BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OFINDIA

ADJUDICATION ORDER NO. EAD-7/BJD/BKM/2018-19/1758

UNDER SECTION15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT,1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES,1995

In respect of

Pravin Selvadia
(PAN: AADPS3125M)
Flat no 20 Hargun House 3rd Floor,
Dr Annie Besant Road,
Near Poddar Hospital Worli, Mumbai,
Maharashtra 400018

In the matter of Illiquid Stock Options at BSE

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') observed large scale reversal of trades in Stock Options segment of Bombay Stock Exchange (hereinafter, referred to as "BSE") leading to creation of artificial volume. Accordingly, SEBI conducted an investigation into the trading activities of certain entities in Illiquid Stock Options at BSE (hereinafter, referred to as "investigation") for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period").

2. It was observed that during the investigation period, total 2,91,643 trades comprising substantial 81.38% of all the trades executed in Stock Options Segment of BSE were found to be non-genuine trades. The aforesaid nongenuine trades resulted into creation of artificial volume to the tune of 826.21 crore units or 54.68%

of the total market volume in Stock Options segment of BSE during the investigation period.

3. It was observed that the said non- genuine trades were not restricted to any specific contract or between any specific set of entities. It was observed that Pravin Selvadia (hereinafter referred to as "Noticee") was one of the various entities which were indulged in execution of non-genuine trades in Stock Options Segment of BSE during the investigation period. The following points narrate the dealings of the Noticee during the investigation period and the allegations against him for execution of non-genuine trades.

4. As regards to all the dealings of the Noticee in the Stock Options segment of BSE during the investigation period, it was observed that the Noticee had traded in 8 unique contracts, from which he has allegedly executed non genuine trades in 8 contracts wherein he executed total 45 non-genuine trades, which resulted in artificial volume of total 23,18,000 units.

5. Summary of dealings of the Noticee in 8 Stock Options contracts in which the Noticee allegedly executed non genuine trades during the investigation period is as follows:

S. No	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Number of non genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades execute d in the contract	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Entity in the contract to Total trades in the Contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	CANB15MAR360.00CEW3	23.50	201000	42.13	201000	10	10	10	100%	100%	100%	100%
2	CESC15MAR560.00CEW3	25.10	100000	44.00	100000	6	6	17	100%	35%	100%	61%
3	GAIL15APR360.00CEW1	14.45	226000	27.60	226000	6	6	27	100%	22%	100%	22%
4	IDFC15MAR200.00PE	19.60	200000	31.89	200000	5	5	5	100%	100%	100%	100%
5	KARB15MAR110.00CEW2	12.70	202000	22.29	202000	6	6	12	100%	50%	100%	23%
6	KARB15MAR150.00PE	15.20	148000	25.78	148000	5	5	15	100%	33%	100%	17%
7	SYND15JUL90.00CEW4	10.75	60000	19.20	60000	2	2	2	100%	100%	100%	100%
8	VOLT15MAR220.00CE	38.00	125000	57.32	125000	5	9	48	56%	10%	18%	3%

6. From the above table, the following is observed as regards to dealings of the Noticee:

a) The Noticee had executed non genuine trades in 8 contracts, wherein in respect of 3 contract, all the trades were non genuine trades.

b) The number of non-genuine trades of the Noticee had significantly contributed to the total number of trades from the market in the above contracts, as a substantial 10% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by the Noticee.

c) A substantial 3% to 100% of volumes generated by the Noticee in each of the above contracts were artificial volume, and further artificial volume generated by it also contributed to significant contribution of the total volume from the market in said contracts.

d) Non genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

7. In view of the foregoing, it was alleged that the Noticee, indulged in execution of reversal of trades in Stock Options with same entities on the same day. Such trades are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore, alleged to be manipulative, deceptive in nature. Thus, it was alleged that the Noticee had violated the provisions of Regulation 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).

APPOINTMENT OF ADJUDICATING OFFICER

8. Pursuant to investigation, SEBI, after being satisfied that there are sufficient grounds to inquire into the affairs and adjudicate upon the alleged violations as mentioned above, inter-alia, in respect of the Noticee, had appointed the undersigned as the Adjudicating Officer vide Order dated April 3, 2018, under section 19 read with section 15I(1) of the SEBI Act, 1992(hereinafter referred to as SEBI Act) and Rule 3 of SEBI(Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter, referred to as "SEBI Adjudication Rules") to conduct adjudication proceedings in the manner specified under rule 4 of SEBI Adjudication Rules, 1995 read with section 15I (1) and (2) of SEBI Act, and if satisfied that penalty is liable, impose such penalty deemed fit in terms of Rule 5 of SEBI Adjudication Rules 1995 and Section 15HA of SEBI Act.

SHOW CAUSE NOTICE, REPLY AND HEARING

9. A Show Cause Notice (hereinafter referred to as "SCN") bearing ref. no. SEBI/HO/EAD-7/BJD/NJMR/24883/2018 dated August 28, 2018 was served upon the Noticee under Rule 4 of SEBI Adjudication Rules to show cause as to why an inquiry be not held against him in terms of Rule 4 of the Adjudication Rules and penalty be not imposed under Section 15HA of SEBI Act, 1992 for the violations alleged to have been committed by him.

