BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. EAD/SR/SM/AO/54/2019-20]

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 BY ADJUDICATING OFFICER) RULES, 1995

Against

Shri Radha Raman Alloys Ltd.

(Address; P- 4/20, Civil Township
Panposh, Rourkela, Sundargarh, Orissa – 769004)
(PAN: AALCS9165J)

In the matter of dealings in illiquid stock options at BSE

FACTS OF THE CASE IN BRIEF

1. A department (hereinafter referred to as **OD**) of 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 Limited (hereinafter, referred to as **BSE**) for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as **Investigation period** / **IP**). Investigating Authority (hereinafter, referred to as **IA**) observed that majority of volume generated in BSE's stock option segment was artificial volume which was created by execution of reversal trades.

2. IA observed that a total of 2,91,643 trades comprising 81.38% of all the trades executed during IP in Stock Options Segment of BSE were non-genuine /reversal 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 Shri Radha Raman Alloys Ltd. (hereinafter, referred to as **Noticee**) was one of the several entities which indulged in execution of reversal trades in Stock Options Segment of BSE during the investigation period. The Noticee was thus alleged to have violated the provisions of regulations 3(a),(b),(c) & (d), 4(1) and 4(2)(a) of 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

3. In this matter, OD of SEBI initiated Adjudication Proceedings against the Noticee and SEBI appointed the undersigned as an Adjudicating Officer, under section 15-I of The Securities and Exchange Board of India Act, 1992 (hereinafter referred to as **the SEBI Act, 1992**) read with (r/w) rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as **AO Rules, 1995**) to inquire into and adjudge under section 15HA of the SEBI Act, 1992 the alleged violations of provisions of regulations 3(a),(b),(c) & (d),4(1) and 4(2)(a) of PFUTP Regulations, 2003. The same was conveyed vide communique dated May 29, 2018.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

4. A show cause notice dated October 22, 2018 (hereinafter referred to as **SCN**) was issued to the Noticee under rule 4 of the AO Rules, 1995 to show cause as to why an inquiry should not be held against it and why penalty under section 15HA of the SEBI Act, 1992 be not imposed on it for the violations alleged in the said SCN. The SCN was sent through the speed post acknowledgment due (SPAD) and e-mail at SRRAL08@GMAIL.COM. The said SCN was received by the Noticee.

5. The allegations levelled against the Noticee in the said SCN are summarised as under:
   (a) That 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) That the Noticee engaged in 125 such reversal trades in 50 contracts, which led to generation of artificial volume of 1,46,50,250 units, during the IP.
   (c) That the trades entered by the Noticee were reversed on the same day with same counterparties at a substantial price difference without any basis for significant change in the contract price which indicates that these trades are artificial and non-genuine in nature.
   (d) A summary of dealings of the Noticee in the 50 Stock Options contracts in which the Noticee allegedly executed non-genuine / reversal trades during the Investigation Period, provided to the Noticee in the said SCN is reproduced below-

Sr. No.	SCRIPNAME	Average Buy rate	Buy Quantity	Average Sell rate	Sell Quantity	% of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract	% of Artificial Volume generated by Entity in the contract to Total Volume in the Contract
1	AHEL15AUG1380.00CEW1	5.35	24500	47.00	24500	100%	100%	100%	100%
2	AJPL15SEP1470.00PEW1	5.50	15000	22.70	15000	100%	60%	100%	83%
3	BOBL15AUG185.00CEW3	5.00	4000	30.00	4000	100%	50%	100%	15%
4	CARN15AUG125.00CE	6.70	77000	14.50	77000	100%	25%	100%	59%
5	COAL15AUG400.00PEW2	9.60	13000	28.80	13000	100%	100%	100%	100%
6	DIVI15AUG1980.00CEW2	27.00	5875	120.60	5875	100%	33%	100%	52%
7	DLFL15AUG115.00CEW3	4.00	48000	18.80	48000	100%	71%	100%	83%
8	DLFL15JUL115.00CE	2.00	134000	7.20	134000	100%	13%	100%	34%
9	FEDB15AUG50.00CEW2	12.60	100000	20.60	100000	100%	50%	100%	66%
10	HDIL15AUG85.00CEW1	1.85	94000	6.10	94000	100%	100%	100%	100%
11	HNZL15SEP125.00CEW1	2.00	118000	4.10	118000	100%	50%	100%	83%
12	HPCL15MAR700.00PE	41.00	33500	89.00	33500	100%	33%	100%	20%
13	IBRL15JUN55.00PEW3	7.50	176000	11.50	176000	100%	33%	100%	30%
14	JAIA15JUN14.00CEW1	2.80	216000	4.10	216000	100%	20%	100%	30%
15	JAIA15JUN20.00PE	4.50	296000	7.85	296000	100%	40%	100%	51%
16	JISL15AUG65.00PEW2	0.05	228000	2.03	228000	100%	100%	100%	100%
17	JPPW15AUG10.00PEW3	3.10	228000	4.10	228000	100%	50%	100%	86%
18	JSWE15MAY105.00CEW3	5.00	72000	8.50	72000	100%	25%	100%	28%
19	KARB15SEP105.00CEW2	5.00	66000	9.50	66000	100%	100%	100%	100%
20	LNTF15JUL80.00CEW4	0.10	372000	2.75	372000	100%	12%	100%	24%
21	MFSL15SEP260.00CEW1	0.10	90000	4.50	90000	100%	50%	100%	83%
22	MSSL15AUG390.00PEW2	24.65	33000	46.00	33000	100%	100%	100%	100%
23	NHPC15JUN10.00CEW1	6.40	200000	9.85	200000	100%	8%	100%	31%
24	NHPC15JUN26.00PEW1	4.00	170000	5.70	170000	100%	100%	100%	100%
25	NHPC15JUN26.00PEW3	4.30	370000	7.00	370000	100%	20%	100%	27%

