WTM/RKA/ISD/ 25/ 2016

SECURITIES AND EXCHANGE BOARD OF INDIA

***EX-PARTE AD INTERIM* ORDER**

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

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1. As part of ongoing surveillance, Securities and Exchange board of India ("SEBI") came across several instances/internal alerts wherein a set of entities were consistently seen incurring trading loss by executing reversal trades in *options on individual stocks* ("stock options") in Equity Derivative Segment. Accordingly, examination of trading in stock options segment was done for the period April 1, 2014 to March 31, 2015 from the perspective of examining trading of these entities. Pursuant thereto, an *ex-parte ad interim order* in the matter of illiquid stock options was passed on August 20, 2015 (hereinafter referred to as "*interim order*").

2. The following was, *inter alia,* observed in the *interim order*:
   a) The loss-making entities were trading mainly in options on individual stocks which were thinly traded. The trades by these loss-making entities, in many cases, contributed to 70% to 100% of total traded volume for the contracts on those days.
   b) On majority of occasions, the quantity of stock options bought and sold by the loss-making entities for a contract was identical, however, there was a significant difference in the sell value and the buy value of the transactions resulting into significant loss to the loss-making entities.
   c) Substantial number of transactions were squared up and a major percentage of transactions thereof were trade reversals i.e. if the stock options were sold first to an entity, they would be bought back in exact quantity from the same entity or vice-versa.
   d) As the first leg of these reversal trades, these loss-making entities were mainly seen selling stock options without any corresponding offsetting position in the underlying scrip. In many cases, these options were sold at unreasonably low prices, even below the *intrinsic value* of the option. Theoretically, the price of an option is a combination of its *intrinsic value* and *time value*. The former is a function of difference between option strike price and the underlying price and the latter being a function of time remaining till expiry of the option contract. It is well understood that in normal conditions, the minimum price which the option seller would demand to take the risk of writing the option would be equivalent to the *intrinsic value* of the

option, but here the loss-making entities were selling options much below their *intrinsic value*.

e) In the second leg of the reversal trades, the options once sold by an entity at unreasonably low prices were subsequently bought back on the same day or on the next trading day at substantially higher prices when compared to the first leg sell price.

f) In certain instances, variations to the above pattern were seen which *inter-alia* included loss-making entities incurring loss by buying the options first instead of selling them.

g) Further, during the period when stock options' position was kept open, there was no significant change in the price of the underlying scrip to justify the difference between the prices of the two legs of the reversal trade.

h) The trading done by loss-making entities in stock options in the above manner, accounted for significant proportion of their overall trading on that segment.

i) The loss-making entities as well as the profit-making entities were seen trading repeatedly in deep in-the-money options and deep out-of-the-money options on individual stocks, which were thinly traded.

3. The illustration of a typical reversal trade execution in stock options segment and the corresponding stock price movement for the scrip of Axis bank Ltd. on March 11, 2015 from 1 PM to 2PM in BSE cash segment is explained hereunder with the help of following graph:



i. On March 11, 2015, on BSE stock options segment, on behalf of their clients, two trading members entered synchronized trades wherein a client sold 621,500 units of put options of contract AXIS15MAR680.00PEW2 (i.e. a put option on the scrip of Axis Bank Ltd. with a strike price of ₹ 680) at ₹ 58.1 each to a single entity. It is to be noted that both buy and sell orders were punched in at 13:25:36. At the time of punching of these orders, the underlying price was around ₹ 582. This signified that the put options were deep in the money with an *intrinsic value* of nearly ₹ 98 each.

ii. Thereafter, the Trading members entered orders to reverse the open positions of their clients between 13:30:52 to 13:34:09 on the same day. This was done through a series of synchronized transactions at the average buying price of ₹ 97.37 resulting into a loss of ₹ 2.44 crore to one client and profit of same to another.

iii. It is noteworthy that the position was kept open for less than 10 minutes and even during this period, there was not much change in the price of the underlying to warrant the rise in premium of put options i.e. from ₹ 58.1 to ₹ 97.37 (both legs of the reversal trade and the underlying price movement are highlighted in the graph above).

iv. The reversal trades as explained above, formed 94.69% of day's turnover for the contract AXIS15MAR680.00PEW2 referred above.

v. Likewise, several reversal transactions were executed by the Trading Member across scrips / contracts on different days which resulted into net trading loss to loss-making entities and net profit to another set of entities mentioned as profit-making entities in the said interim order.

4. SEBI undertook preliminary examination of the Trading Members (TMs) through whom the loss-making entities and profit-making entities were executing reversal trades. From the preliminary examination of the trades entered by these TMs on behalf of their clients on BSE Stock options segment, it *prima-facie* appeared that majority of the trading members executed reversal trades for majority of clients who traded through them and the reversal trades accounted for significant proportion of the total turnover done by these trading members on stock options segment on BSE. The Examination of trades executed by these trading members on behalf of their clients was done for the period April 1, 2014 to September 30, 2015 (herein after referred as "Examination Period").

