BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/VV/JR/2019-20/5122]

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

In respect of:

Vision Sponge Iron Pvt Ltd

PAN: AABCV4791R

In the matter of dealing in Illiquid Stocks Options at BSE

FACTS OF THE CASE IN BRIEF

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

2. SEBI conducted an investigation into the trading activities of certain entities in ISO, BSE for period April 1, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period"/IP"). Pursuant to investigation, it was observed that during IP, total 2,91,643 trades comprising substantial 81.38% of all the trades executed in Stock Options of BSE were non-genuine trades. The aforesaid non-genuine trades resulted in creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in Stock Options segment of BSE during the IP. It was also noted that said non-genuine trades were not restricted to any specific contract or between any specific set of entities.

3. It was alleged that Vision Sponge Iron Pvt. Ltd. (hereinafter referred to as "Noticee") was one of the entities who had indulged in creating artificial volume of 79957400 units through 544 non-genuine trades in 165 stock option contracts. Following is noted from the dealings of Noticee in aforesaid 165 contracts at BSE

    a. Of the 1822 trades executed by the Noticee on BSE Stock option segment, 544 trades were non-genuine.
    b. Number of non-genuine trades of Noticee has significantly contributed to the total number of trades from the market in the said 165 contracts.
    c. A substantial 3% to 100% of volume generated by the Noticee in each of the 165 contracts was artificial volume, and further, artificial volume generated by him also contributed to significant upto 100% of the total volume of the market in above contracts.
    d. In all of the above contracts, alleged non-genuine trades executed by Noticee had significant difference in buy rates and sell rates. The difference in buy/sale price of the trades executed by the Noticee was in the range of 2.6 times to 69 times of previous trade executed in the same contract on the same day and with the same counter party and in a gap of few minutes to few seconds.

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

APPOINTMENT OF ADJUDICATING OFFICER

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

6. On transfer of Mr Sahil Malik, the undersigned has been appointed as the Adjudicating Officer vide order dated August 13, 2019.

SHOW CAUSE NOTICE, REPLY AND HEARING

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

8. The Noticee vide letter dated October 15, 2018 sought inspection of documents. SEBI gave the Noticee 2 opportunities to appear and inspect the documents on

February 26, 2019 and May 28, 2019. However, the Noticee did not avail the opportunity of inspection of documents.

9. The Noticee, vide letter dated January 14, 2019 replied to the SCN stating, inter alia, the following:

- *The trades were executed on the floor of the exchange with due compliance with all the rules and regulations of the exchanges;*
- *At no point of time was there any warning or any observation about the scripsI stocks which were executed by us;*
- *The observations regarding the stocks being illiquid is incorrect;*
- *Even assuming the stocks were illiquid, then any small quantity or volumes would look significant as there are no active traders in the stock;*
- *For the transaction to be termed fraudulent, as per the definition of "fraud", there has to be an "inducement" and SEBI has not even alleged inducement;*
- *There is no nexus, directly or indirectly with the counter party brokers or the clients in the present matter and SEBI has not even alleged this;*
- *The trades in question were in the normal course of business and there is nothing amiss in the trades executed by us. Without prejudice, it is therefore clear that more than 70% of our trades are admittedly genuine as per total trades provided by SEBI.*
- *None of the trades are deceptive in nature or have any impact on the investors or their investment decision which is a sine qua non of "fraud";*
- *Show Cause Notice is erroneous in as much as it is only a belated coercive use of power I action in terms of which power is sought to be used against 3 – 4 years back settled trades on the basis of wrong interpretation of power deemed to have been existed with SEBI under PFUTP Regulations;*
- *The Show Cause Notice does not specify and consider the factual matrix of our dealings in stock options segment of BSE. It does not state the reasons, rational, cause of action, locus and invoking of jurisdiction after over 3 years from the dates of settled transactions. The Show Cause Notice is therefore arbitrary;*
- *Apparently, SEBI has held that we transacted in 'illiquid options' on the basis that our trades were in far-off strike prices and therefore very few entities were trading in such strike rates. However, in that case, it may also be concluded that said trades could have had no effect on other investors or market at large and that such illiquidity would be reason for volatility and alleged 'reversal ' transactions since variations in option price would be dramatic if the chosen strike price is thinly traded.*
- *We would like to further submit that all our trades in option segment were within prudential norms of exchange and as per procedures and guidelines as prescribed by regulator (BSE). At the relevant time, none of our trades were questioned by the brokers who are SEBI registered intermediaries and frontline gate-keepers of stock exchange. Had we been alerted by the broker or stock exchange we would have taken prompt and immediate corrective measures, if any, at that point in time only.*

10. In order to comply with the principles of natural justice an opportunity of personal hearing was given to the Noticee on September 5, 2019 vide letter dated August 21, 2019. The Noticee attended the personal hearing and reiterated the submissions made vide letter dated January 21, 2019.