10. Vide letter dated October 19, 2018 the Noticee submitted his reply and the significant parts of the reply are reproduced as under:

- *All the trades imputed in the SCN were traded by me on the floor of BSE and were settled through the clearing house of BSE in accordance with the rules and bye-laws of BSE and as per the requirement of Section 18-A of Securities Contract (Regulation) Act, 1956.*

- *Derivative contracts are one-sided contract where the loss suffered, if any, by the buyer (of an option) is limited only to the premium amount paid whereas the loss which could be suffered by the writer of the contract (seller) is limitless. Similarly, the upside for an option seller/writer is limited to the upfront premium received, whereas the upside for the option buyer/purchaser is limitless. As per normal market incidents, Options which have been purchased/sold may get reversed at the different rates on the very same day. Such reversal trades are only to avoid greater potential loses on the one side, and to book profits on the other side. The "reversal" of trades on the same day is a normal practice of trading in the options segment. The buyer has the choice to close the options contract and settle the transaction on any day at the then current price, even during the period of the settlement, i.e. before the settlement date. If the market starts moving or there is a change in the perception of the market and the anticipated future performance thereof, then the seller (writer) may anticipate a substantial loss, and would want to square off* *his position to restrict the loss. The seller/writer would therefore put in an offer or accept an offer of a higher premium. This often happens on the same day as they first options contract, since, the buyer alone has an option to settle and close the options contract at the end of any day and demand payment. The seller, therefore, has to in effect repurchase the contract at a higher rate/premium to avoid such an eventuality and consequent greater loss. The buyer on the other hand may choose to accept/offer such higher premium so as to assure his profit, and that too, in a very short time span. The reversal of trades on the same day in F & O segment cannot be categorized as fictions and non-genuine.*

- *The contracts in this segment are settled at the end of the settlement period in cash and there is no physical delivery of the underlying asset. Unlike in the cash segment where trading is done by making the entire payment upfront, trading in F& O segment is carried on with a relatively small amount which provides the possibility of greater profits and/or losses.*

- *Having taken a position in an option (bought a put/call option), I went ahead to reduce his risk by offering the same in smaller quantities at a price higher that the price at which he had bought with an objective to make profit. It is, therefore, submitted that the entire allegation and charge in the said SCN, that merely because transactions were entered into by me in the options market which were later on the same day in effect reversed, tantamount to violation of any Regulations and was manipulative & /or deceptive &/or non-genuine &/or fictitious & /or fraudulent, etc. is incorrect and based on a misconception of the trading system and the implications thereof. Admittedly the Options market is illiquid, very few parties trade therein, and therefore the potential for such reversal trades occurring between the same parties is obvious.*

- *The Board has found that only 45 trades in 8 option contracts executed by the appellant in the options segment constituted 50% or more of the trades by volume in 4 contracts. This is indicative of the fact that the number of players in the options segment is very* *less. Artificial/fictitious trades in the cash segment do give a false appearance of active trading in a particular scrip by increasing volumes which tend to lure the lay investors to invest in that scrip. The impression given to the investors is that the scrip is highly liquid and much in demand and this inferences with the price discovery mechanism of the exchange and it is for this reason that such trades are held illegal in the cash segment. This, however, cannot be the case in the F&O segment.*

- *Since all my trades were settled in cash through the stock exchange mechanism, they were genuine and these could not create a false or misleading appearance of trading in the F&O segment. Trading for a profit motive cannot be termed as non-genuine. It's not the case that I incurred continuous losses on each of the trades and thus the trades are alleged as non-genuine. The financial impact arising from the trade as noted in the contract notes are also reflected through appropriate credits in my bank account and in my Income Tax Return where in due cognizance of the profits earned on the above transactions have been recorded and due taxes has been paid.*

- *On perusal of copies of my Tax Returns for relevant period, wherein the Impugned trades executed during F.Y. 2014-15 are recorded and included, it will be appreciated that I had paid taxes amounting to ` 25,66,120/-. I had reported business Loss to the tune of `. 20,96,982/- incurred from Futures& Options trading even after netting of the alleged profit amounting to ` 1,54,95,375/- earned from the Impugned transactions.*

- *In case, if it is presumed that the above transactions are ingenuine then the Loss from Futures & Options would have been increased by `. 1,54,95,375/- whereby I would have suffered a loss of `1,75,92,357/- from Future & Options Trades.*

- *It needs to be appreciated that the Loss from Future & Options is treated as Business Loss under the Income Tax Act and that I would have been entitled to adjust this loss against the Business Profit (Business 1) which was declared at `1,13,95,155/-, Income from Salaries`.3,00,000/-, Income from House Property Rs.4,45,200/- and Income from*

Other Sources `.2,36,352/- and would thus have not been liable to pay any Income Tax during FY 2014-15. Whereas fact remains that I have paid tax (including interest) amounting to ` 25, 66,858/- which no layman would pay if the transactions were not genuine as has been alleged in above SCN.

