BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

ADJUDICATION ORDER NO. Order/PM/NS/2022-23/16078

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:

Rexon Strips Limited

PAN: AABCR4854P

In the matter of *Dealings in Illiquid Stock Options at the BSE*

FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter be referred to as, the "***SEBI***") conducted investigation into the trading activity in illiquid stock options on BSE Limited (hereinafter be referred to as, the "***BSE***") for the period April 01, 2014 to September 30, 2015 (hereinafter be referred to as, the "***Investigation Period***") after observing large scale reversal of trades in the Stock Options segment of the BSE.

2. The investigation revealed that during the Investigation Period, a total of 2,91,744 trades comprising 81.40% of all the trades executed in the BSE Stock Options Segment were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract. It was observed that Rexon Strips Limited, (hereinafter be referred to as, the "***Noticee***") was one such client whose reversal trades involved squaring off open positions with a significant price difference without any basis for such change in the contract price. The aforesaid reversal trades allegedly resulted into generation of artificial volumes, leading to allegations that the Noticee had violated the provisions of Regulation 3(a), (b), (c), (d) and Regulation 4(1), 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter be referred to as, the "***SEBI PFUTP Regulations***").

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer under Section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter be referred to as, the "***SEBI Act***") read with Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter be referred to as, the "***SEBI Adjudication Rules***") *vide* order dated June 21, 2021 to inquire into and adjudge under Section 15HA of the SEBI Act, against the Noticee for the alleged violation of aforesaid provisions of SEBI (PFUTP) Regulations. The appointment of the AO was communicated *vide* order dated July 27, 2021.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A Show Cause Notice dated September 21, 2021 (hereinafter be referred to as, the "***SCN***") was served upon the Noticee under Rule 4(1) of the SEBI Adjudication Rules to show cause as to why an inquiry should not be held and penalty be not imposed against it under Section 15HA of the SEBI Act for the alleged violation of the provisions of Regulations 3(a),(b),(c),(d) and 4(1), 4(2)(a) of the PFUTP Regulations.

5. The allegations levelled against the Noticee in the SCN are summarized as below:

a) That the Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in Stock Options segment of the BSE during the Investigation Period.

b) That the Noticee engaged in 59 instances in 17 unique contracts which led to generation of artificial volume in these unique contracts.

c) The trades entered by the Noticee were reversed on the same day with the same counterparties at a substantial price difference without any basis for significant change in the contract price, which indicates that these trades are artificial and are non-genuine in nature.

d) A summary of dealings of the Noticee in the 17 Stock Options contracts in which the Noticee executed non-genuine reversal trades during the Investigation Period are as under:

Table1: Summary of dealings of Noticee in contracts wherein the Noticee executed reversal trades

Sl. 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 the Noticee in the contract to Total trades in the contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	ALBK15AUG80.00CE	6.5	160000	9	160000	100	100
2	ALBK15SEP90.00PEW3	7.38	128000	11.32	128000	100	100
3	ALLD15OCT80.00CEW1	5.5	88000	10	88000	100	100
4	ANBK15SEP75.00PEW3	10.26	220000	14.84	220000	43.75	50
5	FEDB15SEP65.00PEW2	6.21	124000	10.5	124000	100	100
6	IFCI15SEP24.00PE	4.2	80000	6.6	80000	8.33	10.87
7	IFCI15SEP26.00PEW1	4.09	272000	6.4	272000	100	100

8	IFCI15SEP26.00PEW3	6.2	80000	9.4	80000	21.43	19.61
9	INCM15SEP80.00PEW1	9.5	28000	13	28000	28.57	29.17
10	PNBK15AUG155.00CE	6	168000	9	168000	50	70.59
11	PTCI15SEP50.00CEW1	5.93	120000	9.9	120000	23.08	58.82
12	RCOM15SEP70.00PEW1	7.6	72000	11	72000	50	94.74
13	RPOW15SEP44.00PEW3	4.5	88000	7.4	88000	13.33	19.64
14	SIEM15SEP1230.00CEW1	58	14250	86.05	14250	33.33	41.61
15	SYND15SEP80.00CEW1	2.8	96000	6.15	96000	60	82.76
16	TATP15AUG65.00PE	3.9	328000	6.95	328000	60	82.83
17	UCOB15SEP45.00PEW2	2.4	12000	4.4	12000	50	15

e) By indulging in execution of aforesaid non-genuine reversal trades, the Noticee has violated Regulations 3(a),(b),(c),(d) and 4(1), 4(2)(a) of the SEBI (PFUTP) Regulations, text of which is reproduced as under:

*"**SEBI (Prohibition of Fraudulent and Unfair Trading Practices Related to Securities Markets) 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 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 recognized stock exchange;

(d) Engage in any act, practice, and 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 or 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;

…..”

