BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/AS/RJ/2024-25/31333]

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:
Tripta Shroff
(PAN: AEMPG2623P)

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 the 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 are the trades in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy position with the same counter party. The said reversal trades are alleged to be non-genuine trades as they lack basic trading rationale and allegedly lead to false or misleading appearance of trading leading to generation of artificial volume. In view of the same, such reversal trades are alleged to be deceptive and manipulative in nature. On account of the same, SEBI conducted an investigation into the trading activities of certain entities in Illiquid Stock Options at BSE for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as "**Investigation Period/IP**").

2. Pursuant to investigation by SEBI, it was observed that during IP, a total of 2,91,643 trades comprising substantial 81.38% of all the trades executed in

Stock Options of BSE were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE's Stock Options segment during the investigation period. It was observed that Tripta Shroff (PAN: AEMPG2623P) (hereinafter referred to as the **"Noticee"**) was one of the various entities who indulged in execution of reversal trades in stock options segment of BSE during the IP. Such trades were alleged to be non-genuine in nature and created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore were alleged to be manipulative and deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for alleged violation of the provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**").

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI appointed Ms. Soma Majumder as Adjudicating Officer in the matter vide communique dated July 27, 2021, under Section 19 read with Section 15-I of 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. Pursuant to transfer of cases, the undersigned was appointed as Adjudicating Officer in the matter vide order dated September 06, 2024.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Based on the findings by SEBI, Show Cause Notice dated August 06, 2022 (hereinafter referred to as "**SCN**") was issued to the Noticee under Rule 4(1) of Adjudication Rules to show cause as to why an inquiry should not be held and penalty should not be imposed on it for the alleged violations of the provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations.

5. It was alleged in the SCN that the Noticee was indulged in reversal and non-genuine trades and details of the trades including the trade dates, name of the counterparties, time, price and volume, etc. were provided to the Noticee as Annexure to the SCN.

6. Further, vide Part - B of the above referred SCN, Noticee was informed SEBI introduced a Settlement Scheme i.e. SEBI Settlement Scheme, 2022 (hereinafter referred to as "**Settlement Scheme 2022**") in terms of Regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 (hereinafter referred to as "**Settlement Regulations**"). It was further informed that the Settlement Scheme, 2022 provided a one time opportunity to the entities against whom proceedings had been initiated and appeals against the said proceedings are pending before any forum or authority. The scheme commenced from August 22, 2022 and closed on November 21, 2022. The SCN was sent to the Noticee through Speed Post Acknowledgement Due (hereinafter referred to as **"SPAD"**) and email. However, SCN could not be delivered to the Noticee at his last known address and it returned undelivered to SEBI.

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

8. It was observed that Noticee did not avail the Settlement Scheme 2022, in view of which, the adjudication proceeding against the Noticee was resumed.

9. In the interest of natural justice, SCN and Hearing Notice were served to the Noticee by way of publication in newspapers where the Noticee was last known to have resided. Therefore, the notice regarding issuance of SCN and Hearing Notice was published in the Times of India (English) and Ek Samay (Bengali) in the Kolkata edition on June 09, 2023. It was also published in the said newspaper publications that the SCN has been published / uploaded on

www.sebi.gov.in under the section "Enforcement: Unserved Summons/ Notices" and Noticee was advised to submit her reply to the SCN within 14 days from the date of the said publication. However, Noticee did not furnish any response / reply to the SCN. Vide the said newspaper publication, an opportunity of personal hearing was also granted to the Noticee on June 26, 2023. However, the Noticee also failed to appear for the scheduled hearing on June 26, 2023.

10. Subsequently, Post SCN Intimation (hereinafter referred to "**PSI**") dated March 22, 2024, was issued to the Noticee wherein it was informed to the Noticee that SEBI introduced another Settlement Scheme i.e. SEBI Settlement Scheme, 2024 (hereinafter referred to as "**Settlement Scheme 2024**") in terms of Regulation 26 of Settlement Regulations. It was informed that the Settlement Scheme, 2024 provided opportunity to the entities against whom proceedings had been initiated and appeals against the said proceedings are pending before any forum or authority. The scheme commenced from March 11, 2024 to May 10, 2024.

11. Further, vide Public Notice dated May 08, 2024, the Settlement Scheme 2024 was extended till June 10, 2024 by SEBI.

12. It is observed that Noticee did not avail the Settlement Scheme 2024 and accordingly, the adjudication proceeding against the Noticee was resumed.