5. For this examination, the TMs through which the 59 entities had executed trades were further examined on the basis of the following criteria:

a) Reversal Turnover in BSE stock options segment to be more than ₹ 50 cr.
b) 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
c) Of the total clients for which the trades were executed by TMs, at least 50% to have done reversal trades
d) 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
e) At least 50% of turnover forming part of the reversal trades to be reversed within 60 minutes of entering the first leg of trade

6. A representation of transactions of all the TMs who met conditions mentioned in the point 5 above for the examination period are mentioned in the table below:

Table 1: Turnover Level Viewfor TM

S. No.	BSE TM ID	TM NAME	Stock Options Total Turnover (₹ cr.) (A)	Turnover (TO) of Reversal Transactions (₹ cr.) (B)	TO across equity cash and equity derivative segments (₹ cr.) (C)	Reversal TO as % of Total TO in the Stock Option segment (D)**
1	5156	Mousumi Deb Roy	1,335.8	1,238.3	1,402.8	93%
2	4029	Odyssey Securities Pvt. Ltd	1,109.0	998.9	1,109.5	90%
3	4036	Geometry Vanijya Pvt. Ltd.	774.8	713.8	782.9	92%
4	6566	Kayan Securities Pvt. Ltd.	673.8	613.0	742.0	91%
5	6493	Aryav Securities Pvt. Ltd.	695.2	577.6	722.2	83%
6	6551	Giriraj Stock Broking Pvt. Ltd.	563.4	489.9	785.6	87%
7	4041	Ns Broking Pvt. Ltd.	496.4	425.4	496.6	86%
8	6587	Concord Vinimay Pvt. Ltd.	485.0	422.9	680.8	87%
9	4035	Mkb Securities Pvt Ltd	388.7	376.5	389.2	97%
10	4034	Bahubali Forex Pvt Ltd	404.2	307.3	406.7	76%
11	6513	Sunstar Securities	276.3	275.8	366.1	100%

S. No.	BSE TM ID	TM NAME	Stock Options Total Turnover (₹ cr.) (A)	Turnover (TO) of Reversal Transactions (₹ cr.) (B)	TO across equity cash and equity derivative segments (₹ cr.) (C)	Reversal TO as % of Total TO in the Stock Option segment (D)**
12	6395	Msb E-Trade Securities Ltd.	264.8	263.1	591.4	99%
13	3135	Best Bull Stock Trading Pvt.Ltd.	267.3	246.3	1,197.4	92%
14	6372	Skung Tradelink Ltd	202.9	200.6	819.4	99%
15	5155	Lalit Kumar Tulshyan	256.5	164.6	340.6	64%
16	M0681*	Subh Stock Broking Pvt. Ltd.	217.8	160.8	305.0	74%
17	3052	R.K.Stock Holding Pvt.Ltd.	147.7	143.0	1,108.8	97%
18	6122	Basan Equity Broking Limited	176.9	139.9	480.5	79%
19	3287	Abans Securities Pvt. Ltd.	102.6	101.2	129.9	99%
20	4032	Mauzampuria Securities Broking Pvt Ltd	101.0	100.1	103.2	99%
21	6468	Achintya Securities Pvt. Ltd.	72.4	72.2	472.8	100%
22	3027	Guiness Securities Ltd.	117.2	71.0	749.7	61%

*The TM ID represents CSE sub broker ID.

** All percentage calculations in this order have been rounded off to the nearest whole number

7. It is observed from the table above that:

   a) For the examination period, significant proportion of the turnover done by the TMs is attributed to the reversal transactions in stock options segment (Column A,B).

   b) Further, for majority of the trading members, this turnover due to the reversal transactions for the clients accounts for significant proportion of total turnover done by these trading members for their clients (Column B, C, D).

8. Further, an examination of total clients who traded through the TM vis-a-vis those who did reversal transactions in stock option segment was done. The same is presented in the table below :

Table 2: Client Level View for TMs

S. No.	BSE TM ID	TM NAME	Total clients who traded through the TM in the segment (A)	Total clients who did reversal through the TM in the segment (B)	Reversal Client %	Total Trades (C)	Total trades forming part of Reversal Trades (D)	Reversal Trade %
1	5156	Mousumi Deb Roy	485	472	98%	12,076	11,365	94%
2	4029	Odyssey Securities Pvt. Ltd	898	834	93%	10,867	9,771	90%
3	4036	Geometry Vanijya Pvt. Ltd.	958	946	99%	10,337	9,930	96%
4	6566	Kayan Securities Pvt. Ltd.	1349	1,307	97%	10,174	9,438	93%
5	6493	Aryav Securities Pvt. Ltd.	433	322	75%	9,412	5,499	58%
6	6551	Giriraj Stock Broking Pvt. Ltd.	1,512	1,457	96%	7,923	7,255	92%
7	4041	Ns Broking Pvt. Ltd.	157	134	85%	4,471	3,775	84%
8	6587	Concord Vinimay Pvt. Ltd.	1,082	1,051	98%	6,019	5,581	93%
9	4035	Mkb Securities Pvt Ltd	556	538	97%	4,819	4,585	95%
10	4034	Bahubali Forex Pvt Ltd	791	593	75%	7,232	4,542	63%
11	6513	Sunstar Securities	256	256	100%	9,150	9,118	100%
12	6395	Msb E-Trade Securities Ltd.	185	182	98%	5,093	5,044	99.0
13	3135	Best Bull Stock Trading Pvt.Ltd.	725	655	90%	6,928	6,005	87%
14	6372	Skung Tradelink Ltd	184	183	99%	7,671	7,543	98%
15	5155	Lalit Kumar Tulshyan	912	512	56%	5,030	3,035	60%

