BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO.: Order/SU/RP/2021-22/15359

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

In respect of:

M/s. Prerna Traders Private Limited

PAN: AABCP6086B

In the matter of dealings in Illiquid Stock Options at BSE

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") observed large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange (hereinafter referred to as "**BSE**") leading to the alleged creation of artificial volume in the stock options segment. In this regard, SEBI conducted an investigation into the trading activity in the illiquid Stock Options segment at the BSE for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as "**Investigation Period**").

2. It was observed during the course of investigation that a total of 2,91,643 trades comprising 81.38% of all the trades executed in the Stock Options Segment at the BSE during the investigation period were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract on the same day. It was observed that M/s. Prerna Traders Private Limited (hereinafter referred to as "**Noticee**") was one such client whose reversal trades involved squaring off open positions with a significant difference without any basis for such change

in the contract price. The aforesaid reversal trades allegedly resulted into generation of artificial volumes, leading to allegations that the Noticee had violated the provisions of regulations 3(a),(b),(c),(d) and regulations 4(1),4(2)(a) of the SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations, 2003**").

<u>APPOINTMENT OF ADJUDICATING OFFICER</u>

3. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act**") read with Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "**Adjudication Rules**") vide order dated April 30, 2021 to inquire into and adjudge under section 15HA of the SEBI Act against the Noticee for the alleged violation of the aforesaid provisions of PFUTP Regulations, 2003.

<u>SHOW CAUSE NOTICE, REPLY AND HEARING</u>

4. A Show Cause Notice bearing reference no. SEBI/HO/CFID/CFID_2/P/OW/ 2021/26880/1 dated October 04, 2021 (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 the Noticee and why penalty should not be imposed on the Noticee under Section 15HA of the SEBI Act for the violations alleged to have been committed by the Noticee.
5. The SCN issued to the Noticee, *inter alia*, mentioned / alleged the following:

"….

6. The Noticee was one of the entities, who indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in the Stock Options Segment of BSE, during the EP.

(f) A summary of dealings of the Noticee in 1 Stock Options contracts, in which the said Noticee allegedly executed reversal trades, during the EP, is as follows:

S. No.	***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 Entity 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	PFCL15MAR290.00PE	*9.5*	*1,15,000*	*0.4*	*1,15,000*	*100%*	*5.26%*	*100%*	*5.18%*

7. Following are the observation from the trades executed by the Noticee in the contract of PFCL15MAR290.00PE, during the EP:

(a) *The Noticee has executed 2 trades,* on 04/03/2015, for 1,15,000 units with the same counterparty i.e. BMN ALLOY STEELS P LTD*.*

(b) *It is observed that the Noticee placed a limit order of Rs.0.4/- per unit to sell 1,15,000 units at 13:42:04:05 hrs on March 04, 2015, just at the same time when limit order was entered by BMN ALLOY STEELS P LTD.to buy the same number of units at exactly the same price.*

(c) *Similarly, while reversing the trades on the same day within a gap of 05 seconds, it is also observed that the Noticee placed a limit order of Rs.6.4/- per* *unit to buy 1,15,000 units at 13:42:08:85 hrs on March 04, 2015, just at the same time the limit order entered by BMN ALLOY STEELS P LTD to sell the same number of units at exactly the same price.*

(d) It is observed that both the trades were executed on the same day which led to generation of alleged artificial volume of 2,30,000 units which made up 5.18 % of total market volume in the said contract, during this period. The trades entered by the Noticee were reversed on the same day with same counter-parties at a substantial price difference without any basis for significant change in the contract price, thus accumulating a profit of Rs. 6,90,000/-

9. In view of the foregoing, it is alleged that the Noticee, indulged in execution of reversal of trades in Stock Options segment of BSE with same counterparties on the same day. Such trades are non-genuine in nature and have created false and misleading appearance of trading in terms of artificial volumes in the stock options segment and therefore alleged to be manipulative and deceptive in nature. Thus, Noticee, has allegedly violated the provisions of Regulation 3 (a), (b), (c), (d), and 4(1), 4(2) (a) of the PFUTP Regulations, 2003.
….'