CONSIDERATION OF ISSUES AND EVIDENCE

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

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

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

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

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

Relevant provisions of PFUTP Regulations

Regulation 3. No person shall directly or indirectly –

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognised stock exchange, any manipulative or deceptive

device or contrivance in contravention of the provisions of the Act or the rules or the regulations made thereunder;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognised stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognised stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder.

Regulation 4 Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely;-

(a) indulging in an act which creates false or misleading appearance of trading in the securities market;

13. I note from the documents on record that the Noticee was one of the entities who had indulged in creating artificial volume of 79957400 units through 544 non-genuine trades in 165 stock option contracts during IP.

14. The summary of trades is given below:

Stock Option Contract	**Buy Quantity**	**Sell Quantity**	**Number of non genuine trades executed by Entity in the Contract**	**Total number of trades executed by the Entity in the Contract**	**Total number of trades executed in the contract**	**Artificial volume generated by Entity in the Contract (B+C)**	**Total volume generated by Entity in the Contract**	**Total volume in the Contract**	**% of Non Genuine trades of Entity in the contract to Entity's Total trades in the Contract = (D/E)**	**% of Non Genuine trades of Entity in the contract to Total trades in the Contract = (D/F)**	**% of Artificial Volume generated by Entity in the contract to Entity's Total Volume in the Contract = (G/H)**	**% of Artificial Volume generated by Entity in the contract to Total Volume in the Contract = (G/I)**
A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**	**K**	**L**	**M**
ADPW14JUL45.00PEW3	**168000**	**168000**	**3**	**3**	**5**	**336000**	**336000**	**384000**	**100%**	**60%**	**100%**	**88%**
ADPW14JUL50.00PEW1	**320000**	**320000**	**3**	**3**	**3**	**640000**	**640000**	**640000**	**100%**	**100%**	**100%**	**100%**
ADPW14JUL70.00CEW4	**288000**	**288000**	**3**	**3**	**4**	**576000**	**576000**	**744000**	**100%**	**75%**	**100%**	**77%**
ALBK14JUL160.00CEW1	**404000**	**404000**	**4**	**4**	**4**	**808000**	**808000**	**808000**	**100%**	**100%**	**100%**	**100%**