6. The Noticee vide the aforesaid email dated December 01, 2021 submitted its reply to the charges alleged in the SCN, which are as follows:

- *With reference to para 1 to para 3 of the Show Cause Notice, the company submits that the said paras do not make any specific allegations against them and hence do not merit any comments from them at this stage.*

- *With reference to para 4 of the Show Cause Notice, the company repeat & reiterate that the company never indulged in the execution of any non-*

genuine trades as alleged in the said SCN. The company submit that the company have traded in the Stock Option segment of BSE in normal course of business.

- *With reference to para 5 of the Show Cause Notice, the company submits that the company have no connections with the alleged counter party VATAN ENCLAVEPRIVATE LIMITED. Also, the SCN has failed to establish any connections between both the parties and the alleged counter party apart from the presumption that the trades between us are matching trades. The company submits the trades the company executed on the floor of the exchange which is a blind mechanism wherein the trading system prevents a member who places any orders from identifying the counter-party member or client and thus ensures anonymity of trades. Hence, it is highly unlikely that our company was aware about the counter party and matching of 2 trades on a given day is coincidental and by no stretch of imagination can the trades be termed as non-genuine or for creating artificial volume as alleged in the SCN. Therefore, any price variation in the meantime, is a market phenomenon on which the company do not have any control. The allegation in the SCN about 100% of total trades being non-genuine has been interpreted in an erroneous manner. The Company had purchased shares and when the prices started soaring up; the company decided to sell the shares in a bid to make profit whatever residual possible. No adverse inference be drawn for such intraday trades by the company Without prejudice to all the above, we wish to make the following submissions on each and every aspect with regard to the findings / observations / allegations highlighted in the said notice.*

- *With reference to para 6 of the Show Cause Notice, the company denies having executed any non-genuine trades. The mode and mechanism of Stock market is such that loss and profit cannot be definitely determined. The prices of any shares/stocks vary due to various components including*

Sentiments, market conditions, economic and political development etc. Therefore, only for reasons of huge price variations, the trades by the Company cannot be classified as non-genuine. Hence any matching of trades by a particular counter party could be a matter of chance and not a pre-determined activity for any purpose

- *With reference to para 7 of the Show Cause Notice, the company submits that the tables and annexure attached in the Show Cause notice do not reflect the correct interpretation of the trades carried out by them. To put it more precisely, the trades by the company were at most intraday trades wherein the company had purchased some stocks and on huge price variations, the company have sold them. For each of such trades there are contract notes generated by the broker for the company. The SCN has taken each contract note as if the total volume of trades in that instance and have indicated percentages of non-genuine trades in comparison to each contract note of the company. The fact remains that there have been huge volumes in the same stocks at the same instances through voluminous trades by other entities/persons and when our contract note is assumed against the total volume then, it turns out to be minimal which at best could be a matter of chance. The company reiterates that our instructions are to the share broker to carry out buy or sell transactions. The company is not even aware who would be the counter party in the blind mechanism. The Company once again submits that under the given conditions, it was not possible for the company to even assume that the trades entered by them were non-genuine or done with the intention to create artificial volume.*

- *With reference to para 8 to para 9 of the Show Cause Notice, the company denies that the company have violated the provisions of Regulation 3(a), (b), (c), (d), and 4(1), 4(2) (a) of Page 9 of 18 PFUTP Regulations,2003. Therefore, the company humbly requests that the present proceedings* *against them may not be continued and the company may be exonerated from all the charges and no penalty be imposed against the company under section 15HA of SEBI ACT, 1992, as mentioned in the captioned show cause notice*

- *The company says that the said trading system prevents a member who places any orders from identifying the counterparty member or client and thus ensures anonymity of trades. The system does not even display details of all the pending orders; rather it only displays the 5 best pending orders. Therefore, at any given point of time, it is impossible to even verify the party & counter party of these transactions. The company further states that there was no alert from the broker or the Exchange which would prompt the company to take any caution or create an alarm to stop trading. Under these circumstances, it is erroneous to come to a conclusion that the company had executed non-genuine trades which resulted in artificial volume.*