6. The SCN was served on the Noticee via Registered Post Acknowledgement Due ("RPAD"). Thereafter, the Noticee, vide letter dated November 02, 2021 acknowledged the receipt of SCN and submitted its reply.

7. In the interest of natural justice and in terms of the Adjudication Rules, the Noticee was provided with an opportunity of personal hearing in the matter on January 05, 2022, through the online Webex platform. Mr. Ravi Ramaiya, Chartered Accountant, appeared as the Authorised Representative ("**AR**") on behalf of the Noticee on the stipulated date of hearing. During the course of the hearing, the AR reiterated the submissions made by the Noticee in its reply dated November 02, 2021.

8. The key replies/ submissions of the Noticee are summarized as follows :

a. The Noticee submitted that the trades executed by the Noticee in the stock options segment of the BSE Ltd. are genuine and were executed on the platform provided by the stock exchange. The Noticee was also subjected to various charges and taxes on the transactions inter alia including Exchange Turnover Charges, Service Tax, STT, SEBI Turnover Fee, Stamp Duty etc. All these transactions have been perfectly recorded in the regular books of accounts, records and Income Tax Returns. It is untenable to suddenly label these transactions as artificial and non-genuine after a period of 6 to 7 years from the date of the transactions on completely untenable grounds and unjustified reasons.

b. The Noticee submitted that the alleged trades are wrongly categorised as non-genuine, for the reasons recorded hereunder:

- The word "non-genuine" is not defined in PFUTP Regulations or any of the Acts / Regulations of SEBI. This leaves us to rely on dictionary meaning of the word to test whether the alleged trades fall under the categories of artificial volume through non-genuine trades.

- The term "non-genuine" is opposite of "genuine" which is defined as "really coming from its reputed source etc; not sham; properly so called; pure bred."

- The alleged trades have all traits of being genuine and therefore cannot be categorised as non-genuine. These trades were executed on the anonymous platform of the Exchange, without any knowledge of counter party, at price ranges that were permitted by the Exchange and SEBI and the obligations arising out of it have been settled through the clearing mechanism of the Exchange.

- Since the trades do not fall under the definition of non-genuine transactions, they cannot be categorised to be creating artificial volume and effectively cannot be said to be creating false and misleading appearance of trading or cannot be categorised as manipulative or deceptive trades.

- If the intention was 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, which is a one off case of 1 buy order and 2 sell orders.

- The Noticee understood that it's a very risky segment and therefore has not traded ever again on BSE Stock Options Segment. Further as aforesaid the Noticee is no way related or connected to the counter party and therefore can have never executed non-genuine transitions that have financial impact with such an unknown party.

- Without even having indicated any purpose for carrying out non-genuine trades, there is no reason to categorise them as non-genuine, artificial, or creating false and misleading appearance of trading as wrongly alleged in the SCN.

c. The notice submitted that the volume in stock options was 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 kind of artificial volume. The Noticee had traded in the stock options segment of the BSE Ltd. only once and because of these trades executed, the captioned SCN has been issued to the Noticee.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 carry out any manipulative transactions 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. The notice submitted that the transactions were in the nature of reversal trades was not known to the Noticee before being informed by SEBI.

d. The Noticee submitted that the price difference of options should be based on notional value 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.

e. The Noticee further submitted that in terms of Clause 1.2 and 1.3 of Risk Disclosure Document(RDD) dealing with risk of low liquidity and risk of wider spread, SEBI was aware of the possible (significant as per SCN but not actually significant) price difference and losses / profits due to lower liquidity and wider spreads.

f. The notice submitted that without the theory of collusion or meeting of minds between the two parties being established, the allegations in the SCN do not hold good. Further there is no reason for unknown people to deliberately allow profits or losses to one another without being related and the SCN failed to highlight any relationship between buyers and sellers.

g. The Noticee submitted that there is no charge of price manipulation in the SCN and without manipulating price of a security or contract no person can gain anything from artificial trades.

h. In this regard the Noticee has placed reliance on various decisions of the Hon'ble Securities Appellate Tribunal:

- In Jagruti Securities vs SEBI. [2008 SCC Online SAT 184 : 2008 SAT 184]
- S.P.J. Stock Brokers Pvt. Ltd. vs Securities and Exchange Board of India [2013 SCC Online SAT 67: [2013] SAT 17]
- In HB Stockholdings Limited vs SEBI [2013 SCC OnLine SAT 56 : [2013] SAT 44]
- R.K. Global vs. SEBI (Appeal No. 158 of 2008, Date of decision 16th September, 2010)

i. The Noticee submitted that there is nothing on record to substantiate that the Noticee knowingly misrepresented the truth or concealed material fact, suggested a fact that the Noticee believed is untrue, concealed any fact required to be disclosed. Further the Noticee never made any promise or representation, and has not omitted any obligation under other law. Even further the Noticee's behaviour was no way deceptive, nor has the Noticee made any false statement. Lastly the Noticee has not issued any securities and the question of giving misinformation in relation thereto does not arise. As none of the Noticee's acts fall under the definition of 'fraud' as provided under Regulation 2(1)(c), the Noticee cannot be charged of having violated PFUTP Regulations.

j. The Noticee submitted that without prejudice to the aforesaid, if at all it is held that the Noticee violated the aforesaid PFUTP Regulations, then in that case it is submitted that no penalty should be imposed on the Noticee taking into consideration the mitigating circumstances and factors under Section 15 J of the SEBI Act.
   - The Noticee was under the belief that since the transactions executed were under the stock exchange mechanism and were therefore genuine;
   - No illegal gain has been made by the Noticee while trading in the stock options segment;

- No loss has been caused to any investor or group of investor as a result of the Noticee's trading nor the same has been alleged against the Noticee in the SCN;
- This is the first time, SEBI has taken any kind of action against the Noticee.

k. The Noticee submitted that in the present matter, it has been alleged that Noticee executed only one reversal transaction comprising of one buy and two sell orders in 1 unique contract which created an artificial volume of 28,000 units. Comparing the same with the other orders of Illiquid Options passed by SEBI and various orders cited above, it is submitted that a lesser penalty like warning etc. may at most be imposed taking into consideration the mitigating factors and circumstances as mentioned above. In this regard, Noticee has relied upon following judgements to substantiate his point regarding imposing penalty lesser than the minimum prescribed penalty **:**
    - AO Order dated 29th March, 2019, in the matter of Sangam Advisors Ltd
    - AO Order dated 26th February, 2021 in the matter of Octant Interactive Technologies Limited
    - [SEBI v. Roofit Industries Ltd., (2016) 12 SCC 125]
    - [Siddharth Chaturvedi v. SEBI, (2016) 12 SCC 119]

<u>CONSIDERATION OF ISSUES AND FINDINGS</u>

9. I have taken into consideration the facts and circumstances of the case, the material /documents made available on record and the submissions of the Noticee. The issues that arise for consideration in the instant case are:

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

    b. Issue No. II: If yes, whether the violation, on the part of the Noticee would attract monetary penalty under section 15HA of the SEBI Act?

c. Issue No. III: If the answer to Issue No. II is in affirmative, what would be the monetary penalty that can be imposed upon the Noticee?

10. Before advancing into the merits of the case, I would like to deal with the issue pertaining to the delay, as alleged by the Noticee, in the issuance of the SCN.

11. I note that there is no provision under SEBI Act which prescribes a time limit for taking cognizance of a breach of the provision of SEBI Act and Rules and Regulations made thereunder. Further, as per Section 11C of SEBI Act, SEBI can initiate investigation at any point of time, for any period of alleged violation or any period of alleged transactions. I also note that the investigations relating to the PFUTP Regulations, 2003 are complex (considering the volume of transactions, connections and examination of trading of shares, etc.) and time consuming. 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, observed as follows:

"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."

12. I note that, in the instant matter, SEBI has investigated large scale reversal of trades in stock options which were entered into by large number of entities. As far as Noticee's transactions are concerned, the SCN provides adequate details of her trades. Further, I note that the Hon'ble SAT in the matter of *Pooja Vinay Jain vs SEBI (Appeal No. 152 of 2019, Date of Decision – 17.03.2020)* held the following:

> *"12. The decision would show that the power to initiate the proceedings must be exercised by the authorities within a reasonable time. This would depend*

upon the facts and circumstances of the case, nature of the default / statute and prejudice caused to the Noticee.

