BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/MC/VS/2021-22/15798]

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

In respect of –

Milestone Tie Up Private Limited (PAN: AAFCM7311Q) having address at 1, Ganesh Chandra Avenue, 6th Floor Room No-601, Kolkata – 700012

In the matter of Illiquid Stock Options at BSE.

BACKGROUND

1. The Securities and Exchange Board of India (hereinafter referred to as "***SEBI***"), conducted an investigation into the trading activity in illiquid Stock Options at Bombay Stock exchange (hereinafter referred to as "**BSE**") for the period between April 1, 2014 to September 30, 2015 (hereinafter referred to as, "**Investigation Period** after observing large scale reversal of trades in Stock Options segment of the BSE.

2. Pursuant to investigation, it was observed that during the investigation period, a total of 2,91,643 trades comprising 81.38% of all the trades executed in BSE Stock Options Segment were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract. The reversal trades involved squaring off transactions, but with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly led to generation of artificial volumes.

3. Milestone Tie Up Private Limited ("**the Noticee**") was one such client whose reversal trades involved squaring off transactions with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly created false and misleading appearance of trading and resulted into generation of artificial volumes, leading to allegations that the Noticee had violated Regulation 3(a),(b),(c),(d) and Regulation 4(1), 4(2)(a) SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter, referred to as "**PFUTP Regulations, 2003**").

APPOINTMENT OF ADJUDICATING OFFICER

4. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer (hereinafter referred to as "**AO**") under section 15-I(1) of the SEBI Act read with rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter be referred to as the "**Adjudication Rules**") vide order dated June 21, 2021 to inquire into and adjudge under Section 15HA of the SEBI Act, the alleged violations of the aforesaid provisions of the PFUTP Regulations, 2003, by the Noticee. The appointment of the AO was communicated vide order dated July 27, 2021.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. Show Cause Notice No. EAD5/MC/VV/32578/2021 dated November 15, 2021 (hereinafter be referred to as, the "**SCN**") was issued to the Noticee under Rule 4 of the Adjudication Rules read with section 15I of the SEBI Act, to show cause as to why an inquiry should not be held and penalty be not imposed against the Noticee under Section 15HA of the SEBI Act for the alleged violations of Regulations 3(a), (b), (c), (d) and 4(1), (2)(a) of the PFUTP Regulations.

6. The allegations levelled against the Noticee in the SCN are summarized as below:
   a) The Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating

artificial volumes in the Stock Options Segment of BSE during the investigation period.

b) The Noticee was alleged to have engaged in 61 such reversal trades in 19 unique contracts, which led to generation of artificial volume of 50,68,000 units. These trades of the Noticee involved 22 counterparties viz. Aditya Chowdhary HUF, Agrawal Channel Mills Private Limited, Ankush Goel, Ayush Bahety (HUF), Hardik Jalan HUF, Kapil Sarda HUF, Leaps & Bounds Private Limited, Mahesh Kumar Agarwal HUF, Narayanchand Motilal Rathi HUF, Premlata Garg, Puja Khanna, Purshottam Kumar Saraf HUF, Rajeshwariba Sarvaiya, Rexon Strips Limited, Rupesh Kumar Singh (HUF), Scan Steels Limited, Seema Goel, Siddharth Sethia HUF, Sumeet Panda, Sunil Kumar Khemka, Taraba Sarvaiya and Vandita Family Truston eight days 14/07/2015, 15/07/2015, 20/07/2015, 04/08/2015, 05/08/2015, 10/08/2015, 11/08/2015 and 08/09/2015, at different prices. Details of all the reversal trades of the Noticee in Stock Option Segment of BSE during investigation period were given in Annexure 2 to the SCN.

c) The trades entered into by the Noticee were reversed on the same day with same counterparty at a substantial price difference without any basis for significant change in the contract price which indicates that these trades were artificial and are non- genuine in nature.

d) A summary of dealings of Noticee in 19 Stock Options contracts in which Noticee allegedly executed reversal trades during the investigation period, provided in the SCN is reproduced below:

S. No	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Total vol 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.	ADPW15AUG20.00CE	8.8	112000	5.2	112000	224000	100	100
2.	IBRL15JUL44.00CE	9.3	168000	6.3	168000	336000	100	100
3.	IDBI15AUG70.00CEW3	1.24	156000	0.05	156000	1432000	100	21.79
4.	IDBI15AUG85.00PE	17.1	112000	10.36	112000	224000	100	100
5.	IFCI15AUG22.00PEW3	0.7	472000	0.05	472000	2344000	100	40.27
6.	JSWE15AUG75.00PEW3	1.64	128000	0.05	128000	416000	100	61.54
7.	JSWE15SEP65.00CEW2	9.41	30000	4.05	18000	660000	21.62	4.85
8.	KARB15JUL155.00PE	6.8	42000	2	42000	464000	100	18.1
9.	KARB15JUL160.00PEW4	9	100000	4	100000	200000	100	100
10.	PNBK15AUG155.00CE	9	168000	6	168000	476000	100	70.59
11.	PTCI15AUG65.00CEW2	7	136000	3.3	136000	272000	100	100
12.	RCOM15AUG80.00CEW2	2.12	172000	0.1	172000	1548000	100	22.22
13.	RCOM15AUG85.00CEW2	2.07	132000	0.1	132000	1008000	100	26.19
14.	SAIL15AUG70.00CEW2	2.65	144000	0.1	144000	1544000	100	18.65
15.	SAIL15AUG75.00PEW3	15	20000	10	20000	240000	100	16.67
16.	SAIL15SEP60.00PEW3	13.2	80000	8.22	64000	760000	80	16.84
17.	UCOB15AUG45.00CEW3	11.38	96000	7.68	96000	560000	100	34.29
18.	UCOB15AUG60.00PEW3	6.3	92000	3.1	92000	512000	100	35.94
19.	UCOB15JUL50.00CEW3	6.6	204000	3	204000	2056000	100	19.84

7. The Noticee had entered into 61 reversal trades on 8 days through 19 contracts with 22 counterparties. The 61 reversal trades entered into by the Noticee were reversed on the same day with the same counterparty, at a substantial price difference without any basis for significant change in the contract price which indicates that these trades were artificial and non- genuine in nature.

8. Noticee by indulging in execution of aforesaid non-genuine reversal trades, was alleged to have violated Regulation 3(a), (b), (c),(d), 4(1), 4(2)(a) of PFUTP Regulations, which are reproduced as follows:-

*"**3**. Prohibition of certain dealings in securities*

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"

9. A time period of 14 days from the date of receipt of the SCN was granted to the Noticee to present its reply to the SCN.

10. The SCN was served upon the Notice by SPAD on 20.11.2021.

11. Vide e-mail dated 01.12.2021 the Noticee submitted that it had received the SCN on 20.11.2021 and that its new e-mail id. was milestonetieup2000@gmail.com. Further, the Noticee requested a soft copy of Annexure 2 to the SCN in MS Excel format.

12. Accordingly, vide e-mail dated 06.12.2021, the Noticee was provided a soft copy of Annexure 2 in MS Excel format and was also provided an opportunity of hearing by videoconferencing through WebEx on 06.01.2022. The link to attend the hearing was also sent to the Noticee on 05.01.2022. However, the Noticee did not avail the opportunity of hearing provided and did not submit a reply to the SCN on merits.

13. I note that, through the SCN and the hearing notice, the Noticee was advised to furnish its reply, if any, within stipulated time, failing which, it shall be presumed that the Noticee had no reply to submit and the matter will be proceeded on the basis of the material available on record. Since the Noticee did not respond to the SCN or Hearing Notice despite sufficient opportunity granted to it to submit a reply and attend hearing, I hereby proceed to adjudicate *ex parte* and on the basis of material on record in respect of the allegations levelled against the Noticee. I further note that in the matter of *Sanjay Kumar Tayal vs. SEBI* (Appeal No. 68 of 2003) decided on December 8, 2006, the Hon'ble Securities Tribunal held that by failing to file reply to the show cause notice and failing to avail opportunity of hearing provided, appellants therein were presumed to have admitted the charges levelled against them.

CONSIDERATION OF ISSUES AND FINDINGS

14. The issues arising for consideration in the instant proceedings are:-

    I. Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?

    II. If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?

    III. If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?

ISSUE I Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?

15. The allegation that the Noticee carried out reversal trades is directly supported by evidence from the trade log records in Annexure 2 of the SCN. On 14.07.2015, the Noticee was seen to have indulged in 2 reversal trades in one unique contract

viz. “KARB15JUL160.00PEW4”, by entering a buy order at 14:15:15 hrs for 1,00,000 units of the said contract at a rate of Rs. 9 per unit, while counterparty seller one Rupesh Kumar Singh (HUF) entered a sell order at the same time i.e. 14:15:15 hrs for same quantity and at the same rate. At 14:13:26 hrs i.e. just under two minutes prior, the same counterparty Rupesh Kumar Singh (HUF) had bought the abovesaid 1,00,000 units of the said contract from the Noticee at a rate of Rs. 4 per unit, and the buy and sell order rates and quantities in the case of this trade had also matched.

16. In a second set of reversal trades seen on 14.07.2015 in the contract “KARB15JUL155.00PE”, the Noticee at 14:14:41 hrs sold 42000 units of the said contract to one Sunil Kumar Khemka at a rate of Rs. 2 per unit, wherein the buy and sell orders were synchronized in terms of rate, quantities and time. Within a minute, this trade was reversed and the Noticee bought back the 42000 units from the same counterparty at a rate of Rs. 6.8 per unit. The buy and sell order rates, quantities and time were synchronised in this leg of the reversal trade as well.