S. No.	BSE TM ID	TM NAME	Total clients who traded through the TM in the segment (A)	Total clients who did reversal through the TM in the segment (B)	Reversal Client %	Total Trades (C)	Total trades forming part of Reversal Trades (D)	Reversal Trade %
16	M0681	Subh Stock Broking Pvt. Ltd.	641	519	81%	9,006	6,225	69%
17	3052	R.K.Stock Holding Pvt.Ltd.	351	335	95%	2,232	2,126	95%
18	6122	Basan Equity Broking Limited	215	164	76%	2257	1,655	73%
19	3287	Abans Securities Pvt. Ltd.	31	31	100%	1,110	1,044	94%
20	4032	Mauzampuria Securities Broking Pvt Ltd	338	338	100%	3,226	3,185	99%
21	6468	Achintya Securities Pvt. Ltd.	79	79	100%	1,827	1,817	100%
22	3027	Guiness Securities Ltd.	446	320	72%	4,004	2,661	66%

9. For instance, as shown in the above table, the trading member at S. No. 1 (Mousumi Deb Roy),executed 12,076 trades for 485 clients. Of which 11,365 trades were forming part of reversal trades for 472 clients.

10. It is observed from the table above that:

    i. All the TMs have executed reversal trades for majority of the clients who traded through them. (Column A, B)

    ii. With reference to the total number of trades executed by the TMs for their clients, there are not many trades which are not part of reversal trades (Column C, D)

11. Within the gamut of reversal trades executed by TMs, further examination was done to assess net impact in terms of profit and loss generated for the clients out of such trades. It was observed that such clients of TMs were divided into 2 sets – one which would, by and large, get series of trading profit from reversal transactions and another which would get a series of trading loss from such transactions. The details of these 2 sets of entities which ended up getting net reversal profit and net reversal loss along with the

number of instances which resulted into profit/loss and quantum of net profit/loss are provided in Table 3 and Table 4.

Table 3: Profit Impact View for Clients

S. No.	BSE TM ID	TM Name	No. of clients to whom Net reversal profit provided	Total Reversal Instances for Net Profit making Clients	Total reversal instances for Net Profit making clients in which the clients made profits	% of trading instances resulting into profit	Summation of Reversal profit (₹ cr.)
1	5156	Mousumi Deb Roy	273	1095	981	90%	158.9
2	4029	Odyssey Securities Pvt. Ltd	701	1725	1598	93%	171.4
3	4036	Geometry Vanijya Pvt. Ltd.	726	2054	2012	98%	132.8
4	6566	Kayan Securities Pvt. Ltd.	1,057	2,167	2,109	97%	102.4
5	6493	Aryav Securities Pvt. Ltd.	202	588	565	96%	46.2
6	6551	Giriraj Stock Broking Pvt. Ltd.	1,207	2,061	1,936	94%	81.9
7	4041	Ns Broking Pvt. Ltd.	103	175	169	97%	8.8
8	6587	Concord Vinimay Pvt. Ltd.	845	1,598	1,529	96%	74.1
9	4035	Mkb Securities Pvt Ltd	432	901	868	96%	55.3
10	4034	Bahubali Forex Pvt Ltd	454	955	930	97%	54.8
11	6513	Sunstar Securities	212	822	807	98%	24.7
12	6395	Msb E-Trade Securities Ltd.	138	1,094	1,065	97%	31.0
13	3135	Best Bull Stock Trading Pvt.Ltd.	584	1,750	1,689	97%	72.7
14	6372	Skung Tradelink Ltd	162	2,117	1,941	92%	43.7
15	5155	Lalit Kumar	397	659	648	98%	61.0