- *It would be further pertinent to note that I have been constantly trading in Future & Options and even during the next F.Y. 2015-16 reported a Net Loss amounting to Rs.39, 57,491/- from Future & Options trading.*

- *Similarly during F.Y. 2013-14, i.e. the preceding year I had reported a Profit of Rs.8,78,048/- from Future & Options transactions.*

- *Both the above submission clearly demonstrates that the trades carried out by me were in fact:*
    - *genuine trades with profit motive;*
    - *carried out on the floor of the exchange, settled in cash; and*
    - *having financial impact and on which due taxes have been paid.*
- *The proposed action on the basis of allegation that the trades carried out by me had significant difference in the buy and sell rate is unfounded, unsubstantiated and misplaced since it is devoid of the facts in regard to the way trades happen in the option market.. I have summarised below, the Derivative options wherein difference between the high and the low price for such trades have been at times as high as 14-15 times.*

Expiry Date	**Underlying Security**	**Type of Option**	**High Price as a % of Low Price**
12-Mar-15	Karnataka Bank	Call	165 - 178%
19-Mar-15	CESC	Call	180%
19-Mar-15	Canara Bank	Call	170-354%
26-Mar-15	IDFC	Put	100-1533%
26-Mar-15	Karnataka Bank	Put	204-219%
26-Mar-15	Voltas	Call	137-357%
01-Apr-15	GAIL	Call	127-226%
23-Jul-15	Syndicate Bank	Call	170%

- *On perusal of above tabulation it will be appreciated that the difference between the high and low price of the options varies quite significantly, and the same been as high as 15 times the low price.*
- *Thus, considering the impugned trades as non-genuine only on the basis that there is significant difference in the buy and sell rate is bad in law and unjustified since that is regular phenomena and has happened many such trades as tabulated above.*
- *In relation to the following contract, the only trade executed in the contract were the one carried out by me on the particular day:*

Scrip Name	Expiry Date	Strike Price	Total Trades	rades of Noticee
CANB15MAR360.00CEW3	2015-03-19	360	4,02,000	4,02,000
IDFC15MAR200.00PE	2015-03-26	200	4,00,000	4,00,000
SYND15JUL90.00CEW4	2015-07-23	90	1,20,000	1,20,000

- *Thus, it is quite evident that the trade carried out by me had not resulted in any other trades being influenced on account of the same. Nor is the same being alleged in the SCN.*
  a. *In relation to the following contracts, the trades in the contract happened on one day only:*

Trade Date	Scrip Name	Expiry Date	Strike Price	Total Trades	Trades of Noticee
13-03-15	CESC15MAR560.00CEW3	2015-03-19	560	330,000	2,00,000
26-03-15	'OLT15MAR220.00CE	2015-03-26	220	16,64,000	75,000

- *In relation to the following contracts, there have been in fact no further trade executed in the contract post the trade by the defendant*

Scrip Name	Expiry Date	Strike Price	Total Trades	Trades of Noticee

KARB15MAR110.00 CEW2	2015-03-12	110	17,40,000	4,04,000

b. *In relation to the put option KARB53P150, Expiry Date: March 26, 2015, Strike Price ` 150, the total trades executed are as follows:*

Date	Open	High	Low	Close	LTP	Settle Price	Total Trades	Trades of Noticee
26-03-15	28.50	28.50	28.50	28.50	28.50	28.70	2,000	NA
25-03-15	16.20	29.30	16.20	28.70	28.70	26.75	1,400,000	NA
23-03-15	15.20	26.00	15.20	26.00	26.00	25.55	296,000	2,96,000

- *Thus, as can be seen from the above even on 25th March 2015, the difference between the high (` 29.30) and the low price (`. 16.20) for the option was ` 13.10 for total traded contracts of 14 lacs units.*

c. *Similarly, in relation to the call option GAILA4C360, Expiry Date: 1st April 2015, Strike Price ` 360, the total trades executed are as follows:*

Date	Open	Low	Close	LTP	Settle Price	No. of Contracts	Trades of Noticee
31-03-15	12.10	12.10	20.00	20.00	14.45	558,000	NA
30-03-15	27.60	14.40	14.45	14.45	20.10	546,000	4,52,000
27-03-15	31.35	20.00	20.10	20.10	22.10	880,000	NA
20-03-15	29.50	19.45	20.50	20.50	31.45	100,000	NA

- *Thus, as can be seen from the above even on 31th March 2015, the difference between the high (` 27.65) and the low price (` 12.10) for the option was `15.55 for total traded contracts of 5.58 lacs units. Similarly, the difference between High and low price on 27th March 2015 was ` 11.35 for 8.8 lacs units traded.*

- *Thus, it is quite evident that most of the trades in the F & O market had significant difference between the High and Low price on a particular day and that such significant difference in the price is no indication of a non-genuine trade.*
- *Further, considering the illiquid market in individual stock options such as stock specific put and call option, it is quite obvious that only those parties who have taken position in the derivative would have an incentive to book profit/cut exposure by entering into an opposite trade. In such circumstance, the possibility of the same entities being represented by the brokers on different legs of a trade cannot be ruled out. However, the mere fact that the same entities entered into opposite trade does not per se makes such trade illegal or non-genuine."*

11. Further, vide letter dated November 27, 2018 the Noticee submitted additional reply and the significant portions of the reply are reproduced as under:

    "On a relative basis, during the Investigation Period i.e. April 01, 2014 to September 30, 2015, the total trades executed by me constituted 0.0154% of the total trades observed by SEBI i.e. 45 out of total trades of 2,91,643;

    - *my total trading volume constituted 0.028% of the total trading volume observed by SEBI i.e. 23.18 lacs units as against an aggregate of 826.21 crore units;*
    - *the Alleged Trades were carried out of 7 trading days as against a total of 368 trading days during the period;*
    - *the Alleged Trades constituted a very small and negligible proportion (8 derivative contacts and 45 trades) of my overall traded contracts and trades in the derivative segment during the period."*

12. In the interest of natural justice and in terms of Rule 4 (4) of Adjudication Rules, the Noticee was provided with an opportunity of personal hearing on November 27, 2018. The Noticee attended the personal hearing conducted on November 27, 2018

and reiterated the submission as made in his letters dated October 19, 2018 and November 27, 2018.

13. The above mentioned detail of the reply has been taken into record and now I am proceeding with the matter on the basis of written and oral submission of the Noticee and the material available on record.

CONSIDERATION OF ISSUES AND FINDINGS

14. After perusal of the material available on record, I have the following issues for consideration viz.,

I. **Whether the Noticee has violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of PFUTP Regulations?**

II. **Whether the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act?**

III. **If so, what quantum of monetary penalty should be imposed on the Noticee?**

FINDINGS

15. On perusal of the material available on record and giving regard to the facts and circumstances of the case and submissions of the Noticee, I record my findings hereunder.

ISSUE I: Whether the Noticees have violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of PFUTP Regulations?

17. Before moving forward, it is pertinent to refer to the relevant provisions of SEBI (PFUTP Regulations), 2003 which reads as under:

Regulation 3 of PFUTP Regulations: - 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 thereunder; (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 thereunder.

Regulation 4 of PFUTP Regulations : - 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;

18. It has been alleged that the Noticee had indulged in execution of reversal of trades in Stock Options with same entities on the same day. Such trades are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volume in stock options and therefore alleged to be manipulative, deceptive in nature.

19. I note that reversal trades have been considered as those trades in which an entity reverse its buy or sell positions in a contract with subsequent sell or buy

positions with the same counterparty during the same day. The said reversals trades are non-genuine trades as they are not executed in normal course of trading, lacks basic trading rationale, and lead to false or misleading appearance of trading in terms of generation of artificial volume, hence were deceptive and manipulative. Artificial volume is considered to be the volume (no. of units) reversed in both legs of said reversal trades while keeping out the volume, if any, which is not reversed.

20. I note that the Noticee had executed 45 non-genuine trades in 8 unique contracts on 7 trading days i.e., from March 11, 2015 to July 20, 2015. The details of non-genuine trades executed by the Noticee are furnished hereunder.

S. No	**Contract Name**	**Avg. Buy Rate (Rs.)**	**Total Buy Volume (no. of units)**	**Avg. Sell Rate (Rs.)**	**Total Sell Volume (no. of units)**	**Number of non genuine trades executed by Entity in the Contract**	**Total number of trades executed by the Entity in the Contract**	**Total number of trades executed in the contract**	**% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract**	**% of Non Genuine trades of Entity in the contract to Total trades in the Contract**	**% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract**	**% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract**
1	CANB15MAR360.00CEW3	23.50	201000	42.13	201000	10	10	10	100%	100%	100%	100%
2	CESC15MAR560.00CEW3	25.10	100000	44.00	100000	6	6	17	100%	35%	100%	61%
3	GAIL15APR360.00CEW1	14.45	226000	27.60	226000	6	6	27	100%	22%	100%	22%
4	IDFC15MAR200.00PE	19.60	200000	31.89	200000	5	5	5	100%	100%	100%	100%
5	KARB15MAR110.00CEW2	12.70	202000	22.29	202000	6	6	12	100%	50%	100%	23%
6	KARB15MAR150.00PE	15.20	148000	25.78	148000	5	5	15	100%	33%	100%	17%
7	SYND15JUL90.00CEW4	10.75	60000	19.20	60000	2	2	2	100%	100%	100%	100%
8	VOLT15MAR220.00CE	38.00	125000	57.32	125000	5	9	48	56%	10%	18%	3%

21. Before I proceed further, it is necessary to understand what an Option Contracts is and various factors which influence the price of the Options. Options are financial derivative sold by an option writer to an option buyer. The contract offers the buyer the right, but not the obligation, to buy (call option) or sell (put option) the underlying asset at an agreed-upon price during a certain period of time or on a specific date. The factors which influence the Options prices are underlying price, strike price, time until expiration, volatility, interest rates and dividends. There are various market based models (Black and Scholes Model) which throw an indicative price of the Option after inputting the various parameters mentioned above. I note that the seller of option contract will be the writer of the contract where the risk involved would be unlimited, as theoretically writer of options is obliged to honor the contract should the buyer exercise such option. Similarly, buyer of Option will have limited risk to the extent of premium paid. Therefore, both buyer and seller of options should ideally deal in options contracts considering various market parameters as mentioned above.

