

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO: Order/SBM/AK/2021-22/15702)

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:

Mr. Amit Jalan
PAN No. ACPVJ0303J
7, Dutta Para Lane,
Kolkata (Pin - 700006)

In the matter of
Dealing in illiquid stock options at BSE

FACTS OF THE CASE

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 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 by various persons/entities at 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 also observed that the aforesaid trades resulted into alleged creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in the Stock Options segment of BSE during the investigation period. In view of the large scale reversal of trades that were observed in the illiquid Stock Options segment at BSE, it is alleged that these trades were non-genuine in nature.
3. It was observed that Mr. Amit Jalan (hereinafter referred to as '**Noticee**') was one of the various persons who had indulged in the execution of the non-genuine trades in the Stock Options Segment at BSE during the above referred investigation period. It was observed that Noticee had entered into reversal trades with his counterparties which involved squaring off transactions with

significant difference in sell value and buy value of the transactions. It was therefore alleged that Noticee had executed the reversal trades, which were non-genuine in nature and have created false or misleading appearance of trading in terms of creation of artificial volume in the Stock Options segment at BSE and therefore, it is alleged that the Noticee has violated the provisions of regulations 3(a), (b), (c), (d) and regulation 4(1), 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as '**PFUTP Regulations**'). In view of the above reasons, adjudication proceedings have been initiated against the Noticee under the provisions of section 15 HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**').

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer (hereinafter referred to as '**AO**'), vide *communique* dated July 27, 2021 under section 19 read with section 15-I of the SEBI Act read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**') to inquire into and adjudge under the provisions of section 15HA of the SEBI Act the aforementioned alleged violation of the provisions of law by the Noticee.

SHOW CAUSE NOTICE, HEARING AND REPLY

5. Show Cause Notice ref. SEBI/HO/EAD1/SBM/AK/25766/2021 dated September 27, 2021 (hereinafter referred to as '**SCN**') was issued to the Noticee in terms of rule 4 of the Adjudication Rules requiring the Noticee to show cause as to why an inquiry should not be held against the Noticee and why penalty, if any, should not be imposed on him under the provisions of section 15HA of the SEBI Act. The SCN issued to the Noticee, *inter alia*, mentioned/alleged the following-
 - a. *It is noted that the alleged non-genuine trades were not restricted to any specific contract or between any specific set of entities. It is also noted that Noticee was one of the various persons/entities which indulged in execution of such alleged non-genuine trades in Stock Options Segment of BSE during the Investigation period. Following points deal with the dealings of Noticee during the Investigation period and allegations against his execution of non-genuine trades.*
 - b. *For the purpose of illustration of non-genuine trades and creation of artificial volume by the Noticee, details of trading done by the Noticee in the contract viz. "CESC15APR560.00PE" on March 25, 2015 is given below:*

Date	Buyer	Seller	Buy Order Time	Sell Order Time	Trade Time	Trade Rate (Rs.)	Trade Quantity
25/03/2015	KALI FABRICS PVT LTD	AMIT JALAN	12:53:11	12:53:11	12:53:11	8	50,000
25/03/2015	AMIT JALAN	KALI FABRICS PVT LTD	12:53:07	12:53:07	12:53:07	4	50,000

- c. It is observed from the table above that the trades entered by the Noticee in the contract of “CESC15APR560.00PE” on March 25, 2015 with his counterparty viz. Kali Fabrics Pvt Ltd were reversed between the Noticee and the same counterparty on the same day resulting in reversal of trades which are, prima facie, considered to be as non-genuine. Therefore, in the process artificial volume in the stock option contract at BSE has been generated by the Noticee through such non-genuine trades. From the table above, it is observed that the artificial volume created as no. of units reversed in non-genuine trades is 1,00,000 shares comprising both volume of initial trade and volume of reversal trade, while not considering the volume which is not reversed. In the process, it is observed that the Noticee had made a profit of Rs. 2,00,000.
- d. It is further observed from the trade data of the Noticee that he has allegedly entered into non-genuine trades in 2 contracts wherein he executed a total of 4 trades all of which were, prima facie, non-genuine trades. In view of this, it is alleged that such fraudulent trades of the Noticee had resulted into creation of artificial volume of total 2,52,000 units.
- e. From the perusal of the trade data of the alleged non-genuine trades of the Noticee, it is observed that Noticee has allegedly executed non-genuine trades in 2 contracts. The total volume of 2,52,000 units generated by the Noticee in these 2 contracts, due to his alleged non-genuine trades artificial volume was generated by the Noticee in the stock option segment of BSE. These alleged non-genuine trades, executed by Noticee in above contracts, had significant differential in buy rates and sell rates considering that the trades were reversed on same day.
- f. In view of the foregoing, it is alleged that the Noticee, by indulging in execution of reversal trades in Stock Options with same entities on the same day, which were non-genuine in nature, has created false or misleading appearance of trading in the aforementioned contracts traded in the option segment of BSE. In view of the fact that these options contracts were illiquid in nature, having very small volume in trading, the Noticee allegedly created artificial volumes in stock options which was manipulative and deceptive in nature. Therefore, in view of above, it is alleged that the Noticee has violated Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003.