S. No.	BSE TM ID	TM Name	No. of clients to whom Net reversal profit provided	Total Reversal Instances for Net Profit making Clients	Total reversal instances for Net Profit making clients in which the clients made profits	% of trading instances resulting into profit	Summation of Reversal profit (₹ cr.)
		Tulshyan					
16	M0681	Subh Stock Broking Pvt. Ltd.	397	1,266	1,242	98%	66.0
17	3052	R.K.Stock Holding Pvt.Ltd.	302	609	591	97%	25.2
18	6122	Basan Equity Broking Limited	80	242	236	98%	25.6
19	3287	Abans Securities Pvt. Ltd.	9	346	340	98%	20.2
20	4032	Mauzampuria Securities Broking Pvt Ltd	326	1,006	992	99%	15.8
21	6468	Achintya Securities Pvt. Ltd.	57	397	386	97%	9.4
22	3027	Guiness Securities Ltd.	255	586	574	98%	21.2

Table 4: Loss Impact View for Clients

S. No.	BSE TM ID	TM Name	No. of clients to who reversal loss provided	Total Reversal Instances for Loss making Clients	Total reversal instances for Loss making clients in which the clients made Losses	% of trading instances resulting into loss	Summation of Reversal loss (₹ cr.)
1	5156	Mousumi Deb Roy	199	1,109	1,036	93%	(155.9)
2	4029	Odyssey Securities Pvt. Ltd	132	478	445	93%	(67.8)

S. No.	BSE TM ID	TM Name	No. of clients to who reversal loss provided	Total Reversal Instances for Loss making Clients	Total reversal instances for Loss making clients in which the clients made Losses	% of trading instances resulting into loss	Summation of Reversal loss (₹ cr.)
3	4036	Geometry Vanijya Pvt. Ltd.	220	2,643	2,607	99%	(133.4)
4	6566	Kayan Securities Pvt. Ltd.	250	2,146	2,111	98%	(96.9)
5	6493	Aryav Securities Pvt. Ltd.	120	1,219	1,188	98%	(112.9)
6	6551	Giriraj Stock Broking Pvt. Ltd.	250	1,373	1,308	95%	(74.1)
7	4041	Ns Broking Pvt. Ltd.	30	1,002	959	96%	(66.3)
8	6587	Concord Vinimay Pvt. Ltd.	206	1,059	1,032	98%	(73.3)
9	4035	Mkb Securities Pvt Ltd	106	846	829	98%	(51.3)
10	4034	Bahubali Forex Pvt Ltd	139	1,189	1,129	95%	(57.5)
11	6513	Sunstar Securities	44	3,440	3,420	99%	(81.5)
12	6395	Msb E-Trade Securities Ltd.	44	1,099	1,078	98%	(32.3)
13	3135	Best Bull Stock Trading Pvt.Ltd.	71	808	797	99%	(36.5)
14	6372	Skung Tradelink Ltd	20	537	530	99%	(15.1)
15	5155	Lalit Kumar Tulshyan	115	546	532	97%	(42.3)
16	M0681	Subh Stock Broking Pvt. Ltd.	122	1,110	1,068	96%	(42.7)

S. No.	BSE TM ID	TM Name	No. of clients to who reversal loss provided	Total Reversal Instances for Loss making Clients	Total reversal instances for Loss making clients in which the clients made Losses	% of trading instances resulting into loss	Summation of Reversal loss (₹ cr.)
17	3052	R.K.Stock Holding Pvt.Ltd.	33	422	402	95%	(24.9)
18	6122	Basan Equity Broking Limited	84	481	474	99%	(65.0)
19	3287	Abans Securities Pvt. Ltd.	22	111	111	100%	(8.1)
20	4032	Mauzampuria Securities Broking Pvt Ltd	12	409	387	95%	(6.7)
21	6468	Achintya Securities Pvt. Ltd.	22	326	324	99%	(8.6)
22	3027	Guiness Securities Ltd.	65	512	504	98%	(19.7)

12. For instance, as seen in the Table 2, 3 & 4, the Trading Member Mousumi Deb Roy, in all executed reversal trades for 472 clients of which 273 clients ended up getting net profit when payoff from all their reversal transactions was added and similarly 199 clients got net loss by their reversal transactions. Further, the trades executed by these 273 entities in all consisted of 1,095 reversal instances of which in 981, the entities have made profit (Table 3). Similarly, the trades executed by these 199 entities in all consisted of 1,109 reversal instances of which in 1,036 instances, the entities have made loss (Table 4).

13. It was observed from Table 3 & 4 that :

    i. For majority of the TMs, reversal transactions resulted into consistent trading profit (in terms of number of instances) for one set of clients and consistent trading loss (in terms of number of instances) for another set of clients.

ii. For majority of the TMs, reversal transactions resulted into consistent trading profit (in terms of net amount) for one set of clients and consistent trading loss (in terms of net amount) for another set of clients.

14. Further examination of time for which a position was kept open after executing the first leg was done for all reversal trades executed by above TMs. Such trades are bucketed in the table below on the basis of mean time taken to reverse an originally entered trade.

