BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/BM/DS/2022-23/16264]

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

In respect of

Champa Devi Jalan

(PAN: ATCPJ8241M)

In the matter of Trading in Illiquid Stock Options on BSE

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") observed large scale reversal of trades in stock options segment of Bombay Stock Exchange (hereinafter referred to as "**BSE**"). SEBI observed that such large scale reversal of trades in stock options lead to creation of artificial volume at BSE. In view of the same, SEBI conducted an investigation into the trading activities of certain entities in illiquid stock options at BSE for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as "**IP**").

2. Pursuant to investigation, it was observed that total of 2,91,744 trades comprising 81.40% of all the trades executed in stock options segment of BSE during the IP were allegedly non genuine trades. The aforesaid alleged non-genuine trades resulted into creation of artificial volume in stock options segment of BSE during the IP. It was observed that Champa Devi Jalan (PAN – ATCPJ8241M) (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, deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for alleged violation of the provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as “PFUTP Regulations, 2003”).

APPOINTMENT OF ADJUDICATING OFFICER

3. The undersigned was appointed as Adjudicating Officer in the matter, conveyed vide communique dated September 27, 2021, under Section 19 read with Section 15-I(1) of the SEBI Act, 1992 (hereinafter referred to as “SEBI Act, 1992”) and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as “**Adjudication Rules**”) to conduct adjudication proceedings in the manner specified under Rule 4 of Adjudication Rules read with Section 15-I(1) and (2) of SEBI Act, 1992, and if satisfied that penalty is liable, impose such penalty as deemed fit in terms of Rule 5 of Adjudication Rules and Section 15HA of SEBI Act, 1992.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A Show Cause Notice dated October 20, 2021 (hereinafter referred to as “SCN”) was issued to the Noticee under Rule 4(1) of the Adjudication Rules to show-cause as to why an inquiry should not be initiated against him and why penalty should not be imposed under section 15HA of the SEBI Act, 1992 for the violations alleged to have been committed by the Noticee.

5. It was *inter alia* alleged in the SCN that the Noticee had executed 2 non-genuine trades in 1 Stock Options contract which resulted in artificial volume of total 8,000 units. Summary of dealings of the Noticee in the said Options contracts, in which the Noticee allegedly executed non-genuine trades during the I.P, is as follows:

S. No.	Contract Name	Avg. Buy Rate (Rs)	Total Buy Volume (No. of units)	Avg. Sell Rate (Rs)	Total Sell Volume (No. of units)	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades in the Contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	BHRT15APR350.00CEW4	34.05	4000	59	4000	100	3.77	100	1.03

6. From the above table, following was noted as regard to dealings of the Noticee:
   (a) The Noticee had executed alleged non genuine trades in 1 contract, wherein all the trades of Noticee in the said contract were allegedly non-genuine trades.
   (b) No. of alleged non-genuine trades of the Noticee had significantly contributed to total no. of trades from the market in the above contract, as 3.77% of the trades that happened in the said contract were due to non-genuine trades executed by the Noticee.
   (c) 100% of volume generated by Noticee in the above contract was alleged to be artificial volume, and further, the percentage of alleged artificial volume generated by the Noticee in the above contract to the

total volume from the market in said contract was 1.03%. Therefore, the Noticee allegedly generated artificial volume in the above contract.

7. The SCN with reference no. SEBI/HO/EAD/EAD-3/BM/DS/OW/2021/29081/1 was served on the Noticee via Speed Post Acknowledgement Due (SPAD) and via digitally signed email dated October 21, 2021. The proof of service is on record.

8. It was observed that Noticee did not submit her reply to the SCN till November 12, 2021. In the interest of natural justice, the Noticee was provided an opportunity of hearing vide notice dated November 12, 2021 via SPAD and digitally signed email. The Noticee was advised to appear before the undersigned on November 23, 2021. It was observed that Noticee did not avail the opportunity of hearing. In the interest of natural justice, the Noticee was granted last and final opportunity of personal hearing, vide hearing notice dated December 16, 2021, wherein the Noticee was advised to appear before the undersigned on December 21, through video conferencing mode.

