circumstances especially when any restraint or any harsh directions against them would not aid or assist the investigation.
- 28) SEBI keeps interminable restraints in place against them till such investigation is completed. Therefore, it is submitted that there is no necessity of issuing any restraints

and/or any restraints imposed in the Ex Parte Order be removed forthwith, and SEBI can take appropriate action in accordance with law, as and when it ends up completing its processes.

- 29) While referring to the Order of The Hon'ble Kolkata High Court in the context of Long Term Capital and the Hon'ble ITAT, Kolkata that when purchase and sale of shares were supported by proper contract notes, deliveries of shares were received through demat accounts maintained with various agencies, the shares were purchased and sold through recognized broker and the sale considerations were received by account payee cheques, such transactions cannot be treated as bogus and the income so disclosed was assessable as LTCG, it was submitted that very foundation of the Ex Parte Order has been shaken.
- 30) If the directions issued vide SEBI Order dated 17.02.2016 are reinforced even as an interim measure, then
- a) Firstly their existing clients who had no grievance and were in fact satisfied with services rendered by the TMs, will be compelled to open trading account with some other broker and will be required to undergo the process of completing all formalities with that broker. This will result into unwanted and undesirable exercise unnecessarily required to be carried out by them.
 - b) Secondly, they will suffer immense loss of reputation, goodwill, financial loss and loss of business opportunity. Further, there is also a great threat that clients who trade through us in cash segment may also leave us and register as clients with some other brokers.
8. I note that the while quashing and setting aside the *interim order* as aforesaid, Hon'ble SAT also made it clear that it had not expressed any opinion on the merits of the case. It is relevant to mention the perspective of the factual background under which the aforesaid *interim order* was passed. The same are under:
- i) The 22 TMs who had been identified on the basis of 5 parameters mentioned in the *interim order*, were subjected to a thorough examination for all their clients and the examination period was also extended till September 30, 2015. The pattern which emerged, as shown in the tables 1 to 7 of the *interim order*, led to the *prima facie* findings as recorded therein. It is relevant to mention that the 18 TMs listed in Table 11 of the *interim order* dated August 20, 2015 are the TMs through whom the profit making entities had executed reversal trades and that list does not include the TMs through whom the loss making entities had executed reversal trades. However, the TMs of profit making and loss making clients both have been covered in the *interim order* as per the criteria adopted for the purpose of issuance of interim directions. There is no TM covered in the *interim order* who does not relate to either of the 59 clients who were restrained vide the order dated August 20, 2015.
 - ii) In the *interim order* Calcutta Stock Exchange Limited has been mentioned as the trading member of Mr. Umang Nemani (a client) who was one of the entities against whom restraint was issued vide *interim order* dated August 20, 2015. In this regard, it is noted that

the TMs of 59 clients who were restrained vide *interim order* dated August 20, 2015 were not automatically restrained vide the *interim order* dated February 17, 2016 but they acted as a starting point for further examination by SEBI. These TMs were subjected to a set of 5 parameters and detailed examination of only those TMs who met those 5 parameters was carried out before SEBI took a view on their restraint. It is important to note here that the TMs of Calcutta Stock Exchange Limited have access to the trading platform of BSE (under a bilateral agreement between Calcutta Stock Exchange Limited and BSE) and therefore, restraining Calcutta Stock Exchange Limited would have meant indirectly restraining several of its registered TMs who were using the said platform. Mr. Umang Nemani had executed his trades through a member of the Calcutta Stock Exchange Limited viz. Shubh Stock Broking Pvt. Ltd. and upon detailed examination of the trades done by Shubh Stock Broking Pvt. Ltd for its client(s), SEBI has deemed it fit to restrain Shubh Stock Broking Pvt. Ltd. in the *interim order*.