6. The Noticee, vide his reply dated March 16, 2021 *inter alia*, submitted the following:

- a. *The Noticee submitted that, the following was not provided to the Noticee: (i) the Investigation report, relied upon by SEBI (ii) No Cross Examination of Counterparties is provided. (iii) Any other Investigation Report or incriminating reports or materials. In this regard, reliance was placed inter alia on following decisions:*
 - i. *T. Takano Vs. SEBI & Anr. (Hon'ble Supreme Court in Civil Appeal No. 487-488 of 2022)*
 - ii. *Nirmala Didwania Vs. SEBI and Anr. (Hon'ble Guwahati High Court in WP(C)/767/2022)*
- b. *The Noticee has contended that there was delay in initiation of proceedings. In this regard, reliance was placed inter alia on the following decision:*
 - i. *Ashlesh Gunavantbhai Shah Vs. SEBI and ors. (Hon'ble SAT Appeal No. 169, 171, 172, 231 of 2019)*
- c. *The trades executed were on the floor of the exchange. No warning or caution were given by BSE or existing system. The observation that Noticee had dealt in illiquid stocks is absolutely incorrect. Trades were done in normal course of business. None of the trades are deceptive in nature nor do they have any impact on the investors or their investment decisions, which are a 'sine qua non' for a transaction to be rendered as 'fraudulent'. No inducement and No charge of price manipulation and the trades did not cause loss to investors.*
- d. *There is no nexus between counterparties, brokers or their clients. The SCN does not provide evidence as to how the trades were illegal/non genuine and that Noticee was related or connected to the counterparties. In this regard, reliance was placed inter alia on the following decisions:*
 - i. *Jagruti Securities vs. SEBI 2008 SCC Online SAT 184*
 - ii. *S.P.J Stockbroker Pvt Ltd (2013 SCC Online SAT 67)*
 - iii. *Sanjay Agarwal Vs SEBI (Hon'ble Appeal No. 213 of 2011)*
- e. *SEBI itself has not discharged its obligation of quick investigation.*
- f. *No penalty was levied by the Adjudicating officer in a similar case of Ms. Neha Sethi (AO Order No. Order/PB/2021-22/14749 dated 20.01.2022)*
- g. *No role attributed to the Noticee in the SCN. In this regard, reliance was placed inter alia on the following decisions*
 - i. *Central Excise Vs M/s Bridavan Beverages (P) Ltd and Ors (Hon'ble Supreme Court, 2007 (6) TMI 4)*
- h. *Noticee further submitted that without prejudice to the submissions on merits, penalty under Section 15 HA can be waived or reduced keeping in view the circumstances prescribed under Section 15 J, reliance was placed inter alia on the following decision:*

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 March 22, 2022, through the online webex platform. Mr. Ankit Daga appeared as the Authorized Representatives ('AR') on behalf of the Noticee on the stipulated date of hearing. During the course of hearing, the AR reiterated the submissions made by the Noticee in his reply dated March 16, 2022.

