BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/JS/VC/2025-26/31999]

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) RULES, 1995.

In respect of:

Ratan Lal Rathi

(PAN: AJSPR3863P)

In the matter of dealing in Illiquid Stocks Options on BSE

BACKGORUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**"), observed large scale reversal of trades in the Illiquid Stock Options (hereinafter referred to as "**ISO**") at BSE Ltd. (hereinafter referred to as "**BSE**") leading to creation of artificial volume. In view of the same, SEBI conducted an investigation into the trading activities of certain entities in ISO at BSE for the period from April 1, 2014 to September 30, 2015 (hereinafter referred to as **"IP**").

2. Investigation by SEBI revealed that during the IP, a total of 2,91,744 trades comprising 81.41% of all the trades executed in stock options segment of BSE were trades involving reversal of buy and sell positions by the clients and counterparties in a contract. In these trades, entities reversed their buy or sell position in a contract with subsequent sell or buy position with the same counter party. These reversal trades were alleged to be non-genuine as they lacked basic trading rationale and allegedly lead to false or misleading appearance of trading leading to creation of artificial volume in those contracts. In view of the same, such reversal trades were alleged to be deceptive and manipulative in nature.

3. During the IP, 14,720 entities were found to have executed non-genuine trades in BSE's stock options segment. It was observed that Ratan Lal Rathi (hereinafter referred to as the **"Noticee"**) was one of the entities who indulged in execution of reversal trades in stock options segment of BSE during the IP. His trades were alleged to be non-genuine in nature which created false or misleading appearance of trading in terms of artificial volumes in stock options. Therefore, his trades were alleged to be manipulative and deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for alleged violation of the provisions of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**").

APPOINTMENT OF ADJUDICATING OFFICER

4. Pursuant to transfer to the cases from erstwhile Adjudicating Officer (hereinafter referred to as "**AO**"), the undersigned was appointed as AO in the matter vide order dated April 03, 2025, under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the **"SEBI Act**") read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as **"Rules"**), to inquiry into and adjudge under the provisions of section 15HA of the SEBI Act for the alleged violations by the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. A Show Cause Notice dated September 06, 2021 (hereinafter referred to as "**SCN**") was served to the Noticee under rule 4(1) of Rules to show cause as to why an inquiry should not be held and penalty, if any, should not be imposed upon him for the alleged violations of the provisions of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations.

6. It was alleged in the SCN that the Noticee had executed one trade reversal through two non-genuine trades in one stock options contract creating artificial volume of

88,000 units. Summary of the dealings of Noticee in the said options contracts, in which the Noticee allegedly executed non-genuine reversal trades during the IP, is as follows:

Table No. 1

Contract name	Avg. buy rate (₹)	Total buy volume (no. of units)	Avg. sell rate (₹)	Total sell volume (no. of units)	% of Artificial volume generated by the Noticee in the contract to Noticee's Total volume in the contract	% of Artificial volume generated by the Noticee in the contract to Total volume in the contract
A	**B**	**C**	**D**	**E**	**F**	**G**
LNTF15AUG95.00PEW1	14.3	44,000	23.5	44,000	100%	8.46%

7. The aforesaid reversal trade is illustrated through the dealings of the Noticee in one contract, viz., 'LNTF15AUG95.00PEW1' during the IP as follows:
   (a) During the IP, 2 trades for 88,000 units were executed by the Noticee in the said contract on August 05, 2015;
   (b) While dealing in the said contract on August 05, 2015, at 11:23:48 hours, Noticee entered into a buy trade with the counterparty 'TLB Trading Ventures' for 44,000 units at Rs. 14.3/- per unit. Thereafter, on the same day, within 14 minutes, at 11:37:02 hours, Noticee entered into a sell trade with the same counterparty for 44,000 units at Rs. 23.5/- per unit, with a significant price difference in buy and sell rates;
   (c) The Noticee's two trades while dealing in the abovementioned contract during the IP generated artificial volume of 88,000 units, which constituted 8.46% of total market volume in the said contract during the IP.

