

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/BM/DS/2023-24/26615]

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

In respect of
Raaghav Sarraf
(PAN: FVCPS2102F)

In the matter of Trading in Illiquid Stock Options on BSE

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) observed large scale reversal of trades in stock options segment of Bombay Stock Exchange (hereinafter referred to as “**BSE**”). SEBI observed that such large scale reversal of trades in stock options lead to creation of artificial volume at BSE. In view of the same, SEBI conducted an investigation into the trading activities of certain entities in illiquid stock options at BSE for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as “**IP**”).
2. Pursuant to investigation, it was observed that total of 2,91,744 trades comprising 81.40% of all the trades executed in stock options segment of BSE during the IP were allegedly non genuine trades. The aforesaid alleged non-genuine trades resulted into creation of artificial volume in stock options segment of BSE during the IP. It was observed that Raaghav Sarraf (PAN – FVCPS2102F) (hereinafter referred to as the “**Noticee**”) was

Adjudication Order in respect of Raaghav Sarraf in the matter of trading in Illiquid Stock Options at BSE

one of the various entities who indulged in execution of reversal trades in stock options segment of BSE during the IP. Such trades were alleged to be non-genuine in nature and created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore were alleged to be manipulative, 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, 2003”).

APPOINTMENT OF ADJUDICATING OFFICER

3. The undersigned was appointed as Adjudicating Officer in the matter, conveyed vide communique dated November 12, 2021, under Section 19 read with Section 15-I(1) of the SEBI Act, 1992 (hereinafter referred to as “SEBI Act, 1992”) and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as “**Adjudication Rules**”) to conduct adjudication proceedings in the manner specified under Rule 4 of Adjudication Rules read with Section 15-I(1) and (2) of SEBI Act, 1992, and if satisfied that penalty is liable, impose such penalty as deemed fit in terms of Rule 5 of Adjudication Rules and Section 15HA of SEBI Act, 1992.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A Show Cause Notice dated August 08, 2022 (hereinafter referred to as “SCN”) was issued to the Noticee under Rule 4(1) of the Adjudication Rules to show-cause as to why an inquiry should not be initiated against him and why penalty should not be imposed under section 15HA of the SEBI Act, 1992 for the violations alleged to have been committed by the Noticee.

5. It was *inter alia* alleged in the SCN that the Noticee had executed 9 non-genuine trades in 4 Stock Options contract which resulted in artificial volume of total 10,00,000 units. Summary of dealings of the Noticee in the said Options contracts, in which the Noticee allegedly executed non-genuine trades during the I.P, is as follows:

S. N o.	Contract Name	Avg. Buy Rate (Rs)	Total Buy Volume (No. of units)	Avg. Sell Rate (Rs)	Total Sell Volume (No. of units)	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades in the Contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	IDBI15AUG 60.00PEW2	0.05	36000	2.1	36000	100	25	100	15
2	JAIA15FEB2 0.00PEW1	0.05	272000	1.96	272000	100	27.27	100	22.22
3	KARB15JUL 145.00PEW 1	0.05	112000	2.7	112000	100	10	100	19.79
4	UCOB15JUL 50.00PEW1	0.05	80000	2.6	80000	100	11.11	100	6.56

6. From the above table, following was noted as regard to dealings of the Noticee:

- The Noticee had executed alleged non genuine trades in 4 contracts, wherein all the trades of Noticee in the said contracts were allegedly non-genuine trades.
- No. of alleged non-genuine trades of the Noticee had significantly contributed to total no. of trades from the market in the above contracts,

as 10% to 27.27% of the trades that happened in the said contracts were due to non-genuine trades executed by the Noticee.

- (c) 100% of volume generated by Noticee in the above contract was alleged to be artificial volume, and further, the percentage of alleged artificial volume generated by the Noticee in the above contract to the total volume from the market in said contracts was in the range of 6.56% to 22.22%. Therefore, the Noticee allegedly generated artificial volume in the above contracts.

7. The SCN with reference no. SEBI/HO/EAD/EAD-3/BM/DS/OW/37507/2022 was served on the Noticee via digitally signed email dated August 11, 2022. The proof of service is on record.