22. With above background in mind, I shall now proceed to deal with the transactions executed by Noticee in some of the instances of alleged non-genuine trades.

I. Scrip Name: CANB15MAR360.00CEW3, Trade Date: 18/03/2015

CLIENTNAME	CP_CLIENTNAME	TRADE_TIME	TRADE_RATE	TRADED_QTY
PRAVIN SELVADIA	SAI REFINERY	10:17:41	23.5	201000
SAI REFINERY	PRAVIN SELVADIA	10:17:49	28.6	1000

SAI REFINERY	PRAVIN SELVADIA	10:17:54	30.2	1000
SAI REFINERY	PRAVIN SELVADIA	10:17:59	33.4	1000
SAI REFINERY	PRAVIN SELVADIA	10:18:07	35.6	1000
SAI REFINERY	PRAVIN SELVADIA	10:18:11	38.1	1000
SAI REFINERY	PRAVIN SELVADIA	10:18:26	39.8	1000
SAI REFINERY	PRAVIN SELVADIA	10:18:39	42.5	95000
SAI REFINERY	PRAVIN SELVADIA	10:18:54	42.3	48000
SAI REFINERY	PRAVIN SELVADIA	10:18:54	42.2	52000

(a) I note that during the investigation period, in the contract of "CANB15MAR360.00CEW3", a total number of 10 trades were executed, out of which the Noticee had executed all 10 trades for 4,02,000 units on 18/03/2015. While dealing in the said contract on 18/03/2015, the Noticee at 10:17:41 hrs entered into 1 buy trade with counter party viz., Sai Refinery for 2,01,000 units at the rate of ` 23.5 per unit. Thereafter, on the same day, within 8 seconds from the above trade, the Noticee entered into 1 sell trade with same counterparty at 10:17:49 hrs for a total 1,000 units at ` 28.6 per unit, at 10:17:54 for a total 1,000 units at ` 30.2 per unit, at 10:17:59 for a total 1,000 units at ` 33.4 per unit, at 10:18:07 for a total 1,000 units at ` 35.6 per unit, at 10:18:11 for a total 1,000 units at 38.1 per unit, at 10:18:26 for a total 1,000 units at 39.8 per unit, at 10:18:39 for a total 95,000 units at 42.5 per unit, , at 10:18:54 for a total 48,000 units at 42.3 per unit, at 10:18:54 for a total 52000 units at ` 42.2 per unit.

(b) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed total 10 reversal trades (1 buy trade + 9 sell trade) with the same counterparty viz., Sai Refinery on the same day, for the same quantity.

(c) Thus, the Noticee, through its dealing in the contract viz, "CANB15MAR360.00CEW3," executed 10 non genuine trades which is 100% of the total trades from the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 4,02, 000 units which is 100% of the volume traded in the said contract from the market during the investigation period.

II. Scrip Name: IDFC15MAR200.00PE, Trade Date: 23/03/2015

CLIENTNAME	CP_CLIENTNAME	TRADE_TIME	TRADE_RATE	TRADED_QTY
PRAVIN SELVADIA	MERU MARMO PRIVATE LIMITED	13:52:32	19.6	200000
MERU MARMO PRIVATE LIMITED	PRAVIN SELVADIA	13:52:38	25.6	2000
MERU MARMO PRIVATE LIMITED	PRAVIN SELVADIA	13:52:44	28.9	2000
MERU MARMO PRIVATE LIMITED	PRAVIN SELVADIA	13:52:48	30.4	2000
MERU MARMO PRIVATE LIMITED	PRAVIN SELVADIA	13:53:06	32	194000

(a) I note that during the investigation period, in the contract of "IDFC15MAR200.00PE", a total number of 5 trades were executed, out of which the Noticee had executed 5 trades for 4,00,000 units on 23/03/2015. While dealing in the said contract on 23/03/2015, the Noticee at 13:52:32 hrs entered into 1 buy trade with counter party viz., Meru Marmo Private Limited for 2,00,000 units at the rate of `19.6 per unit. Thereafter, on the same day, within 6 seconds from the above trade, the Noticee entered into 1 sell trade with same counterparty at 13:52:38 hrs for a total 2,000 units at `25.6 per unit, at 13:52:44 hrs for a total 2,000 units at `28.9 per unit, at 13:52:48 hrs for a total 2,000 units at `30.4 per unit, at 13:53:06 hrs. for a total 2,000 units at 32 per unit.

(b) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed total 5 reversal trades (1 buy trades + 4 sell trades) with the same counterparty viz., Meru Marmo Private Limited on the same day, for the same quantity.

(c) Thus, the Noticee, through its dealing in the contract viz, “IDFC15MAR200.00PE,” executed 6 non genuine trades which is 100% of the total trades from the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 4, 00,000 units which is 100% of the volume traded in the said contract from the market during the investigation period.