8. The SCN was duly served to the Noticee through Speed Post Acknowledgement Due (hereinafter referred to as **"SPAD"**). Vide e-mail dated October 13, 2021, Noticee submitted his response to the SCN, *inter alia*, as under:
   (a) It is understood that one trade in F&O purchase and one trade of F&O sell in 44000 qty. in EQUOPTLNTF06 executed on August 05, 2015, was executed by him.

(b) *He is a small investor in the stock market and sell /purchase the securities on market reports with different registered stock brokers of NSE and BSE. The aforesaid trade is done through Best Bull Stock Trading (P) Ltd with SEBI Registration No. BSE-F&O-INB011265734. I have respective contract note, Bills and receive payment through cheque and paid all tax such as STT, service tax, SEBI turnover tax and stamp duty. The above transaction was done by me for some quick profit in the stock market not with an intention of fraud. So, the trade done is genuine and requested AO to withdraw the notice served and send written confirmation accordingly.*

(c) *However, if investigation reveals the aforesaid transaction as non-genuine AO may take appropriate action against the SEBI registered stock broker.*

9. Further, vide letter dated October 22, 2021, Noticee submitted his reply to the SCN, *inter alia*, as under:

(a) *At the outset, there is considerable delay in the issuance of notice (September 06, 2021) and the date of alleged transactions (August 05, 2015), i.e., there is a delay of more than six years in the initiation of the proceedings. Courts have held that where time limit for issue on notice of penalty is not specified, the same has to be issued within a reasonable period.*

(b) *It appears from the facts stated that the Noticee carried out in two trades in one unique contract which allegedly led to generation of artificial volume of 88,000 units (buy plus sell). He has, on few occasions, undertaken certain stock market transactions through a registered broker of a recognized stock exchange but has not indulged ever into any fraudulent and/or unfair trade practices pertaining to stock market transactions and/or otherwise. The modus operandi adopted by the Noticee while trading in stocks is by way of placing orders telephonically to the stock broker and not through punching of saudas directly in the terminal.*

(c) *The Noticee has never entered into any collusive or manipulative transaction in the stock market and/or otherwise. As per the facts stated, there was a total of 2 trades during the period under investigation, which as per the SCN were of non-genuine in nature. Noticee's few trades out of 2.92 lakh trades are few drops in the ocean. In the absence of multiple transactions and/or voluminous transactions, inference of fraud and/or undue trade practices cannot be drawn.*

(d) *Noticee has always done transactions in the stock market and/or otherwise in a genuine manner and in good faith. There is no question of the Noticee having created any artificial volume in the market and/or made any undue profit. Therefore, the Noticee has not violated regulations 3(a), (b), (c), (d) and 4(1), 4(2)(a) of PFUTP Regulations.*

(e) *He is not aware of the identity of the counterparty and the fact that the counter party is the same in both the buy and sale transactions and does not either the counterparty or the company in question.*

(f) Rules has itself provided in rule 5 (2) that while adjudging the quantum of penalty under section 15-1, the adjudicating officer shall have due regard to the following factors, namely: —

- *the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
- *the amount of loss caused to an investor or group of investors as a result of the default;*
- *the repetitive nature of the default.*

(g) None of the above factors are present in the Noticee's case. As such, the question of imposing penalty under the SEBI Act and rules framed thereunder does not arise.

(h) In the facts and circumstances alleged in the SCN, courts have given the rulings in favour of the citizens / noticees. Some of the court decisions are referred to hereunder-

(i) In Labhu Gohil v. SEBI [2020] 117 taxmann.com 480 (the Hon'ble Securities Appellate Tribunal (SAT)), Hon'ble Tribunal where there is no evidence on any fund transfer between the appellants with any other entities in the absence of which motive for a collusive or manipulative effort becomes blunt. Moreover, when a group of entities themselves becomes parties to each other's trade in a circular fashion, though to a limited extent, the net amount of profits or losses also become negligible and only to the extent of their trades getting matched with entities outside the group. The Tribunal finally held that that no penalty can be imposed on the appellants.

