BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. EAD-9/ AO/SM/ 243 /2018-19]

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

In respect of:

Vishal Ferro Alloys Private Limited

(formerly known as Vishal Ferro Alloys Limited)

PAN: AACCV6338D

In the matter of dealing in Illiquid Stocks Options at BSE

FACTS OF THE CASE IN BRIEF

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI'), observed large scale reversal of trades in Illiquid Stock Options (hereinafter referred to as "ISO") segment of Bombay Stock Exchange (hereinafter referred to as "BSE") leading to creation of artificial volume. Reversal trades were considered those trades in which an entity reverse its buy or sell positions in a contract with subsequent sell or buy position with the same counter party during the same day. The said reversal trades are alleged to be non-genuine trades as they are not executed in normal course of trading, lack basic trading rationale and allegedly lead to false or misleading appearance of trading in terms of generation of artificial volume, hence were deceptive and manipulative. Whereas the artificial volume was considered as the volume (no. of units) reversed in non-genuine trades,

comprising both original volume and reversed volume while keeping out the volume which is not reversed.

2. SEBI conducted an investigation into the trading activities of certain entities in ISO, BSE for period April 1, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period"/IP"). Pursuant to investigation, it was observed that during IP, total 2,91,643 trades comprising substantial 81.38% of all the trades executed in Stock Options of BSE were non-genuine trades. The aforesaid non-genuine trades resulted in 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 IP. It was also noted that said non-genuine trades were not restricted to any specific contract or between any specific set of entities.

3. It was alleged that Vishal Ferro Alloys Private Limited (formerly known as Vishal Ferro Alloys Limited) (hereinafter referred to as "Noticee") was one of the entities who had indulged in creating artificial volume of 30194612 units through 194 non-genuine trades in 74 stock option contracts. Following is noted from the dealings of Noticee in aforesaid 74 contracts at BSE

    a. Of the 208 trades executed by the Noticee on BSE Stock option segment, 194 trades were non-genuine.
    b. No. of non-genuine trades of Noticee has significantly contributed to the total no. of trades from the market in the said 74 contracts.
    c. A substantial 11% to 100% of volume generated by the Noticee in each of the 74 contracts was artificial volume, and further, artificial volume generated by it also contributed to significant upto 100% of the total volume of the market in above contracts.
    d. In all of the above contracts, alleged non-genuine trades executed by Noticee had significant difference in buy rates and sell rates. The difference in buy/sale price of the trades executed by the Noticee was in the range of 1.4 times to 59 times of previous trade executed in the same

contract on the same day and with the same counter party and in a gap of few seconds to few minutes. For example in the contract 'SAIL15AUG50.00PEW1, the Noticee sold 68000 units at `2.95 from one Ginni Vinimay Private Limited at 12:14:16 and this order was reversed at ` 0.05 at 12:23:35 on the same day between same counter parties within few minutes.

4. In view of the foregoing, it was alleged that the Noticee has entered into reversal trades in BSE ISO and these reversal trades were non-genuine in nature and have created false and misleading appearance of trading in terms of artificial volume in Stock Options and therefore alleged to be manipulative, deceptive in nature. The Noticee was alleged to have violated regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as "PFUTP Regulations").

APPOINTMENT OF ADJUDICATING OFFICER

5. Vide an order of the Competent Authority, SEBI, dated April 3, 2018, the undersigned has been appointed as the Adjudicating Officer under Section 15-I of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "SEBI Act") read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as "Adjudication Rules") to inquire and adjudge under section 15HA of SEBI Act.

SHOW CAUSE NOTICE, REPLY AND HEARING

6. Based on the findings by SEBI, Show Cause Notice dated October 1, 2018 (hereinafter referred to as 'SCN') was issued to the Noticee under Rule 4(1) of Rules to show cause as to why an inquiry should not be held and penalty should

not be imposed on him for the alleged violations. The Noticee did not reply to the SCN.