CONSIDERATION OF ISSUES AND FINDINGS

8. I have taken into consideration the facts and circumstances of the case, the material available on record and the replies submitted by the Noticee. It is alleged that the Noticee had executed reversal trades, which were non-genuine trades and the same has resulted in the generation of artificial volume in the Stock Option contracts at BSE. In view of the same, it is alleged that Noticee has violated the provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1), 4(2)(a) of PFUTP Regulations and, therefore, it is alleged that Noticee is liable for penalty under the provisions of section 15HA of the SEBI Act.
9. The Noticee has contended that he was denied opportunity to cross-examine his counterparties. In this context, the Noticee was informed vide letter/email dated March 21, 2022 that, the SCN dated September 27, 2021 and the allegations levelled in the said SCN were on the basis of the documents /records that were enclosed along with the said SCN, which were duly served upon the Noticee. Further, the Noticee was informed that, the present Adjudication proceeding has only relied upon the documents/records, which were enclosed as annexures to the SCN and no statement of third parties/persons have been relied upon in the said proceeding. Thus, the contention of the Noticee seeking cross-examination of the counterparties, is without any merit.
10. The Noticee has contended that he has not been provided with the investigation report etc. In this context, the Noticee was provided the relevant extracts of the Investigation report vide letter/email dated March 21, 2022, in line with the judgement of Hon'ble Supreme Court in the matter of *T. Takano Vs. SEBI & Anr.* In this regard, I note that all the relied upon records/documents based on which the charges/allegations were levelled against the Noticee in the SCN were already furnished to the Noticee along with the SCN. The same was also conveyed to the Noticee vide letter/email dated March 21, 2022. Therefore, in view of the above, the contention of the Noticee that he was not provided with the relevant records/documents pertaining to the matter is baseless and without any merit.

11. The Noticee has also contended that, there was inordinate delay in the issuance of SCN in the current proceedings. With regard to the argument of the Noticee regarding inordinate delay in the issuance of SCN and completion of proceedings, I find that the fact of delay in completion of investigation and / or initiation or completion of enforcement proceedings, in itself, cannot be a ground for dropping the proceedings. Only in cases where a Noticee is adversely affected, can such a submission be considered. In this context, I find it relevant to refer to the order passed by Hon'ble SAT in the case of *Metex Marketing Pvt. Ltd. vs. SEBI* (order dated June 4, 2019) wherein Hon'ble SAT held that: *"This Tribunal has consistently held that in the absence of any specific provision in the SEBI Act or in the Takeover Regulations, the fact that there was a delay on the part of SEBI in initiating proceedings for violation of any provision of the Act cannot be a ground to quash the penalty imposed for such violation"*. In this regard, I find that, PFUTUP Regulations also does not have any specific provisions w.r.t., timeline /limitation etc., and therefore, a parallel can be drawn and the fact of delay in completion of investigation and initiation or completion of enforcement proceedings, in itself, cannot be a ground for dropping the proceedings.

12. In the context of delay in initiating the proceeding, Hon'ble SAT in *Mr. Rakesh Kathotia & Ors. vs SEBI* vide order dated May 27, 2019 has held the following:

"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 (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.

13. Further, in the context of delay in initiating the proceeding, pursuant to a preliminary examination conducted by SEBI 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, and appropriate action was initiated against the said 14, 720 entities in a phased manner.

14. 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”.
15. In view of the above, a Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided a one-time opportunity to the entities, for settlement of the 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.
16. As can be seen from the narration of facts in the foregoing paragraphs, pursuant to appointment of AO on July 27, 2021 in the instant matter, SCN was issued on September 27, 2021 to the Noticee. In compliance with the principles of natural justice, after receipt of replies, an opportunity of personal hearing was provided on March 22, 2022. Thus, the contentions raised by the Noticee w.r.t., the delay in initiating the proceeding, is baseless and without any merit.
17. Before moving forward, the relevant provisions of law allegedly violated by the Noticee and as mentioned in the SCN are reproduced below:

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 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;

18. Reversal trades are considered as those trades in which an entity reverse 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, and allegedly lead to false or misleading appearance of trading in terms of generation of artificial volumes, hence, these trades are deceptive and manipulative. From the facts/material made available on record, I find that the repeated reversal trades executed by the Noticee, which were observed in the present case, were undertaken by the Noticee with his counterparties with a predetermined arrangement to book profit or losses respectively, and therefore, the parties to the trades were not trading in the normal sense and ordinary course of business. Therefore, it is alleged that the Noticee by indulging in such reversal trades with his counterparties in the illiquid stock option segment at BSE has managed to generate artificial volume in the Stock Options segment at BSE during the investigation period.
19. In this regard, it is observed from the trade log of the Noticee that he has traded in 2 unique contracts in the Stock Options segment of BSE during the above mentioned investigation period. The examination of the Trade log of the Noticee during the relevant period revealed that he has executed 4 non-genuine trades in respect of these 2 contracts on the Stock Options segment of BSE. I note that the abovementioned trades of the Noticee had resulted in the creation of artificial volume of a total of 2,52,000 units in the given 2 contracts. Further, it is observed that the trades executed by the Noticee were squared up within a short span of time with the same counterparties i.e. trades were reversed within seconds on the same day. Thus, it is observed that Noticee had indulged in reversal trades with his counterparties in the stock option segment of BSE and the same were non-genuine trades.
20. Further, it is observed that most of these trades were squared up by the Noticee with his counterparties with a significant price difference. The non-genuineness of these transactions executed by the Noticee is evident from the fact that there was no commercial basis to suddenly, within a matter of few seconds, reverse the position with his counterparties with significant price difference when the value of the underlying had not undergone any significant change. The