(j) In Nishith M. Shah HUF v. SEBI [Appeal No. 97, of 2019 dated 16-1-2020] the Tribunal held-

- *Where the investigative reports nor the WTM or the AO found any connection between the buyer and the seller nor between the appellant and the promoters/directors of the Company, no causal connection has been established.*
- *Allegation that the appellant has contributed to the LTP cannot be upheld in the absence of any collusion with the buyer or promoter/director of the Company. One has to establish a connection between a buyer and with the seller in order to infer a manipulation in the price of the scrip.*
- *There must be evidence to show collusion between the buyer and the seller. In the instant case there is none. The principle of preponderance of probability cannot be exercised in the absence of any connection between the seller and the buyer.*

(k) In Jagruti Securiües Ltd v. SEBI [Appeal No. 102 of 2006 decided on October 27, 2008] and in Vikas Ganeshmal Bengani v. Whole Time Member, SEBI [Appeal No. 225 of 2009 decided on February 25, 2010], the Tribunal held that the charge of raising price artificially has to be established and the element of collusion between the buyer and the seller is a sine qua non.

(l) In Ramod Kumar Agrawal (HUF) v. Adjudicating Officer [2009] 95 SCL 274 (SAT), it was held that where there were only two traders - one on either side and this

knowledge cannot be attributed to the appellants particularly in the absence of any material that could lead one to believe otherwise, appellant cannot be held guilty of executing any fraudulent or unfair trade.

(m) In Kishor V Gandhi v. SEBI on 14 July, 2021, Appeal No. 516 of 2019, in a case before the Tribunal, the charge against the appellants was circular/ reversal and synchronized trades in connivance with other entities with no intention of transferring beneficial ownership leading to false and misleading appearance of trading in the securities market. The appellant contended before the authorities that there was no fraudulent intention nor it was an unfair trade practice and that the appellant was nowhere connected with any other entities nor was a part of a group indulging in circular reversal or synchronized trades.

In this regard, the Tribunal held as under-

"7. We find that the AO in paragraph 18 of the impugned order dated August 2, 2019 have found that the appellant was connected with Geeta Walia. Other than this finding there is no finding that the appellant was connected with other noticees. Thus, in the absence of any connection with other entities, the trades executed by the appellant cannot be clubbed with the trades executed by other noticees who acted as a group. We also find that there is no connection of appellant with the promoters of the Company.

8. We also find that only one trade was executed by the appellant which constituted 0.36% of the total volume of trades which in our opinion is too miniscule and would not create any impact either on the manipulative intention or on the circular / reversal and synchronized trades nor will have any impact on the transfer of beneficial ownership or leading to a false and misleading appearance of trading. Such miniscule trading cannot be termed as fraudulent in nature.

9. Further, we are of the opinion that one single trade cannot lead to a conclusion that the appellant was involved in fraudulent execution of trades with a manipulative intent."

(n) In Subhkam Securities Private Limited v. SEBI (Appeal No. 73 of 2012 decided on July 25, 2012) the Tribunal held that a synchronized trade per se is not illegal. In the instant case merely 5,000 trades out of 33,890 trades matched will not make it synchronized trades.

In the appeal of Dhvani Darshan Kothari & Anr. v. SEBI (Appeal No. 276 of 2020 decided on January 21, 2021) the Tribunal held that purchasing off market and selling online to the same counter party may raise a strong suspicion that the transfer may not be genuine but further held that reasons have to be recorded to show as to how the trades were manipulative or fraudulent and that one transfer cannot make it circular / reversal or synchronized nor execution of one trade would be treated at par with the trades executed by other entities which was large in number. The said finding of the Tribunal is squarely applicable in the instant case.

(o) In Ashok Shivlal Rupani v. SEBI, Appeal No. 440 of 2018, the Tribunal held that where the SCN was issued after a long delay, penalty under the SEBI Act was not sustainable in law.

(p) In Mr. Rakesh Kathotia & Ors. v. SEBI (Appeal No. 07 of 2016 decided by the Tribunal on 27.05.2019) proceedings were quashed on account of inordinate delay.