Sr. No.	SCRIPNAME	Average Buy rate	Buy Quantity	Average Sell rate	Sell Quantity	% of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract	% of Artificial Volume generated by Entity in the contract to Total Volume in the Contract
26	NHPC15MAY14.00CEW3	4.00	80000	5.30	80000	100%	13%	100%	15%
27	NHPC15MAY16.00CEW3	2.00	70000	3.30	70000	100%	13%	100%	9%
28	PFCL15APR280.00CE	2.00	250000	14.00	250000	100%	33%	100%	48%
29	PFCL15APR280.00PEW4	2.00	440000	8.80	440000	100%	100%	100%	100%
30	PNBK15AUG125.00CEW2	33.15	4000	51.90	4000	100%	50%	100%	6%
31	RANB15MAR800.00CE	12.00	58000	29.00	58000	100%	17%	100%	7%
32	RANB15MAR820.00CE	2.00	117000	20.00	117000	100%	7%	100%	7%
33	RCAP15APR420.00CE	17.00	75000	37.00	75000	100%	33%	100%	31%
34	RCAP15APR460.00CEW4	2.80	130000	12.80	130000	100%	50%	100%	50%
35	RECL15AUG280.00PEW2	12.95	62000	21.00	62000	100%	50%	100%	83%
36	RLNF15APR420.00CE	12.00	176000	29.00	176000	100%	100%	100%	100%
37	RLNF15APR440.00CE	4.50	184000	20.50	184000	100%	50%	100%	64%
38	SAIL15AUG65.00CEW3	0.05	272000	2.43	272000	100%	43%	100%	57%
39	SAIL15JUL45.00CE	10.50	328000	13.00	328000	100%	100%	100%	100%
40	SAIL15MAY60.00CE	3.50	148000	5.50	148000	100%	100%	100%	100%
41	SOIB15AUG26.00PEW3	2.85	162000	4.65	162000	100%	50%	100%	82%
42	SYND15APR105.00CE	1.00	632000	6.00	632000	100%	67%	100%	86%
43	SYND15AUG90.00CEW3	7.40	66000	14.90	66000	100%	25%	100%	33%
44	SYND15SEP95.00PEW3	13.00	72000	17.20	72000	100%	33%	100%	60%
45	TAMO15MAR510.00CE	36.00	108000	61.00	108000	100%	13%	100%	23%
46	UBIL15JUL165.00CE	1.00	34000	7.00	34000	100%	17%	100%	9%
47	UBRL15SEP860.00CEW1	15.20	18250	52.17	18250	100%	67%	100%	85%
48	UCOB15MAY50.00CE	5.60	148000	9.00	148000	100%	50%	100%	93%
49	UCOB15MAY50.00CEW3	6.30	100000	9.55	100000	100%	50%	100%	43%
50	UNIT15JUL2.00CEW2	3.70	407000	5.90	407000	100%	100%	100%	100%