7. In order to comply with the principles of natural justice an opportunity of personal hearing was given to the Noticee on January 21, 2019 vide notice dated January 14, 2019. The Noticee appeared on the scheduled date of hearing and vide letter received by the undersigned on January 25, 2019 submitted, inter alia, the following:

- *The SCN is issued based on imaginary and presumptive grounds. It categorises trades of the Noticee as non-genuine in spite of the fact that all these transactions were carried out on a registered Stock Exchange that has issued the pay-out for the same to the Noticee.*
- *The SCN records that Noticee's trades comprised of 6% to 100% of the total trades in those contracts in the markets. However the SCN ignores the fact that options are derivative contracts based on certain underlying and the total trades in the underlying and all its derivative contracts is to be compared to identify the % volume. The Noticee submits that its 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 to create any artificial volume.*
- *For manipulating any security, the entire series of its derivatives contracts has to be manipulated, but that it not the case in the current SCN. It is an admitted position that the Noticee did not transact in the underlying securities and merely carrying out few trades in options contracts cannot create any false and misleading appearance of trading or result in a manipulative or deceptive device as falsely alleged.*
- *Though the SCN claims that the trades were reversed at significant price difference, it has only compared the value of premium of the contracts. However in case of options contract the notional value i.e. the value of Strike Price plus the premium is to be considered. The noticee submits that when the price difference is compared with the notional value its change is extremely*

insignificant and absolutely normal and similar changes are observed in multiple contracts on the Exchanges including the ones having higher volumes than the alleged contracts of the Noticee. Therefore the Noticee submits that the allegation that there was a significant price difference is incorrect and untenable.

- *The Noticee submits that the alleged trades have all traits of being genuine and therefore cannot be categorized as non-genuine. These trades were executed on the anonymous platform of the Exchange, without any knowledge of counterparty, 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. Further the reasons of trades being carried out at a price difference and reversed with the same party are also genuine as the RDD issued by SEBI envisages such a situation and also warns the investors and traders against them as it accepts that these are bound to happen.*
- *It may further be appreciated that such trades have not been carried out on a day to day basis. It is a case in the SCN that of the 1.5 years of IP, Noticee has traded only on 51 days. Had the Noticee intended to carry out artificial volume and create a false and misleading appearance of trading or execute manipulative and deceptive trades, the frequency of such trades would have been much higher. No one can achieve the alleged manipulative goals with such infrequent non-genuine trades.*
- *It is also noteworthy that Noticee's alleged trades have matched with 49 different entities. Had the trades been non-genuine, the Noticee ought to have been related to the counter parties. The SCN does not provide an iota of evidence as to how the Noticee was related to the counter parties.*
- *It is also not a case in the SCN that other investors have got carried away or have been mislead due to the trades carried out by the Noticee. Further it is not even alleged that third parties suffered any loss due to the transactions carried out by the Noticee. Assuming for a moment but not accepting that the trades were executed deliberately, no other party has been affected by these trades as they were reversed with same party and no impact what so ever has been caused to anyone because of these trades and therefore these were completely impotent to*

create any false and misleading appearance of trading as wrongly alleged.

CONSIDERATION OF ISSUES AND EVIDENCE

8. I have carefully perused the charges levelled against the Noticee in the SCN, its reply and the material / documents available on record. In the instant matter, the following issues arise for consideration and determination:-

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

II. Do the violations, if any, on the part of the Noticee attract monetary penalty under section 15HA of SEBI Act?

III. If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?

9. Before proceeding further, I would like to refer to the relevant provisions of the PFUTP Regulations:

Relevant provisions of PFUTP Regulations

Regulation 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 recognised 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 recognised 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 recognised stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder.

Regulation 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;

10. I note from the documents on record that the Noticee was one of the entities who had indulged in creating artificial volume of 30194612 units through 194 non-genuine trades in 74 stock option contracts during IP.

11. The summary of trades is given below:

Stock Option Contract	Buy Quantity	Sell Quantity	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	Artificial volume generated by Entity in the Contract (B+C)	Total volume generated by Entity in the Contract	Total volume in the Contract	% of Non Genuine trades of Entity in the contract to Entity's Total trades in the Contract = (D/E)	% of Non Genuine trades of Entity in the contract to Total trades in the Contract = (D/F)	% of Artificial Volume generated by Entity in the contract to Entity's Total Volume in the Contract = (G/H)	% of Artificial Volume generated by Entity in the contract to Total Volume in the Contract = (G/I)
A	B	C	D	E	F	G	H	I	J	K	L	M
AHEL15SEP1260.00CEW2	1500	1500	2	2	4	3000	3000	16000	100%	50%	100%	19%
ALBK15JUL85.00CEW3	272000	272000	2	2	2	544000	544000	544000	100%	100%	100%	100%
ALBK15MAR105.00CE	356000	356000	2	2	8	712000	712000	1260000	100%	25%	100%	57%
ANBK15AUG65.00PEW2	228000	228000	4	4	11	456000	456000	856000	100%	36%	100%	53%
ANBK15JUL60.00PE	560000	560000	2	2	11	1120000	1120000	2544000	100%	18%	100%	44%
Stock Option Contract	Buy Quantity	Sell Quantity	Number of non genuine trade	Total number of trades execu	Total number of trad	Artificial volume generated by Entity in the Contract	Total volume generated by Entity in	Total volume in the Contract	% of Non Genuine trades of Entity in the contract	% of Non Genuine trades of Entity in the	% of Artificial Volume generated by Entity in the	% of Artificial Volume generated by Entity in the