8. The aforesaid SCN was served to the Noticee which along with indicating the nature of offence alleged to have been committed by the Noticee, also intimated to the Noticee regarding the SEBI Settlement Scheme, 2022. The intimation regarding settlement scheme given to the Noticee is as follows:

- 8.1. SEBI has framed the SEBI Settlement Scheme, 2022 pursuant to the Order dated May 13, 2022 passed by the Hon'ble Securities Appellate Tribunal, wherein the following directions were issued to SEBI: ***"17. We are, thus, of the opinion that SEBI should reconsider and seriously give a thought in coming out with a fresh scheme under Clause 26 of the Settlement Regulations, 2018. Such scheme can be a onetime scheme for this class of person. The terms of settlement should be attractive so that it could attract the noticees / entities to come forward and settle the matter which will ameliorate the harassment of penalty proceedings to the noticees and at the same time would help to clear the backlog of these pending matters before various AOs."*** (Emphasis Supplied)

8.2. In compliance with the above directions of the Hon'ble Securities Appellate Tribunal, SEBI has introduced a one-time settlement scheme called the SEBI Settlement Scheme, 2022, in terms of Regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 in the matter of Illiquid Stock Options. The said scheme proposes payment of Settlement Amount as per the details given below:

S No	Number of Contracts*	Settlement Amount (Rs.)
1	1-5	1,00,000/-
2	6-50	2,00,000/-
3	51 and above	5,00,000/- base amount + 10,000 per contract

** You may refer to the relevant Annexure/table of the SCN which contains a summary of the contracts you entered to determine the applicable slab for settlement.*

8.3. The period of the SEBI Settlement Scheme, 2022 will commence on August 22, 2022 and will close on November 21, 2022, so as to provide an opportunity for settlement to the entities who have executed reversal trades in the stock options segment of BSE during the period April 01, 2014 to September 30, 2015, against whom enforcement proceedings have been initiated and are pending. In case you wish to avail the benefit of the said Scheme, you may access the details of the said Scheme, which would be available on the website of SEBI i.e. www.sebi.gov.in, during the said period.

8.4. Necessary application for settlement may be filed within the validity period of the scheme and payment of the settlement amount shall be made online. Additionally, for any clarification in regard to settlement scheme, you may refer to the FAQs at SEBI website or send email to scheme2022@sebi.gov.in

8.5. In case you do not wish to avail of the facility under the SEBI Settlement Scheme, 2022, the adjudication proceedings in respect of the allegations contained in Part A of the SCN shall resume. Accordingly, an inquiry shall be held against you in terms of Adjudication Rules read with

section 15-I of the SEBI Act, and penalty, if any, shall be imposed under section 15HA of the SEBI Act. In such case, you are called upon to file your reply within 30 days of receipt of this Show Cause Notice.

8.6. Pursuant to that, vide public notice dated November 21, 2022, it was advertised/informed that *“Considering the interest of entities in availing the Scheme, the competent authority has extended the period of the Scheme till January 21, 2023”*

9. However, it was observed that Noticee did not avail the SEBI Settlement Scheme, in view of which, the adjudication proceeding against the Noticee was resumed.

10. No reply was received from the Noticee till March 03, 2023. In the interest of natural justice, the Noticee was provided an opportunity of hearing vide hearing notice dated March 03, 2023 via SPAD and digitally signed email, which was duly delivered to the Noticee. The Noticee was advised to appear before the undersigned on March 17, 2023.

11. Vide letter dated March 15, 2023, the Noticee submitted his preliminary reply in which he denied all the allegations and requested for provision and inspection of certain documents and cross examination of certain persons. In this regard, following relevant documents were provided to Noticee for inspection on March 23, 2023.

11.1. Annexure 1 - Relevant Extract of Investigation Report

11.2. Annexure 2 - Copy of the communication appointing the Adjudicating Officer

11.3. Annexure 3 - Details of all the reversal trades of the Noticee

11.4. Annexure 4 - Summary of reversal trades of the Noticee

11.5. Annexure 5 - Copy of SAT judgment dated May 13, 2022

12. Noticee was further communicated the following:

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

In regard to your request for cross examination of certain parties, no statement of any party or counter-party or broker/ dealer has either been recorded or relied upon in the captioned proceeding.