(e) From the above table, the following was alleged as regards dealings of the Noticee:

i. All the trades executed by the Noticee in the said contracts were non-genuine trades.
ii. Percentage of non-genuine trades of the Noticee in stock options contracts to total trades in the contracts were in the range of 7% to 100%. The non-genuine trades of the Noticee have significantly contributed to total trades in the market in the above contracts.
iii. Percentage of artificial volume generated by the Noticee in the contract to the total volume in the contract was in the range of 6% to 100%. Therefore, substantial volume generated by the Noticee in each of the above contracts were artificial volume.
iv. 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. By indulging in execution of aforesaid non-genuine reversal trades, the Noticee is alleged to have violated regulations 3(a),(b),(c) & (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003, text of which has been reproduced below:-

PFUTP Regulations, 2003

"***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"

7. The said SCN was sent through SPAD and the same was delivered to the Noticee as seen from record. In terms of AO Rules, 1995, the Noticee was granted time to submit its reply to the said SCN. However, the Noticee did not submit any reply to the SCN. An opportunity of hearing was granted to the Noticee on January 21, 2019 which was communicated to it *vide* Notice of Hearing dated January 03, 2019 and in the said hearing notice Noticee was advised to file reply by January 15, 2019. Noticee submitted its reply vide letter dated January 03, 2019 and attended the hearing on the scheduled date and the hearing minutes are on record. Submissions of the Noticee are summarized as under:

   a. The Noticee denies the violations of PFUTP Regulations, 2003 as alleged in the SCN. Noticee submitted that the transactions in the SCN were carried out in the platform of stock exchange and settled by the clearing corporation. All the transactions were genuine, bonafide and executed in compliance with all the requirements of SEBI and Exchange.
   b. These transactions were carried out on a registered stock exchange that has issued the pay-out for the same to the Noticee. This is extremely absurd and untenable as no registered stock exchange will allow execution of non-genuine trades and such non-genuine trades, if any, cannot and would not have been settled through payment and receipt of real money.
   c. Options are derivative contracts based on certain underlying and total trades and the total trades in the underlying and all its derivative contracts are to be compared to identify the % volume. Noticee’s volume is extremely negligible when compared with the total volume of the underlying and all the derivatives contract in the underlying and such small quantity of trading is completely incapacitated any artificial volume.
   d. Noticee submitted that the SCN claims that the trades were reversed at significant price difference, it has only compared the value of premium of the contacts. However, in case of options contracts the notional value i.e. the value of strike price plus premium to be considered. Hence the allegation regarding the significant price difference is incorrect and untenable. Pricing of options is a complex arithmetical calculation based on several variables most of which are subjective and

presumptive thus making a huge range of price to be compeletely valid and genuine.

e. These trades were executed on the platform of the exchange without any knowledge of the counter party, at price ranges that were permitted by the Exchange and SEBI and the obligations arising out of it have been settled through the clearing mechanism of the Exchange. Such trades are not carried out on a day to day basis and during the 1.5 year of investigation period, Noticee has traded only on 30 days.

f. No other parties have been affected by these trades and therefore these were completely impotent to create any false and misleading appearance of trading as wrongly alleged.

g. Noticee submitted that the charges levelled in the SCN are incorrect and untenable and therefore requests to dismiss the allegations in the SCN without levy any monetary penalty.

8. After taking into account, the allegations levelled in the SCN, reply of the Noticee, other material on record and in the light of I hereby proceed to decide the case on merit.

CONSIDERATION OF ISSUES, EVIDENCES AND FINDINGS

9. The issues arising for consideration in the instant proceedings before me are:-

a. Whether the Noticee has violated the provisions of regulations 3(a), (b), (c), & (d), 4(1), and 4(2)(a) of the PFUTP Regulations, 2003?

b. If yes, whether Noticee is liable for imposition of monetary penalty under section 15HA of the SEBI Act, 1992?

c. 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, 1992 read with rule 5(2) of the AO Rules, 1995?

Issue a: Whether the Noticee has violated the provisions of regulations 3(a), (b), (c), & (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003?

10. It has been alleged that the Noticee had indulged in execution of reversal of trades in Illiquid 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 have been manipulative, deceptive in nature.

11. I note that reversal trades have been considered as those trades including in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversal 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 are deceptive and manipulative. Artificial volume is considered to be the volume (no. of units) reversed in both legs of said trades while keeping out the volume, if any, which is not reversed.