13. In the present case, the appellant neither put a plea of prejudice before the AO nor before us. It was simply stated that since the proceedings were launched by respondent SEBI after a period seven years, the same should be quashed on the ground of delay. The record would show that all the documents concerning the defense of the appellant were filed by her before the AO. Therefore, for want of any prejudice the proceedings cannot be quashed simply on the ground of delay in launching the same. Further, as explained by the learned counsel for the respondent as recorded in paragraph No. 6.4 above, large numbers of entities and transactions were analyzed by SEBI which took some time. In the result, the following order:-

ORDER

14. The appeal is hereby dismissed without any order as to costs."

13. I find that the aforementioned decision of the Hon'ble Tribunal is squarely applicable to the instant case. Accordingly, I don't find any merit in the plea of the Noticee that it is untenable to suddenly label these transactions as artificial and non-genuine after a period of 6-7 years from the date of the transaction on completely untenable grounds and unjustified reasons.

14. I also note that the Hon'ble SAT in the matter of Bipin R Vora vs SEBI held that, *"As regards the plea of delay and latches and submission that the show cause notice is barred by limitation, I do not find any merit in these contentions as the time and efforts involved in an investigation though may vary from case to case, generally investigations per-se is a time consuming process which invariably involve collection, scrutiny and careful examination of voluminous records/ order-trade details of all the concerned including the exchanges/recording of statements etc. and therefore no time limit can be fixed*

in this regard to enable a regulator to take appropriate disciplinary action for the safeguard and improvement of the system/market".

15. In view of the aforesaid and considering the facts of the aforesaid matter, I do not find any merit in the contentions of the Noticee.

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

16. Before moving forward, it is pertinent to refer to the relevant provision of the PFUTP Regulations which are alleged to have been violated. The said provisions are reproduced hereunder

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 6[manipulative] 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;

17. I note that the allegation against the Noticee is that, while dealing in the stock option contracts at BSE during the Investigation Period, the Noticee had executed reversal trades which were allegedly non-genuine trades and the same had resulted in generation of artificial volume in stock options contracts at BSE.

18. I note that reversal trades have been considered as 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 non-genuine trades as they are not executed in normal course of trading, lacks basic trading rationale, and lead to false or misleading appearance of trading in terms of generation of artificial volume, hence are deceptive and manipulative. Artificial volume is considered to be the volume (no. of units) reversed in both legs of said reversal trades while keeping out the volume, if any, which is not reversed.

19. I note from the trade log of the Noticee that the Noticee had traded in 1 unique contract in stock options segment of BSE during the Investigation Period. It is observed that the Noticee had executed 2 non-genuine trades in 1 contract. I further note that the above mentioned trades of the Noticee had resulted in the creation of artificial volume of a total of 2,30,000 units in the said 1 contract. The summary of the non-genuine trades of the Noticee are as follows:

Details	**Original Trade 1**	**Original Trade 2**
Scrip Name	PFCL15MAR290.00PE	PFCL15MAR290.00PE
QTY	115000	115000
Pan No	AACCB2058A	AABCP6086B
Client Name	BMN ALLOY STEELS P LTD	PRERNA TRADERS PVT LTD
Counter party Pan No	AABCP6086B	AACCB2058A
Counter party client name	PRERNA TRADERS PVT LTD	BMN ALLOY STEELS P LTD
Order last modified rate	0.4	6.4
Counter party order last modified rate	0.4	6.4
Last modified order time	13:42:04.05	13:42:08.85
Counter party last modified order time	13:42:04.05	13:42:08.95
Trade Time	13:42:04.05	13:42:08.95
Trade Rate	0.4	6.4
Trade Value	46,000	7,36,000

20. It is noted that the Noticee had executed non-genuine trades in 1 contract, wherein the percentage of non-genuine trades of the Noticee to the total trades in the contract was 5.26 %. Further, the artificial volume generated by the Noticee in the contract amounted to a substantial 100% of total volume generated by her in the contract. It is also noted that artificial volume generated by the Noticee contributed 5.18 % to the total volume from the market in the said contract. The non-genuine trades executed by the Noticee in the above contract had significant difference between buy and sell rates considering that the trades were reversed on the same day.