13. Since the SCN and the PSI could not be served to the Noticee, in terms of Rule 7 of Adjudication Rules, the SCN and Hearing Notice were again served to the Noticee by way of publication in newspapers where the Noticee was last known to have resided. Therefore, the notice regarding issuance of SCN and Hearing Notice was published in the Times of India (English), Sanmarg (Hindi) and Aajkal (Bengali) in the Kolkata editions on November 28, 2024. It was also published in the said newspaper publications that the SCN has been published / uploaded on www.sebi.gov.in under the section "Enforcement: Unserved

Summons/ Notices" and Noticee was advised to submit her reply to the SCN within 14 days from the date of the said publication. Vide the said newspaper publication, an opportunity of personal hearing was also granted to the Noticee on December 02, 2024 in person at 'SEBI Bhavan II, C-7, G Block, BKC, Bandra (E) Mumbai 400051' or if Noticees so desire, through online platform.

14. In response, the authorised representative of the Noticee, vide email dated November 28, 2024, *inter alia,* apprised that there was a change in the contact details of the Noticee and also, showed the inclination of the Noticee for settling the matter in terms of the Settlement Scheme 2024. Vide email dated November 28, 2024, the Noticee was, *inter alia,* informed that the period for availing settlement schemes has ended. Further, the Noticee was granted time till December 01, 2024 to submit a reply and also, granted an opportunity of hearing on December 02, 2024.

15. Thereafter, based on the request of the Noticee, the hearing scheduled on December 02, 2024 was rescheduled to December 19, 2024 and Noticee was granted time till December 16, 2024 to submit a reply to the SCN.

16. The authorized representative (hereinafter referred to as "**AR**") of the Noticee appeared for the hearing on December 19, 2024. Based on the request of the Noticee, Noticee was granted time till January 07, 2025 for submitting a reply to the SCN.

17. The Noticee, vide letter dated January 07, 2025, *inter alia,* submitted as under:

    i. *It appears there is certain data, documents and information available with SEBI in connection with the matter, but which has not been provided with the SCN. In order for My client to properly understand the basis of the allegations against my client in the SCN, my client would need access to all the relevant documents in the possession of SEBI in connection with the matter, based on which the present proceedings have been initiated and the allegations have been made.*

    ii. *My client had done 2 buy trades and 4 sale trades on the BSE platform by trading 196000 quantities under contract viz. ADPW 28.00PE and FEDB 70,00PE of stock option which were purchased and sold on the same day as she got the opportunity* *to square off the trade in profit. By no standards this can be termed as non-genuine trade. The trade done by my client was a regular way of how transactions are done, i.e., she purchased and got an opportunity to sell at a profit.*

iii. *That, while trading in an illiquid option there are more chances of getting the trade squared off with the same party. My client as an investor asked her broker to buy or sell which he did on her behalf on the Exchange platform. Since, the trading system is anonymous, it will be very naive to draw conclusions that the parties knew each other.*

iv. *There is a Nine-year delay in personal hearing. Even though there is no period of limitation prescribed in the (SEBI) Act and Regulations in the issuance of an SCN or for completion of the adjudication proceedings, the authority is required to exercise its powers within a reasonable period as held recently in Adjudicating Officer, Securities and Exchange Board of India vs Bhavesh Pabari (2019) 5 SCC 90. In the instant case, because the power to adjudicate has not been exercised within a reasonable period therefore, no penalty could be imposed.*

v. *In the case of Govindji Gupta and others (MC/DS/20 19-20/6209-6214), the Learned Adjudicating Officer had considered a time difference upto 5 minutes between two trades and also difference in order prices, to be significant and recorded the following- "It has been further contended that there was huge order price gap between the both legs orders. In most of the instances (more than 90% of orders) there were time gap of 10 second to 5 minutes. Thus, the structured trades could not have been said to be intentional. In this regard, while 10 seconds is a very small-time difference between orders, I find the argument on difference in order prices acceptable, as a trade cannot be intended to match in a structured manner with difference in order prices. "*

vi. *Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT") has put a stamp of approval on the above on grounds of consistency by accepting the findings of the AO and observing as follows in Almondz Entertainment Pvt. Ltd. vs SEBI "...same charge was exonerated. In our opinion, if the six entities were exonerated, the appellants are entitled for the same relief. "*