Table 5: Mean Reversal Time view for TMs – No. of Trades reversed

S. No.	BSE TM ID	TM Name	Reversal Instances	Reversed within				No. of trades reversed within 1 hour	% Of reversal Instances within 1 hour
				0-10 min.	10-30 min.	30-60 min.	Above 60 min.		
1	5156	Mousumi Deb Roy	2,204	1,593	351	193	67	2,137	97%
2	4029	Odyssey Securities Pvt. Ltd	2,204	1,001	645	384	174	2,030	92%
3	4036	Geometry Vanijya Pvt. Ltd.	4,697	4,314	305	66	12	4,685	100%
4	6566	Kayan Securities Pvt. Ltd.	4,313	3,281	679	279	74	4,239	98%
5	6493	Aryav Securities Pvt. Ltd.	1,807	130	972	534	171	1,636	91%
6	6551	Giriraj Stock Broking Pvt. Ltd.	3,434	3,355	71	8	0	3,434	100%
7	4041	Ns Broking Pvt. Ltd.	1,178	240	506	300	132	1,046	89%
8	6587	Concord Vinimay Pvt. Ltd.	2,657	2,592	61	3	1	2,656	100%
9	4035	Mkb Securities Pvt Ltd	1,747	702	633	296	116	1,631	93%
10	4034	Bahubali Forex Pvt Ltd	2,144	1,654	139	147	204	1,940	91%

S. No.	BSE TM ID	TM Name	Reversal Instances	Reversed within				No. of trades reversed within 1 hour	% Of reversal Instances within 1 hour
				0-10 min.	10-30 min.	30-60 min.	Above 60 min.		
11	6513	Sunstar Securities	4,262	4,250	8	0	4	4,258	100%
12	6395	Msb E-Trade Securities Ltd.	2,193	2,185	7	0	1	2,192	100%
13	3135	Best Bull Stock Trading Pvt.Ltd.	2,558	818	962	484	294	2,264	88%
14	6372	Skung Tradelink Ltd	2,656	2,618	14	3	21	2,635	99%
15	5155	Lalit Kumar Tulshyan	1,205	214	315	288	388	817	68%
16	M0681	Subh Stock Broking Pvt. Ltd.	2,376	187	884	852	453	1,923	81%
17	3052	R.K.Stock Holding Pvt.Ltd.	1,031	772	184	57	18	1,013	98%
18	6122	Basan Equity Broking Limited	723	169	231	160	163	560	77%
19	3287	Abans Securities Pvt. Ltd.	457	268	150	26	13	444	97%
20	4032	Mauzampuria Securities Broking Pvt Ltd	1,415	1,406	1	0	8	1,407	99%
21	6468	Achintya Securities Pvt. Ltd.	723	719	4	0	0	723	100%
22	3027	Guiness Securities Ltd.	1,098	426	347	189	136	962	88%

Table 6: Mean Reversal Time view for TMs – Turnover reversed

S. No.	BSE TM ID	TM Name	Reversal Turnover	Reversed within				Turnover reversed within 1 hour	% Turnover reversed within 1 hour
				0-10 min.	10-30 min.	30-60 min.	Above 60 min.		
1	5156	Mousumi Deb Roy	1238.3	854.3	226.2	121.6	36.3	1,202.1	97%
2	4029	Odyssey Securities Pvt. Ltd	998.9	636.4	215.6	90.9	55.9	942.9	94%
3	4036	Geometry Vanijya Pvt. Ltd.	713.8	680.9	25.6	5.6	1.6	712.1	100%
4	6566	Kayan Securities Pvt. Ltd.	613.0	470.2	108.6	27.2	7.1	605.9	99%
5	6493	Aryav Securities Pvt. Ltd.	577.6	53.4	323.2	165.0	36.0	541.6	94%
6	6551	Giriraj Stock Broking Pvt. Ltd.	489.9	476.6	12.8	0.5	0.0	489.9	100%
7	4041	Ns Broking Pvt. Ltd.	425.4	142.6	172.4	72.3	38.1	387.3	91%
8	6587	Concord Vinimay Pvt. Ltd.	422.9	413.6	8.4	0.5	0.3	422.6	100%
9	4035	Mkb Securities Pvt Ltd	376.5	122.0	179.7	60.5	14.4	362.1	96%
10	4034	Bahubali Forex Pvt Ltd	307.3	273.8	12.9	8.1	12.5	294.8	96%
11	6513	Sunstar Securities	275.8	274.8	0.5	0.0	0.5	275.3	100%
12	6395	Msb E-Trade Securities Ltd.	263.1	262.1	0.9	0.0	0.1	263.0	100%
13	3135	Best Bull Stock Trading Pvt.Ltd.	246.3	98.1	91.7	37.0	19.5	226.8	92%
14	6372	Skung Tradelink Ltd	200.6	198.0	0.7	0.1	1.8	198.9	99%
15	5155	Lalit Kumar Tulshyan	164.6	26.4	59.3	31.8	47.2	117.5	71%
16	M0681	Subh Stock Broking Pvt. Ltd.	160.8	21.0	59.2	46.4	34.3	126.6	79%
17	3052	R.K.Stock Holding Pvt.Ltd.	143.0	114.1	20.2	6.8	1.9	141.0	99%

