BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/KS/PP/2020-21/11167]

UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995

In respect of

Star Enterprises
PAN: **ACBFS4128C**

Address:
805, A-Wing, Corporate Avenue
Sonawala Road, Goregaon (East),
Mumbai 400063

In the matter of dealings in Illiquid Stock Options at BSE

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted an investigation into the trading activities of certain entities in illiquid stock options at Bombay Stock Exchange Limited (hereinafter, referred to as BSE) during the period April 01, 2014 to September 30, 2015 (hereinafter referred to as Investigation Period/IP). During the investigation period, the Investigating Authority (IA) observed that majority of volume generated in BSE's stock option segment was artificial volume which was created by execution of reversal trades. Reversal trades are considered non-genuine trades if it involves an entity reversing its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. Artificial volume is considered as the volume (no. of units) so reversed in non-genuine trades, comprising both original volume and reversed volume.

2. Pursuant to investigation, IA observed that total 2,91,643 trades comprising 81.38% of all the trades executed during Investigation Period in Stock Options Segment of BSE were non-genuine trades. The said non-genuine trades resulted into creation of artificial volume to the tune of 826.21 crore units i.e. 54.68% of the total market volume

in Stock Options segment of BSE during the investigation period. It was further observed by IA that Star Enterprises (hereinafter referred to as 'the Noticee') was one of the several entities which indulged in execution of non-genuine trades in Stock Options Segment of BSE during the investigation period. Such trades were observed to be non-genuine in nature and created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore alleged to be manipulative, deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for violation of the provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations, 2003**").

APPOINTMENT OF ADJUDICATING OFFICER

3. In view of this, OD initiated adjudication proceedings against the Noticee allegedly indulged in execution of reversal of trades in Stock Options with same entities on the same day in violation of Regulations 3(a), 3(b), 3(c), 3(d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003. Earlier, Ms. Sangeeta Rathod was appointed as the Adjudicating Officer (**AO**) in the matter. Pursuant to the transfer of Ms. Sangeeta Rathod, undersigned was appointed as the AO in the matter vide communique dated October 28, 2020. The change of AO in the matter was communicated to the Noticee vide letter dated December 10, 2020.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A Show Cause Notice No. SEBI/HO/EAD-10/E&AO/SR/SJ/OW/29669/8/2018 dated October 25, 2018 (hereinafter referred to as **SCN**) was issued by erstwhile AO under Rule 4 of the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995, requiring the Noticee to show cause as to why an inquiry should not be held against it and penalty be not imposed under section 15HA of Securities and Exchange Board of India, Act 1992 (**SEBI Act**) for the alleged non-compliance.

5. It was *inter alia* alleged in the SCN that the Noticee executed 15 non genuine trades in 2 stock options contracts, resulting in artificial volume of a total of 7,27,000 units.

The Noticee made a loss of Rs. 1,09,21,275/- by executing non genuine trades during the IP. Further, as regards Noticee's dealings in said contracts following was noted:

a) All the trades executed by the Noticee were non-genuine trades.
b) Percentage of non-genuine trades of the Noticee in stock options contracts to total trades in the contracts were in the range of 21% to 33%. The non-genuine trades of the Noticee have significantly contributed to total trades in the market in the above contracts.
c) Percentage of artificial volume generated by the Noticee in the contract to the total volume in the contract was in the range of 36% to 37%. Therefore, substantial volume generated by the Noticee in each of the above contracts were artificial volume.
d) Non-genuine trades executed by the Noticee in above contracts had varied buy rates and sell rates considering that the trades were reversed on same day.

6. The SCN was served on the Noticee through speed post acknowledgment due (SPAD). Vide letter dated December 20, 2018 Noticee was advised to attend the hearing before the erstwhile AO on January 10, 2019. Noticee vide letter dated January 04, 2019 informed that it was in process of preparing application for settlement. The same was confirmed to the office of erstwhile AO by the Settlement Division of SEBI (SD) vide office note dated February 20, 2019.

7. Meanwhile, SEBI decided to introduce a Settlement Scheme (hereinafter referred to as "Scheme") in terms of Regulation 26 of the Settlement Regulations.

Regulation 26 of the Settlement Regulations reads as under:

Settlement Schemes.

26. Notwithstanding anything contained in these regulations, the Board may specify the procedure and terms of settlement of specified proceedings under a settlement scheme for any class of persons involved in respect of any similar specified defaults.

Explanation. - A settlement order issued under a Settlement scheme shall be deemed to be a settlement order under these regulations.

Accordingly, SEBI framed the Scheme in accordance with the provisions of the Settlement Regulations which provided a onetime opportunity to the entities against whom adjudication proceedings were approved for the above mentioned violations, to settle the said pending proceedings.

8. After appointment of undersigned as AO in the instant matter, status of settlement application as filed by the Noticee was ascertained with the SD vide office note dated December 09, 2020. SD vide office note dated December 11, 2020 has apprised the office of AO that the Noticee's settlement application is under the ambit of SEBI Settlement Scheme – 2020.

9. The Noticee accepted the terms of the Scheme and vide e-mail dated January 19, 2021, it was informed by the Settlement Division that a Settlement Order dated January 14, 2021 has been passed in respect of all the entities who had accepted the terms of the Scheme, including the Noticee. Further, SD vide email dated January 19, 2021 has also intimated the details of the consolidated settlement order passed by the panel of Whole Time Members in respect of 1018 entities.

10. From the said order ref. no. SO/EFD-2/SD/361/JANUARY/2021 dated January 14, 2021, I note that name of the Noticee is mentioned at serial no. 866 with the following details at para 9 –

Sr. no.	***Name of the Applicant***	***PAN***	***Date of Payment***	***Settlement Amount Paid***
866	***Star Enterprises***	***ACBFS4128C***	***27/10/2020***	***Rs. 6,97,500.00/-***

Further, para 11 of the said order states as under:

11. Passing of this order is without prejudice to the right of SEBI under Regulation 28 of the Settlement Regulations to take enforcement actions including continuing proceedings against the applicants, if SEBI finds that:

a. any representation made by the applicant/s in the present settlement proceedings is subsequently found to be untrue;

b. the applicant/s has breached any of the clauses/ conditions of undertakings/ waivers filed during the present settlement proceedings."

Thus in view of Settlement Order in the matter of settlement applications filed under the SEBI Settlement Scheme-2020 dated January 14, 2021, I note that the Noticee has paid settlement amount of Rs. 6,97,500.00/- (Rupees Six Lakh Ninety Seven Thousand Five Hundred Only) towards the settlement terms.

ORDER

12. In view of the above facts and circumstances of the case, I am of the opinion that no further inquiry is required under Rule 4(3) of the Adjudication Rules in the present matter and the SCN dated October 25, 2018 issued to Star Enterprises is disposed of accordingly.

13. In terms of the provisions of Rule 6 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules 1995, a copy of this Order is being sent to the Noticee and also to Securities and Exchange Board of India.

Date: March 26, 2021 **K SARAVANAN**
Place: Mumbai **ADJUDICATING OFFICER**