23. From the above pattern of trades, I note that the Noticee had bought and sold option contracts with the same counter parties and also reversed its trades in less than 1 minutes from its earlier buy / sell trades, at substantial price difference. Such pattern of dealings suggests beyond doubt that they were not driven by market factors as none of the parameters (underlying stock price, volatility, etc.,) for Option pricing, as mentioned above paragraphs, have undergone any change during the currency of trades. I note that the underlying stock price did not change to substantiate corresponding changes in the option price in a span of less than one minute. Therefore, I conclude that aforesaid trades of Noticee were non genuine and have created false or misleading appearance of trading in terms of artificial volume in stock options and therefore manipulative, deceptive in nature.

24. It is summarized from the above findings that the Noticee had executed non-genuine trades in 8 contracts, wherein in respect of 3 contract viz., CANB15MAR360.00CEW3,IDFC15MAR200.00PEandSYND15JUL90.00CW4 executed on March 18, 2015, March 23, 2018 and July 20, 2015 respectively all the trades were non genuine trades. The number of non-genuine trades of the Noticee had contributed to the total number of trades from the market in the

above contracts, which was in the range of 10% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by the Noticee. The volumes generated by the Noticee in each of the above 8 contracts were artificial volume, and have contributed in the range of 3% to 100% of the total volume from the market in said contracts. Non genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

25. From the above pattern of trades, I note that the Noticee had bought and sold option contracts with the same counter parties and also reversed its trades in less than 1 minute from its earlier buy / sell trades, at substantial price difference. Such pattern of dealings suggests beyond doubt that they were not driven by market factors as none of the parameters (underlying stock price, volatility, etc.) for Option pricing, as mentioned above paragraphs, have undergone any change during the currency of trades. I note that the underlying stock price did not change to substantiate corresponding changes in the option price in a span of less than one minute. Therefore, I conclude that aforesaid trades of Noticee were non genuine and have created false or misleading appearance of trading in terms of artificial volume in stock options and therefore manipulative, deceptive in nature.

26. It is summarized from the above findings that the Noticee had executed non-genuine trades in 8 contracts, wherein he executed total 45 non-genuine trades, with similar *modus operandi*. In 3 contracts all the trades by the Noticee are non-genuine trades. The number of non-genuine trades of the Noticee had contributed to the total number of trades from the market in the above contracts, which was in the range of 10% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by

the Noticee. The volumes generated by the Noticee in each of the above 8 contracts were artificial volume, and have contributed in the range of 3% to 100% of the total volume from the market in said contracts. Non genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

27. I note that derivative contracts by its very nature derives its value from various factors including underlying price. The transactions of the Noticee as mentioned in above paras clearly demonstrates that option contracts bought / sold were immediately reversed within span of few seconds at substantially different price, though there was no corresponding price changes in the underlying stock price. Further analysis of such trades also indicates that price differentials have been deliberately structured for manipulative purpose as one party to the contract had deliberately foregone profitable proposition at the time of executing trade. For example, the Noticee bought put option contract (Right to Sell Option) of "IDFC15MAR200.00PE" on March 23, 2015 with strike price of `200 and premium of `19.6 for 2,00,000 units. This means the Noticee will incur profit (IN THE MONEY) if the underlying price of the scrip is less than `180.4 {Strike Price (`200) - Premium (`19.6)}. I note that the underlying stock price of IDFC Ltd. (IDFC) on equity segment on March 23, 2015 was `167.64 (weighted average price). Thus, it is apparent that the Noticee was already in profit of `12.76 (difference of Strike Price – Spot Price after deduction of Premium) at the time of buying the contract. This implies that seller counterparty i.e., Meru Marmo Private Limited had sold at ` 19.6 knowing fully well that he was already loosing `12.76 at the time of Contract and the Noticee was also fully aware that he was already in the money by ` 12.76. If the above trade is seen in the context of immediate reversal of trades by the Noticee within few minutes of such trade with the same counterparty for the same quantity at a substantially difference price, without corresponding change in the underlying stock price defies economic rationale and therefore

such trades are non-genuine. Any rational investor would never deal in the market to deliberately register loss to facilitate buyer to profit at the time of entering trades. Had the counterparties for trades of the Noticee different, intraday squaring of positions would not have been possible as no genuine counter party investor would ever forego profits. The fact the counterparties are same corroborates that the trades were not genuine and executed for manipulative purpose. I also note that profits made by the Noticee was exactly same to the loss made by the counterparty which ratifies the manipulative scheme of operations.

28. Considering the fact that all these reversal transactions were carried out through a screen based trading platform on a segment with hundreds of different contracts, the placement of orders repeatedly within a time span of less than few minutes and a significantly high percentage of matching of these orders, appear to be practically impossible unless there is a prior understanding or a pre-meditated plan between the two entities executing them. The repeated sell/buy of illiquid stock options by the Noticee and subsequent reversal trades with the same set of entities for the same quantity, within a short span of time with a significant difference in buy and sell value of stock options, in itself, exhibits abnormal market behavior and defies economic rationality. I note from the above trading pattern of the Noticee that it was deliberately making blatant misuse of trading platform for creating artificial volume in the illiquid stock options and generated profit through its reversal trades in stock options. I note that the rationale for such transactions entered by the Noticee are not genuine and irrational.

29. I am of the considered view that the scheme, plan, device and artifice employed by the Noticee in this case of executing reversal trades in illiquid stock options contracts at irrational, unrealistic and unreasonable prices,

tantamount to fraud on the securities market in as much as it involves non-genuine/ manipulative transactions in securities and misuse of the securities market.