ALBK15APR110.00CEW1	1602000	1602000	4	4	6	3204000	3204000	3436000	100%	67%	100%	93%
ANBK14AUG65.00PEW3	80000	80000	3	3	3	160000	160000	160000	100%	100%	100%	100%
ANBK14JUL90.00PEW1	400000	400000	3	3	3	800000	800000	800000	100%	100%	100%	100%
ANBK14OCT50.00PEW1	104000	104000	3	3	3	208000	208000	208000	100%	100%	100%	100%
ANBK14SEP65.00PEW2	596000	596000	3	6	14	208000	1192000	3624000	50%	21%	17%	6%
ANBK14SEP85.00CEW2	124000	124000	3	3	9	248000	248000	476000	100%	33%	100%	52%
APLT14SEP200.00CE	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%
APLT14SEP200.00CEW2	200000	200000	5	5	5	400000	400000	400000	100%	100%	100%	100%
CRGL14OCT195.00CEW1	150000	150000	2	2	2	300000	300000	300000	100%	100%	100%	100%
CRGL14OCT200.00CEW3	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%
CRGL14SEP225.00CEW2	380000	380000	4	4	4	760000	760000	760000	100%	100%	100%	100%
DISH14AUG65.00CE	144000	144000	3	3	6	288000	288000	472000	100%	50%	100%	61%
DISH14JUL45.00PEW1	328000	328000	3	3	3	656000	656000	656000	100%	100%	100%	100%
DISH14SEP45.00PEW2	240000	240000	2	2	3	480000	480000	488000	100%	67%	100%	98%
DISH15APR85.00CEW1	580000	580000	5	5	8	1160000	1160000	3568000	100%	63%	100%	33%
DISH15MAR75.00PE	676000	676000	3	3	7	1352000	1352000	2072000	100%	43%	100%	65%
DISH15MAR75.00PEW2	112000	112000	3	3	58	224000	224000	11728000	100%	5%	100%	2%
DISH15MAR85.00CE	812000	812000	6	6	76	1624000	1624000	31220000	100%	8%	100%	5%
DISH15MAR90.00CE	152000	152000	5	5	28	304000	304000	10260000	100%	18%	100%	3%
GMRI14JUN26.00PEW3	396000	396000	3	3	18	792000	792000	1078000	100%	17%	100%	73%
HDIL15MAR120.00CEW3	260000	260000	9	9	47	520000	520000	7384000	100%	19%	100%	7%
HNZL14SEP150.00CE	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%
IBRL14MAY70.00PEW4	236000	236000	4	4	4	472000	472000	472000	100%	100%	100%	100%
IBRL14SEP60.00PEW2	144000	144000	3	3	20	288000	288000	664000	100%	15%	100%	43%
IBRL14SEP65.00PEW1	104000	104000	3	3	15	208000	208000	2160000	100%	20%	100%	10%
IBRL15MAR70.00CE	52000	52000	3	3	30	104000	104000	16760000	100%	10%	100%	1%
IDBI14AUG70.00PEW2	104000	104000	3	3	5	208000	208000	644000	100%	60%	100%	32%
IDBI14AUG90.00CE	156000	156000	3	3	7	312000	312000	392000	100%	43%	100%	80%
IDBI14JUL80.00PEW2	208000	208000	4	4	4	416000	416000	416000	100%	100%	100%	100%
IDBI14JUN95.00PE	204000	204000	3	3	27	408000	408000	2268000	100%	11%	100%	18%
IDBI14OCT55.00PEW1	104000	104000	3	3	3	208000	208000	208000	100%	100%	100%	100%
IDBI14SEP60.00PE	104000	104000	3	3	8	208000	208000	788000	100%	38%	100%	26%
IDBI14SEP85.00CEW1	148000	148000	3	3	4	296000	296000	388000	100%	75%	100%	76%
IDBI15APR60.00PEW1	56000	56000	7	7	29	112000	112000	11424000	100%	24%	100%	1%
IDBI15FEB65.00PE	124000	124000	3	3	11	248000	248000	4116000	100%	27%	100%	6%