12. I note from data provided to the Noticee as Annexures B to D of the SCN that the Noticee had executed 125 non-genuine trades in 50 unique contracts on 30 trading days from March 18, 2015 to September 09, 2015.

    a. The details of non-genuine trades executed by the Noticee are furnished hereunder:

Sr. No.	SCRIPNAME	Average Buy rate	Buy Quantity	Average Sell rate	Sell Quantity	% of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract	% of Artificial Volume generated by Entity in the contract to Total Volume in the Contract
1	AHEL15AUG1380.00CEW1	5.35	24500	47.00	24500	100%	100%	100%	100%
2	AJPL15SEP1470.00PEW1	5.50	15000	22.70	15000	100%	60%	100%	83%
3	BOBL15AUG185.00CEW3	5.00	4000	30.00	4000	100%	50%	100%	15%
4	CARN15AUG125.00CE	6.70	77000	14.50	77000	100%	25%	100%	59%
5	COAL15AUG400.00PEW2	9.60	13000	28.80	13000	100%	100%	100%	100%
6	DIVI15AUG1980.00CEW2	27.00	5875	120.60	5875	100%	33%	100%	52%

Sr. No.	SCRIPNAME	Average Buy rate	Buy Quantity	Average Sell rate	Sell Quantity	% of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract	% of Artificial Volume generated by Entity in the contract to Total Volume in the Contract
7	DLFL15AUG115.00CEW3	4.00	48000	18.80	48000	100%	71%	100%	83%
8	DLFL15JUL115.00CE	2.00	134000	7.20	134000	100%	13%	100%	34%
9	FEDB15AUG50.00CEW2	12.60	100000	20.60	100000	100%	50%	100%	66%
10	HDIL15AUG85.00CEW1	1.85	94000	6.10	94000	100%	100%	100%	100%
11	HNZL15SEP125.00CEW1	2.00	118000	4.10	118000	100%	50%	100%	83%
12	HPCL15MAR700.00PE	41.00	33500	89.00	33500	100%	33%	100%	20%
13	IBRL15JUN55.00PEW3	7.50	176000	11.50	176000	100%	33%	100%	30%
14	JAIA15JUN14.00CEW1	2.80	216000	4.10	216000	100%	20%	100%	30%
15	JAIA15JUN20.00PE	4.50	296000	7.85	296000	100%	40%	100%	51%
16	JISL15AUG65.00PEW2	0.05	228000	2.03	228000	100%	100%	100%	100%
17	JPPW15AUG10.00PEW3	3.10	228000	4.10	228000	100%	50%	100%	86%
18	JSWE15MAY105.00CEW3	5.00	72000	8.50	72000	100%	25%	100%	28%
19	KARB15SEP105.00CEW2	5.00	66000	9.50	66000	100%	100%	100%	100%
20	LNTF15JUL80.00CEW4	0.10	372000	2.75	372000	100%	12%	100%	24%
21	MFSL15SEP260.00CEW1	0.10	90000	4.50	90000	100%	50%	100%	83%
22	MSSL15AUG390.00PEW2	24.65	33000	46.00	33000	100%	100%	100%	100%
23	NHPC15JUN10.00CEW1	6.40	200000	9.85	200000	100%	8%	100%	31%
24	NHPC15JUN26.00PEW1	4.00	170000	5.70	170000	100%	100%	100%	100%
25	NHPC15JUN26.00PEW3	4.30	370000	7.00	370000	100%	20%	100%	27%
26	NHPC15MAY14.00CEW3	4.00	80000	5.30	80000	100%	13%	100%	15%
27	NHPC15MAY16.00CEW3	2.00	70000	3.30	70000	100%	13%	100%	9%
28	PFCL15APR280.00CE	2.00	250000	14.00	250000	100%	33%	100%	48%
29	PFCL15APR280.00PEW4	2.00	440000	8.80	440000	100%	100%	100%	100%
30	PNBK15AUG125.00CEW2	33.15	4000	51.90	4000	100%	50%	100%	6%
31	RANB15MAR800.00CE	12.00	58000	29.00	58000	100%	17%	100%	7%
32	RANB15MAR820.00CE	2.00	117000	20.00	117000	100%	7%	100%	7%
33	RCAP15APR420.00CE	17.00	75000	37.00	75000	100%	33%	100%	31%