In view of the above, your request for cross examination of certain parties does not hold any merit and hence cannot be acceded to."

13. Noticee, through his authorized representative, conducted inspection of documents mentioned above. Vide mail dated March 24, 2023, the Noticee was advised to appear before the undersigned for hearing on April 06, 2023. Submissions to the SCN were made by the Noticee vide letter dated March 28, 2023.

14. Vide letter dated March 28, 2023, the Noticee submitted his reply to the SCN. Contentions made by him have been summarized below:

14.1. Noticee acknowledged that all the documents mentioned in paragraph 11 were provided to him for inspection and referred and quoted from the judgements of Hon'ble Supreme Court dated January 10, 2017 in the matter of SEBI vs Price Waterhouse (Civil Appeal No. 6003-6004/12 ; Hon'ble SAT Order dated 12.05.2017 in the matter of Shri B Ramalinga Raju (Appeal No. 286 of 2014) ; and Hon'ble SAT Order

dated 30.07.2010 in the matter of Ms Smitaben N Shah (Appeal No. 37 of 2010). Noticee submitted that non-availability of the sought out documents has caused grave prejudice and incapacitated the Noticee to submit an effective reply/ objection in the matter.

14.2. There has been a long, inordinate and unexplained delay of more than 7 years. In this regard, various judgements were referred and quoted by the Noticee, including Hon'ble SAT order dated 04.01.2022 in the matter of Shriram Insight Brokers Limited vs SEBI (Appeal No. 559 of 2020); Hon'ble SAT order dated 31.01.2020 in the matter of Ashlesh Gunvantbhai Shah vs SEBI (Appeal No. 169 of 2019) ; Hon'ble SAT order dated 22.08.2019 in the matter of Ashok Shivilal Rupani & others vs SEBI (Appeal No. 417 of 2018) and Sanjay Jethalal Soni & others vs SEBI (Appeal No 102 of 2019); Hon'ble SAT order dated 24.03.2022 in the matter of Yatin Pandya HUF (Appeal No. 719 of 2021); Hon'ble SAT order dated 02.09.2022 in the matter of SIC Stock & Services Private Limited; Hon'ble SAT order dated 19.01.2023 in the matter of Man Industries Limited & others (Appeal 64 of 2023).

14.3. No evidence has been provided by SEBI to show that the trades were fraudulent. The trades were executed on the floor of the exchange; no warning was given or observations made regarding the stock options contracts executed by the Noticee; observations regarding stocks being illiquid is incorrect ; assuming that the stocks were illiquid, any small quantity or volumes would look significant in the absence of active traders.

14.4. For a transaction to be termed fraudulent, there has to be 'inducement', which has not been alleged by SEBI. None of the trades were deceptive in nature or had any impact on the investors or their investment decision.

14.5. There is no connection with the counterparties, and no connection has been alleged in the SCN.

- 14.6. Noticee stated that the impugned trades have been executed by the Noticee in the normal course of business.
- 14.7. Submissions on dealing in Illiquid Stock Options at BSE – The underlying scrips were liquid ; BSE and SEBI have themselves allowed trading in ‘far months’ with a strike price at large variance with current market prices. Stock exchanges had not published a list of illiquid scrips in the derivatives segment, as they do in the cash segment. Hence, there was no possibility of finding whether a scrip is illiquid or not.
- 14.8. Noticee’s trades did not depress the price/ volume of underlying shares in cash segment.
- 14.9. Noticee’s trades could not be considered to be reversal in nature as the time between squaring off the positions was ranging from 16 minutes to 1 hour and 20 minutes. As the time gap was not within few seconds, the trades cannot be called as reversal trades.
- 14.10. Noticee’s trades were only 9 out of 291643 trades, which were negligible, and Noticee’s volume of 10,00,000 units out of 826.21 crore units is also very miniscule. Further, artificial volume generated by him is also a very miniscule percentage.
- 14.11. Noticee had executed all the impugned trades on the platform of BSE through his broker, within the permissible price bands. The trades were settled as per the norms and the broker had issued contract notes for the impugned trades. Hence, the trades cannot be called to be non-genuine.
- 14.12. Noticee was not aware of the counterparties and at the time of closing the positions, it was not aware that the trades are in the nature of reversal trades. Also, the counterparty was dealing through a different broker. Further, BSE had not raised any alerts about the execution of reversal trades and non-genuine trade in the option segment at that point in time.