It was held therein as under-

"23. it is no doubt true that no period of limitation is prescribed in the Act or the Regulations for issuance of a show cause notice or for completion of the adjudication proceedings. The Supreme Court in Government of India vs, Citedal Fine Pharmaceuticals, Madras and Others, [AIR 6 (1989) SC 1771] held that in the absence of any period of limitation, the authority is required to exercise its powers within a reasonable period. What would be the reasonable period would depend on the facts of each case and that no hard and fast rule can be laid down in this regard as the determination of this question would depend on the facts of each case. This proposition of law has been consistently reiterated by the Supreme Court in Bhavnagar University v. Palitana Sugar Mill (2004) Vol.12 SCC 670, State of Punjab v. Bhatinda District Coop. Milk P. Union Ltd (2007) Vol. 11 SCC 363 and Joint Collector Ranga Reddy Dist. & Am. vs. D. Narsing Rao & Ors. (2015) Vol. 3 SCC 695. The Supreme Court recently in the case of Adjudicaüng Officer, SEBI v. Bhavesh Pabari (2019) SCC Online SC 294 held:

There are judgments which hold that when the period of limitation is not prescribed, such power must be exercised within a reasonable time. What would be reasonable time, would depend upon the facts and circumstances of the case, nature of the default/statute, prejudice caused, whether the third-party rights had been created etc."

(q) Recently, Adjudicating Officer in the case of Usha Kothari & Others [Adjudication Order: Order/MCNS/2021-22/12785-12794 dated 29.07.21] held as under-

35. During the personal hearing conducted by WebEx on 08.02.2021, the Authorised Representative of Noticee 1, Shri Subhash Agrawal submitted that the Noticee is a housewife investing in shares and her husband is in the garment business. He submitted that the Noticee purchased 20000 shares in 2010 and started selling them in 2014, at an average price of Rs. 222. It was also submitted that the Noticee is not connected to New Commodeal or any of the counterparties to her impugned sell trades. Further, the percentage of positive LTP contribution to total market positive LTP contribution was miniscule (0.02%). He further reiterated the submissions made by Noticee 1 in her earlier replies.

……

56. I also note that purchase of shares off-market by Noticees from entities which were indirectly connected to the Company through common addresses or off market transactions and sale of shares to entities indirectly connected to Pincon cannot by itself be considered to have rendered the Noticees' trades misleading and leading to *manipulation in price of a security in the absence of any significant movement in the price of the scrip, either due to Noticees' trades or in general during Patch 2.*

57. Therefore, in view of the fact that the price did not see any significant fall during Patch 2 as described above, and in the absence of any material to show that the Noticees connived with their counterparties to the impugned trades to cause artificial price-rise or price-fall, allegations of price-rise caused by Noticees 1-5, and of price fall caused by Noticees 6-10 are not supported by facts.

58. In view of the above, I find that the allegation that Noticee 1- 5 violated Section 124 (a), (b) and (c), and Regulations 3(a), (b), (c) and (d), and 4 (1) and 2 (a) and (e) of the PFUTP Regulations by creating misleading appearance of trading and causing price rise in the scrip in a manipulative manner, is not established."

(r) In the facts and circumstances, no enquiry should be held against the Noticee and no penalty be imposed on him.

10. Subsequently, a Post SCN Intimation (hereinafter referred to as **"PSI"**) dated August 11, 2022 was issued to Noticee, wherein it was stated that SEBI had introduced a Settlement Scheme, i.e., SEBI Settlement Scheme, 2022 (hereinafter referred to as "**Settlement Scheme 2022**") in terms of regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 (hereinafter referred to as "**Settlement Regulations**"). It further stated that the Settlement Scheme 2022 provided a one-time opportunity to the entities against whom proceedings were initiated and appeals against the said proceedings were pending, to settle the proceedings. The scheme commenced on August 22, 2022 and remained open for a period of 3 months. Later, the applicable period of the Settlement Scheme 2022 was extended to January 21, 2023 by SEBI. The PSI was served to the Noticee through SPAD and email.