Sr. No.	SCRIPNAME	Average Buy rate	Buy Quantity	Average Sell rate	Sell Quantity	% of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract	% of Artificial Volume generated by Entity in the contract to Total Volume in the Contract
34	RCAP15APR460.00CEW4	2.80	130000	12.80	130000	100%	50%	100%	50%
35	RECL15AUG280.00PEW2	12.95	62000	21.00	62000	100%	50%	100%	83%
36	RLNF15APR420.00CE	12.00	176000	29.00	176000	100%	100%	100%	100%
37	RLNF15APR440.00CE	4.50	184000	20.50	184000	100%	50%	100%	64%
38	SAIL15AUG65.00CEW3	0.05	272000	2.43	272000	100%	43%	100%	57%
39	SAIL15JUL45.00CE	10.50	328000	13.00	328000	100%	100%	100%	100%
40	SAIL15MAY60.00CE	3.50	148000	5.50	148000	100%	100%	100%	100%
41	SOIB15AUG26.00PEW3	2.85	162000	4.65	162000	100%	50%	100%	82%
42	SYND15APR105.00CE	1.00	632000	6.00	632000	100%	67%	100%	86%
43	SYND15AUG90.00CEW3	7.40	66000	14.90	66000	100%	25%	100%	33%
44	SYND15SEP95.00PEW3	13.00	72000	17.20	72000	100%	33%	100%	60%
45	TAMO15MAR510.00CE	36.00	108000	61.00	108000	100%	13%	100%	23%
46	UBIL15JUL165.00CE	1.00	34000	7.00	34000	100%	17%	100%	9%
47	UBRL15SEP860.00CEW1	15.20	18250	52.17	18250	100%	67%	100%	85%
48	UCOB15MAY50.00CE	5.60	148000	9.00	148000	100%	50%	100%	93%
49	UCOB15MAY50.00CEW3	6.30	100000	9.55	100000	100%	50%	100%	43%
50	UNIT15JUL2.00CEW2	3.70	407000	5.90	407000	100%	100%	100%	100%

b. Details of one of the instances of alleged non-genuine trades executed by Noticee is given in the following table:

Contract name: UNIT15JUL2.00CEW2

S.N.	Client name	Counter Party (CP) client name	Trade time	Order time	CP order time	Quantity	Trade rate
1	Shri Radha Raman Alloys Ltd	BD Suppliers	13:16:36.710439	13:16:36.710439	13:16:36.663945	407000	3.7
2	BD Suppliers	Shri Radha Raman Alloys Ltd	13:22:20.946629	13:22:20.900000	13:22:20.946629	407000	5.9

(i) I note from the above table that during the investigation period, total two trades for 8,14,000 units were executed in the “UNIT15JUL2.00CEW2” contract on June 29, 2015 wherein the Noticee was party to all of the said trades. While dealing in the said contract on June 29, 2015, the Noticee at 13:16:36 hrs entered into one buy trade with counter party viz, BD Suppliers for 4,07,000 units at rate of Rs. 3.7 per unit. Thereafter, on the same day, within 6 minutes from the above trade, the Noticee, at 13:22:20 hrs entered into one sell trade with same counterparty for the same quantity 4,07,000 units at rate of Rs. 5.9 per unit.

(ii) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed a reversal trade (one buy trade + one sell trade) with the same counterparty viz. BD Suppliers, on the same day for the same quantity.

(iii) Thus, the Noticee, through its dealing in the contract viz, “UNIT15JUL2.00CEW2” during the investigation period, executed non genuine trades which is 100% of the total trades in the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 4,07,000 units which is 100% of the volume traded in the said contract in the options segment of BSE during the investigation period.

(iv) The trades entered by the Noticee were reversed on the same day with same counterparties and price changed in the said contract from Rs. 3.7 to Rs.5.9 without change in price of underlying which indicates that these trades were non-genuine in nature.

c. I further note that a similar *modus operandi* is seen to be adopted by the Noticee in its trades on other days. It is also noted that most of the trades, buy or sell, of the Noticee were reversed within minutes of execution of the first sell / buy trade. Further, the execution of reversal trades by the Noticee is directly supported with evidence from the Annexures B to D provided to the Noticee as an enclosure to SCN which contain the records of all trades and reversal trades carried out by the Noticee in the Stock Options segment of the BSE during the Investigation Period. On perusal of the details of trades carried out by the Noticee, it is observed that the Noticee indulged in 125 reversal trades in 50 unique contracts during the IP.