- *That these scripts, in which the company traded, they were at no time banned and hence there was no bar on trading in the said scripts. Therefore it would be too far reached for us to assume that these shares are so called "ill-liquid. That there was no alert from exchange. The BSE allowed trading in these shares renders our bonafides in trading in these shares. That there was no meeting of mind with the alleged counter parties. Matching of trades is a matter of coincidence. That the company did not have any connection with the counter parties and that the company are merely a trader/consumer and the company have been made a victim of the trading mechanism. Therefore, the company humbly request that a lenient view be taken and the present proceedings against them may be dropped and the company may be exonerated from all the charges and no penalty be imposed against them under section 15HB of SEBI ACT, 1992, as mentioned in the captioned show cause notice.*

7. After considering the facts and circumstances of the case, an opportunity of personal hearing was granted to the Noticee on December 15, 2021 vide hearing notice dated December 08, 2021, However Noticee requested adjournment of the said hearing which was acceded to. Further, an opportunity of personal hearing was granted to the Noticee December 22, 2021 *vide* email, dated December 16, 2021. In view of the prevailing circumstances owing to Covid-19 pandemic, the hearing was scheduled through video conferencing on Webex platform. On the scheduled date of hearing, the Authorized Representative of the Noticee appeared before me through video conference and reiterates the submission made by Noticee on December 01, 2021. AR also requested time to make further submission, which was acceded to. Subsequently, vide letter dated January 01, 2022 Noticee made additional submission which includes contract note and bhav copy.

CONSIDERATION OF ISSUES AND FINDINGS

8. The issues that arise for consideration in the instant matter are:

Issue No. I Whether the trading in illiquid Stock Options done by the Noticee during the Investigation Period were in violation of Regulations 3(a), (b), (c), (d) and 4(1) & 4(2)(a) of the PFUTP Regulations?

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

Issue No. III If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5 (2) of the SEBI Adjudication Rules?

Issue No. I **Whether the trading in illiquid Stock Options done by the Noticee during the Investigation Period were in violation of Regulations 3(a), (b), (c), (d) and 4(1) & 4(2)(a) of the SEBI (PFUTP) Regulations?**

9. I note that the position/trades entered into by the Noticee were squared up within a short span. The striking feature of the trades of the Noticee was that all the positions/trades were squared with the same counterparties with whom Noticee had originally traded/created position. The squaring up of the position/trade was at the substantial variation of price from the original position/trade. Thus, it was alleged that the Noticee had indulged in reversal trades. The said allegation was supported with evidence from the trade log containing records of all trades and reversal trades carried out by the Noticee in the Stock Options segment of the BSE during the Investigation Period and was also provided to the Noticee along with the SCN. On perusal of the details of trades carried out by the Noticee, it is observed that the Noticee took positions and then squared it up in 59 instances in 17 unique option contracts during the Investigation Period.

10. To illustrate, on August 24, 2015, the Noticee sold 160000 units of the contract ALBK15AUG80.00CE at 13:50:10 to Vatan Enclave Private Limited at a price of ₹9. Thereafter, the Noticee reversed its position by purchasing 160000 units from the same counterparty (i.e Vatan Enclave Private Limited) on the same day at 13:57:29 at a price of ₹6.5 Thus, the position of the Noticee was squared up at an average difference of Rs. 2.5. The entire volume of 320000 units in the said option contract was arising out of the trades done by the Noticee.

11. A similar *modus operandi* is seen to be adopted by the Noticee in his trades in other option contracts. It is observed from the trading of the Noticee that in all the trades of the Noticee the buy order and sell order has been entered within a short span of time. 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 same counterparties with significant price difference. Such a short span of time taken for reversing the trades in an illiquid stock option contract suggests the non-genuineness of these trades executed by the Noticee. The fact that the 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 contracts, there was no trading in the said contract and hence, there was no price discovery in the strictest terms. The wide variation in prices of the said contracts, within a short span of time, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. 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.

12. From the reply of the Noticee, I note that the Noticee has not disputed execution and subsequent reversal of trades as alleged in the SCN. However, Noticee had contended that the transactions were carried out at an anonymous platform provided by the BSE. The Noticee has also contended that there is nothing in SCN to show that he has violated any law and there is nothing in SCN which can prove that trade executed by the him are illegal. Noticee had also contended that he executed his trades on the platform of stock exchange and his trades were cleared by the stock exchange without any alert. Noticee had further contended that the allegation in the SCN about 100% of total trades being non-genuine has been interpreted in an erroneous manner. Noticee also contended, that these scripts, in which the company traded, they were at no time banned and hence there was no bar on trading in the said scripts. Therefore it would be too far reached for us to assume that these shares are so called "ill-liquid .Firstly, I note that stock exchange merely provides a platform for carrying out the trades, while the obligation to ensure genuineness of trades as regards instant considerations primarily lies on the Noticee. Secondly, I note that the allegations against the Noticee have been cogently spelt out in the SCN, wherein it has been alleged that Noticee executed non-genuine reversal trades in 17 stock option contracts. Also, the evidences relied upon as regards aforesaid allegations have been provided as annexures to the SCN. Therefore, I note that the role of Noticee qua execution of reversal trades has been clearly laid out in the SCN, therefore the contentions of Noticee in this regard are without merits. Thus, I reject the contentions of the Noticee in this regard.