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

i. I note from table at para 19 above that while dealing in the contract of PFCL15MAR290.00PE on March 04, 2015, the Noticee engaged in reversal trade (1 on buy side and 1 on sell side), which led to generation of alleged artificial volume of 2,30,000 units (buy side + sell side). These trades of the Noticee involved reversal with the same counterparty within a short time-span.

ii. Noticee placed a limit order of of Rs.0.4/- per unit to sell 1,15,000 units at 13:42:04:05 hrs on March 04, 2015, just at the same time when limit order was entered by BMN ALLOY STEELS P LTD. to buy the same number of units at exactly the same price.

iii. Similarly, while reversing the trades on the same day within a gap of 05 seconds, it is also observed that the Noticee placed a limit order of Rs.6.4/- per unit to buy 1,15,000 units at 13:42:08:85 hrs on March 04, 2015, just at less than a second than the limit order entered by BMN ALLOY STEELS P LTD to sell the same number of units at exactly the same price.

iv. I note that both the trades were executed on the same day which led to generation of alleged artificial volume of 2,30,000 units which made up 5.18% of total market volume in the said contract, during this period. The trades entered by the Noticee were reversed on the same day with same counter-parties at a substantial price difference without any basis for significant change in the contract price thereby accumulating a profit of Rs 6,90,000/-.

22. 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 (viz. approx. 05 seconds), the Noticee reversed the position with the same

counterparty client with a significant price difference. Such a short span of time taken for reversing the trades in an illiquid stock option contract suggests the non genuineness of these trades executed by the Noticee. The fact that the orders of the Noticee and her counterparty matched with such precision (considering that there was a perfect match of price and quantity as well as a short time difference between placing of the orders by the Noticee and counterparty) indicates a prior meeting of minds with a view to execute the reversal trades at a predetermined price. Since these trades were done in illiquid option contracts, there was very little trading in the said contract and hence, there was no price discovery in the strictest terms. The wide variation in prices of the said contracts, within a short span of time, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. Therefore, it is observed that the Noticee had indulged in reversal trades with her counterparty in the stock options segment of BSE and the same were non-genuine trades.

23. The buying of illiquid stock options by the Noticee and subsequent reversal trade with the same counterparty for the same quantity, within a short span of time with a significant difference in buy and sell value of stock options, where order time, order price and order quantity were matched by both the parties for both legs of the reversal trade, in itself, exhibits abnormal market behaviour and defies economic rationality. I note from the above trading pattern of the Noticee that she has deliberately made blatant misuse of trading platform for creating artificial volume in the illiquid stock options.

24. The Noticee has also submitted that its trades are genuine as the Risk Disclosure Document (RDD) issued by SEBI also envisages the possibility of significant price difference and losses / profits due to lower liquidity and wider spreads. In this context, I note that RDD is a document in the nature of general advisory to investors dealing in derivatives markets considering that derivatives products are complex, risky and high leverage products. Such a document in any case does not either implicitly or explicitly permit deliberate structuring of manipulative trades

which lack economic rationale and run contrary to the dynamics of price discovery in option trading. Therefore, the said contention of the Noticee is devoid of any merit.

25. The Noticee has also contended that all transactions have been carried out on the platform provided by BSE and have been settled through the clearing corporation by way of movement of funds. The Noticee was also subjected to various charges and taxes on the transactions inter alia including Exchange Turnover Charges, Service Tax, STT, SEBI Turnover Fee, Stamp Duty etc. All these transactions have been perfectly recorded in the regular books of accounts, records and Income Tax Returns.

26. In this regard I note that while the trading happened through the trading platform of BSE, however, considering the precision at which the reversal transactions had taken place within short time-span, the matching of price (with significant variation), time and quantity, I am of the view that it will be too naïve to hold that just because these transactions were executed through exchange trading platform, such trades were genuine. Such conclusion would be over-looking the prior meeting of minds involving synchronization of buy and sell order w.r.t. the transactions entered into by the Noticee with its counterparty and such reversal trading is clearly violative of the transparent norms of trading in the securities market. In view of the above observations, I hold that the said transactions executed by the Noticee in the said Stock Option contract were non-genuine trades, in which positions were reversed within short span of time with prior meeting of mind between the parties to the trade.