30. The non-genuine and deceptive transactions of these entities are, prima-facie, covered under the definition of 'fraud' and the dealings of the Noticee as discussed herein above were "fraudulent", as defined under regulation 2(1)(c) of the PFUTP Regulations and prohibited under the provisions of Regulations 3(a), (b), (c) and (d) and 4(1) and 4(2)(a) PFUTP Regulations thereof.

31. Further, with respect to the reversal of trades carried out by the Noticee, I note that the Hon'ble Supreme Court in the matter of SEBI vs. Rakhi Trading Private Ltd., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 31743177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018 had observed that *"the price discovery system itself was affected by synchronization and rapid reverse trade, which also had the impact of excluding other investors from participating in the market. The Supreme Court, therefore found that the traders having engaged in a fraudulent and unfair trade practice while dealing in securities, are hence liable to be proceeded against for violation of Regulations 3(a), 4(1) and 4(2)(a) of PFUTP Regulations".* The Apex Court also observed that "*considering the reversal transactions, quantity, price and time and sale, parties being persistent in the number of such trade transactions with huge price variations, it will be too naïve to hold that the transactions are through screen-based trading and hence anonymous. Such conclusion would be over-looking the prior meeting of minds involving synchronization of buy and sell order and not negotiated deals as per the Board's circular. The impugned transactions are manipulative/deceptive device to create a desired loss and/or profit. Such synchronized trading is violative of transparent norms of trading in securities."*

32. Keeping in mind the dicta of the Hon'ble Supreme Court as reproduced above; I see no reason to take a different view in the present case. In view of the foregoing, I hold that the Noticee had indulged in execution of reversal trades in Stock Options with same entities on the same day, which are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes.

33. The Noticee vide his letter dated September 25, 2018 had sought entire records and papers in possession of SEBI relating to the present Adjudication proceedings. In this connection, I would like to emphasize that all the documents which were relevant and relied upon in the SCN were provided to the Noticee, which are detailed hereunder:

a) *Copy of communication of Order dated May 29, 2018 regarding appointment of Adjudication Order;*

b) *Integrated trade log of all trades of Noticee in Stock Option segment of BSE during the investigation period;*

c) *Integrated trade log of all non-genuine trades of Noticee in Stock Option segment of BSE during the investigation period;*

34. In this connection, I would like to refer to the observations of the Hon'ble SAT in the matter of Mayrose Capfin Private Limited Vs SEBI (decided on 30.03.2012) wherein SAT observed that:"*....................the principles of natural justice require that the inquiry officer should make available such document and material to the delinquent on which reliance is being placed in the inquiry.*
It is not necessary for the inquiry officer to make available all the material that might have been collected during the course of investigation but has not been relied upon for proving charge against the delinquent. No prejudice can, therefore, be said to have been caused to the appellant on this count...."

35. In view of the above, since all the documents which were relevant and relied upon in the instant proceedings have been provided to the Noticee along with the SCN, I am of the opinion that principles of natural justice have been duly complied with in the instant proceedings and no prejudice has been caused to the Noticee.

36. I note that in the screen based trading, the manipulative or fraudulent intent can be inferred from various factors such as conduct of the party, pattern of transactions, etc., In this context, I deem it appropriate to refer to the Hon'ble SAT order dated July 14, 2006, in the case of Ketan Parekh vs. SEBI (Appeal no. 2/2004), wherein, Hon'ble SAT has observed that:

"*The nature of transactions executed, the frequency with which such transactions are undertaken, the value of the transactions, the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is from the cumulative effect of these that an inference will have to be drawn.*"

37. Further, I would like to rely on the judgment of Hon'ble Supreme Court in the matter of SEBI vs. Rakhi Trading Private Ltd., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018, wherein the Apex Court upheld that "*the entities were engaged in a fraudulent and unfair trade practice while dealing in Options and hence were liable for violation of SEBI (PFUTP) Regulations*".

The Hon'ble Apex Court has also observed that in the absence of direct proof of meeting of minds, the test should be one of preponderance of probability and also stated that the conclusion has to be gathered various circumstances like volume of trade, period of persistence of trading, particulars of buy and sell orders, proximity of time between the two and such other relevant factors.

38. I note that the Noticee claimed that their trading activity is not in violation of any securities law as they have traded on the exchange platform, within the permitted price band, not aware of the counterparty, trading was illiquid therefore trades have matched, exchanges have permitted and not objected, people make profit or loss in trading.

39. In line with the aforesaid judgments of Hon'ble SAT and Hon'ble Supreme Court, I note from the foregoing findings that the trading pattern of the Noticee in terms of volume of reversal trades, proximity of buy/sell and subsequent reversal evidences the indulgence of the Noticee beyond a reasonable doubt of the manipulative intent in creation of artificial volume. Further, consistent pattern of dealings by Noticee only in such options contracts which are illiquid clearly demonstrates that the manipulative intent to use stock exchange platform to carry out non-genuine trades with the aim to execute such trades for various manipulative purposes.