IDBI15MAR70.00PEW2	444000	444000	3	3	25	888000	888000	3192000	100%	12%	100%	28%
IDFC14SEP125.00PEW2	142000	142000	3	3	3	284000	284000	284000	100%	100%	100%	100%
IFCI14SEP30.00PEW2	279000	279000	3	3	8	558000	558000	1494000	100%	38%	100%	37%
INCM14JUN100.00PE	248000	248000	3	3	3	496000	496000	496000	100%	100%	100%	100%
INCM14JUN105.00PE	100000	100000	3	3	17	200000	200000	1748000	100%	18%	100%	11%
INCM14MAY80.00PEW4	400000	400000	4	4	7	800000	800000	848000	100%	57%	100%	94%
INCM14OCT100.00PEW1	20000	20000	2	2	2	40000	40000	40000	100%	100%	100%	100%
INCM14SEP110.00PEW2	124000	152000	3	4	17	248000	276000	844000	75%	18%	90%	29%
INCM15MAR75.00PE	612000	612000	3	3	5	1224000	1224000	1844000	100%	60%	100%	66%
IOBL14AUG55.00PEW2	272000	272000	7	7	12	544000	544000	800000	100%	58%	100%	68%
IOBL14AUG55.00PEW3	168000	168000	2	2	7	336000	336000	448000	100%	29%	100%	75%
IOBL14AUG75.00CE	152000	152000	3	3	3	304000	304000	304000	100%	100%	100%	100%
IOBL14AUG75.00CEW2	136000	136000	5	5	17	272000	272000	736000	100%	29%	100%	37%
IOBL14JUL60.00PE	152000	152000	4	4	15	304000	304000	2432000	100%	27%	100%	13%
IOBL14JUL70.00PEW1	408000	408000	3	3	3	816000	816000	816000	100%	100%	100%	100%
IOBL14JUN65.00PE	608000	608000	3	3	7	1216000	1216000	3008000	100%	43%	100%	40%
IOBL14OCT50.00CEW1	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%
IOBL14OCT70.00CEW3	104000	104000	3	3	6	208000	208000	304000	100%	50%	100%	68%
IOBL14SEP55.00PEW1	120000	120000	3	3	3	240000	240000	240000	100%	100%	100%	100%
JAIA14JUL65.00PEW1	504000	504000	3	3	9	1008000	1008000	1168000	100%	33%	100%	86%
JAIA14JUN60.00PE	448000	448000	3	3	3	896000	896000	896000	100%	100%	100%	100%
JAIA14JUN65.00PEW3	104000	104000	3	3	3	208000	208000	208000	100%	100%	100%	100%
JAIA14JUN85.00CE	520000	760000	3	5	5	1040000	1280000	1280000	60%	60%	81%	81%
JISL14AUG80.00PE	212000	212000	6	6	6	424000	424000	424000	100%	100%	100%	100%
JISL14OCT75.00PEW1	104000	104000	3	3	7	208000	208000	224000	100%	43%	100%	93%
JISL14OCT90.00CEW2	104000	104000	3	3	3	208000	208000	208000	100%	100%	100%	100%
JISL14SEP100.00CEW2	104000	104000	3	3	3	208000	208000	208000	100%	100%	100%	100%
JISL15MAR60.00PEW2	64000	64000	3	3	13	128000	128000	1064000	100%	23%	100%	12%
JISL15MAR75.00CEW1	84000	84000	3	3	18	168000	168000	1140000	100%	17%	100%	15%
JSPL14SEP235.00CEW2	150000	150000	2	2	8	300000	300000	521000	100%	25%	100%	58%
JSPL15MAR165.00CE	400000	400000	4	4	8	800000	800000	1110000	100%	50%	100%	72%
JSWE14AUG60.00PEW2	20000	20000	2	2	17	40000	40000	780000	100%	12%	100%	5%
JSWE14AUG70.00PE	152000	152000	3	3	10	304000	304000	1048000	100%	30%	100%	29%
JSWE14JUL60.00PE	208000	208000	4	4	6	416000	416000	572000	100%	67%	100%	73%
JSWE14JUL65.00PE	208000	208000	4	4	23	416000	416000	2524000	100%	17%	100%	16%
JSWE14JUL70.00PEW1	400000	400000	3	3	13	800000	800000	1832000	100%	23%	100%	44%
JSWE14JUN60.00PE	604000	736000	3	5	7	1208000	1340000	1436000	60%	43%	90%	84%