			s executed by Entity in the Contract	ted by the Entity in the Contract	es executed in the contract	(B+C)	the Contract		to Entity's Total trades in the Contract = (D/E)	contract to Total trades in the Contract = (D/F)	contract to Entity's Total Volume in the Contract = (G/H)	contract to Total Volume in the Contract = (G/I)
ANBK15JUN55.00CEW3	104000	104000	2	2	2	208000	208000	208000	100%	100%	100%	100%
ANBK15JUN60.00CEW3	212000	212000	2	2	8	424000	424000	832000	100%	25%	100%	51%
ASPL15APR780.00CE	210000	210000	2	2	2	420000	420000	420000	100%	100%	100%	100%
BHEL15MAR270.00CE	158000	158000	2	2	14	316000	316000	1864000	100%	14%	100%	17%
BOBL15AUG180.00PE	42000	42000	2	2	8	84000	84000	328000	100%	25%	100%	26%
DISH15JUN90.00CE	204000	204000	2	2	14	408000	408000	960000	100%	14%	100%	43%
DISH15JUN90.00CEW2	100000	100000	2	2	6	200000	200000	664000	100%	33%	100%	30%
DISH15MAY75.00CEW2	132000	132000	2	2	2	264000	264000	264000	100%	100%	100%	100%
DISH15MAY90.00PEW2	144000	144000	2	2	2	288000	288000	288000	100%	100%	100%	100%
DIVI15SEP2070.00CEW2	10000	10000	2	2	2	20000	20000	20000	100%	100%	100%	100%
DLFL15MAR150.00CE	520000	520000	4	4	31	1040000	1040000	4212000	100%	13%	100%	25%
EMLD15SEP18200.00PEW2	1500	1500	2	2	2	3000	3000	3000	100%	100%	100%	100%
FEDB15JUL82.00PE	80000	80000	2	2	4	160000	160000	232000	100%	50%	100%	69%
FEDB15JUL85.00PE	68000	68000	2	2	4	136000	136000	296000	100%	50%	100%	46%
FEDB15JUL90.00PE	160000	160000	2	2	4	320000	320000	456000	100%	50%	100%	70%
GMRI15JUL10.00CEW2	273000	273000	2	2	4	546000	546000	1170000	100%	50%	100%	47%
GMRI15JUN10.00CEW3	201806	201806	2	2	10	403612	403612	1816254	100%	20%	100%	22%
HDIL15MAR110.00CEW3	396000	396000	2	2	10	792000	792000	1952000	100%	20%	100%	41%
HDIL15MAY100.00CEW2	50000	50000	2	2	2	100000	100000	100000	100%	100%	100%	100%
HDIL15SEP65.00PEW2	86000	86000	2	2	2	172000	172000	172000	100%	100%	100%	100%
IBRL15AUG45.00CEW3	92000	92000	2	2	10	184000	184000	736000	100%	20%	100%	25%
IBRL15AUG50.00PEW1	164000	164000	2	2	13	328000	328000	1784000	100%	15%	100%	18%
IBRL15AUG80.00PEW3	80000	80000	2	2	4	160000	160000	464000	100%	50%	100%	34%
IBRL15JUN40.00CEW2	132000	132000	2	2	9	264000	264000	952000	100%	22%	100%	28%
IBRL15MAY65.00PEW3	180000	180000	4	4	10	360000	360000	1088000	100%	40%	100%	33%
IDBI15AUG45.00CEW3	100000	100000	2	2	2	200000	200000	200000	100%	100%	100%	100%
IDBI15MAY60.00CEW3	132000	132000	2	2	8	264000	264000	648000	100%	25%	100%	41%
IDEA15AUG165.00PE	124000	124000	2	2	4	248000	248000	316000	100%	50%	100%	78%
IFCI15JUN22.00CEW3	152000	152000	2	2	22	304000	304000	2656000	100%	9%	100%	11%
Stock Option Contract	Buy Quantity	Sell Quantity	Number of non genuine trade	Total number of trades execu	Total number of trad	Artificial volume generated by Entity in the Contract	Total volume generated by Entity in	Total volume in the Contract	% of Non Genuine trades of Entity in the contract	% of Non Genuine trades of Entity in the	% of Artificial Volume generated by Entity in the	% of Artificial Volume generated by Entity in the