11. However, Noticee did not avail the Settlement Scheme 2022, therefore, the adjudication proceedings against him were resumed. Accordingly, vide notice of hearing dated June 09, 2023, Noticee was granted an opportunity of hearing on June 23, 2023 by erstwhile AO, however, Noticee did not avail the said opportunity. Therefore, vide notice of hearing dated August 04, 2023, Noticee was granted another opportunity of hearing on August 24, 2023, however, he failed to avail the said opportunity also. In response, Noticee vide e-mail dated September 06, 2023, submitted that he received notice of hearing dated August 04, 2023, however, he

failed to avail the said opportunity. Noticee also stated that he would be interested in availing the settlement scheme if SEBI brought in any scheme.

12. Subsequently, a second PSI dated March 06, 2024 was issued to the Noticee, wherein it was stated that SEBI had offered another Settlement Scheme, i.e., SEBI Settlement Scheme, 2024 (hereinafter referred to as "**Settlement Scheme 2024**") in terms of regulation 26 of Settlement Regulations. The applicable period of the scheme was March 11, 2024 to May 10, 2024. Later, the Settlement Scheme 2024 was extended till June 10, 2024 by SEBI vide Public Notice dated May 08, 2024. The second PSI was served to the Noticee through SPAD and email.

13. It was observed that Noticee did not avail the Settlement Scheme 2024, therefore, the adjudication proceedings against him were resumed. Accordingly, vide notice of hearing dated October 01, 2024, Noticee was granted an opportunity of hearing by erstwhile AO on November 04, 2024, however, he did not avail the said opportunity.

14. Further, pursuant to appointment of the undersigned as AO, vide notice of hearing dated June 17, 2025, Noticee was granted a fresh opportunity of hearing on June 30, 2025, however, he did not avail the said opportunity. Furthermore, vide notice of hearing dated January 14, 2026, Noticee was granted another opportunity of hearing on January 27, 2026, which he failed to avail.

CONSIDERATION OF ISSUES AND EVIDENCE

15. I have perused the allegations levelled against the Noticee in the SCN, his reply and the material available on record. In the instant matter, the following issues arise for consideration and determination:

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

    II. Do the violations, if any, on 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?

16. Before proceeding further, it is pertinent to refer to the relevant provisions of PFUTP Regulations which are alleged to have been violated by the Noticee, as under:

Relevant provisions of PFUTP Regulations:

"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 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 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 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."

"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;"

Issue No. 1: Whether the Noticee violated provisions of regulations 3(a), (b), (c), (d) and regulation 4(1) and 4(2)(a) of PFUTP Regulations?

17. Before proceeding to the merits of the case, it is appropriate to deal with the following preliminary issues raised by the Noticee. Noticee submitted that there is a delay of more than six years in the initiation of the proceedings. He argued that the alleged trades took place 2015 and SCN was issued in 2021, thus, there was considerable delay in issuance of the SCN. In this regard, Noticee relied on the

observations of the Hon’ble SAT in the matter of *Ashok Shivlal Rupani v. SEBI*, *and Mr. Rakesh Kathotia & Ors. v. SEBI*. In this regard, I note that pursuant to a preliminary examination conducted in the ISO matter, an Interim Order was passed by SEBI on August 20, 2015 which was confirmed vide Orders dated July 30, 2016 and August 22, 2016. Meanwhile, SEBI initiated a detailed investigation relating to stock options segment of BSE which was completed in the year 2018. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE’s stock options segment during the IP. The proceedings initiated vide the aforementioned Interim Order were disposed of vide Final Order dated April 05, 2018 also considering that appropriate action was initiated against the said 14,720 entities in a phased manner. During the course of hearing in the case of R. S. Ispat Ltd v. SEBI, the Hon’ble SAT, vide Order dated October 14, 2019, *inter alia*, observed that *“SEBI may consider holding a Lok Adalat or adopting any other alternative dispute resolution process with regard to the Illiquid Stock Options”.*

18. Accordingly, a Settlement Scheme was framed under the Settlement Regulations, which provided one-time opportunity for settlement of the proceedings in the ISO matter. The said scheme was kept open from August 01, 2020 till December 31, 2020. Thereafter, adjudication proceedings were initiated against those entities who had not availed of the opportunity of settlement in the said scheme. Further, another settlement scheme, i.e., Settlement Scheme 2022 was brought into force from August 22, 2022 to January 21, 2023. Finally, a third settlement scheme, i.e., Settlement Scheme 2024 was offered from March 11, 2024 to June 10, 2024.