- iii) SEBI had taken action against 59 clients indulging in reversal trades to generate artificial profit and artificial loss to the tune of ₹ 5 crore or more for the period 01.04.2014 to 31.03.2015 vide *interim order* dated 20.08.2015. SEBI then identified all the trading members who had punched in orders for such reversal trades of 59 entities and applied 5 parameters on them to shortlist 22 trading members. SEBI then subjected these 22 TMs to an independent and thorough examination and studied the pattern of trades executed/orders entered by them for all their clients for the period 01.04.2014 to 30.09.2015. Upon the findings of this exercise, SEBI found a pattern to suggest the role of these TMs to act as facilitators to the *prima facie* fraudulent reversal trades of alarming volumes and values done by the beneficiaries (clients). If *interim* directions against the trading members were not issued in the interim and postponed till interim directions are issued against all 11228 entities doing reversal trades, it would have taken a considerable amount of time thereby making the subsequent interim directions against the trading members useless / ineffective. Thus, to maintain the market integrity and stop any further damage, SEBI intervened and issued interim directions on 17.02.2016 against 22 TMs. The examination by SEBI leading up to its action against clients (order dated 20.08.2015) and trading members (order dated 17.02.2016) was based on transparent and objective criteria. In terms of the *interim order* dated 20.08.2015 the investigations shall also cover the examination of all the entities within the scope and ambit of the *interim order* and any other entity as may be deemed appropriate.
- iv) The aforesaid 22 TMs who had *prima facie* facilitated the manipulations for the aforesaid 59 clients were also TMs for total of 12,287 clients and out of which 11,228 clients were involved in reversal trades of the *interim order*. The criteria was adopted for selecting the TMs in the *interim order* based on the materiality and impact. At the stage of *interim order* all the reversal of trades could not *prima facie* be said to be manipulative and needed further examination. The remaining clients and TMs have not been exonerated by giving any

finding in the *interim order* in their favour or leaving them out of the inquiry / investigation. It is pertinent to mention that the action against 22 TMs was taken on account of *prima facie* manipulation observed in the case of 59 clients. However, the fact that reversals of trades were carried out by 11,228 out of the total 12,287 clients of these 22 TMs added to the suspicion that these TMs were facilitating the non-genuine reversals for the majority of their clients.

- v) The proportion of clients doing reversal through a TM was arrived at by comparing the clients of a TM who did reversal with total number of clients who traded through it. With regard to the turnover, the entire SEBI examination considers "*options premium turnover*" and not the "*notional turnover*" to arrive at a ballooned figure of turnover as sought to be contended by some of the TMs. The method for calculation of these two figures is elucidated below:

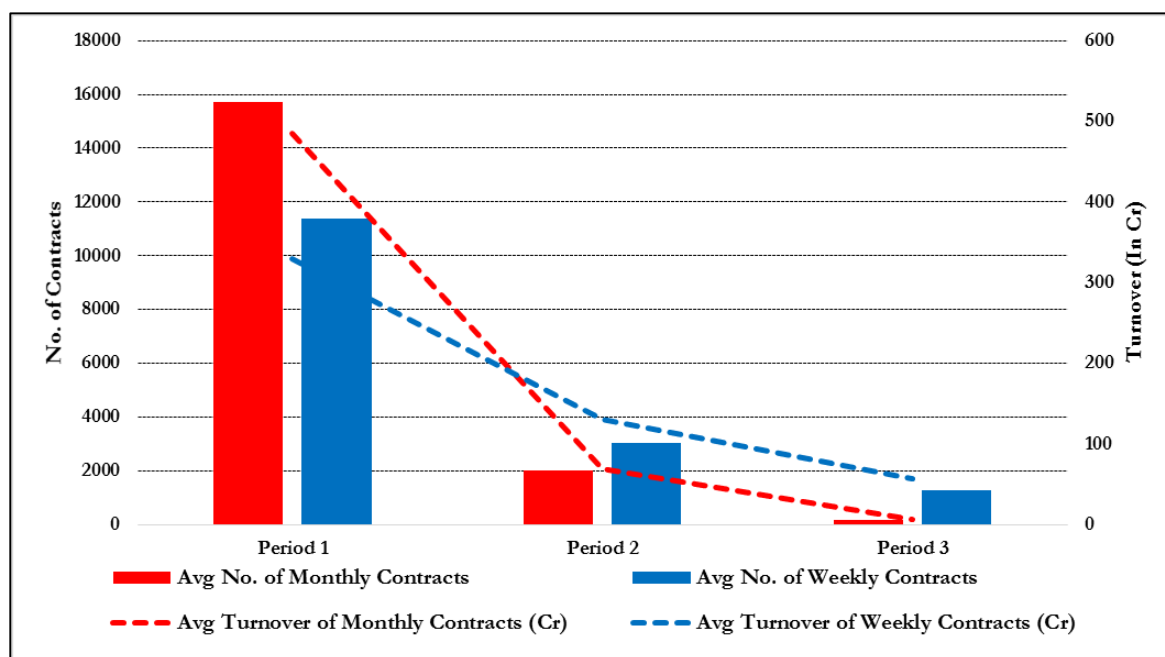
a) Options Notional Turnover = Quantity Traded x (Strike Price + Trading Price)