JSWE14JUN90.00CEW3	256000	256000	3	3	3	512000	512000	512000	100%	100%	100%	100%
JSWE14OCT65.00PEW3	104000	104000	3	3	3	208000	208000	208000	100%	100%	100%	100%
JSWE14OCT70.00PEW3	104000	104000	3	3	15	208000	208000	2352000	100%	20%	100%	9%
JSWE14OCT75.00CEW1	100000	100000	2	2	6	200000	200000	328000	100%	33%	100%	61%
JSWE14SEP65.00PE	104000	104000	3	3	20	208000	208000	928000	100%	15%	100%	22%
JSWE15APR105.00PEW1	412000	412000	5	5	12	824000	824000	3904000	100%	42%	100%	21%
KARB14JUL120.00PEW3	300000	300000	3	3	3	600000	600000	600000	100%	100%	100%	100%
KARB14JUL140.00CE	102000	102000	3	3	20	204000	204000	1716000	100%	15%	100%	12%
KARB14SEP105.00PE	102000	102000	3	3	3	204000	204000	204000	100%	100%	100%	100%
KARB15FEB120.00CE	84000	84000	2	2	9	168000	168000	372000	100%	22%	100%	45%
KARB15MAR135.00CE	1000000	1000000	6	6	20	2000000	2000000	5208000	100%	30%	100%	38%
LNTF14OCT75.00CEW1	308000	308000	3	6	8	208000	616000	692000	50%	38%	34%	30%
LNTF14SEP60.00PEW2	228000	228000	6	6	12	456000	456000	1184000	100%	50%	100%	39%
LNTF14SEP75.00CEW2	208000	208000	6	6	13	416000	416000	796000	100%	46%	100%	52%
LNTF15APR45.00PEW1	40000	40000	3	3	3	80000	80000	80000	100%	100%	100%	100%
LNTF15APR75.00CEW1	1316000	1316000	6	12	30	904000	2632000	8968000	50%	20%	34%	10%
LNTF15JAN60.00PEW4	424000	424000	8	8	28	848000	848000	2840000	100%	29%	100%	30%
LNTF15MAR60.00PEW2	364000	364000	4	4	15	728000	728000	3896000	100%	27%	100%	19%
LNTF15MAR70.00CEW1	344000	344000	3	3	32	688000	688000	7464000	100%	9%	100%	9%
NHPC14SEP26.00CEW2	408000	408000	3	5	9	336000	816000	972000	60%	33%	41%	35%
PFCL14OCT240.00CEW3	164000	164000	2	2	2	328000	328000	328000	100%	100%	100%	100%
PGCL14SEP125.00PEW2	142000	142000	3	3	3	284000	284000	284000	100%	100%	100%	100%
PTCI14AUG70.00PEW2	204000	204000	4	7	32	96000	408000	2068000	57%	13%	24%	5%
PTCI14AUG75.00PE	120000	120000	3	3	6	240000	240000	344000	100%	50%	100%	70%
PTCI14JUL70.00PEW2	84000	84000	3	3	3	168000	168000	168000	100%	100%	100%	100%
PTCI14JUL80.00PEW1	264000	264000	3	3	16	528000	528000	3500000	100%	19%	100%	15%
PTCI14JUN75.00PE	544000	544000	3	3	3	1088000	1088000	1088000	100%	100%	100%	100%
PTCI14SEP100.00CEW1	144000	144000	3	3	3	288000	288000	288000	100%	100%	100%	100%
PTCI15APR70.00PEW1	396000	396000	3	3	20	792000	792000	5480000	100%	15%	100%	14%
PTCI15MAR80.00PEW1	408000	408000	4	4	14	816000	816000	2820000	100%	29%	100%	29%
PTCI15MAR95.00CEW2	224000	224000	3	3	4	448000	448000	544000	100%	75%	100%	82%
RCOM15FEB85.00CEW1	262000	262000	3	3	11	524000	524000	1124000	100%	27%	100%	47%
RCOM15MAR60.00PEW1	152000	152000	3	3	13	304000	304000	1612000	100%	23%	100%	19%
RCOM15MAR70.00CEW2	468000	468000	3	3	10	936000	936000	1378000	100%	30%	100%	68%
RCOM15MAR75.00CE	370000	370000	4	4	28	740000	740000	7952000	100%	14%	100%	9%
RCOM15MAR75.00CEW1	86000	86000	3	3	27	172000	172000	3170000	100%	11%	100%	5%