19. It is further noted that there are no timelines prescribed in the SEBI Act for the purpose of identifying trades as non-genuine. In this regard, it is pertinent to note that, in the matter of *SEBI v. Bhavesh Pabari* (2019) SCC Online SC 294, the Hon’ble Supreme Court, *inter alia*, held that:

> *“There are judgments which hold that when the period of limitation is not prescribed, such power must be exercised within a reasonable time. What would be reasonable*

time, would depend upon the facts and circumstances of the case, nature of the default/statute, prejudice caused, whether the third-party rights had been created etc."

20. Pursuant to appointment of AO on July 02, 2021 in the instant matter, SCN dated September 06, 2021 was issued to the Noticee. During October, 2021, Noticee submitted his replies to the SCN. Subsequently, the PSI dated August 11, 2022 was served to the Noticee regrading Settlement Scheme 2022, however, he did not avail the said scheme. Therefore, notices of hearing dated June 09, 2023 and August 04, 2023 were issued to the Noticee, however, he failed to avail the given opportunities of hearings. Further, vide PSI dated March 06, 2024, Noticee was informed about the Settlement Scheme 2024. However, the Noticee failed to avail the said settlement scheme, thus, he was provided an opportunity of personal hearing on November 04, 2024 by erstwhile AO, which he did not avail. Pursuant to appointment of the undersigned as AO, vide notices of hearing dated June 30, 2025 and January 14, 2026, Noticee was granted two opportunities of hearings on June 30, 2025 and January 27, 2026, respectively, however, he did not avail the said opportunities. Hence, considering the narration of facts in the foregoing paragraphs, I note that there has been no inordinate delay in initiation of the proceedings as contended by the Noticee.

21. In respect of the contention of the delay, I also note that delay itself may not be a ground that would vitiate the instant proceedings. However, it is required to examine whether delay has caused any prejudice. I note that Noticee has not stated that whether any prejudice is caused to him. In this matter, all the relevant and relied upon documents relating to the allegations in the SCN were provided to the Noticee, hence, in my view, Noticee had sufficient material to defend his case. Thus, I find that neither Noticee has made out a case of prejudice due to the alleged delay in initiation of proceedings nor any prejudice has been caused to him. In view of the aforesaid, it cannot be said that there is an inordinate delay in the issuance of SCN which caused prejudice to the Noticee and hence the said contentions of Noticee cannot be accepted.

22. Therefore, the preliminary issue raised by the Noticee are not tenable. I shall now proceed to address the key issues that arise for consideration.

23. I note that it was alleged in the SCN that the Noticee, while dealing in the stock options contract at BSE during the IP, had executed reversal trades which were allegedly non-genuine trades and the same had resulted in generation of artificial volume in stock options contract at BSE. The said reversal trades were alleged to be non-genuine trades as they were not executed in the normal course of trading, lack basic trading rationale, lead to false or misleading appearance of trading in terms of generation of artificial volumes and hence, were deceptive and manipulative.

24. In response, Noticee submitted that his two trades out of 2.92 lakh trades are few drops in the ocean and in the absence of multiple transactions and/or voluminous transactions, inference of fraud or undue trade practices cannot be drawn.

25. From the documents on record, I note that the Noticee was one of the entities who had indulged in creating artificial volume of 88,000 units through two non-genuine trades in one stock options contract during the IP. The summary of his trades is given below:

Table No. 2

Contract name	Avg. buy rate (₹)	Total buy volume (no. of units)	Avg. sell rate (₹)	Total sell volume (no. of units)	% of Artificial volume generated by the Noticee in the contract to Noticee's Total volume in the contract	% of Artificial volume generated by the Noticee in the contract to Total volume in the contract
A	**B**	**C**	**D**	**E**	**F**	**G**
LNTF15AUG95.00PEW1	14.3	44,000	23.5	44,000	100%	8.46%