40. In this regard, I would like to rely on the judgment of Hon'ble Supreme Court in the matter of SEBI vs. Rakhi Trading Private Ltd., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018, where Apex Court stated at Para 35 and Para 41 of that said Order that *"The platform of the stock exchange has been used for a non-genuine trade. Trading is always with the aim to make profits. But if one party consistently makes loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice". "The stock market is not a platform for any fraudulent or unfair trade practice. The field is open to all the investors. By synchronization and rapid reverse trade, as has been carried out by the traders in the*

instant case, the price discovery system itself is affected. Except the parties who have pre-fixed the price nobody is in the position to participate in the trade. It also has an adverse impact on the fairness, integrity and transparency of the stock market."

41. From the foregoing, it is established that the Noticee by indulging in reversal trades on the stock exchange platform which are manipulative / unfair / fraudulent / non-genuine, in nature, had created artificial volumes in the contracts. In view of above, I conclude that the Noticee had violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of PFUTP Regulations thereof.

ISSUE -2: Does the violation, if any, attract monetary penalty under Section 15HA of SEBI Act.?

42. Pursuant to detailed analysis as brought out above, it is established that reversal trades are not normal transactions and it clearly demonstrates beyond reasonable doubt that the Noticee had intentionally executed these trades and manipulated the volume by artificial trading pattern, which had mislead the investors in taking an informed decision.

43. I am of the view that 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 at irrational / arbitrary prices. Moreover, the impact of such trading on the traded volume and the price of stock options contracts is huge. 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. Options as financial

instruments, ordinarily, provide hedging avenues to investors. The trading pattern of the Noticee in the instant matter in incurring continuous losses, fail to justify any of the normal strategies of hedging / speculation / arbitrage. In my view, the 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.

44. I find that the Noticee by indulging in execution of reversal trades in Stock Options with same entities on the same day, had created artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE and therefore violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1), and 4 (2) (a) of Regulations thereof. Accordingly, the Noticee is liable for monetary penalty under Section 15HA of SEBI Act, the provisions of which are furnished hereunder.

Section 15HA of SEBI Act - Penalty for fraudulent and unfair trade practices

> *"If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be 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".*

ISSUE – 3: If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act?

45. While determining the quantum of monetary penalty under Section 15HA of SEBI Act, I have considered the factors stipulated in Section 15-J of SEBI Act, which reads as under:

Section 15J - Factors to be taken into account by the Adjudicating Officer

While adjudging quantum of penalty under section 15 - I, the Adjudicating Officer shall have due regard to the following factors, namely:

(a) *the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*

(b) *the amount of loss caused to an investor or group of investors as a result of the default;*

(c) *the repetitive nature of the default.*

46. I note from the facts of the case that the first leg of trades of Noticee was reversed within few seconds of such trades, with same counter party, at such option prices which no rational investor would undertake, as explained in above paras. Consequent to such manipulative trades, both the parties of the trades could structure and generate profits / loss in their accounts wherein profit / loss made by one entity was exactly equal to the loss / profit made by the counterparty.

47. Considering above, I am of the view that it will be appropriate to take into account the payoff of transactions between the two parties together, rather than viewing it independently. Therefore, in respect of the non-genuine trades carried out by the Noticee which resulted in creation of artificial volume in Illiquid Stock Options, it is not possible to quantify the amount of disproportionate gain or unfair advantage made by the Noticee. Further, there is also no material on record to assess the amount of loss caused to investors as a result of the Noticee's default. The persistent trading pattern of the

Noticee, which was fraudulent and deceptive, affects the normal price discovery mechanism in the securities market. People who indulge in manipulative, fraudulent and deceptive transaction, or abet the carrying out of such transaction which are fraudulent and deceptive should be suitably penalized for such acts of omissions and commissions.

ORDER

48. After taking into consideration the nature and gravity of the violations established in the preceding paragraphs and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act, read with Rule 5 of the SEBI Adjudication Rules, 1995, I hereby impose a penalty of ` 5,00,000 (Rupees Five Lakhs Only) on the Noticee i.e., Pravin Selvadia under Section 15HA of the SEBI Act, for indulging in execution of reversal trades in Stock Options with same entities on the same day, thereby creating artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE.

49. The said penalty imposed on the Noticee, as mentioned above, shall commensurate with the violation committed and acts as a deterrent factor for the Noticee and others in protecting the interest of investors.

50. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favor of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through e-payment facility into Bank Account the details of which are given below:

Account No. for remittance of penalties levied by Adjudication Officer

Bank Name	State Bank of India
Branch	Bandra-Kurla Complex
RTGS Code	SBIN0004380

Beneficiary Name	SEBI – Penalties Remittable To Government of India

51. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid through e-payment to the General Manager, Enforcement Department-1, DRA-1, SEBI, in the format as given in table below

Case Name	
Name of Payee	
Date of payment	
Amount Paid	
Transaction No	
Bank Details in which payment is made	
Payment is made for	Penalty

52. In terms of rule 6 of the Adjudication Rules, copies of this order are sent to the Noticee i.e., Pravin Selvadia and also to SEBI.

Date: December 21, 2018 **B J DILIP**
Place: Mumbai **Adjudicating Officer**