vii. *Thus, it has been recognized by SEBI, and also Hon'ble SAT that a trade involving a time gap of seconds to 5 (five) minutes could not have been a structured trade. Reversal trade has been recognized as a structured trade. SEBI as a Regulator and Adjudicator cannot abandon its own yardstick adopted in one case and adopt a different yardstick in my client Case.*

viii. *Trading in 196000 units cannot by any means be considered as creating of artificial volume. Because as SEBI contended that 81% of trades were completed then it means that the contract was highly liquid and not illiquid and consecutively my client cannot be penalized for generating artificial trade volume.*

ix. *The Hon'ble Supreme Court's judgment in the case of SEBI vs Rakhi Trading Pvt. Ltd., that SEBI has to adhere to, is to ensure stringent enforcement and efficacy of cleanliness of the market place. otherwise SEBI will be failing in its duty to promote orderly and healthy growth of the securities market. Inferior supervision might distort the path of securities market development. Thus. SEBI as a regulator have not done your duty and are now blaming investors by trying to impose a penalty for no fault of theirs.*

x. *The trades were executed very much within the limits provided by the exchange and within the price that was appearing of the underlying asset, otherwise it could not have been executed. As mentioned in the notice, a trader while trading in illiquid options does not know who he/she is trading with, even if it is a broker.*

xi. *Reliance has been made on the judgement of the Hon'ble Supreme Court in the matter of SEBI vs Kishore Ajmera ((2016) 6 SCC 368] wherein, the Apex Court held in para 26 of the judgment that "... According to us, knowledge of who the 2nd party/ client or the broker is, is not relevant at all. While the screen-based trading system keeps the identity of the parties anonymous it will be too naive to rest the conclusions on the said basis which overlooks a meeting of minds elsewhere". Thus, meeting of minds and knowledge of who the other party is very important which is apparently missing in my client's case.*

xii. *The brokers/ trading members have to be qualified before they are permitted to do stock/ derivatives trading on behalf of the clients/investors. Therefore, in normal course of business an investor who trades in stocks/ derivatives, is not aware of the alleged trades to be non-genuine or reversal.*

xiii. *An investor cannot file any complaint against any broker after the lapse of three years then how come SEBI, without initiating any proceeding against the broker or the exchange concerned, tried to charge penalty against an investor after the lapse of more than nine years. The alleged trades are of the year 2015; for which my client got a hearing opportunity /SCN notice in the year 2024. Such proceedings are ex-facie vitiated in law, and is a complete abuse of process. Such a long delay in initiation of the proceedings by itself poses grave difficulties and extreme hardship for my client defence, highly prejudiced by such inordinate delay* *on the part of SEBI and may not be in a position to locate or lay hands on relevant material / information. In this regard, reference has been made to the judgment of Hon'ble SAT in the matter of Libord Finance Limited vs SEBI [Appeal No. 37/2008, SAT order dated 31.03.2008], wherein Hon'ble SAT has made the following observation - "Before concluding, we cannot resist observing that there has been an inordinate delay in initiating action against the appellant. It is alleged to have committed the irregularities in the earlier part of the year 1996 and the show-cause notice was admittedly issued in June 2004. How could anyone file a proper reply after a lapse of more than eight years. This long delay itself causes grave injustice to the delinquent and results in the violation of the principles of natural justice. Such delays defeat the very purpose of the proceedings."*

xiv. Attention has also been drawn to the judgment of Hon'ble Supreme Court of India in Government of India vs Citadel Fine Pharmaceuticals, Madras & others [AIR (1989) SC 1771], wherein it was held that in the absence of any period of limitation, the authority is requested to exercise its powers within reasonable period.

xv. BSE Officials must be and should be held responsible as they did not raise any objections at the relevant period of the transactions. The alleged trades were carried out on the platform of BSE. If the alleged trades were not allowed, then BSE should have prevented / cancelled the alleged trades at the relevant time itself. Therefore, it seems absolutely clear that BSE believed that such alleged trades were permitted.

xvi. SEBI has allowed and wanted to increase the trade volume in that duration as there was hardly any trading done and to increase the volume during that time, the Liquidity Enhancement Scheme for illiquid securities in F&O segment was introduced. There is every possibility in the thinly traded contracts to get reversed with the same party and there was no ban in doing that. …"

CONSIDERATION OF ISSUES AND EVIDENCE

18. 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) and 4(1) and 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?**