- 14.13. *BSE, in 2016, announced that it has introduced measure for prevention of reversal trades in equity derivative segment wef 14.03.2016. Merely because online preventive measures and checks and balances at relevant points of time did not exist at relevant point of time, no adverse inference may be drawn against the Noticee.*
- 14.14. *The SCN contains vague allegations against the Noticee and no specific allegation has been alleged in the SCN. In this regard, Noticee referred to the judgement of Hon'ble Supreme Court in the case of Commissioner of Central Excise, Bangalore vs M/s Brindavan Beverages (P) Ltd and Others [Civil Appeal 3417 of 2002] decided on 15.06.2007.*
- 14.15. *Noticee also referred to the SEBI AO order in respect of Neha Sethi in the matter of trading in Illiquid Stock Options at BSE, dated 20.02.2022, wherein no penalty was imposed and the proceedings were disposed of and requested that as the facts of this case is same as that of the aforementioned Order, he should also be discharged without imposition of penalty.*
15. However, the Noticee did not appear for the hearing on April 06, 2023 and also did not inform about his non-appearance in advance. Vide email dated April 07, 2023, the Noticee requested for another opportunity of hearing in the matter. In the interest of natural justice, the Noticee was provided another opportunity of hearing. Vide email dated April 10, 2023, the Noticee was advised to appear for hearing on April 11, 2023. The Noticee, through his authorized representative, appeared for the hearing and reiterated the submissions already made vide letter dated March 28, 2023 and submitted that the same may be considered as final. The personal hearing in the matter was completed and hearing minutes are on record.

CONSIDERATION OF ISSUES AND FINDINGS

16. I have carefully perused the charges levelled against the Noticee, his reply and the documents / material available on record. The issues that arise for consideration in the present case are:

- (a) Whether the Noticee has violated provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003?
- (b) Does the violation, if any, attract monetary penalty under section 15HA of the SEBI Act, 1992?
- (c) 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, 1992?

17. Before proceeding further, I would like to refer to the relevant provisions of the PFUTP Regulations, 2003 as 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;

Issue No 1 : Whether the Noticee has violated provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1) & 4(2)(a) of PFUTP Regulations, 2003?

18. Before proceeding to the merits of the case, I shall deal with the contention of delay. I note that pursuant to a preliminary examination conducted in the Illiquid Stock Options matter, 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 option segment during the investigation period. 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 Vs SEBI*, the Hon'ble Securities Appellate Tribunal (SAT), vide its 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”.

A Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided one-time opportunity for settlement of proceedings in the Illiquid Stock Options matter. The said scheme was kept open from August 01, 2020 till December 31, 2020. Adjudication proceedings were initiated against those entities who had not availed of the opportunity of settlement.

Further, another settlement scheme was introduced pursuant to the order of Hon'ble SAT dated May 12, 2022. The details of SEBI settlement scheme is given at paragraph 8 above.

19. I further note that there are no timelines prescribed in the SEBI Act, 1992 for the purpose of identifying trades as non-genuine. In this regard, I feel it is pertinent to note that, in the matter of **SEBI Vs Bhavesh Pabari** (2019) SCC Online SC 294, the Hon'ble Supreme Court of India has, 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. As can be seen from the narration of facts in the foregoing paragraphs, pursuant to appointment of AO on November 12, 2021, SCN dated August 08, 2022 was issued to the Noticee. Upon closure of SEBI Settlement scheme, 2022 on January 21, 2023, and in compliance with principles of

natural justice, an opportunity of personal hearing was granted on March 17, 2023. Hence, there has been no delay as alleged by the Noticee.