26. On August 05, 2015, the Noticee, at 11:23:48 hours, entered into a sell trade in a contract named, viz., 'LNTF15AUG95.00PEW1' with counterparty 'TLB Trading Ventures' for 44,000 units at Rs. 14.3/- per unit. On the same day, at 11:37:02

hours, Noticee entered into a buy trade of same contract with the same counterparty, for 44,000 units at Rs. 23.5/- per unit. It is noted that the Noticee while dealing in the said contract during the IP, executed a total of 2 trades (1 buy trade and 1 sell trade) with same counterparty, viz., TLB Trading Ventures on the same day and with significant price difference of Rs. 9.2/- in buy and sell rates within a span of 14 minutes. It is observed that the Noticee's two trades while dealing in the aforesaid contract during the IP generated artificial volume of 88,000 units, which made up 8.46% of total market volume in the said contract during this period. Further, the artificial volume generated by the Noticee in the said contract made up to 100% of his total volume in the contract during the IP. Hence, Noticee's contention that his trades were insignificant is not acceptable.

27. In this regard, reference is drawn to the judgment of Hon'ble Supreme Court in the matter of *SEBI v. Rakhi Trading Private Limited*, Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011, decided on February 8, 2018, wherein it was held that:

> *"……...Orchestrated trades are a misuse of the market mechanism. It is playing the market and it affects the market integrity.*
>
> *………The stock market is not a platform for any fraudulent or unfair trade practice. The field is open to all the investors. By synchronization and rapid reverse trade, as has been carried out by the traders in the instant case, the price discovery system itself is affected. Except the parties who have pre-fixed the price nobody is in the position to participate in the trade. It also has an adverse impact on the fairness, integrity and transparency of the stock market."*

In view of the aforesaid, it is noted that the reversal trades affect the price discovery system and have an adverse impact on the fairness, integrity and transparency of the stock market. Hence, the above contention of the Noticee that his trades were insignificant and inference of fraud or undue trade practices cannot be drawn are untenable.

28. Noticee further submitted that he has always done transactions in the stock market in a genuine manner and in good faith and the alleged trades done by him were genuine. In this regard, I note that the non-genuineness of the impugned transactions executed by the Noticee is evident from the fact that there was no

commercial basis as to why, within few minutes, the Noticee reversed the position with the same counterparty with significant price difference on the same day. The fact that the transactions in a particular contract were reversed with the same counterparty indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. Since these trades were done in illiquid option contract, there was negligible trading in the said contract and hence, there was no price discovery in the strictest terms. The wide variation of Rs. 9.2/- in buy and sell price of the said contract, within few minutes, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. Thus, it is observed that Noticee had indulged in reversal trades with his counterparty in the stock options segment of BSE and the same were non-genuine trades.

29. Noticee contended that he did not know / was not aware of the identity of the counterparty or counterparty's stock broker and the fact that the counterparty was same in both buy and sale trades. In this regard, Noticee relied on the observations of the Hon'ble SAT in the matter of *Labhu Gohil v. SEBI*, *Nishith M. Shah HUF v. SEBI, Jagruti Securiües Ltd v. SEBI, Vikas Ganeshmal Bengani v. Whole Time Member, SEBI, Ramod Kumar Agrawal (HUF) v. Adjudicating Officer, SEBI, Kishor V Gandhi v. SEBI, Subhkam Securities Private Limited v. SEBI*, etc. However, I note that it is not mere coincidence that the Noticee could match his trades with the same counterparty with whom he had undertaken first leg of the respective trades. The fact that the transactions in a particular contract were reversed with the same counterparty for the same quantity of units, indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. It is further noted that direct evidence is not forthcoming in the present matter as regards meeting of minds or collusion with other entities, *inter alia*, the counterparties or agents/fronts. However, trading behaviour as noted above makes it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level.

30. Here, I would like to rely on the following judgement of Hon'ble Supreme Court in the matter of *SEBI v. Kishore R Ajmera* (AIR 2016 SC 1079), wherein it was held that:

> *"...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...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 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."*

31. Therefore, applying the ratio of the above judgment, it is observed that the execution of trades by the Noticee in the illiquid options segment with such precision in terms of order placement, time, price, quantity, etc., and also the fact that the transactions were reversed with the same counterparty clearly indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. The only reason for the wide variation of Rs. 9.2/- in price of the same contract, within few minutes was a clear indication that there was pre-determination in the prices by the counterparties. Thus, the nature of trading, as brought out above, clearly indicates an element of prior meeting of minds and

therefore, a collusion of the Noticee with his counterparty to carry out the trades at pre-determined prices.