S. No.	BSE TM ID	TM Name	Reversal Turnover	Reversed within				Turnover reversed within 1 hour	% Turnover reversed within 1 hour
				0-10 min.	10-30 min.	30-60 min.	Above 60 min.		
18	6122	Basan Equity Broking Limited	139.9	24.1	49.6	29.4	36.9	103.0	74%
19	3287	Abans Securities Pvt. Ltd.	101.2	78.8	18.7	3.3	0.5	100.7	100%
20	4032	Mauzampuria Securities Broking Pvt Ltd	100.1	99.7	0.0	0.0	0.4	99.7	100%
21	6468	Achintya Securities Pvt. Ltd.	72.2	71.5	0.7	0.0	0.0	72.2	100%
22	3027	Guiness Securities Ltd.	71.0	33.6	18.9	10.2	8.3	62.7	88%

15. For instance, as observed in Table 5 & 6, for Trading Member at S. No. 1 (Mousumi Deb Roy), 2,204 instances of trade reversal happened during the examination period. Of which, in 97% of instances the trade was reversed within 60 minutes of entering the first leg of the trade. In terms of turnover of reversal trades, the said TM did a turnover of ₹1,238.3 cr. by executing reversal turnovers for its clients of which 97% of turnover was reversed within 60 minutes of entering first leg of trade.

16. It was observed from Table 5 & 6 that:

    i. Majority of TMs reversed significant proportion of the trades within minutes of entering the original trade. Further since these very trades resulted into significant profit for one set of entities and significant loss to another (Table 3 & 4), it can be inferred that the two legs of the trade happened at substantially different prices.

    ii. A very large proportion of turnover in this segment for the examined TMs is through Reversal transactions (Table 1). Even within that, a large proportion of turnover is attributed to transactions which are reversed within few minutes (Table 6).

17. For reversal trades, time difference between orders entered for clients and the corresponding counterparties was examined for identified TMs. The details of the same is provided in Table 7 below:

Table 7: For Reversal Trades – Order Entry Time Line Analysis

S. No.	BSE TM ID	TM Name	Time difference between orders entered for clients and the corresponding counterparties						Total Reversal Trades (G)	% of orders entered within 5 sec of each other (H)
			Less than 1 sec (A)	1 to 2 sec (B)	2 to 5 sec (C)	5 to 10 sec (D)	10 to 60 sec (E)	60 sec and above (F)		
1	5156	Mousumi Deb Roy	8,328	2,347	163	102	218	207	11,365	95%
2	4029	Odyssey Securities Pvt. Ltd	7,525	1,775	109	88	206	68	9,771	96%
3	4036	Geometry Vanijya Pvt. Ltd.	8,920	366	76	29	81	458	9,930	94%
4	6566	Kayan Securities Pvt. Ltd.	7,053	801	263	120	418	783	9,438	86%
5	6493	Aryav Securities Pvt. Ltd.	2,269	834	112	87	586	1,611	5,499	58%
6	6551	Giriraj Stock Broking Pvt. Ltd.	6,665	407	91	49	28	15	7,255	99%
7	4041	Ns Broking Pvt. Ltd.	3,302	379	40	11	20	23	3,775	99%
8	6587	Concord Vinimay Pvt. Ltd.	5,182	271	77	33	10	8	5,581	99%
9	4035	Mkb Securities Pvt Ltd	2,361	475	143	61	379	1,166	4,585	65%
10	4034	Bahubali Forex Pvt Ltd	3,325	153	35	34	213	782	4,542	77%
11	6513	Sunstar Securities	8,187	771	119	26	11	4	9,118	100%
12	6395	Msb E-Trade Securities Ltd.	4,252	707	50	17	16	2	5,044	99%
13	3135	Best Bull Stock Trading Pvt.Ltd.	1,667	638	518	291	664	2,227	6,005	47%
14	6372	Skung Tradelink Ltd	6,807	609	101	17	5	4	7,543	100%

S. No.	BSE TM ID	TM Name	Time difference between orders entered for clients and the corresponding counterparties						Total Reversal Trades (G)	% of orders entered within 5 sec of each other (H)
			Less than 1 sec (A)	1 to 2 sec (B)	2 to 5 sec (C)	5 to 10 sec (D)	10 to 60 sec (E)	60 sec and above (F)		
15	5155	Lalit Kumar Tulshyan	751	603	188	73	388	1,032	3,035	51%
16	M0681	Subh Stock Broking Pvt. Ltd.	1,415	440	107	80	450	3,733	6,225	32%
17	3052	R.K.Stock Holding Pvt.Ltd.	1,706	133	39	27	104	117	2,126	88%
18	6122	Basan Equity Broking Limited	666	357	91	38	118	385	1,655	67%
19	3287	Abans Securities Pvt. Ltd.	641	185	7	12	43	156	1,044	80%
20	4032	Mauzampuria Securities Broking Pvt Ltd	2,973	163	26	8	11	4	3,185	99%
21	6468	Achintya Securities Pvt. Ltd.	1,490	295	23	4	4	1	1,817	100%
22	3027	Guiness Securities Ltd.	535	313	190	81	352	1,190	2,661	39%