21. I shall now proceed to deal with the transactions executed by the Noticee in the alleged non-genuine trades.

22. Noticee has submitted that his trades cannot be called as reversal trades as the time gap between his buy and sell trades ranged from 16-20 minutes to 1 hour 26 minutes, whereas reversal trades are executed within seconds. I note that allegation against the Noticee is that, while dealing in the stock option contracts at BSE during the IP, he had executed reversal trades which were allegedly non-genuine and the same had resulted in generation of artificial volume in stock option contracts at BSE. Reversal trades are considered to be those trades 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 alleged to be non-genuine trades as they are 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 are deceptive and manipulative. In view of the aforesaid, the Noticee's contention that the trades executed by him cannot be called reversal trades, is not tenable.

23. I note from the trade log of the Noticee that he had traded in four contracts in the stock options segment of BSE during the IP. It is observed that the Noticee had allegedly executed 9 non-genuine trades in 4 contracts. I further note that the above mentioned trades of the Noticee had resulted in the creation of artificial volume of 10,00,000 units in the said contracts. Summary of non-genuine trades of the Noticee is as follows:

S. N o.	Contract Name	Avg. Buy Rate (Rs)	Total Buy Volume (No. of units)	Avg. Sell Rate (Rs)	Total Sell Volume (No. of units)	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades in the Contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	IDBI15AUG 60.00PEW2	0.05	36000	2.1	36000	100	25	100	15
2	JAIA15FEB2 0.00PEW1	0.05	272000	1.96	272000	100	27.27	100	22.22
3	KARB15JUL 145.00PEW 1	0.05	112000	2.7	112000	100	10	100	19.79
4	UCOB15JUL 50.00PEW1	0.05	80000	2.6	80000	100	11.11	100	6.56

24. It is noted that the Noticee had allegedly executed non-genuine trades in said contracts, wherein the percentage of alleged non-genuine trades of the Noticee in stock options contracts to total trades in the contracts was in the range of 10% to 27.27% in the aforesaid contracts. Further, alleged artificial volume generated by Noticee in the contracts amounted to 100% of total volume generated by him in the contracts. It is also noted that alleged artificial volume generated by the Noticee contributed 6.56% to 22.22% of the total volume from the market in the said contracts.

25. The details of squaring up done by the Noticee in the contract 'IDBI15AUG60.00PEW2' are as given below :

Trade Date	Client Name	CP Client Name	Trade Time	Trade Rate (Rs.)	Traded Quantity	Buy/Sell by the Noticee
07/08/2015	CHETAN AGRO FOOD PVT LTD	RAAGHAV SARRAF	14:05:20	2.1	36000	Sell
07/08/2015	RAAGHAV SARRAF	CHETAN AGRO FOOD PVT LTD	14:33:43	0.05	36000	Buy

i. As can be seen from the table above, the trades executed by the Noticee in the contract were squared up within a short span of time, with the same counterparty. Noticee on August 07, 2015 at 14:05:20 hrs (Order time of Noticee: 14:03:15; and Counterparty Order time: 14:05:20) entered into a sell trade with counterparty viz. CHETAN AGRO FOOD PVT LTD for 36000 units at the rate of ₹ 2.10 per unit in the contract 'IDB15AUG60.00PEW2'. Thereafter, on the same day, Noticee entered into buy trade at 14:33:43 hrs (Order time of order placed by Noticee: 14:33:43; and Counterparty Order time: 14:33:34) for 36000 units at the rate of ₹ 0.05 per unit.

ii. These trades were entered into with the same counterparty in the same contract. It is noted that while dealing in the said contract during the IP, the Noticee executed reversal trades with same counterparty viz. CHETAN AGRO FOOD PVT LTD on the same day, with significant price difference. Thus, the Noticee, through his dealing in the contract viz. 'IDB15AUG60.00PEW2' during the I.P., executed non genuine trades which was 25% of the total trades from the market in the said contract during the I.P., and thereby, Noticee generated artificial volume of 72000 units which was 15% of the volume traded in the said contract from the market during the I.P.

