

## SEBI's settlement scheme could net Govt ₹750 crore

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A rare move by SEBI to settle cases of alleged unfair trading with 14,720 entities could lead to a minimum gain of ₹750 crore for the national exchequer. This is assuming all the entities come forward to settle the cases.

The cases, which fall under SEBI's Prevention of Fraudulent Unfair Trade Practices Regulations, attract penalties of ₹5 lakh to ₹25 crore. The actual settlement sum will depend on the amount and number of non-genuine trades by each entity. According to market experts, most entities may agree to settle the cases instead of paying for lengthy legal proceedings.

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SEBI has done the right thing since the number of cases is disproportionately large and diverts attention from other deserving enforcement cases, said securities lawyer Somasekhar Sundaresan. "SEBI has made its point. It's now time to attain closure and move on," he said.

In 2018, Madhabi Puri Buch, whole-time member (WTM) of SEBI, had promised action against entities for sham transactions in stock derivatives between 2014 and 2015. In August 2015, former SEBI WTM Rajeev Kumar Agarwal passed an order against 59 entities for trading in illiquid options of stocks on the BSE. Then, certain entities consistently made losses in trading executed among themselves. Analysis showed the entities generated over 70 per cent of their volumes in illiquid options in a year. Agarwal held entities with over ₹5 crore in loss or profit, responsible for the non-genuine trades. In the same matter, in 2018, Buch further identified 14,720 entities.

### SAT's direction

The Securities and Appellate Tribunal (SAT) had asked SEBI to "consider a Lok Adalat or adopt any other alternative dispute resolution process for the cases". The parties involved had argued that there were no specific rules for execution of trades with 'self or related parties' then and that 'non-genuine trades' were SEBI's notion. Rules on executing trades with self were enacted much later.

Calling it a system issue, experts say it is difficult to address it strictly per the law. Hence, on SAT's directions, SEBI has now offered a 'settlement'.

According to Sumit Agrawal, Partner, Regstreet Law Advisors and a former SEBI official, both the Supreme Court and SAT are nudging regulators to explore out-of-court settlements.

"To reduce court cases, the Law Ministry even considered bringing a standalone law. SEBI's settlement scheme will ensure that public resources are utilised efficiently and noticees also have a chance to bring closure with less hassle, keeping in mind the minimum penalty for securities law violations," he added.