27. Noticee has contended that she neither knows the counterparty nor had any relationship, financial or otherwise, with the said counter party. Further, Noticee also argued that she had no meeting of mind or collusion with the other party. In this regard, I note that as far as the allegation against the Noticee is concerned, it’s her reversal trade with specific counterparty which have been found to be non-genuine based on the precision at which the such reversal transactions had taken

place, the huge price differential at which the orders were placed by both the parties to the trade, I note that it is not a mere coincidence that Noticee could match her trades (with the corresponding price and quantity entered by both the Noticee and counterparty being equal) with the same counterparty with whom she had undertaken first legs of the respective trades. It indicates meeting of minds. In this context, I would like to rely on the judgment of the Hon'ble Supreme Court of India in SEBI Vs 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..."*

28. The Hon'ble Supreme Court of India 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."*

29. In the instant matter, I note that though direct evidence regarding meeting of minds or collusion of the Noticee with the counterparty is not forthcoming, the trading

behavior of the Noticee, as detailed earlier, makes it clear that the aforesaid non-genuine trades could not have been possible without meeting of minds at some level. In this context, I find it pertinent to refer to the Hon'ble SAT Order dated July 14, 2006 in the matter of Ketan Parekh Vs SEBI (Appeal No. 2 of 2004), wherein the Hon'ble SAT has held that *"…The nature of transactions executed, the frequency with which such transactions are undertaken, the value of the transactions, the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is from the cumulative effect of these that an inference will have to be drawn."*

30. In the matter of SEBI Vs Rakhi Trading Pvt Ltd (Civil Appeal no, 1969 of 2011, 3174-3177 of 2011 and 3180 of 2011, decided on February 08, 2018), the Hon'ble Supreme Court of India 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...."*

31. In line with the above judgements of Hon'ble SAT and Hon'ble Supreme Court, I note from the foregoing findings that the trading pattern of the Noticee in terms of reversal of trades, proximity of buy/sell and subsequent reversal evidences the indulgence of the Noticee beyond a reasonable doubt of the manipulative intent in creation of artificial volume through non-genuine trades.

32. In this regard, I would also like to rely on the judgement of Hon'ble Supreme Court in the matter of SEBI vs Rakhi Trading Private Ltd. (*supra)*, wherein the Apex Court held that:

"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.

33. Additionally, the Hon'ble SAT in its judgment dated September 14, 2020 in the matter of Global Earth Properties and Developers Pvt Ltd Vs SEBI (Appeal No. 212 of 2020) relied upon the aforesaid judgment of the Hon'ble Supreme Court and held that *"…It is not a mere coincidence that the Appellants could match the trades with the counter party with whom he 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.*

34. The observations made in the aforesaid judgments apply 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, quantity and price and also the fact that the transactions were reversed within few seconds clearly indicates a prior meeting of mind with a view to execute the reversal trade at a pre-determined price. Such trading also involves an act amounting to manipulation of the price of the security in the sense that the price has been artificially and apparently prefixed. It is also a transaction without any intention of

performing it and without any intention of effecting a change of ownership of such securities, ownership being understood in the limited sense of the rights in the contract. By synchronization and reversal trades, as has been carried out by the Noticee in the instant case, the price discovery system has been affected. Except the parties who have pre-fixed the price, nobody is in the position to participate in the trade. Therefore, it has an adverse impact on the fairness, integrity and transparency of the stock market.