9. Noticee submitted her reply vide letter dated December 15, 2021. The submissions are reproduced hereunder:
   - *It was submitted that in the absence of particular allegations of fraud and attribution of rationale thereof, against the Noticee, the appointment of Adjudicating Officer to enquire and adjudge the allegations against the Noticee.*
   - *Noticee submitted that she was not taking care of her finances and her financial and investment decisions were taken by her son, it is not possible for her to verify the alleged trades. Her awareness to the allegations raised in the Show Cause Notice (for short SCN) is limited to the information provided in the SCN only.*

- *Noticee submitted that there was inordinate delay in issuing the SCN, and no explanation has been provided in the SCN to justify the delay. In this regard, Noticee relied and quoted from the judgement of Hon'ble SAT in the case of Harshil Dipak Shah, dated January 31, 2020. Noticee also relied on judgements of Hon'ble Supreme Court in the case of Bhavesh Pabari (2019) and Joint Collector Ranga Reddy Dist. & Anr. vs. D. Narsing Rao &Ors. (2015) Vol. 3 SCC 695 among others.*
- *It was submitted that the trades conducted by her and the alleged counter-party took place in the normal course without employing any tactic to manipulate the market or otherwise.*
- *It was also submitted that the investigation referred to in the show-cause notice merely brings about a couple of trades conducted by Noticee that allegedly appear manipulative but fail to establish any violation in clear terms or of preponderance of probability heavily in favour of manipulation of any market, to form any definite opinion in the matter.*
- *It was admitted by the Noticee that two trades were executed by Noticee in the contract being BHRT15APR350.00CEW4 on 21st April 2015. Noticee further submitted that it is also a matter of records that while dealing with the aforesaid contract on 21st April 2015 at 13:24:49 hrs, she entered into a buy trade with one N M Impex Private Limited for 4000 units at Rs. 34.05 per unit and also that at 14:10:22 hrs, she had entered into a sell trade with the aforesaid N M Impex Private Limited for 4000 units at Rs. 59.00 per unit. However, only by reason of the fact that I bought and sold the options on the same day with the same counterparty at a substantial price difference does not establish that trades conducted by me are artificial and non-genuine in nature.*

- *Noticee contended that trading in far out of the money options per se is not prohibited as per SEBI Rules and Regulations and the presence of such illiquid option contracts on the exchange itself points to the fact that such trades are not impermissible as per law.*
- *It was contended that the prices at which trades took place were based upon expectations of future market price of underlying stock by both parties and therefore allegations of non-genuine and artificial trade are not borne from the facts on record. It is further stated that such difference in prices cannot become the sole ground for alleging manipulative and artificial trades without any specific evidence to prove synchronised trading or meeting of minds of the parties to the trade.*
- *Noticee submitted that she entered the trade in order to earn a profit and had set the price according to her own estimates of future price of underlying scrip unaware of the counterparty to the contract. Orders were placed on the BSE in a transparent manner and were executed accordingly. There were no attempts to indulge in a synchronised trade with the desire to artificially increase volumes of the contract. Significant change in price of buy and sell orders were a result of the party's outlook of the scrip uninfluenced by any extraneous considerations.*
- *It was submitted that the Noticee and the aforementioned N M Impex Private Limited are not related and/or connected entities and that she has never shared a business relationship or the like. It is further asserted that the impugned trade was conducted under the advice of her broker who does not bear or at no time bore, any business relationship or otherwise, with N M Impex Private Limited.*
- *Noticee submitted that the transactions were entered into without any knowledge as to who the counterparty was since shares were traded as per market mechanism. It was stated that SEBI has failed*

to bring any instance to the fore that could even faintly suggest that Noticee and the said N M Impex Private Limited have acted in concert in order to manipulate the stock options or that if there were any extant arrangement between the parties to engage in manipulative trades. The alleged manipulation by way of reversal trades must involve prior knowledge of the counterparty, which has not been established in the aforesaid show-cause notice. It is asserted that the concerned authority has made unfounded allegations without appreciating if there actually existed any mutual understanding between her and the above-named N M Impex Private Limited to make fraudulent trade or to create false or misleading appearance of trading with respect to the aforesaid securities.