18. For instance, as observed in Table 7, for Trading Member at S. No. 1 (Mousumi Deb Roy), there were 11,365 trades (Column G) that formed part of reversal trades. This was also highlighted earlier in Table 2. Of these 11,365 trades, in 8,328 trades, the time difference between orders entered for clients and the corresponding counterparties was less than 1 second (Column A). It was between 1 to 2 seconds in 2,347 trades (Column B), between 2-5 seconds in 163 trades (Column C), between 5 to 10 seconds in 102 trades (Column D), between 10 to 60 seconds in 218 trades (Column E) and greater than or equal to 60 seconds in 207 trades (Column F). Column H represents the summation of instances wherein the time difference between orders entered for clients and the corresponding counterparties were punched in within 5 seconds of each other (Columns A, B and C) as percentage of total reversal trades Column G.

19. It was observed from the above table that, in majority of instances, the client and the counterparty orders forming part of reversal trades were entered within few seconds of each other.

20. In view of the foregoing, I note the following with respect to the identified TMs for the examination period:
    A. Significant proportion of the turnover done by the TMs is attributed to the reversal transactions in stock options segment
    B. Further, for majority of the trading members, reversal turnover constitutes a significant proportion of total turnover done by these trading members for their clients.
    C. With reference to the total number of clients who have traded through the TMs, there are not many clients for whom the TMs have not executed reversal trades.
    D. With reference to the total number of trades executed by the TMs for their clients, there are not many trades which are not part of reversal trades.
    E. For majority of the TMs, reversal transactions resulted into consistent trading profit (in terms of number of instances) for one set of clients and consistent trading loss (in terms of number of instances) for another set of clients.
    F. For majority of the TMs, reversal transactions resulted into consistent trading profit (in terms of net amount) for one set of clients and consistent trading loss (in terms of net amount) for another set of clients.
    G. Majority of TMs reversed significant proportion of the turnover within minutes of entering the first leg of the reversal transaction.
    H. Majority of TMs reversed significant proportion of the trades within minutes of entering the first leg of the reversal transaction. Further since these very trades resulted into significant profit for one set of entities and significant loss to another, it is inferred that the two legs of the trade happened at substantially different prices.
    I. In majority of instances, the client and the counterparty orders forming part of reversal trades were entered within few seconds of each other.
    J. Outside of such trades, there was not much activity by these TMs in the stock options segment implying that the TMs *prima-facie* carried out business of registered stock broker in this segment mainly to facilitate such trades i.e. dummy book entries/artificial profit-loss generation for various entities.
    K. The aforesaid trading members through reversal trades for their clients, have generated a total loss to the tune of ₹1272.8 crore and total profit to the tune of ₹1303.1 crore.

21. In my view, the misuse of stock options as shown above not only displays an unreal picture of market activity to other investors but also defeats the basic premise of screen based electronic trading system and price discovery mechanism by repeated execution of pre-decided reversal trades. Such activity deliberately or otherwise damages Market Integrity apart from presenting wrong picture of liquidity to gullible investors which could affect their trading/investment decisions. The impact of such trades and possible rationale of the clients indulging into such trades were brought out in the interim order in the matter of Illiquid Stock Options.

22. Options as financial instruments, ordinarily, provide hedging avenues to investors. In my view, the large-scale abuse of such financial instruments, which are made available to the investors for the purpose of protection of their investment portfolios from the risks of adverse price movement, cannot be tolerated and needs to be dealt with strictly.

23. The magnitude in which these stock brokers have facilitated the trading to their clients and the facts and circumstances in the instant matter *prima-facie* suggest that it is not only a matter of negligence on the part of stock brokers but also of their connivance to be a part of the scheme to facilitate their clients to make loss or profit as per their desire. By the sheer number of reversal instances at each Trading Member level, I am also not willing to accept that thousands of trades entered by trading members ended up becoming reversal trades '*by chance*' or because of the '*illiquid nature of the contract*'.