35. The Noticee has also contended that as none of the Noticee's acts fall under the definition of 'fraud' as provided under Regulation 2(1)(c), the Noticee cannot be charged of having violated PFUTP Regulations. In this regard, I note that, in totality of the circumstances, as observed above, it is not acceptable that the Noticee has not employed any manipulative and deceptive device in contravention of the SEBI Act or the rules and the regulations made there under. Further, the non-genuine and deceptive trades as found in this case are covered under the definition of 'fraud' and dealing of Noticee were 'fraudulent' as defined under Regulation 2(1)(c) of the PFUTP Regulations. The investigation has shown amount of profit / loss of the counterparties to the trades as a result of such non-genuine trades. The violation by the Noticee is creation of artificial trading volumes by trading between two counterparties and wider market is not involved in the trades, the trades are such that one of the counterparty books a profit while the other counterparty books a loss. Hence, it would be appropriate to consider the impact of these transactions between the counterparties in totality. When the impact of artificial volumes created by the two counterparties is seen as a whole, the making of loss or profit or causing investor grievance etc., is immaterial as the charge in this case is of creating false or misleading appearance of trading in the aforementioned contract. In view of the same, I find no merit in such contentions of the Noticee.

36. The trading behavior of the Noticee which confirms that the trades executed by the Noticee were not normal, the 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 aforesaid, 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. II: If yes, whether the violation, on the part of the Noticee would attract monetary penalty under section 15HA of the SEBI Act?

AND

Issue No. III: If the answer to Issue No. II is in affirmative, what would be the monetary penalty that can be imposed upon the Noticee?

37. I find it appropriate to deal with Issue No. II and III together in the following paragraphs. Since violation of regulations 3(a), (b), (c), (d), 4(1) and 4(2) (a) of the PFUTP Regulations by the Noticee is established, I am of the view that the same warrants imposition of monetary penalty upon the Noticee under Section 15HA of the SEBI Act, text of which is produced 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.*

38. Further, while determining the quantum of penalty under section 15 HA of the SEBI Act, it is pertinent to consider the relevant factors stipulated in section 15J of the SEBI Act, which reads as under :

Factors to be taken into account while adjudging quantum of penalty

15J. *While adjudging quantum of penalty under 15-I, 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 of an adjudicating officer 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.

39. 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. However, 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. Generally, there is nil or negligible participation of the public in the trading in illiquid stock option contracts. 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. In this regard, it is pertinent to refer to the decision of the Apex Court in the matter of SEBI vs Shri Ram Mutual Fund (Appeal Civil 9523-

9524 of 2003) dated May 23, 2006, wherein it 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."*

40. In the view of the above, I note that, in the present matter, the facts of the case clearly establish the violation committed by the Noticee and I consider it necessary to impose monetary penalty which would act as deterrent to the Noticee in future. I further note that the AR of the Noticee has requested for imposing lesser penalty, considering the fact that the Noticee had executed only 1 reversal transaction comprising of one buy and two sell orders in 1 unique contract which created an artificial volume of 2,30,000 units.

ORDER

41. After taking into consideration all the facts and circumstances of the case, the material / documents made available on record including the submissions of the Noticee, the factors mentioned in section 15J of the SEBI Act and in exercise of the power conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Adjudication Rules, I hereby impose a penalty of ₹5,00,000/- (Rupees Five Lakh only) on the Noticee, viz. M/s. Prerna Traders Private Limited, under section 15HA of the SEBI Act for the violation of regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFTUP Regulations, 2003. I am of the view that the said penalty is commensurate with the lapse / omission committed by the Noticee.

42. The Noticee shall remit / pay the said amount of penalty within 45 (forty five) days of the receipt of this order either by way of Demand Draft ("**DD**") in favour of "SEBI -Penalties Remittable to Government of India", payable at Mumbai or through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in, i.e.

ENFORCEMENT → Orders → Orders of AO → PAY NOW.

43. The Noticee shall forward the aforesaid DD / payment confirmation details to the Division Chief, Enforcement Department -I (EFD), Division of Regulatory Action -I [EFD1-DRA-1] SEBI Bhavan, Plot No.C4-A,‘ G’ Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai –400 051 and also send an email to tad@sebi.gov.in with the following detail:

1.	Case Name	
2.	Name of the ‘Payer / Noticee’ along with PAN of Noticee	
3.	Date of Payment	
4.	Amount Paid	
5.	Transaction No.	
6.	Bank Name and Account No.	
7.	Purpose of payment	

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

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

DATE: March 14, 2022 **SAREENA P U**

PLACE: MUMBAI **ADJUDICATING OFFICER**