- *Since no collusion with or allusion to prior meeting of minds with counter- party, namely N M Impex Private Limited has been established with Noticee and charges of this nature have been levelled against her, she requested to provide with the opportunity of cross-examining the counter-party to establish that there has not been any prior relationship between us and thereby prove her innocence in this regard.*
- *Noticee relied upon and quoted from SEBI AO Order in the matter of Shakti Pumps (India) Ltd. To contend that as the trades of Noticee were not repetitive in nature, they cannot be called reversal trades.*
- *Noticee submitted that she entered into the option contract and exited from it on the same day. As alleged in the SCN, the trade was entered on one day only. Therefore, there were no regular buy and sell transactions on the same contract between same counterparties on multiple occasions. Therefore, it goes to show that the transaction was a genuine one-off transaction that she had entered solely to make some profits and it was never intended to generate artificial*

volumes in the said options contract. Thus, given the frequency at which the trades were conducted during the above-mentioned investigation period, it is hardly plausible to infer that the same was in the nature of reversal trade undertaken to create false or misleading appearance of trading with respect to the aforesaid securities.

10. Vide mail dated December 16, 2021, the Noticee was informed that her request for cross-examination of counter-party does not not hold any merit, and judgements of Hon'ble SAT in the matter of Mayrose Capfin Private Limited dated March 30, 2012 and Shruti Vora, dated February 12, 2020 were referred therein.

11. The personal hearing was conducted on scheduled date and time through video conferencing. During the course of hearing, Authorized Representative of the Noticee reiterated the submissions made vide letter dated December 15, 2021 and requested for time till January 04, 2022 to submit detailed reply to the SCN, which was granted by the undersigned. The AR was also informed that it was the final hearing and no further hearing shall be granted in the present matter.

12. Vide letter dated January 03, 2022, the Noticee made additional submissions in the captioned matter. Contentions made by him have been summarized below:
    - *The Noticee reiterated its previous submissions denying that she traded in fraudulent manner and referred to SEBI AO Order in the matter of Shakti Pumps (India) Ltd. (2018) to contend that as the trades of Noticee were not repetitive in nature, they cannot be called reversal trades.*

CONSIDERATION OF ISSUES AND FINDINGS

13. I have carefully perused the charges levelled against the Noticee, her reply and the documents / material available on record. The issues that arise for consideration in the present case are:
    (a) Whether the Noticee has violated provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003?
    (b) Does the violation, if any, attract monetary penalty under section 15HA of the SEBI Act, 1992?
    (c) If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act, 1992?

12. Before proceeding further, I would like to refer to the relevant provisions of the PFUTP Regulations, 2003 as below:

PFUTP Regulations, 2003

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

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

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

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

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a

recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

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

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

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

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

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

15. I note from the trade log of the Noticee that she had traded in one contract in the stock options segment of BSE during the IP. It is observed that the Noticee had allegedly executed 2 non-genuine trades in 1 contract. I further note that the above-mentioned trades of the Noticee had resulted in the creation of artificial volume of 8000 units in the said contract. Summary of non-genuine trades of the Noticee is as follows:

S. No.	Contract Name	Avg. Buy Rate (Rs)	Total Buy Volume (No. of units)	Avg. Sell Rate (Rs)	Total Sell Volume (No. of units)	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades in the Contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	BHRT15APR350.00CEW4	34.05	4000	59	4000	100	3.77	100	1.03

16. It is noted that the Noticee had allegedly executed non-genuine trades in said contract, wherein the percentage of alleged non-genuine trades of the Noticee in stock options contract to total trades in the contract was 3.77% in the aforesaid contract. Further, alleged artificial volume generated by Noticee in the contract amounted to 100% of total volume generated by him in the contract. It is also noted that alleged artificial volume generated by the Noticee contributed 1.03% of the total volume from the market in the said contract.