24. In my view, the acts of the stock brokers to facilitate the loss-making entities and the profit–making entities discussed hereinabove *prima-facie* show a scheme, plan, device and artifice on their part for some ulterior motive. These brokers have, *prima-facie* , facilitated their clients to use and employ a pre-meditated manipulative device or contrivance while dealing in securities market and indulged in non-genuine and deceptive transactions. The act of the stock broker to be part of the scheme by facilitating execution of non-genuine and deceptive transactions for their clients is, *prima-facie*, covered under the definition of '*fraud*' and their dealings as discussed herein above are '*fraudulent*' as defined under regulation 2(1)(c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 ("PFUTP Regulations") and prohibited under the provisions of section 12A(a), (b) and (c) of the SEBI Act, 1992 and regulations 3(a), (b), (c) and (d) and 4(1) and 4(2)(a) thereof. I therefore, *prima-facie* find that find that these stock brokers have contravened these provisions which are reproduced hereunder:-

SEBI Act, 1992

"12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;"

PFUTP REGULATIONS, 2003

"Prohibition of certain dealings in securities

3. 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;

(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 fraudulent or an unfair trade practice in securities.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:-

(a) Indulging in an act which creates false or misleading appearance of trading in the securities market;"

25. I find that the behavior of these TMs is also not in compliance with General Code of Conduct listed in Schedule II of SEBI (Stock-Brokers and Sub-Brokers) Regulations, 2015. The relevant part of the regulation is presented below:

A. GENERAL

(1) INTEGRITY: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.
(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.
(3) MANIPULATION: A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.
(4) MALPRACTICES: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.
(5) COMPLIANCE WITH STATUTORY REQUIREMENTS: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the stock exchange from time to time as may be applicable to him.

26. As per the above laid down code of conduct for the stock brokers, it is clear that the role of stock broker, being the registered intermediary, is also to act as a gatekeeper so as to ensure that the stock exchange platform is not misused. It is obligatory for a registered intermediary to exercise due diligence and care to prevent such trades to take place on the exchange platform.

27. While ascertaining the exact reasons for such abnormal behavior of the TMs remains the subject matter of detailed investigation, maintaining market integrity, protecting interest of investors and ensuring that the registered intermediaries don't take the regulator/exchange systems for granted are my main concerns right now. In my view, a detailed investigation of the entire scheme employed in this case is necessary to find out the rationale for trading members and entities to facilitate/execute such artificial/reversal trades including tracing the fund trail, and role of trading members and involvement of any other group of entities to bring such scheme to fruition. The examination shall also cover any other trading member indulging in such suspicious transaction.

28. In view of the foregoing, in order to protect the interest of the investors and the integrity of the securities market, I, in exercise of the powers conferred upon me in terms of section 19 read with section 11(1), 11(4) and section 11B of the SEBI Act, 1992, pending investigation and passing of final order in the matter, hereby issue the following directions:

a) The following trading members are restrained 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.

S. No.	BSE TM ID	SEBI Regn ID	TM Name
1	5156	INF011490713	Mousumi Deb Roy
2	4029	INZ010013332	Odyssey Securities Pvt. Ltd
3	4036	INZ270002934	Geometry Vanijya Pvt. Ltd.
4	6566	INZ010011831	Kayan Securities Pvt. Ltd.
5	6493	INF011426039	Aryav Securities Pvt. Ltd.
6	6551	INZ010004836	Giriraj Stock Broking Pvt. Ltd.
7	4041	INE261331537	NS Broking Pvt. Ltd.
8	6587	INE271431137	Concord Vinimay Pvt. Ltd.
9	4035	INZ000002030	MKB Securities Pvt Ltd
10	4034	INZ000006833	Bahubali Forex Pvt Ltd
11	6513	INZ010008522	Sunstar Securities
12	6395	INF011278836	MSB E-Trade Securities Ltd.
13	3135	INB011265734	Best Bull Stock Trading Pvt.Ltd.
14	6372	INB011428837	Skung Tradelink Ltd
15	5155	INF011486711	Lalit Kumar Tulshyan
16	M0681 (CSE code)	INB030707437	Subh Stock Broking Pvt. Ltd.
17	3052	INF011167139	R. K. Stock Holding Pvt. Ltd.
18	6122	INF011296432	Basan Equity Broking Limited
19	3287	INZ010012235	Abans Securities Pvt. Ltd.
20	4032	INZ000001834	Mauzampuria Securities Broking Pvt Ltd
21	6468	INB011330231	Achintya Securities Pvt. Ltd.
22	3027	INB011146033	Guiness Securities Ltd.

b) These trading members /stock brokers shall not accept registration of any new client.

29. I further direct the concerned stock exchanges to conduct a focussed inspection of these Trading Members, take corrective, if any, action and submit a report to SEBI within six months of this order.

30. This order shall come into force with immediate effect. The Stock exchanges and the depositories are directed to ensure that all the above directions are strictly enforced.

31. This order is without prejudice to the right of SEBI to take any other action that may be initiated against the aforementioned entities in accordance with law.

32. The persons/entities against whom this Order is passed may file their objections, if any, within twenty one days from the date of this order and, if they so desire, avail themselves of an opportunity of personal hearing before the Securities and Exchange Board of India, on a date and time to be fixed on a specific request, received from the said persons/entities.

Sd /

DATE: February 17, 2016 **RAJEEV KUMAR AGARWAL**

PLACE : MUMBAI **WHOLE TIME MEMBER**

SECURITIES AND EXCHANGE BOARD OF INDIA