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

<u>Relevant provisions of PFUTP Regulations</u>

3. Prohibition of certain dealings in securities

No person shall directly or indirectly –

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

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognised stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

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

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

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

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

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

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

20. Before proceeding to the merits of the case, it is pertinent to deal with the preliminary contentions with respect to delay raised by Noticee. In this regard, I note that pursuant to a preliminary examination conducted in the Illiquid Stock Options matter, Interim order was passed by SEBI on August 20, 2015 which was confirmed vide Orders dated July 30, 2016 and August 22, 2016. Meanwhile, SEBI initiated a detailed investigation relating to stock options segment of BSE which was completed in the year 2018. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE's stock option segment during the investigation period. The proceedings initiated vide the aforementioned Interim Order were disposed of vide Final Order dated April 05, 2018 also considering that appropriate action was initiated against the said 14, 720 entities in a phased manner. During the course of hearing in the case of R. S. Ispat Ltd v. 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".

21. A Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided one-time opportunity for settlement of proceedings in the Illiquid Stock Options matter. The said scheme was kept open from August 01, 2020 till December 31, 2020. Adjudication proceedings were initiated against those entities who had not availed of the opportunity of settlement. Further, another settlement scheme i.e. **Settlement Scheme 2022**

was introduced from August 22, 2022 to November 21, 2022. Finally, third settlement scheme i.e. **Settlement Scheme 2024** was introduced from March 11, 2024 till June 10, 2024.

22. It is further noted that there are no timelines prescribed in the SEBI Act, 1992 for the purpose of identifying trades as non-genuine. In this regard, it is pertinent to note that, in the matter of **SEBI v. Bhavesh Pabari** (2019) SCC Online SC 294, the Hon'ble Supreme Court of India has, *inter alia,* held that:

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

23. As can be seen from the narration of facts in the foregoing paragraphs, pursuant to appointment of AO on July 27, 2021, SCN dated August 06, 2022 was issued to the Noticee. The said SCN issued to Noticee also informed about the Settlement Scheme 2022. As the Noticee did not avail the settlement scheme, in the interest of natural justice, she was provided opportunity of hearing on June 26, 2023, which were not availed by the Noticee. Subsequently, the Noticee was informed regarding the Settlement Scheme 2024 vide PSI dated March 22, 2024. As the Noticee had not availed the settlement scheme, she was provided opportunities of personal hearing on December 02, 2024 and December 19, 2024. Hence, there has been no delay as alleged by the Noticee.

24. I note that the Noticee has, *inter alia,* stated that certain documents related to the investigation have not been provided to it. In this respect, I note from available records that all the relevant and available documents in the present proceedings have been provided to the Noticee as annexures to the SCN. I further note that the Noticee has vaguely contended that certain documents

were not provided to her without specifying which document has not been provided. Therefore, I find no merit in this contention of the Noticee.

25. I note that it is alleged that the Noticee, while dealing in the stock option contract at BSE during the IP, had executed reversal trades which were allegedly non-genuine trades and the same had resulted in generation of artificial volume in stock option contract at BSE. Reversal trades are considered to be those trades in which an entity reverses it's buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversal trades are alleged to be non-genuine trades as they are not executed in the normal course of trading, lack basic trading rationale, lead to false or misleading appearance of trading in terms of generation of artificial volumes and hence, are deceptive and manipulative.

26. From the documents on record, I note that the Noticee was one of the entities who had indulged in creating artificial volume of 3,92,000 units through six non genuine reversal trades in two stock options contracts during IP. The summary of trades is given below:

Table No. 1

Contract name	**Avg. buy rate (₹)**	**Total buy volume (no. of units)**	**Avg. sell rate (₹)**	**Total sell volume (no. of units)**	**% of Artificial volume generated by the Noticee in the contract to Noticee's Total volume in the contract**	**% of Artificial volume generated by the Noticee in the contract to Total volume in the contract**
A	**B**	**C**	**D**	**E**	**F**	**G**
ADPW15SEP28.00PEW2	3	116000	5.57	116000	100	61.7
FEDB15SEP70.00PEW2	5	80000	7.47	80000	100	33.9

27. To illustrate, on August 28, 2015, the Noticee, at 15:16:06 hours, entered into a buy trade in a contract named viz, "FEDB15SEP70.00PEW2" with counterparty Overactive Merchants Private Limited for 80,000 units at Rs. 5 per unit. On the same day, within a few minutes, at 15:20:00 and 15:20:11 hours,

the Noticee entered into two sell trades with the same counterparty, for 80,000 units at an average price of Rs. 7.47 per unit. It is noted that while dealing in the said contract during the IP, the Noticee executed a total of three trades (one buy trade and two sell trade) with the same counterparty viz, Overactive Merchants Private Limited on the same day and with significant price difference in buy and sell rates. It is observed that the Noticee's three trades while dealing in the aforesaid contract during the investigation period generated artificial volume of 160,000 units, which made up 33.9% of total market volume in the said contract during this period. Similar pattern was observed in the other stock option with the same counter party.