			s executed by Entity in the Contract	ted by the Entity in the Contract	es executed in the contract	(B+C)	the Contract		to Entity's Total trades in the Contract = (D/E)	contract to Total trades in the Contract = (D/F)	contract to Entity's Total Volume in the Contract = (G/H)	contract to Total Volume in the Contract = (G/I)
IFCI15JUN32.00PEW2	216000	216000	2	2	4	432000	432000	928000	100%	50%	100%	47%
IFCI15JUN34.00PEW3	288000	288000	2	2	4	576000	576000	960000	100%	50%	100%	60%
IFCI15MAY26.00CEW3	216000	216000	2	2	20	432000	432000	576000	100%	10%	100%	75%
JAIA15JUN16.00PEW3	128000	128000	2	2	12	256000	256000	1056000	100%	17%	100%	24%
JAIA15JUN6.00CE	248000	248000	2	2	10	496000	496000	1856000	100%	20%	100%	27%
JAIA15JUN8.00CE	240000	240000	2	2	6	480000	480000	1376000	100%	33%	100%	35%
JAIA15JUN8.00CEW2	624000	624000	4	4	8	1248000	1248000	2016000	100%	50%	100%	62%
JAIA15MAY12.00CEW3	232000	232000	4	4	6	464000	464000	688000	100%	67%	100%	67%
JAIA15MAY16.00CEW3	144000	144000	2	2	14	288000	288000	2336000	100%	14%	100%	12%
JPPW15JUL12.00CEW3	722000	722000	2	2	6	1444000	1444000	3382000	100%	33%	100%	43%
JPPW15JUN12.00PEW1	300000	300000	2	2	4	600000	600000	1200000	100%	50%	100%	50%
JPPW15JUN2.00CE	255000	255000	2	2	26	510000	510000	2940000	100%	8%	100%	17%
JSWE15JUL85.00CE	204000	204000	2	2	7	408000	408000	888000	100%	29%	100%	46%
JSWL15SEP1000.00PEW3	8500	8500	2	2	2	17000	17000	17000	100%	100%	100%	100%
LNTF15JUL60.00PE	340000	340000	4	4	14	680000	680000	980000	100%	29%	100%	69%
LNTF15JUL80.00CEW4	500000	500000	4	4	17	1000000	1000000	3096000	100%	24%	100%	32%
NHPC15JUN14.00CEW2	320000	320000	2	2	18	640000	640000	2500000	100%	11%	100%	26%
NMDC15MAR125.00CE	400000	400000	2	2	2	800000	800000	800000	100%	100%	100%	100%
PTCI15JUL55.00CE	200000	200000	2	2	4	400000	400000	552000	100%	50%	100%	72%
PTCI15JUL55.00PEW3	684000	684000	3	3	9	1368000	1368000	2920000	100%	33%	100%	47%
PTCI15JUN65.00CEW1	252000	252000	4	4	10	504000	504000	1016000	100%	40%	100%	50%
RCOM15AUG90.00PE	100000	100000	2	2	2	200000	200000	200000	100%	100%	100%	100%
RPOW15JUN35.00CEW3	84000	84000	2	2	10	168000	168000	920000	100%	20%	100%	18%
SAIL15AUG40.00CEW3	60000	60000	2	2	2	120000	120000	120000	100%	100%	100%	100%
SAIL15AUG50.00PEW1	144000	144000	5	5	23	288000	288000	2352000	100%	22%	100%	12%
SAIL15AUG75.00CEW2	204000	204000	3	3	11	408000	408000	1640000	100%	27%	100%	25%
SAIL15JUL50.00PEW2	656000	656000	2	2	34	1312000	1312000	4568000	100%	6%	100%	29%
SHTF15SEP800.00CEW2	7500	7500	2	2	2	15000	15000	15000	100%	100%	100%	100%
SRFL15SEP1080.00CEW2	9500	9500	2	2	2	19000	19000	19000	100%	100%	100%	100%
Stock Option Contract	Buy Quantity	Sell Quantity	Number of non genuine trade	Total number of trades execu	Total number of trad	Artificial volume generated by Entity in the Contract	Total volume generated by Entity in	Total volume in the Contract	% of Non Genuine trades of Entity in the contract	% of Non Genuine trades of Entity in the	% of Artificial Volume generated by Entity in the	% of Artificial Volume generated by Entity in the