b) Options Premium Turnover = Quantity Traded x Trading Price.

- vi) For stock options segment, the premium turnover is normally a small fraction of notional turnover. Pursuant to the *interim order* dated August 20, 2015 in the matter of illiquid stock options, the two figures get disseminated on stock exchange's website separately.

9. A marked decline in both the number of contracts traded and the turnover in the equity stock options segment of the exchange subsequent to the actions taken by SEBI has been observed. The same can be demonstrated by trading activities in monthly and weekly stock options contracts during the following three periods as shown in the graph hereinafter:

- a) Period 1: April 1, 2014 – August 20, 2015
b) Period 2 : August 21, 2015 – February 17, 2016
c) Period 3 : February 18, 2016 – August 8, 2016



10. I have considered the submissions of the concerned TMs in the context of the aforesaid orders passed by Hon'ble SAT and the order dated July 01, 2016 passed by Hon'ble Supreme Court in the matter. I note that in terms of those orders the *interim order* dated February 17, 2016 has been set aside and the directions issued thereby are not in operation since the Hon'ble SAT had set aside the said *interim order*. In terms of those orders, I am faced with a situation where I have to reconsider the facts and circumstances of this case for the purpose of taking immediate, emergent and urgent action by way of an *interim measure* as the earlier *interim order* dated February 17, 2016 has been set aside by Hon'ble SAT and also to pass the final order after considering the replies of these 22 TMs while the investigation in the matter is still going on. In these circumstances, I proceed to examine the facts and circumstances of this case to determine as to whether, at this stage, *ad-interim*, preventive directions could be issued against these TMs.
11. It is relevant to mention that the allegation against these 22 TMs is that they had *prima facie* facilitated their clients to use and employ the alleged premeditated manipulative device or contrivance while dealing in securities and indulged in non-genuine and deceptive transactions. The case does not involve allegations of fraudulent act by these 22TMs for trading on their own account.
12. As mentioned above, at this stage, such reversal transactions have diminished on the BSE stock option segment pursuant to regulatory interventions. Further, BSE has also taken certain measures as under:-
- a) BSE vide its Notice No. 20160218-27 dated February 18, 2016 had informed the TMs of the exchange regarding the discontinuation of the weekly stock options contracts:-
- “trading in weekly options contracts with index and stock as underlying in equity derivatives segment shall be only be available until March 3, 2016 and the trading in the aforesaid contracts shall be discontinued thereafter until further notice.”*
- b) Vide its Notice No. 20160308-33 dated March 8, 2016, BSE has informed its TMs of the introduction of Reversal Trade Prevention Check (RTPC) for the equity derivatives segment with effect from March 14, 2016:-
- “This check is being introduced with an intention to prevent potential cases of trade reversal taking place on the Exchange trading platform. In this measure, the second leg (latest leg) of a reversal trade shall be automatically cancelled by the Exchange at the time of order matching in an on-line real time manner in the trading system.”*
13. Thus, it is noted that the stock exchange has put in systems in place to check the reversal transactions of the type highlighted in the *interim orders* dated 17.02.2016 and 20.08.2015.