26. I also note that the Noticee has done similar reversal trades in three other scrips, i.e. JAIA15FEB20.00PEW1, KARB15JUL145.00PEW1 and UCOB15JUL50.00PEW1

27. The Noticee submitted that BSE and SEBI have themselves permitted trading in illiquid options. The Noticee also submitted that his trades in stock options segment were executed on scrip which was permitted by the BSE to be traded in. It was further submitted that there was no alarm by BSE and SEBI at the time of execution of trades, and there was no impact on the prices of the underlying shares of the respective options in which the Noticee has traded. Hence, the trades cannot be considered to be non-genuine in nature. Firstly, I note that the non-genuineness of these transactions executed by the Noticee is evident from the fact that there was no commercial basis as to why, within a short span of time, the Noticee reversed the position with its counterparties with significant price difference. 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. Secondly, 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. 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.

28. Noticee also contended that the impugned trades did not induce other investors to trade in the said stock options contracts. I note that the Noticee executed reversal trades which defy market rationality when looked along with attending circumstances in toto. Therefore, Noticee's trades, irrespective of the quantum of such trades, were manipulative and intended to create misleading appearance of trading, so the contentions of Noticee

in this regard are liable to be rejected. I note that the impugned stock option contracts were illiquid, as stated in the SCN, and also that Noticee's trades in the contracts contributed in the range of 6.56% to 22.22% to the total market volume generated during the IP. Noticee's trades, irrespective of the quantum of such trades, contributed substantially to the volume generated in the contract.

29. Noticee also contended that the trades of the Noticee were too miniscule to generate any such misleading appearance because the impugned trades did not induce other investors to trade in the said stock options contracts. I note that the Noticee executed reversal trades which defy market rationality when looked along with attending circumstances in toto. Therefore, Noticee's trades, irrespective of the quantum of such trades, were manipulative and intended to create misleading appearance of trading, so the contentions of Noticee in this regard are liable to be rejected. I note that the impugned stock option contracts were illiquid, as stated in the SCN, and also that Noticee's trades in the contracts contributed 6.56% to 22.22% to the total market volume generated during the IP. Noticee's trades, irrespective of the quantum of such trades, contributed substantially to the volume generated in the contract.

30. Noticee has further contended that he had no knowledge of counterparty to the trades and that he did not engage in any collusion with the counterparty as alleged. In regard to the aforesaid contentions, 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 indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. This is the outcome of meeting of minds elsewhere and it was a deliberate attempt to deal in such a manner.

I note in matters dealing with violation of PFUTP Regulations, 2003, the reason as regards execution of non-genuine trades might not be immediately forthcoming. However, the correct test instead, is one of preponderance of probabilities. Here I would like to rely on the judgment of Hon'ble Supreme Court in SEBI v Kishore R Ajmera (AIR 2016 SC 1079) decided on February 23, 2016, 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..."*

31. The Hon'ble Supreme Court further held in the same matter 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.”

32. The observations made in the aforesaid judgments of Hon'ble Supreme Court apply with full force to the facts and circumstances of the present case. Therefore, applying the ratio of the above judgments, I am convinced 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 in prices of the same contract, within seconds/minutes was a clear indication that there was pre-determination in the prices by both the counterparty when executing the trades. 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 its counterparty to carry out the trades at pre-determined prices.

33. Further, I note the following from the judgement of the Hon'ble SAT in the matter of Ketan Parekh vs SEBI (supra):

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.

34. I also place my reliance on 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), in which the Hon'ble SC held 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....."*

35. Further, the Hon'ble SAT in its judgement dated September 14, 2020 in the matter of Global Earth Properties and Developers Pvt Ltd relied upon the Hon'ble Supreme Court judgement 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), and held that, *"It is not a mere coincidence that the Appellants could match the trades with the counter party with whom it had undertaken the first leg of respective trade. In our opinion, the trades were non-genuine trades and even though direct evidence is not available in the instant case but in the peculiar facts and circumstances of the present case there is an irresistible inference that can be drawn that there was meeting of minds between the Appellants and the counter parties, and collusion with a view to trade at a predetermined price."*

Therefore, the contentions of Noticee in this regard are without any merits.