RCOM15MAR80.00CEW1	332000	332000	3	3	10	664000	664000	2128000	100%	30%	100%	31%
RCOM15MAR80.00CEW2	412000	412000	3	3	19	824000	824000	4324000	100%	16%	100%	19%
RPOW14AUG100.00CE	164000	164000	3	3	3	328000	328000	328000	100%	100%	100%	100%
RPOW14AUG70.00PE	104000	104000	3	3	6	208000	208000	376000	100%	50%	100%	55%
RPOW14AUG80.00PEW1	104000	104000	4	4	4	208000	208000	208000	100%	100%	100%	100%
RPOW14AUG85.00CE	84000	208000	3	5	10	168000	292000	816000	60%	30%	58%	21%
RPOW14AUG95.00CE	164000	164000	3	3	3	328000	328000	328000	100%	100%	100%	100%
RPOW14AUG95.00CEW3	192000	192000	3	3	10	384000	384000	752000	100%	30%	100%	51%
RPOW14JUL85.00PEW2	164000	164000	3	3	3	328000	328000	328000	100%	100%	100%	100%
RPOW14JUL90.00PEW1	260000	260000	3	3	3	520000	520000	520000	100%	100%	100%	100%
RPOW14OCT80.00CEW1	48000	48000	2	2	6	96000	96000	200000	100%	33%	100%	48%
RPOW14SEP85.00CEW1	120000	120000	3	3	4	240000	240000	440000	100%	75%	100%	55%
RPOW15APR70.00CEW1	324000	324000	3	3	3	648000	648000	648000	100%	100%	100%	100%
RPOW15JAN70.00CE	1276000	1276000	3	11	15	552000	2552000	4448000	27%	20%	22%	12%
RPOW15MAR70.00CEW2	72000	72000	3	3	23	144000	144000	2340000	100%	13%	100%	6%
SAIL14JUL90.00PEW1	400000	400000	3	3	6	800000	800000	1016000	100%	50%	100%	79%
SAIL14JUN115.00CEW3	172000	172000	3	3	3	344000	344000	344000	100%	100%	100%	100%
SAIL14JUN95.00PEW2	172000	172000	4	4	4	344000	344000	344000	100%	100%	100%	100%
SAIL14OCT60.00PEW1	104000	104000	3	3	3	208000	208000	208000	100%	100%	100%	100%
SAIL14SEP60.00PE	208000	208000	3	5	15	208000	416000	620000	60%	20%	50%	34%
SAIL15APR60.00PEW1	524000	524000	3	3	23	1048000	1048000	3808000	100%	13%	100%	28%
SAIL15MAR60.00PEW2	684000	684000	3	3	15	1368000	1368000	3704000	100%	20%	100%	37%
SAIL15MAR80.00CE	40000	40000	2	2	40	80000	80000	25992000	100%	5%	100%	0%
SYND15APR95.00PEW1	554000	554000	5	5	5	1108000	1108000	1108000	100%	100%	100%	100%
SYND15MAR110.00PEW1	120000	120000	2	2	5	240000	240000	412000	100%	40%	100%	58%
TATP14JUN85.00PEW3	223830	223830	3	3	3	447660	447660	447660	100%	100%	100%	100%
TATP14JUN90.00PE	24870	24870	3	3	3	49740	49740	49740	100%	100%	100%	100%
TATP14SEP75.00PEW2	332000	332000	9	9	16	664000	664000	860000	100%	56%	100%	77%
TATP15FEB100.00CEW1	1000000	1000000	3	5	37	424000	2000000	4804000	60%	8%	21%	9%
TATP15FEB80.00PEW2	256000	256000	3	3	10	512000	512000	1364000	100%	30%	100%	38%
TATP15FEB80.00PEW3	488000	488000	2	2	7	976000	976000	1392000	100%	29%	100%	70%
TATP15JAN85.00PE	408000	408000	4	4	9	816000	816000	1464000	100%	44%	100%	56%
TATP15MAR80.00PEW2	544000	544000	3	3	5	1088000	1088000	1216000	100%	60%	100%	89%
TATP15MAR90.00CE	136000	136000	3	3	24	272000	272000	5372000	100%	13%	100%	5%
TATP15MAR95.00CEW1	24000	24000	2	2	15	48000	48000	1840000	100%	13%	100%	3%

TMCL14NOV260.00CE W2	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%
TMCL14OCT225.00CEW 4	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%
UBIL14OCT200.00CEW3	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%
UBIL14SEP200.00CE	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%
UCOB14AUG115.00CE	104000	104000	3	3	8	208000	208000	584000	100%	38%	100%	36%
UCOB14AUG120.00CE	132000	132000	3	3	5	264000	264000	272000	100%	60%	100%	97%
UCOB14AUG85.00PE	104000	104000	3	3	18	208000	208000	384000	100%	17%	100%	54%
UCOB14AUG90.00PEW 3	228000	228000	4	6	17	248000	456000	1320000	67%	24%	54%	19%
UCOB14JUN80.00PE	28000	28000	2	2	2	56000	56000	56000	100%	100%	100%	100%
UCOB14OCT70.00PEW1	104000	104000	3	3	3	208000	208000	208000	100%	100%	100%	100%
UCOB14SEP80.00PEW2	144000	144000	3	3	3	288000	288000	288000	100%	100%	100%	100%
UCOB15MAR70.00CE	1632000	1632000	3	6	27	304000	3264000	1106800 0	50%	11%	9%	3%
UCOB15MAR80.00CEW 1	504000	504000	3	3	10	1008000	1008000	2016000	100%	30%	100%	50%
UCOB15MAR80.00CEW 2	204000	204000	3	3	20	408000	408000	4268000	100%	15%	100%	10%
UCOB15MAR90.00CE	508000	508000	4	4	6	1016000	1016000	1208000	100%	67%	100%	84%
WOCK14DEC880.00CE W1	98500	98500	3	18	51	10000	197000	399000	17%	6%	5%	3%
ZEEL14OCT300.00CEW1	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%
ZEEL14SEP310.00CE	200000	200000	2	2	2	400000	400000	400000	100%	100%	100%	100%

15. To illustrate, on October 13, 2014 the Noticee entered into 1 buy trade for 200000 units units at the rate of ₹0.8 per unit at 11:20:44 hrs with Southern Pacific Energy Private Limited for the contract named “UBIL14OCT200.00CEW3”. Thereafter, on the same day, Noticee, at 12:43:04 entered into 1 sell trade with same counterparty for 200000 at ₹7 per unit. It is noted that while dealing in the said contract during the I.P., Noticee executed total 2 reversal trades (1 buy trade + 1 sell trade) with same counterparty viz, Southern Pacific Energy Private Limited on the same day and with significant price differential in buy and sell rate. Thus, Noticee, through its dealing in the contract viz, “UBIL14OCT200.00CEW3” during the I.P, executed 2 non-genuine trades which is 100% of the total market trades in the said contract during the I.P and thereby, Noticee generated artificial volume of 400000 units which is 100% of the market volume traded in the said contract during the I.P.