17. The details of squaring up done by the Noticee in the contract 'BHRT15APR350.00CEW4' are as given below :

Trade Date	Client Name	CP Client Name	Trade Time	Trade Rate (Rs.)	Traded Quantity	Buy/Sell by the Noticee

21/04/2015	CHAMPA DEVI JALAN	N M IMPEX PRIVATE LIMITED	13:24:49	34.05	4000	Buy
21/04/2015	N M IMPEX PRIVATE LIMITED	CHAMPA DEVI JALAN	14:10:22	59	4000	Sell

18. Noticee has contended that besides recording common, generic allegations, SEBI has not made observations on Noticee's specific role in alleged reversal in the SCN. As can be seen from the table, the Noticee on April 21, 2015 at 13:24:49 hrs (Order time of Noticee: 13:24:49 and Counterparty Order time: 13:24:49) entered into 1 buy trade with counterparty viz. N M Impex Private Limited for 4000 units at the rate of Rs. 34.05 per unit in the contract 'BHRT15APR350.00CEW4'. Thereafter, on the same day, Noticee at 14:10:22 hrs (Order time of Noticee: 14:10:21 and Counterparty Order time: 14:10:22) entered into 1 sell trade with same counterparty for 4000 units at the rate of Rs. 59.00 per unit in the same contract. It is noted that while dealing in the said contract during the IP, the Noticee executed reversal trades with same counterparty viz. N M Impex Private Limited on the same day, with significant price difference. Thus, the Noticee, through his dealing in the contract viz. 'BHRT15APR350.00CEW4' during the I.P., executed non genuine trades which was 3.77% of the total trades from the market in the said contract during the I.P., and thereby, Noticee generated artificial volume of 8000 units which was 1.03% of the volume traded in the said contract from the market during the I.P.

19. The Noticee submitted that BSE and SEBI have themselves permitted trading in far out of the money options which are at a strike price which may be at large variance to current market price. It was also submitted that the trades were executed in the normal course of business. It was further submitted that only because the trades were executed with same counterparty and at substantial price difference cannot establish the artificial

and non-genuine nature of trades. 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 counterparties with significant price difference. The fact that the transactions in a particular contract were reversed with the same counterparties 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 contract, there was negligible trading in the said contract and hence, there was no price discovery in the strictest terms. The wide variation in prices of the said contract, within a short span of time, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. Thus, it is observed that Noticee had indulged in reversal trades with his counterparty in the stock options segment of BSE and the same were non-genuine trades.

20. Noticee has *interalia* contended that the instant SCN has been issued after 6 years of the execution of impugned trades, and does not state the reasons for delay. Firstly, I note that pursuant to a preliminary examination conducted in the Illiquid Stock Options matter, Interim order was passed by SEBI on August 20, 2015 which was confirmed vide Orders dated July 30, 2016 and August 22, 2016. Meanwhile, SEBI initiated a detailed investigation relating to stock options segment of BSE which was completed in the year 2018. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE's stock option segment during the investigation period. The proceedings initiated vide the aforementioned Interim Order were disposed of vide Final Order dated April 05, 2018 also considering that appropriate action was initiated against the said 14, 720 entities in a phased manner.

During the course of hearing in the case of *R. S. Ispat Ltd Vs SEBI*, the Hon'ble Securities Appellate Tribunal (SAT), vide its Order dated October

14, 2019, *inter alia* observed that "*SEBI may consider holding a Lok Adalat or adopting any other alternative dispute resolution process with regard to the Illiquid Stock Options".*

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

As can be seen from the narration of facts in the foregoing paragraphs, pursuant to appointment of AO on September 23, 2021, SCN was issued on October 20, 2021. In compliance with principles of natural justice, after receipt of reply, an opportunity of personal hearing was scheduled on December 21, 2021 and upon conclusion of hearing, additional written submissions were received from the noticee on January 03, 2022.