28. Noticee has contended that the trades executed were subject to regulatory supervision, and were not questioned at the time of execution, so the impugned trades which were cleared were genuine. In this regard, I note that the obligation to ensure the genuineness of trades lies squarely on the entities executing the trades and the Noticee is bound to comply with PFUTP Regulations, 2003 in letter and spirit while dealing in the securities market. Hence, the Noticee cannot shift her responsibility by claiming lapses by third parties. Thus, the contentions of the Noticee are not tenable and appear to be an afterthought.

29. The Noticee has argued that if the Noticee would have initiated reversal trade then it ought to have been done within a time gap of less than 5 minutes to have been put into definition of reversal trade. In this regard, the Noticee has placed reliance on the order of Hon'ble Securities Appellate Tribunal (hereinafter referred to as "**SAT**") in the matter **Almondz Entertainment Pvt. Ltd. v. SEBI and** the Adjudication Order in the matter of **Govindji Gupta and others** (MC/DS/20 19-20/6209-6214). I would like to note that the reversal trades are considered to be those trades in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The reversal trades are deemed to be non-genuine trades if they are not executed in the normal course of trading, lack basic trading

rationale, lead to false or misleading appearance of trading in terms of generation of artificial volumes and hence are deceptive and manipulative in nature. Further, I note that the orders of the Hon'ble SAT and the Adjudication Order relied upon by the Noticee emanate from a different factual matrix and, therefore, cannot be applied to the present case. Therefore, this contention of the Noticee lacks merit and cannot be accepted.

30. The Noticee has further contended that the impugned trades were normal trades and in the screen based trading, which is virtually anonymous, it is not possible for anyone to enter into such reversal trades. The Noticee has submitted that while trading in an illiquid option there are more chances of getting the trade squared off with the same party. The Noticee has also contended that in the absence of any evidence of nexus between the parties being pointed out, matching of orders by BSE system cannot be termed as having resulted in artificial volume and shall not be treated as non-genuine.

31. I note that the non-genuineness of these transactions executed by the Noticee is evident from the fact that there was no commercial basis as to why, within a short span of time, the Noticee reversed the position with his counterparty with significant price difference. I note from the trade log of the Noticee that the time taken by the Noticee for reversing the non-genuine trades was about 5-6 minutes, on the same day. Such a short span of time taken for reversing the trades in an illiquid stock option contracts suggests the non-genuineness of these trades executed by the Noticee. The fact that the transactions in a particular contract were reversed with the same counterparty indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. Since these trades were done in illiquid option contracts, there was no significant trading in the said contracts 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, even without any significant variation in the price of the underlying scrip, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. Thus, it is observed

that Noticee had indulged in reversal trades with his counterparties in the stock options segment of BSE and the same were non-genuine trades.

32. It is also noted that it is not mere coincidence that the Noticee could match her trades with the same counterparty with whom she had undertaken first leg of the respective trades. The fact that the transactions in a particular contract were reversed with the same counterparty for the same quantity of units, indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. It is further noted that direct evidence is not forthcoming in the present matter as regards to meeting of minds or collusion with other entities *inter alia* the counterparties or agents/fronts. However, trading behaviour as noted above make it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level.

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

"...*According to us, knowledge of who the 2nd party / client or the broker is, is not relevant at all. While the screen based trading system keeps the identity of the parties anonymous it will be too naïve to rest the final conclusions on the said basis which overlooks a meeting of minds elsewhere. Direct proof of such meeting of minds elsewhere would rarely be forthcoming...in the absence of direct proof of meeting of minds elsewhere in synchronized transactions, the test should be one of preponderance of probabilities as far as adjudication of civil liability arising out of the violation of the Act or provision of the Regulations is concerned. The conclusion has to be gathered from various circumstances like that volume of the trade effected; the period of persistence in trading in the particular scrip; the particulars of the buy and sell orders, namely, the volume thereof; the proximity of time between the two and such other relevant factors. The illustrations are not exhaustive.*