d. I observe from the reversal trades carried out by the Noticee that it had bought / sold and sold / bought illiquid option contracts with the same counter parties and also reversed its trades within minutes from its earlier buy / sell trades, at a varied price difference. The pattern of trading suggests that such trades of the Noticee were driven by factors exogenous to options market thereby violating the sanctity of market mechanism. 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.

e. It is summarized from the above findings that the Noticee had executed non-genuine trades in 50 contracts, wherein percentage of non-genuine trades of the Noticee in stock options contracts to total trades in the contracts were in the range of 7% to 100%. Out of the said 50 contracts, in respect of 12 contracts all the trades of the Noticee contributed to 100% artificial volumes. Further, percentage of artificial volume generated by the Noticee in the contract to the total volume in the contract was in the range of 6% to 100%. 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. Further, I note that the Noticee generated a total trading volume of 1,46,50,250 units in 50 unique contracts through reversal of trades during the IP, details of which is mentioned above.

13. Regulation 3 of PFUTP Regulations, 2003 prevents any person from buying, selling or dealing in securities in fraudulent manner, use or employ any manipulative or deceptive device in contravention to the provisions of the Act, employ any device, scheme or artifice to defraud in connection with dealing in securities or engage in any act, practice, course of business which operates as fraud or deceit upon any person in connection with any dealing in or issue of securities. Regulation 4(1) of PFUTP Regulations, 2003 provides that no person shall indulge in a fraudulent or an unfair trade practice in securities. Regulation 4(2)(a) of PFUTP Regulations, 2003, prohibits a person from indulging in an act which creates false or misleading appearance of trading in the securities market.

14. I note that derivative contracts by its very nature derives its value from price of underlying asset, among various other factors influencing derivatives trading. However, the transactions of the Noticee as mentioned in above paras clearly demonstrate that option contracts bought / sold were immediately reversed within span of minutes at varied prices, though there was no corresponding price changes in the underlying stock price thereby marring a price signalling purpose of stock exchange, and probably creating an externality of shifting profit/loss from Noticee to others.

15. Further, from the reply of the Noticee, I note that the Noticee has not disputed the execution of trades as mentioned in the SCN. However, the Noticee, in its reply, has contended that the said transactions entered were fair and genuine.

    a. At this juncture, I find it relevant to refer to the decision of the Hon'ble Supreme Court in the matter of ***Securities and Exchange Board of India*** v. ***Kishore R. Ajmera*** [(2016) 6 SCC 368: AIR 2016 SC 1079] wherein, the Supreme Court has held, "*…According to us, knowledge of who the 2nd party / client or the broker is, is not relevant at all. While the screen based trading system keeps the identity of the parties anonymous it will be too naïve to rest the final conclusions on the said basis which overlooks a meeting of minds elsewhere. Direct proof of such meeting of minds elsewhere would rarely be forthcoming.* The *test, in our considered view, is one of preponderance of probabilities so far as adjudication of civil liability arising out of violation of the Act or the provisions of the Regulations framed thereunder is concerned….*"

    b. I also note that the Hon'ble Supreme Court, in ***Kishore R. Ajmera*** (*supra*) has held that, "*The conclusion has to gathered from various circumstances like that volume of trade effected; the period of persistence in trading in a particular scrip; the particulars of buy and sell orders, namely the volume thereof; the proximity of time between the two and such relevant factors…*". Placing reliance of the observation of the Hon'ble Supreme Court in the aforementioned matter, I find it difficult to accept the submission of the Noticee that transactions were genuine on account of them being carried out on an anonymous platform of the exchange wherein, the Noticee had no knowledge of the counterparty.

c. I also find it relevant to refer to the decision of the Supreme Court 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 dated February 08, 2018) wherein, the Hon'ble Supreme Court while cumulatively analysing the reversal transactions held that, "…*quantity, time and significant variation of prices, without major variation in the underlying price of the securities clearly indicate that Respondent's trades are not genuine and had only misleading appearance of trading in the securities market…..*".

d. Applying the rationale of the Supreme Court in the matter of ***Kishore R. Ajmera*** (*supra*) and ***Rakhi Trading*** (*supra*), I am of the view that there is no justification for the wide variation in prices of the same contract, within minutes and some, even seconds, except for an element of pre-determination in the prices by both counterparties when reversing the trades. Thus, the nature of trading as brought out above clearly indicates an element of prior meeting of minds and therefore, a collusion to carry out trades at pre-determined prices.