21. Secondly, I note that there are no timelines prescribed in the SEBI Act, 1992 for the purpose of identifying trades as non-genuine. In this regard, I feel it is pertinent to note that, in the matter of SEBI Vs Bhavesh Pabari (2019) SCC Online SC 294, the Hon'ble Supreme Court of India has, inter alia, held that:
"There are judgments which hold that when the period of limitation is not prescribed, such power must be exercised within a reasonable time. What would be reasonable time, would depend upon the facts and circumstances of the case, nature of the default/statute, prejudice caused, whether the third-party rights had been created etc."

22. Thirdly, SEBI is the apex regulator in the securities market with overarching authority over all market intermediaries and persons trading in the securities market. In this regard, I note that the Hon'ble SAT in the matter of Pooja Vinay Jain vs SEBI (Appeal No. 152 of 2019 decided on March 17, 2020) held that,

"The record would show that all the documents concerning the defense of the appellant were filed by her before the AO. Therefore, for want of any prejudice the proceedings cannot be quashed simply on the ground of delay in launching the same"

I note that there was no delay the way it has been argued by the Noticee and she has also not specified what prejudice has been caused to her, so the contentions of Noticee in this regard are without merits.

23. The Noticee contended that cross-examination of counter-party would enable her to demonstrate that there was nothing amiss in his trade as they were settled in the normal course of business by the BSE. In this regard it is stated that the question of cross-examining anyone may arise only if a proceeding is based on reliance upon recorded statements of persons. Thus, the right of cross-examination cannot be claimed in the instant proceeding because no statement of any party or counter-party or broker/ dealer has either been recorded or relied upon in the captioned proceeding. It is also noted that in view of sub-rule (5) of Rule 4 of the Adjudication Rules, 1995, the Adjudication proceeding is not bound by the provisions of Indian Evidence Act, 1872. Thus, cross-examination could not be granted as a matter of right in the instant proceeding. I also note that the only documents, the relevant trade logs, relied upon in the matter were duly provided to the Noticee along with SCN dated October 20, 2021, and the same are as follows:

a. Integrated trade log of all reversal trades of Noticee in the stock options segment of BSE during the period April 01, 2014 to September 30, 2015.
b. Summary of all reversal trades.

24. Noticee has further contended that she had no knowledge of counterparty to the trades and that she did not engage in any collusion with the counterparty as alleged. In regard to the aforesaid contentions, I note that it is not mere coincidence that the Noticee could match 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. Hence, the Noticee's contention that the order quantity of the counterparty in one of the trades was different, becomes irrelevant as both the trades were executed for the same number of units of the options contract. This is the outcome of meeting of minds elsewhere and it was a deliberate attempt to deal in such a manner. I note in matters dealing with violation of PFUTP Regulations, 2003, the reason as regards execution of non-genuine trades might not be immediately forthcoming. However, the correct test instead, is one of preponderance of probabilities. Here I would like to rely on the judgment of Hon'ble Supreme Court in SEBI v Kishore R Ajmera (AIR 2016 SC 1079) decided on February 23, 2016, wherein it was held that-*"...According to us, knowledge of who the 2nd party / client or the broker is, is not relevant at all. While the screen based trading system keeps the identity of the parties anonymous it will be too naïve to rest the final conclusions on the said basis which overlooks a meeting of minds elsewhere. Direct proof of such meeting of minds elsewhere would rarely be forthcoming...in the absence of direct proof of meeting of minds elsewhere in synchronized transactions, the test should*

be one of preponderance of probabilities as far as adjudication of civil liability arising out of the violation of the Act or provision of the Regulations is concerned. The conclusion has to be gathered from various circumstances like that volume of the trade effected; the period of persistence in trading in the particular scrip; the particulars of the buy and sell orders, namely, the volume thereof; the proximity of time between the two and such other relevant factors. The illustrations are not exhaustive..."