			s executed by Entity in the Contract	ted by the Entity in the Contract	es executed in the contract	(B+C)	the Contract		to Entity's Total trades in the Contract = (D/E)	contract to Total trades in the Contract = (D/F)	contract to Entity's Total Volume in the Contract = (G/H)	contract to Total Volume in the Contract = (G/I)
STAC15SEP1140.00PEW2	30000	30000	2	2	2	60000	60000	60000	100%	100%	100%	100%
SYND15SEP90.00PEW1	100000	100000	3	3	3	200000	200000	200000	100%	100%	100%	100%
TATP15AUG75.00PE	132000	132000	2	2	4	264000	264000	464000	100%	50%	100%	57%
TATP15SEP50.00CE	188000	188000	7	7	26	376000	376000	1536000	100%	27%	100%	24%
TDVR15SEP250.00PEW3	26000	26000	2	2	2	52000	52000	52000	100%	100%	100%	100%
TISC15SEP240.00PEW3	54000	54000	2	2	2	108000	108000	108000	100%	100%	100%	100%
TITA15MAR410.00CE	429000	429000	6	6	12	858000	858000	1458000	100%	50%	100%	59%
UNIT15SEP10.00PEW3	220000	220000	13	13	15	440000	440000	550000	100%	87%	100%	80%
VOLT15MAR290.00PE	198000	198000	2	2	6	396000	396000	842000	100%	33%	100%	47%
VOLT15SEP250.00CEW3	58000	58000	2	2	2	116000	116000	116000	100%	100%	100%	100%
YESB15MAR800.00CE	150000	150000	6	6	14	300000	300000	936000	100%	43%	100%	32%

12. To illustrate, on July 10, 2015 the Noticee entered into 1 buy trade for 272000 units at the rate of ` 4.25 per unit at 13:39:09 with the counterparty one Narayan Kumar Goyal (HUF) for the contract named “ALBK15JUL85.00CEW3”. Thereafter, on the same day, Noticee, at 13:46:19 entered into 1 sell trade with same counterparty for 272000 units at rate of ` 8.7 per unit. It is noted that while dealing in the said contract during the I.P., Noticee executed total 2 reversal trades (1 buy trade + 1 sell trade) with same counterparty viz, Narayan Kumar Goyal (HUF) on the same day and with significant price differential in buy and sell rate. Thus, Noticee, through its dealing in the contract viz, “ALBK15JUL85.00CEW3” during the I.P, executed 2 non-genuine trades which is 100% of the total market trades in the said contract during the I.P and thereby, Noticee generated artificial volume of 544000 units which is 100% of the market volume traded in the said contract during the I.P. Also, counterparty to these trades, Narayan Kumar Goyal (HUF) had bought

at ` 8.7 per unit and within 7 minutes 10 seconds it bought the same at ` 4.25 per unit which indicate that this trade was definitely non-genuine trade.

13. It is noted that of the 208 trades executed by the Noticee during the IP in stock option segment of BSE, Noticee indulged in reversal of trades on the same day with same counter party with substantial price difference in sell rates over the buy rates and vice versa in 194 trades.

14. It is also noted that the Noticee in abovementioned 74 contracts, has reversed his trades within a short span of time. The details of 5 such contracts as per following table:

Date	Stock Option Contract	Buyer	Seller	Trade Time	Rate	Traded Quantity	Time Difference
27/03/2015	ASPL15APR780.00CE	KUNDAN CARE PRODUCTS LIMITED	VISHAL FERRO ALLOYS LIMITED	11:48:50	47	210000	00:00:30
27/03/2015	ASPL15APR780.00CE	VISHAL FERRO ALLOYS LIMITED	KUNDAN CARE PRODUCTS LIMITED	11:49:20	27	210000	
14/05/2015	DISH15MAY90.00PEW2	VISHAL FERRO ALLOYS LIMITED	GOLD VIEW FINANCIAL SERVICES LIMITED	13:23:36	7.2	144000	00:00:15
14/05/2015	DISH15MAY90.00PEW2	GOLD VIEW FINANCIAL SERVICES LIMITED	VISHAL FERRO ALLOYS LIMITED	13:23:51	10	144000	
21/07/2015	FEDB15JUL85.00PE	VISHAL FERRO ALLOYS LIMITED	HORA FINANCE INVESTMENT	14:17:46	9	68000	00:00:54
21/07/2015	FEDB15JUL85.00PE	HORA FINANCE INVESTMENT	VISHAL FERRO ALLOYS LIMITED	14:18:40	15	68000	
29/07/2015	SAIL15AUG50.00PEW1	GINNI VINIMAY PRIVATE LIMITED	VISHAL FERRO ALLOYS LIMITED	12:14:16	1.5	4000	00:09:19

Date	Stock Option Contract	Buyer	Seller	Trade Time	Rate	Traded Quantity	Time Difference
29/07/2015	SAIL15AUG50.00PEW1	GINNI VINIMAY PRIVATE LIMITED	VISHAL FERRO ALLOYS LIMITED	12:14:16	2.95	68000	
29/07/2015	SAIL15AUG50.00PEW1	GINNI VINIMAY PRIVATE LIMITED	VISHAL FERRO ALLOYS LIMITED	12:14:16	2.85	68000	
29/07/2015	SAIL15AUG50.00PEW1	GINNI VINIMAY PRIVATE LIMITED	VISHAL FERRO ALLOYS LIMITED	12:14:16	1	4000	
29/07/2015	SAIL15AUG50.00PEW1	VISHAL FERRO ALLOYS LIMITED	GINNI VINIMAY PRIVATE LIMITED	12:23:35	0.05	144000	00:09:19
04/09/2015	HDIL15SEP65.00PEW2	VISHAL FERRO ALLOYS LIMITED	VIBHA ARTS AND ENTERTAINMENT PRIVATE LIMITED	12:48:44	5.85	86000	
04/09/2015	HDIL15SEP65.00PEW2	VIBHA ARTS AND ENTERTAINMENT PRIVATE LIMITED	VISHAL FERRO ALLOYS LIMITED	13:15:26	9.25	86000	00:26:42

15. The Noticee adopted similar modus operandi on March 9, 10,13, 18, 27, May 13, 14, 18, June 1, 2, 5, 8, 10, 11, 15, 16, 17, 18, 19, 22, 23, 26, 29, 30, July 1, 2, 3, 7, 10, 14, 16, 21, 23, 24, 27, 28, 29, 31, August 3, 4, 5, 7, 12, 17, September 2, 4, 7, 8, 14, 15, 2015 i.e. 51 days. In fact, it can be observed from the table that mostly all the trades executed by the Noticee in these 74 contracts were not genuine and the same has been reversed on the same day within few seconds to few minutes with the relevant same counterparties with significant difference in price, resulting into significant profit to the Noticee.

16. It is not mere coincidence that Noticee could match his trades consistently with the same counterparties with whom he had undertaken first leg of the respective trades. This is the outcome of meeting of minds elsewhere and it was a deliberate attempt to deal in such a fashion. The Noticee had cited various case laws to establish relationship between counterparties. Here I would like to rely on the judgment of Hon'ble Supreme Court in SEBI v Kishore R Ajmera (AIR 2016 SC 1079), wherein it was held that "*in the absence of direct proof of meeting of minds elsewhere in synchronized transactions, the test should be one of preponderance of probabilities as far as adjudication of civil liability arising out of the violation of the Act or provision of the Regulations is concerned. The conclusion has to be gathered from various circumstances like that volume of the trade effected; the period of persistence in trading in the particular scrip; the particulars of the buy and sell orders, namely, the volume thereof; the proximity of time between the two and such other relevant factors. The illustrations are not exhaustive."* It was further held that *"It is a fundamental principle of law that proof of an allegation levelled against a person may be in the form of direct substantive evidence or, as in many cases, such proof may have to be inferred by a logical process of reasoning from the totality of the attending facts and circumstances surrounding the allegations/charges made and levelled. While direct evidence is a more certain basis to come to a conclusion, yet, in the absence thereof the Courts cannot be helpless. It is the judicial duty to take note of the immediate and proximate facts and circumstances surrounding the events on which the charges/allegations are founded and to reach what would appear to the Court to be a reasonable conclusion therefrom. The test would always be that what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion.*"