It is a fundamental principle of law that proof of an allegation levelled against a person may be in the form of direct substantive evidence or, as in *many cases, such proof may have to be inferred by a logical process of reasoning from the totality of the attending facts and circumstances surrounding the allegations/charges made and levelled. While direct evidence is a more certain basis to come to a conclusion, yet, in the absence thereof the Courts cannot be helpless. It is the judicial duty to take note of the immediate and proximate facts and circumstances surrounding the events on which the charges/allegations are founded and to reach what would appear to the Court to be a reasonable conclusion therefrom. The test would always be that what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion.*"

34. The observations made in the aforesaid judgment 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, it is observed that the execution of trades by the Noticee in the illiquid options segment with such precision in terms of order placement, time, price, quantity etc. and also the fact that the transactions were reversed with the same counterparty clearly indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. The only reason for the wide variation in prices of the same contract, within a short span of time, was a clear indication that there was pre-determination in the prices by both the counterparty when executing the trades. Thus, the nature of trading, as brought out above, clearly indicates an element of prior meeting of minds and therefore, a collusion of the Noticee with its counterparty to carry out the trades at pre - determined prices.

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

"In other words, if the factum of manipulation is established it will necessarily follow that the investors in the market had been induced to buy or sell and that no further proof in this regard is required. The market, as already observed, is so wide spread that it may not be humanly possible for

the Board to track the persons who were actually induced to buy or sell securities as a result of manipulation and law can never impose on the Board a burden which is impossible to be discharged. This, in our view, clearly flows from the plain language of Regulation 4 (a) of the Regulations."

36. 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 on similar factual situations, which *interalia* 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….."

37. Therefore, the trading behaviour of the Noticee confirms that such trades were not normal, indicating that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contracts. In view of the above, I find that the allegation of violation of regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of PFUTP Regulations by the Noticee stands established.

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

38. Considering the findings that the Noticee as mentioned above has executed non-genuine trades resulting in the creation of artificial volume, thereby violating the provisions of Regulation 3(a), (b), (c) & (d) & Regulation 4(1) and

4(2)(a) of the PFUTP Regulations and in terms of the judgement of Hon'ble Supreme Court of India in the matter of **SEBI v. Shriram Mutual Fund** [2006] 68 SCL 216 (SC) decided on May 23, 2006, wherein it was held that "*In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must made by the defaulter with guilty intention or not.",* I am convinced that it is a fit case for imposition of monetary penalty under the provisions of Section 15 HA of SEBI Act which reads as under:

Penalty for Fraudulent and Unfair trade practices.

15HA. If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

Issue No. 3: If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?

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

Factors to be taken into account while adjudging quantum of penalty.

15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: —

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

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

40. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading in the aforesaid contract. I note that when the impact of artificial volume created by the two counterparties is seen as a whole, it is not possible, from the material on record, to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counter parties or the consequent loss caused to investors as a result of the default. Further, the material available on record does not demonstrate any repetitive default on the part of the Noticee. However, considering that the six non-genuine trades entered by the Noticee in two contracts led to creation of artificial trading volumes which had the effect of distorting the market mechanism in the Illiquid Stock Options segment of BSE, I find that the aforesaid violations were detrimental to the integrity of securities market and therefore, the quantum of penalty must be commensurate with the serious nature of the aforesaid violations.

ORDER

41. In view of the above, after considering all the facts and circumstances of the case and the factors mentioned in the provisions of Section 15J of the SEBI Act, 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, conclude that the proceedings against the Noticee stands established in terms of the provisions of the SEBI Act. Hence, in view of the charges established under the provisions of the SEBI Act, I, hereby impose monetary penalty of **Rs. 5,00,000/- (Rupees**

<u>Five Lakh only</u>) on the Noticee (Tripta Shroff) under section 15HA of SEBI Act for the violation of Regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of PFUTP Regulations. I am of the view that the said penalty is commensurate with the violations committed by Noticee.

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

ENFORCEMENT >Orders >Orders of AO> PAYNOW;

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

44. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticee and also to SEBI.

ASHA SHETTY

Digitally signed by ASHA SHETTY
Date: 2025.03.27 16:09:26 +05'30'

Place: Mumbai **ASHA SHETTY**

Date: March 27, 2025 **ADJUDICATING OFFICER**