frequent trade reversals in the said case points out to the fact that the parties to the transactions, including the Noticee, did not intend to transfer the beneficial ownership and through these orchestrated transactions, the intention of which was not regular trading, other investors have been excluded from participating in these trades/contracts. As already mentioned above, there was very little time gap between the buy and sell orders placed by the Noticee with his counterparties in different trades. The time gap between both the trades ranged within few seconds, and always on the same day. Given the fact that the Stock Option contracts were illiquid in nature at BSE and also in view of the observations made above, I am convinced that Noticee has entered into reversal/non-genuine trades with his counterparties and in the process also generated artificial volume in the otherwise illiquid stock option contracts at BSE.

21. To illustrate, it is observed that the Noticee had executed a total of 2 trades during the Investigation period in the contract “*CESC15APR560.00PE*”. All the aforesaid trades were done by the Noticee on March 25, 2015 wherein Noticee bought 50,000 units from *Kali Fabrics Pvt Limited* (hereinafter referred to as “**KFPL**”) at 12:53:07 at the rate of Rs. 4 per unit and sold 50,000 units to KFPL at 12:53:11 at the rate of Rs.8 per unit. Thus, in the above manner, the Noticee also executed a total of 2 trades in the contract “*CESC15APR560.00PE*” and generated artificial volume of 1,00,000 units in the above said contract through such non-genuine and reversal trades. In the process, it is observed that the Noticee had made a profit of Rs. 2,00,000/-.
22. The Noticee has contended that the anonymous trading system of the stock exchange does not allow a transacting party to know the details of the counterparties to the trade. I note that in the screen based trading, which is virtually anonymous, it is not possible for anyone to enter into such reversal trades. However, considering the precision at which the reversal transactions had taken place, the quantity, price and time and sale, parties being persistent in a large number of such trade transactions with huge price variations, I am of the view that it will be too naïve to hold that these 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 w.r.t the transactions entered into by the Noticee with his counterparties and such synchronized trading is clearly violative of the transparent norms of trading in the securities market. In view of the above observations, I hold that all the 4 transactions executed by the Noticee in the 2 Stock Option Contracts were synchronized trades, which were reversed within a small time gap with prior meeting of mind between the parties to the trade. Needless to mention the fact that these transactions were manipulative/deceptive device with a view to create a desired loss and/or profit

in the books of the parties to the transactions and in the process, artificial volumes were also generated through such contracts.

23. At this juncture, it is pertinent to refer to the decision of the Hon'ble Supreme Court of India in the matter of *Securities and Exchange Board of India v. Rakhi Trading Private Limited* (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 dated February 08, 2018) wherein, the Hon'ble Supreme Court while cumulatively analyzing the reversal transactions held that, *"...From the facts before us, it is clear that the traders in question did not intend to transfer beneficial ownership and therefore these trades are non-genuine. Rather than allowing the market forces to operate in their natural course, the traders repeatedly carried out the impugned transactions which deprived other market players from full participation. The repeated reversals and predetermined arrangement to book profits and losses respectively, made it clear that the parties were not trading in the normal sense and ordinary course. Resultantly, there has clearly been a restriction on the free and fair operation of the market forces in the instant case..."*

24. In the same matter, Hon'ble Supreme Court had further held that-

"...quantity, time and significant variation of prices, without major variation in the underlying price of the securities clearly indicate that Respondent's trades are not genuine and had only misleading appearance of trading in the securities market..."

"35.... Contextually and in simple words, it means a practice which does not conform to the fair and transparent principles of trades in the stock market. In the instant case, one party booked gains and the other party booked a loss. Nobody intentionally trades for a loss. An intentional trading for loss per se, is not a genuine dealing in securities. The plat form of the stock exchange has been used for a non-genuine trade. Trading is always with the aim to make profits. But if one party consistently makes losses and that too in a preplanned manner and rapid trades, it is not genuine..."