e. I further note that the Supreme Court in the matter of ***Rakhi Trading*** (*supra*), has held that, "*Regulation 2(1)(c) defines fraud. Under Regulation 2(1)(c)(2) a suggestion as to a fact which is not true while he does not believe it to be true is fraud. Under Regulation 2(1)(c)(7), a deceptive behaviour of one depriving another of informed consent or full participation is fraud. And Under Regulation 2(1)(c)(8), a false statement without any reasonable ground for believing it to be true is also fraud. In a reverse dealing in securities, with predetermined arrangement to book loss or gain between pre-arranged parties, all these vices are attracted.*" I am of the 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 such varying 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. 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, 2003 and prohibited under the provisions of Regulations 3(a), (b), (c) and (d) and 4(1) and 4(2)(a) PFUTP Regulations, 2003.

16. Considering the reversing of trades within minutes with widely varying prices of the two legs of trade in the same contract without any basis for such wide variation, I find that the reversal trades executed by the Noticee were *non-genuine* in nature and created an impression of artificial trading volumes in respective contracts. I am of the view that by engaging in such trades, the Noticee has violated provisions of Regulation 4(2)(a) of the PFUTP Regulations, which states that dealing in securities will be deemed to be a fraudulent or unfair trade practice if it involves "*indulging in an act which creates false or misleading appearance of trading in the securities market*".

17. I once again find it relevant to place reliance on the decision of the Supreme Court in ***Rakhi Trading*** (*supra*) wherein, the Supreme Court while deciding upon a case involving execution of reversal trades in index options, observed, "*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),3(b),3(c),3(d), 4(1) and 4(2)(a) of the PFUTP Regulations*."

18. In view of the aforesaid, I find that the Noticee, by engaging in such non-genuine transactions, created a misleading impression of trading in respective contracts while dealing in Stock Options contracts in a fraudulent manner. I am of the view that the aforesaid act of the Noticee is in violation of regulations 3(a), (b), (c) and (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003

<u>Issue b</u> If yes, whether the violation, on the part of the Noticee would attract monetary penalty under section 15HA of the SEBI Act, 1992?

&

<u>Issue c</u> 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, 1992 r/w Rule 5(2) of the AO Rules, 1995?

19. Since violation of regulations 3(a), (b), (c) and (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003 by the Noticee is established, I am of the view that the same warrants

imposition of monetary penalty upon the Noticee under section 15HA of the SEBI Act, 1992 text of which is produced as under :

The SEBI Act, 1992
"***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."

20. While determining the quantum of penalty under section 15HA of the SEBI Act, 1992 the following factors stipulated in section 15J of the SEBI Act, 1992 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.

21. As established in the preceding paragraphs, the reversal trades carried out by the Noticee were non-genuine in nature and created a misleading appearance of trading. As brought out earlier, such trades were carried out by the Noticee in illiquid stock options contracts where there was negligible participation by the general public which I construe a mitigating factor while determining the quantum of penalty. Investigation has shown amount of profit / loss of the counterparties to the trades as a result of such 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 the 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.

22. Therefore, taking into account the facts and circumstances of this matter, I am of the view that a penalty of Rs. 9,00,000/- (Rupees Nine Lakh Only) will be commensurate with the violations of regulations 3(a), (b), (c) and (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003 committed by the Noticee.

ORDER

23. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15I(2) of the SEBI Act, 1992 r/w rule 5 of the AO Rules, 1995, I hereby impose a penalty of Rs. 9,00,000/- (Rupees Nine Lakh Only) upon the Noticee, i.e. Shri Radha Raman Alloys Ltd. under section 15HA of the SEBI Act, 1992 for violation of regulations 3(a), (b), (c) and (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003.

24. The Noticees 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 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
Beneficiary A/c No.	31465271959

25. The Noticees shall forward said Demand Draft or the details / confirmation of penalty so paid through e-payment to the "The Division Chief, EFD-DRA-I, Securities and Exchange Board of India, SEBI Bhavan, Plot no. C- 4 A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 052."The Format for forwarding details / confirmations of e-payments shall be made in the following tabulated form as provided

in SEBI Circular No. SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017 and details of such payment shall be intimated at e-mail ID : tad@sebi.gov.in

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

26. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

27. Copies of this Adjudication Order are being sent to the Noticee and also to SEBI in terms of rule 6 of the AO Rules, 1995.

Date: May 23, 2019 **SANGEETA RATHOD**

Place: Mumbai **ADJUDICATING OFFICER**