17. Reversal trades are seen in 17 other contracts on 7 other days. 49 out of 61 reversal trades are seen to have been synchronized. The manner of placing buy and sell orders in the trades carried by Noticee was synchronized, executed within seconds of each other, resulting into reversal of the trades within a short time on the same day, with wide variation in prices of the trades in the same contract in a short time without any basis for such wide variation. This indicates that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contracts.

18. The price of a particular option contract is the premium price, and for a given strike price, the premium cannot vary widely within minutes without significant movement in the underlying price or in other factors which determine option price. Entering of orders synchronized in terms of rate, quantity and time at unusual prices which had little to do with market movement of the underlying

scrip strongly indicate that the orders were entered into consequent to a prior meeting of minds with the counterparty, as ordinary and unrelated counterparties would not have entered orders at such rates. In the absence of a response form the Noticee, it is presumed that the Noticee had no reasonable explanation for the price variation in the option price.

19. The volume contributed by the Noticee through the 61 synchronised and reversal trades in 19 contracts made up on average 47.77% of the total market volume for the 19 impugned contracts during the investigation period. I note that while synchronized trades may occur by accident in a liquid stock, execution of such synchronized trades in an illiquid market with anonymous trading can only happen if there is prior meeting of minds with a view to execute trades.

20. By engaging in such trades, the Noticee violated provisions of Regulation 4(2)(a) of PFUTP Regulations which states that dealing in securities will be deemed to be a fraudulent and unfair trade practice if it involves "indulging in an act which creates false or misleading appearance of trading in the securities market".

21. I find it relevant to note here that in the matter of *Securities and Exchange Board of India v. Rakhi Trading Private Limited* (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 08, 2018), which was a similar case involving execution of reversal trades in index options, the Hon'ble Supreme Court held that "... *the traders thus 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*..."

22. In view of the above, I find that the Noticee, by engaging in non-genuine transactions which created a misleading impression of trading in respective contracts, dealt in the stock options contracts in a fraudulent manner in violation of Regulation 3(a) and 4(1) and 4(2)(a) of the PFUTP Regulations, 2003.

ISSUE II **If yes, whether the failure, on the part of the Noticees would attract monetary penalty under Section 15HA of the SEBI Act?**

and

ISSUE III **If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?**

23. Since the violation of Regulation 3(a), 4(1) and 4(2)(a) of PFUTP Regulations has been established against the Noticee, as brought out in the foregoing paragraphs, the Noticee is liable for monetary penalty under Section 15HA of SEBI Act which is reproduced as follows:

SEBI Act: Penalty for fraudulent and unfair trade practices.
15HA. *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.*

24. While determining the quantum of penalty under Section 15HA of SEBI Act, the following factors stipulated in Section 15J of the SEBI Act have to be given due regard:
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.

25. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading. Investigation has not shown the amount of profit/loss of the counterparties to the trades as a result of the non-genuine trades. However, considering that the violation by the Noticee is creation

of artificial trading volumes by trading between two counterparties and wider market is not involved in the trades, the trades are such that one of the counterparty books a profit while the other counterparty books a loss. Hence, it would be appropriate to consider the impact of these transactions between the two counterparties in totality. When the impact of artificial volumes created by the two counterparties is seen as a whole, it is not possible from material available on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counterparties or the consequent loss caused to investors as a result of the default. The Noticee has contributed to artificial volumes in 19 contracts on 8 days during the Investigation Period.

26. Therefore, taking into account the facts and circumstances of this matter, I am of the view that a penalty of Rs. 5,00,000 (Rupees Five Lakhs only) under Section 15HA of the SEBI Act will be commensurate with the violations committed by the Noticee.

ORDER

27. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15-I of SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of Rs. 5,00,000/- (Rupees Five Lakhs only) on Noticee i.e. Milestone Tie Up Private Limited, under Section 15HA of the SEBI Act for violation of Regulation 3 (a), 4(1) and 4(2)(a) of PFUTP Regulations.

28. 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 favour of "SEBI -Penalties Remittable to Government of India", payable at Mumbai, OR through online payment facility available on the SEBI website www.sebi.gov.in on the following path, by clicking on the payment link-

ENFORCEMENT → Orders → Orders of AO → PAY NOW

29. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to the Enforcement Department –Division of Regulatory Action – I of SEBI.

30. The Noticee shall provide the following details while forwarding DD/ payment information:

   a) Name and PAN of the entity (Noticee)
   b) Name of the case / matter
   c) Purpose of Payment –Payment of penalty under AO proceedings
   d) Bank Name and Account Number
   e) Transaction Number

31. Copy of this Adjudication Order is being sent to the Noticee and also to SEBI in terms of Rule 6 of the Adjudication Rules.

MANINDER CHEEMA Digitally signed by MANINDER CHEEMA Date: 2022.03.31 18:58:54 +05'30'

DATE: MARCH 31, 2022 **MANINDER CHEEMA**

PLACE: MUMBAI **ADJUDICATING OFFICER**