32. It is also relevant to refer to judgement of the Hon'ble Securities Appellate Tribunal in the matter of *Ketan Parekh v. SEBI* (in Appeal No. 2 of 2004; date of decision July 14, 2006), wherein it was held as follows:

> *"In other words, if the factum of manipulation is established it will necessarily follow that the investors in the market had been induced to buy or sell and that no further proof in this regard is required. The market, as already observed, is so wide spread that it may not be humanly possible for the Board to track the persons who were actually induced to buy or sell securities as a result of manipulation and law can never impose on the Board a burden which is impossible to be discharged. This, in our view, clearly flows from the plain language of Regulation 4 (a) of the Regulations."*

33. In this regard, further reliance is placed on judgment of Hon'ble Supreme Court in the matter of *SEBI v. Rakhi Trading Private Limited*, decided on February 8, 2018 on similar factual circumstances, which, *inter alia,* stated as under:

> *"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….."*

34. Therefore, the trading behaviour of the Noticee confirms that such trades were not normal, indicating that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contract. 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 stands established.

Issue No. 2: Do the violations, if any, on part of the Noticee attract monetary penalty under section 15HA of SEBI Act?

35. In the findings made in foregoing paragraphs, it has been established that the Noticee executed non-genuine reversal trades, which created false and misleading appearance of trading, thereby generated artificial volumes in the stock options segment of BSE during the IP, therefore, Noticee violated the provisions of regulations 3(a), (b), (c) and (d) and regulation 4(1) and 4(2)(a) of the PFUTP Regulations.

36. Therefore, considering the above findings and the judgement of Hon'ble Supreme Court in the matter of *SEBI v. Shriram Mutual Fund* [2006] 68 SCL 216 (SC) decided on May 23, 2006, wherein it was 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. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must made by the defaulter with guilty intention or not.",* I am convinced that it is a fit case for imposition of monetary penalty under the provisions of section 15HA of SEBI Act, which reads as under:

> *"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."*

Issue No. 3: 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?

37. While determining the quantum of penalty under section 15HA of the SEBI Act, the following factors as stipulated in section 15J of the SEBI Act are taken into account-

"Factors to be taken into account while adjudging quantum of penalty.
15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or 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."

38. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading in the aforesaid contract. I note that 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. Further, the material available on record does not demonstrate any repetitive default on the part of the Noticee. However, considering that the two non-genuine trades entered by the Noticee in one options contract led to creation of artificial trading volumes which had the effect of distorting the market mechanism in the stock options segment of BSE, I find that the aforesaid violations were detrimental to the integrity of securities market and therefore, it should be dealt with suitable penalty.

ORDER

39. Taking into account the facts and circumstances of the case, material available on record, submissions of the Noticee, findings hereinabove and factors mentioned in section 15J of the SEBI Act, in exercise of the powers conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Rules, I hereby impose monetary penalty of ₹ 5,00,000/- (Rupees Five Lakh only) on the Noticee (Ratan Lal Rathi) under section 15HA of SEBI Act for the violation of regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of PFUTP Regulations. I am of the view that the said penalty is commensurate with the violations committed by Noticee.

40. The Noticee shall remit/pay the said amount of penalty within 45 days of receipt of this order in either of the way, such as by following the path at SEBI website www.sebi.gov.in:

ENFORCEMENT >Orders >Orders of AO> PAYNOW;

41. 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 for realization of the said amount of penalty along with interest thereon*, inter alia*, by attachment and sale of movable and immovable properties of Noticee.

42. In terms of the provisions of rule 6 of the Rules, a copy of this order is being sent to the Noticee and to SEBI.

JAI SEBASTIAN

Digitally signed by JAI SEBASTIAN
Date: 2026.01.30 12:29:24 +05'30'

Place: Mumbai **JAI SEBASTIAN**

Date: January 30, 2026 **ADJUDICATING OFFICER**