16. It is noted that of the 1822 trades executed by the Noticee during the IP in stock option segment of BSE, Noticee indulged in reversal of trades on the same day with same counter party with substantial price difference in sell rates over the buy rates and vice versa in 544 trades.

17. The Noticee adopted similar modus operandi May 20, June 11, 16, 17, 18, 20, 23, 24, 27, 30, July 01,02,10, 16,17, 18, 31, August 06, 08, 11, 13, 18, 19, 20, 22, 25, 26, 27, September 1, 2, 5, 8, 9, 10, 22, 24, 26, August 9,10, 13, 14, November 3, December 3 of 2014, January 16, 19, 27, February 03, 04, 12, 16, 25, 28, March 2, 3, 4, 5, 19, 20, 23, 27, and 31 of 2015 i.e. 61 days. In fact, it can be observed from the table that mostly all the trades executed by the Noticee in these 165 contracts were not genuine and the same has been reversed on the same day with the relevant same counterparties with significant difference in price, resulting into significant profit to the Noticee.

18. I note that it is the fact that the Noticee executed non-genuine trades in 165 contracts, wherein it executed total 544 non-genuine trades, which resulted in artificial volume of total 7,99,57,400 units. The number of non-genuine trades of the Noticee had contributed significantly (in the range of 3% to 100%) to the total number of trades from the market in the said 165 contracts. Further, artificial volume generated by the Noticee also contributed to significant (in the range of 3% to 100%) to the total volume from the market in the said 165 contracts. Non-genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day. Considering the fact that all these reversal transactions were carried out through a screen based trading platform on a segment with different contracts, the repeated sell/buy of illiquid stock options by the Noticee and subsequent reversal trades with the same set of entities for the same quantity, on same day with a significant difference in buy and sell value of stock options, in itself, exhibits abnormal market behavior and defies economic rationality. I

note from the above trading pattern of the Noticee that it was deliberately making blatant misuse of trading platform for creating artificial volume to the tune of 7,99,57,400 units in the 165 stock options.

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

20. It is the contention of the Noticee that there was no evidence that it was engaged in fraudulent and unfair practices and therefore there is no violation of the PFUTP Regulations as alleged in the SCN. In this regard, I am of the view that the

scheme, plan, device and artifice employed by the Noticee in this case of executing reversal trades in illiquid stock options contracts at irrational, unrealistic and unreasonable prices, tantamount to fraud on the securities market in as much as it involves non-genuine/ manipulative transactions in securities and misuse of the securities market mechanism. The non-genuine and deceptive transactions of the Noticee are covered under the definition of 'fraud' and the dealings of the Noticee as discussed herein above were "fraudulent", as defined under regulation 2 (1) (c) of PFUTP Regulation and prohibited under the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) PFUTP Regulations, thereof.

21. I note that in the screen based trading, the manipulative or fraudulent intent can be inferred from various factors such as conduct of the party, pattern of transactions, etc. Further, in the absence of direct proof of meeting of minds, the conclusion can be derived from various circumstances like volume of trade, period of persistence of trading, particulars of buy and sell orders, proximity of time and such other relevant factors. In this regard, it is appropriate to refer to the Hon'ble SAT Order dated July 14, 2006, in the case of ***Ketan Parekh vs. SEBI (Appeal no. 2/2004)***, wherein, Hon'ble SAT has observed that: *"… in order to find out whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism, will depend upon the intention of the parties which could be inferred from the attending circumstances of the cases, because direct evidence in such cases may not be available."*

22. In line with the aforesaid findings of Hon'ble SAT, I note that the trading pattern of the Noticee in terms of volume of reversal 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. Further, consistent pattern of dealings by Noticee in such options contracts which are illiquid clearly demonstrates the manipulative intent to use stock

exchange platform to carry out non-genuine trades with the aim to execute such trades for various manipulative purposes.