36. Noticee has contended that the decision of investors was not affected because of reversal trades executed by him. I note that the impugned reversal trades, which were carried out with prior meeting of minds as

inferred from the case facts, affected the price discovery and execution of trades as per market mechanism on the stock options segment of BSE. In this regard, I further note the following from the judgement of the Hon'ble SC in the matter of SEBI vs Rakhi Trading Pvt Ltd (supra):

“.....According to SAT, only if there is market impact on account of sham transactions, could there be violation of the PFUTP Regulations. We find it extremely difficult to agree with the proposition. As already noted above, SAT has missed the crucial factors affecting the market integrity, which may be direct or indirect. 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.”

Therefore, I note that contentions of Noticee in this regard are without merits.

37. With respect to Noticee's contention that no penalty should be imposed on him for the reversal trades as in the case of Neha Sethi, it may be mentioned that facts of the present case are different from the facts of the case of Neha Sethi. Further, I find it relevant to refer to the case of AO Order of Radha Malani dated September 06, 2021, against which the appeal was filed and Hon'ble SAT vide Order dated November 24, 2021, has upheld the AO Order wherein penalty was imposed even for single reversal trade. Hence, the contention of the Noticee is not tenable.

38. Noticee has contended that the trades executed were subject to regulatory supervision of BSE, and were not questioned by the BSE at that time, so the impugned trades which were cleared were genuine. The Noticee has

also contended that he should not be penalized for the structural flaws on the part of the stock exchange. I note that stock exchanges merely provide a platform for carrying out the trades and the clearing corporation affiliated with exchange handles the confirmation, settlement and delivery of transactions, however, the obligation to ensure genuineness of trades as regards instant considerations lies squarely on the Noticee and the Noticee is bound to comply PFUTP Regulations, 2003. Thus, the contentions of the Noticee are not tenable.

39. Noticee has also contended that there was neither any mechanism to deter nor a note of caution by BSE about matching trades with same counterparty on the same day during the IP. I note that instant adjudication proceedings levy the impugned allegations against Noticee, and that absence of any preventive mechanism cannot be a ground to absolve Noticee from its obligation to ensure genuineness of trades executed on exchange platform.

40. 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 contracts. In view of the above, I find that the allegation of violation of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003 by the Noticee stands established.

Issue No 2: Does the violation, if any, attract monetary penalty under Section 15HA of the SEBI Act, 1992 ?

41. Considering the findings that the Noticee as mentioned above has executed non-genuine trades resulting in the creation of artificial volume, thereby violating the provisions of Regulation 3(a), (b), (c) & (d) & Regulation 4(1) and 4(2)(a) of the PFUTP Regulations, 2003 and in terms of the judgement of Hon'ble Supreme Court of India in the matter of SEBI Vs. Shri RAM

Mutual Fund[2006] 68 SCL 216(sc) decided on May 23, 2006 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...*” I am convinced that it is a fit case for imposition of monetary penalty under the provisions of Section 15 HA 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 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, 1992?

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

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.*

[Explanation.— For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.]

I observe, that the material available on record does not quantify any disproportionate gains or unfair advantage, if any, made by the Noticee and the losses, if any, suffered by the investors due to such violations on part of the said Noticee. However, the Noticee has entered into 9 non-genuine trades which demonstrates the violation of PFUTP Regulations, 2003.

ORDER

43. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in section 15J of the SEBI Act, 1992 and in exercise of power conferred upon me under section 15-I of the SEBI Act, 1992 read with rule 5 of the Adjudication Rules, 1995, I hereby impose following penalty under section 15HA of the SEBI Act, 1992 on the Noticee:

Name of the Noticee	Violation provisions	Penalty
Raaghav Sarraf PAN:FVCPS2102F	Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003	₹ 5,00,000/- (Rupees Five Lakhs only)

I am of the view that the said penalty is commensurate with the lapse/omission on the part of the Noticee.

44. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either through online payment facility available on the

website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT → Orders → Orders of AO → PAY NOW

45. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings 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.
46. In terms of the provisions of rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticee viz. Raaghav Sarraf and also to the Securities and Exchange Board of India.

Date: May 24, 2023

Place: Mumbai

BARNALI MUKHERJEE

ADJUDICATING OFFICER