Simultaneously, I deem it appropriate to mention here that as confirmed by the exchange, there have been no trades in the exchange stock options segment in the period March 4, 2016 to August 8, 2016. The Weekly Options Contracts with individual securities as the underlying continue to be unavailable for trading at BSE's trading platform since March 4, 2016. Even though the monthly contracts in the stock options segment are available for trading on the exchange platform, there have been no trades in this product from March 4, 2016 onwards.

14. It has been brought on record that following 10 of the 22 TMs have voluntarily closed their business at BSE equity derivatives segment subsequent to the passing of the *interim order* :

S. No.	TM Name	Equity Derivatives	Remarks
1	Mousumi Deb Roy / Good Luck Securities	Inactive	Voluntary Closure of Business w.e.f. 06/06/2016.
2	Odyssey Securities Pvt.Ltd.	Inactive	Voluntary Closure of Business w.e.f. 09/08/2016
3	Geometry Vanijya Pvt.Ltd.	Inactive	Voluntary Closure of Business in Equity Derivatives & Currency Derivatives segment w.e.f. 13/04/2016.
4	Kayan Scurities Pvt.Ltd.	Inactive	Voluntary Closure of Business w.e.f. 13/04/2016
5	NS Broking Pvt.Ltd.	Inactive	Voluntary Closure of Business w.e.f. 08/08/2016.
6	MKB Securities Pvt.Ltd.	Inactive	Voluntary Closure of Business in Equity Derivatives & Currency Derivatives segment w.e.f. 13/04/2016.
7	Bahubali Forex Pvt.Ltd.	Inactive	Voluntary Closure of Business w.e.f. 09/06/2016. Status of Surrender Application - Exchange dues pending with Member
8	Sunstar Securities	Inactive	Voluntary Closure of Business w.e.f. 19/05/2016.
9	Lalit Kumar Tulshyan	Inactive	Voluntary Closure of Business w.e.f. 01/07/2016
10	Mauzampurua Securities Broking Pvt Ltd	Inactive	Voluntary Closure of Business w.e.f. 11/05/2016

15. Further, after passing of the *interim order* dated August 20, 2015, the stock exchange was advised to carry out similar examination of reversals of trades executed by the entities /clients in the stock options segment and take appropriate/corrective action and was also advised to examine the extent of due diligence / KYC compliance exercised by TMs through whom such reversal transactions have been made frequently. The exchange has informed that the details of the entities executing such transactions is being referred to the Income Tax Authorities.

16. It is also important to note that the investigation in the entire scheme involving all the parties considered in the *interim orders* dated August 20, 2015 and February 17, 2016 is in progress. Considering the peculiar facts and circumstances of this case as mentioned above, I am not inclined to intervene in this matter by way of *ad-interim* directions at this stage and would prefer that the final view for appropriate action in accordance with law should be taken after completing the ongoing investigation in the matter. The investigation shall be concluded expeditiously after taking into account all the facts and circumstances of the case as mentioned in the orders dated August 20, 2015, February 17, 2016 and this order.
17. I further direct the said 22 TMs to co-operate with SEBI in the on-going investigation and provide all the information and documents that may be sought by SEBI in this regard.
18. The stock exchanges, BSE and NSE, are directed to monitor the trading activities of the said 22 TMs and report adverse findings, if any, about their conduct to SEBI immediately.
19. The replies/submissions of the TMs herein to the *interim order* dated February 17, 2016 are accordingly disposed of.
20. A copy of this order shall be sent to NSE, BSE and the depositories for their information and necessary action.

Sd /-

Date: August 12th, 2016

Place: Mumbai

**RAJEEV KUMAR AGARWAL
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**