23. In this regard, reliance is placed upon the judgement of Hon'ble Supreme Court in the matter of ***SEBI vs. Rakhi Trading Private Ltd.*****, in** ***Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011*** **decided on February 8, 2018**, where Apex Court stated at Para 35 and Para 41 of that said Order that *"The platform 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 loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice". "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."*

24. It is noted that direct evidence is not forthcoming in the present matter as regards to meeting of minds or collusion with other entities inter-alia the counterparties or agents / fronts. However, trading behavior and other scenarios as noted above make it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level. In this regard, reliance is placed on judgment of Hon'ble Supreme Court in the matter in respect of SEBI v Rakhi Trading Private Limited Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018, which inter alia states that: *"Considering the reversal transactions, quantity, price and time and sale, parties being persistent in number of such trade transactions with huge price variations, it will be too naive to hold that the transactions are through screen-based trading and hence anonymous. Such conclusion would be over-looking the prior meeting of minds involving synchronization of buy and sell order and not negotiated deals as per the board's circular. The impugned*

transactions are manipulative/deceptive device to create a desired loss and/or profit. Such synchronized trading is violative of transparent norms of trading in securities…..”

25. Keeping in mind the dicta of the Hon’ble Supreme Court as reproduced above, I see no reason to take a different view in the present case. Therefore, I hold that the Noticee had indulged in execution of reversal trades in Stock Options with same entities on the same day, which are non-genuine in nature and had created false or misleading appearance of trading in terms of artificial volumes.

26. In view of the foregoing, I am of firm opinion that the Noticee by indulging in reversal of trades on the stock exchange platform, which are manipulative / unfair / fraudulent / non-genuine, in nature, had created artificial volumes in the contracts and thereby Noticee had violated the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations, 2003.

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

28. The above violation of PFUTP Regulations, make the Noticee liable under section 15HA of SEBI Act, which, *inter-alia* reads as follows:

15HA Penalty for Fraudulent and Unfair trade practices

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.

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

"15J - Factors to be taken into account by the adjudicating officer

While adjudging quantum of penalty under section 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

30. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading in illiquid stock option contracts. Though the records available before me has shown amount of profit / loss of the counterparties to the trades as a result of the non-genuine trades. However, I note that the Noticee indulged in creation of artificial volumes by way of reversal of trades in illiquid options contracts, where wider market participation was not involved in the trades, and 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 two counterparties in totality. It is worth considering that entities involved in these non-genuine trades have either booked gains or loss and the gains or loss appears to be of notional in nature. It is further noted that there was nil or negligible participation by the public in the trading in illiquid stock option contracts, hence the impact of artificial volume created by the Noticee has been considered. As observed in the preceding paragraphs the Noticee executed non-genuine trades in 165 contracts, wherein it executed total 544 non-genuine trades, which resulted in artificial volume of total 7,99,57,400 units. This pattern of trades continued for 47 days. Hence, it can be said that it repetitive in nature.

31. Such persistent trading pattern of the Noticee, which was fraudulent and deceptive, affects the normal price discovery mechanism in the securities market. People who indulge in manipulative, fraudulent and deceptive transaction, or abet the carrying out of such transaction which are fraudulent and deceptive should be suitably penalized for such acts of omissions and commissions.

ORDER

32. After Taking into consideration the nature and gravity of the charges established in the preceding paragraphs, factors mentioned under Section 15J of the SEBI Act and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act, read with Rule 5 of the SEBI Adjudication Rules, I hereby impose a penalty of ₹ 24,10,000 (Rupees Twenty Four Lakh and Ten Thousand only) on the Noticee viz. M/s. Vision Sponge Iron Pvt Ltd in terms of Section 15HA of the SEBI Act, for the violation of the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations for indulging in execution of reversal trades in Stock Options with same entity on the same day, thereby creating artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE.

PENALTY PAYMENT OPTIONS

33. The Noticees shall remit / pay the said amount of penalty within 45 (forty five) days of receipt of this order either by way of Demand Draft (DD) in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai and 1) the said DD should be forwarded to the Division Chief, Enforcement Department 1(EFD), Division of Regulatory Action - I [**EFD 1-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:

Case Name	
Name of the Payee	

Date of payment	
Amount Paid	
Transaction No.	
Bank Details	
In which payment is made for	Penalty

OR

34. 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

35. 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.

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

Date : October 22, 2019
Place : Mumbai

VIJAYANT KUMAR VERMA
ADJUDICATING OFFICER