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

26. The Hon'ble Supreme Court, has further 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 trade effected; the period of persistence in trading in a particular scrip; the particulars of buy and sell orders, namely the volume thereof; the proximity of time between the two and such relevant factors..."*
27. 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 consistently with the same counterparties clearly indicates a prior meeting of mind with a view to execute the reversal trades at a pre-determined price. It is observed that in respect of these trades executed in the illiquid stock options contracts, the strike price was far away from the price of the underlying. The only reason for the wide variation in prices of the same contract, within seconds was a clear indication that there was pre-determination in the prices by both the counterparties 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 his counterparties to carry out the trades at pre-determined prices. It is not possible to comprehend the reason for which the Noticee would enter into an option contract with a strike price very far away from the current market price of the underlying except for the fact that he wanted to execute non-genuine trades.
28. Rather than allowing the market forces to operate in their natural course, the Noticee repeatedly carried out the impugned transactions with his counterparties which deprived other market players from full participation. The repeated reversals and predetermined arrangement to book profits and losses respectively, made it clear that the parties were not trading in the normal sense and ordinary course. Resultantly, there has clearly been a restriction on the free and fair operation of market forces in the instant case.
29. 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. The price does not at all reflect the value of the underlying asset. 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 repeated

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. It also has an adverse impact on the fairness, integrity and transparency of the stock market. The trades of the Noticee in the Illiquid Stock options segment was not only instrumental in creating artificial volume in Illiquid Stock options on BSE, but also had the potential to induce naïve investors, to invest in the Illiquid Stock options segment.

30. Therefore, from the foregoing paragraphs and the observations/findings contained therein, I conclude that the Noticee has violated the provisions of regulations 3(a), 4(1) and 4(2)(a) of the PFUTP Regulations.

31. In view of the above, I conclude that the Noticee is liable for monetary penalty under the provisions of section 15HA of the 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.

32. In this regard, the provisions of Section 15J of the SEBI Act and rule 5 of the Adjudication Rules require that while adjudging the quantum of penalty, 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.

33. Clearly, from the above observations, the Noticee was instrumental in the generation of artificial volume in the illiquid stock option contracts at BSE during the investigation period by executing reversal / non-genuine transactions in the illiquid stock options segment at BSE. The Noticee has entered into 4 non-genuine transactions in 2 stock option contracts with his counterparties, which clearly demonstrates the repetitive nature of the default on his part. It is not possible from the material available on record to quantify the amount of loss caused to genuine investors as a result of the reversal trades/ non-genuine trades executed by the Noticee with his counterparties. From the manner in which Noticee executed the above mentioned transactions, the Noticee has violated the statutory provisions of law. In this context, reliance is placed upon the order of the Hon'ble

Supreme Court of India in the matter of *Chairman, SEBI Vs Shriram Mutual Fund* {[2006]5 SCC 361} –wherein the Hon’ble Supreme Court of India 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...*”

ORDER

34. Having considered all the facts and circumstances of the case, the material available on record and the factors mentioned in the preceding paragraphs, I, in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with rule 5 of the Adjudication Rules, hereby impose a penalty of Rs.5,00,000/- (Rupees Five Lakh only) on the Noticee viz. Mr. Amit Jalan under the provisions of section 15HA of the SEBI Act for his violation of provisions of regulations 3(a), 4(1) and 4(2) (a) of the PFUTP Regulations. I am of the view that the said penalty is commensurate with the default committed by the Noticee.
35. 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 and the said DD should be forwarded 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 details:

1	Case Name	
2	Name of the Payee	
3	Date of Payment	
4	Amount Paid	
5	Transaction No.	
6	Bank Details in which payment is made	
7	Payment is made for (like penalties/disgorgement / recovery/ settlement amount and legal charges along with order details)	

36. Payment can also be made online by following the below path at SEBI website www.sebi.gov.in ENFORCEMENT → Orders → Orders of AO → Click on PAY NOW or at <https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html>.
37. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

38. In terms of rule 6 of the Adjudication Rules, a copy of this order is sent to the Noticee viz. Mr. Amit Jalan and also to Securities and Exchange Board of India.

Date: March 29, 2022
Place: Mumbai

SURESH B MENON
ADJUDICATING OFFICER