17. It is noted that direct evidence is not forthcoming in the present matter as regards to meeting of minds or collusion with other entities inter-alia the counterparties or agents / fronts. However, trading behavior and other scenarios as noted above make it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level. In this regard, reliance is placed on

judgment of Hon’ble Supreme Court in the matter in respect of SEBI v Rakhi Trading Private Limited Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018, which interalia states that: *“Considering the reversal transactions, quantity, price and time and sale, parties being persistent in number of such trade transactions with huge price variations, it will be too naive 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…..”*

18. There is no justification for such synchronization apart from pre-determination. It seems pretty obvious that the Noticee and the counterparties had a prior meeting of mind and had executed the trades at a particular rate.

19. The manner of placing buy and sell orders in a synchronized manner within few seconds to few minutes of each other, reversal of the trades within a short time on the same day, and wide variation in prices of the trades in the same contract in a short time without any basis for such wide variation, all indicate 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. In view of the above, I find that the allegation of violation of regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of PFUTP Regulations by the Noticee stand established.

20. The Hon’ble Supreme Court of India in the matter of SEBI Vs. Shri Ram Mutual Fund [2006] 68 SCL 216(SC) held that “*In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant…*”.

21. The above violation make the Noticee liable under section 15HA of SEBI Act, which reads as follows:

<u>15HA Penalty for Fraudulent and Unfair trade practices</u>

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.

22. While determining the quantum of penalty under Section 15HA of the SEBI Act, it is important to consider the factors relevantly as stipulated in Section 15J of the SEBI Act which read as under:-

> ***Section 15J - Factors to be taken into account by the adjudicating officer*** *While adjudging quantum of penalty under section 15, 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.*

23. Though the records available before me does mention about amount of gain/loss of the entities involved in the non-genuine trades including the Noticee, it is worth considering that entities involved in these non-genuine trades have either booked gains or loss and the gains or loss appears to be of notional in nature. It is further noted that the trading in illiquid stock option contracts there was nil or negligible participation by the public. Hence, the impact of these non-genuine trade has been considered. When the impact of artificial volume created by the two counterparties is seen as a whole, it is not possible from the material on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial

trades between the counter parties or the consequent loss caused to investors as a result of the default.

24. From the pattern of the trades, it is clear that the Noticee had entered into non-genuine reversal trades with prior meeting of mind with the counterparties. This pattern of trades continued for 51 days. Hence, it can be said that it repetitive in nature.

ORDER

25. In view of the above, after considering all the facts and circumstances of the case and the factors mentioned in the provisions of section 15-J of the SEBI Act, I, in exercise of the powers conferred upon me under section 15-I (2) of the SEBI Act read with Rule 5 of the SEBI Adjudication Rules, conclude that the proceedings against the Noticee stands established in terms of the provisions of the SEBI Act. Hence, in view of the charges established under the provisions of the SEBI Act, I, hereby impose monetary penalty under section 15HA of SEBI Act of Rs.13,50,000/- (Rupees Thirteen Lakh and Fifty Thousand only) for violation of regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of PFUTP Regulations

26. The Noticee shall remit / pay the said amount of penalty within 45 (forty five) days of receipt of this order either by way of Demand Draft (DD) in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai and 1) the said DD should be forwarded to the Division Chief, Enforcement Department (EFD), Division of Regulatory Action - II [EFD-DRA-2] SEBI Bhavan, Plot No.C4-A,' G' Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai – 400 051 OR 2) through e-payment facility into Bank Account, the details whereof are given as below :-

Account No. for remittance of penalty (ies) 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

27. The Noticees shall forward the said Demand Drafts or the details / confirmation of penalty so paid through e-payment to the Division Chief of the aforesaid Enforcement Department (EFD) of SEBI.

28. 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:

Date	
Department of SEBI	
Name of Intermediary/other Entity	
Type of Intermediary	
SEBI Registration Number (if any)	
PAN	
Amount (in Rs.	

Purpose of payment (including the period for which payment was made e.g Quarterly, annually)	
Bank Name and Account Number from which payment is remitted	
UTR No	

29. In terms of Rule 6 of the Adjudication Rules, copy of this order is sent to the Noticee and also to the Securities and Exchange Board of India.

Date: February 28, 2019
Place: Mumbai

SAHIL MALIK
ADJUDICATING OFFICER