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

The observations made in the aforesaid judgments of Hon'ble Supreme Court apply with full force to the facts and circumstances of the present case. Therefore, applying the ratio of the above judgments, I am convinced that the execution of trades by the Noticee in the illiquid options segment with such precision in terms of order placement, time, price, quantity etc. and also the fact that the transactions were reversed with the same counterparty clearly indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. The only reason for the wide variation in prices of the same contract, within 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

26. I note that the impugned reversal trades, which were carried out with prior meeting of minds as inferred from the case facts, affected the price discovery and execution of trades as per market mechanism on the stock options segment of BSE. In this regard, I further note the following from the judgement of the Hon'ble SC in the matter of SEBI vs Rakhi Trading Pvt Ltd (supra):

"……….According to SAT, only if there is market impact on account of sham transactions, could there be violation of the PFUTP Regulations. We find it extremely difficult to agree with the proposition. As already noted above, SAT has missed the crucial factors affecting the market integrity, which may bedirect or indirect. The stock market is not a platform for any fraudulent or unfair trade practice. The field is open to all the investors. By synchronization and rapid reverse trade, as has been carried out by the traders in the instant case, the price discovery system itself is affected. Except the parties who have pre-fixed the price nobody is in the position to participate in the trade. It also has an adverse impact on the fairness, integrity and transparency of the stock market."

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

27. Noticee has also contended that the impugned trades were not repetitive and one of transaction, and could not be termed manipulative and deceptive. I note that the impugned stock option contract was illiquid, as

stated in the SCN, and also that Noticee's trades in said contract contributed 1.03% to the total market volume generated during the IP. This points to the contribution of Noticee, irrespective of quantum of reversal trades or volume generated, in the creation of misleading appearance of trading through his impugned trades.

28. Therefore, the trading behaviour of the Noticee confirms that such trades were not normal indicating that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contracts. In view of the above, I find that the allegation of violation of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003 by the Noticee stands established.

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

29. Considering the findings that the Noticee as mentioned above has executed non-genuine trades resulting in the creation of artificial volume, thereby violating the provisions of Regulation 3(a), (b), (c) & (d) & Regulation 4(1) and 4(2)(a) of the PFUTP Regulations, 2003 and in terms of the judgement of Hon'ble Supreme Court of India in the matter of SEBI Vs. Shri RAM Mutual Fund[2006] 68 SCL 216(sc) decided on May 23, 2006 held that '' "*In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant..."* I am convinced that it is a fit case for imposition of monetary penalty under the provisions of Section 15 HA of SEBI Act which reads as under:

Penalty for fraudulent and unfair trade practices.

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

***Issue 3: If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in Section 15J of the SEBI Act, 1992*?**

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

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

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

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

(c) the repetitive nature of the default.

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

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

31. Therefore, I note that Noticee indulged in execution of reversal trades in stock options contracts in the IP which were non-genuine and created false and misleading appearance of trading in terms of artificial volumes in stock options, leading to violation of Regulation 3(a),(b),(c),(d) and 4(1),(2)(a) of the PFUTP Regulations, 2003.

ORDER

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

Name of the Noticee	**Violation provisions**	**Penalty**
Champa Devi Jalan PAN:ATCPJ8241M	Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003	₹ 5,00,000/- (Rupees Five Lakhs only)

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

33. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR

through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link: **ENFORCEMENT → Orders → Orders of AO → PAY NOW**

34. The aforesaid Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to "The Division Chief (Enforcement Department 1 DRA-2), Securities and Exchange Board of India, SEBI Bhavan, Plot No. C – 4 A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051.". The Noticee shall also provide the following details while forwarding DD / payment information:
    - Name and PAN of the Noticee
    - Name of the case / matter
    - Purpose of Payment – Payment of penalty under AO proceedings
    - Bank Name and Account Number
    - Transaction Number

35. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

36. In terms of the provisions of rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticee viz. Champa Devi Jalan and also to the Securities and Exchange Board of India.

Date: April 29, 2022 **BARNALI MUKHERJEE**
Place: Mumbai **ADJUDICATING OFFICER**