13. From the available record, I note that the Noticee had executed the trades and subsequent reversal of trades as alleged in the SCN. In this regard, it may be noted that the Noticee was given details of its trades in the BSE options segment and the details of the trades, which are alleged to be reversed and manipulative. The material provided to the Noticee is sufficient to level allegation of non-genuine trades on the Noticee. Further, I find it relevant to refer to the decision of the Hon'ble Supreme Court in the matter of ***Securities and Exchange Board of India v. Kishore R. Ajmera [(2016) 6 SCC 368: AIR 2016 SC 1079]*** *wherein, the Supreme Court has held, "…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 conclusions on the said basis which overlooks a meeting of minds elsewhere. Direct proof of such meeting of minds elsewhere would rarely be forthcoming. The test, in our considered view, is one of preponderance of probabilities so far as adjudication of civil liability arising out of violation of the Act or the provisions of the Regulations framed thereunder is concerned….".* Placing reliance of the observation of the Hon'ble Supreme Court in the aforementioned matter, I cannot accept the submission of the Noticee that transactions were genuine on account of them being carried out on an anonymous platform of the exchange wherein, the Noticee had no knowledge of the counterparty. The manner of placement of the orders in both legs signify that the orders were entered in a premeditated manner and were not genuine in any manner.

14. Noticee has further contended that he had no knowledge of counterparty to the trades. I note that it is not mere coincidence that Noticee could match his trades with the same counterparties 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 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 - "…*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..."*

15. 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."*

16. I note that direct evidence is not forthcoming in the present matter as regards to meeting of minds or collusion of the Noticee with other entities. However, I note that the trading behaviour of the Noticee makes it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level. In this context, I deem it 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 the Hon'ble SAT has held that - "The nature of transactions executed, the frequency with which such transactions are undertaken, the value of the transactions, the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is from the cumulative effect of these that an inference will have to be drawn*."

17. Noticee has further interalia contended that the quantum of his trades was very miniscule to warrant any adverse inference. I note that as regards instant considerations, the absence of market rationality and other attending circumstances, taken together, clearly establish that the impugned trades of the Noticee were non-genuine, irrespective of the quantum of the said trades. I note that the impugned stock option contracts were illiquid, as stated in the SCN,. Therefore, the Noticee's trades, irrespective of the quantum of such trades, contributed subsequentely to the volume generated in the aforesaid contract. This points to the contribution of Noticee in the creation of misleading appearance of trading through his impugned trades. Therefore, I cannot accept the aforesaid contention of the Noticee.

18. At this juncture, I find it relevant to refer to the decision of the Supreme Court in the matter of ***Securities and Exchange Board of India*** v. ***Rakhi Trading Private Limited*** (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 dated

February 08, 2018) wherein, the Hon'ble Supreme Court while cumulatively analyzing the reversal transactions held that, "*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"* The Court further stated that *"……quantity, time and significant variation of prices, without major variation in the underlying price of the securities clearly indicate that Respondent's trades are not genuine and hand only misleading appearance of trading in the securities market…..*".

19. Applying the ratio of the Supreme Court in the matter of ***Kishore R. Ajmera*** (*supra*) and ***Rakhi Trading*** (*supra*), I am of the view that execution of trades in an illiquid market with such precision in order placement indicates a prior meeting of mind with a view to execute the reversal trades at a pre-determined price. The Noticee has failed in explaining the rationale for the trading as mentioned in Table 1 wherein it has taken a position at a particular price and squared it up at significant price difference without any substantial variation in the price of underlying. Since, the option contracts were done in illiquid contracts (as the strike price was far away from the market price of underlying), there was no trading in the said contract and hence no price discovery. The only reason for the wide variation in prices of the same contract, within short span of time, was pre-determination in the prices by both counterparties when executing the trades. Thus, the nature of trading as brought out above clearly indicates an element of prior meeting of minds and therefore, a collusion to carry out trades at pre-determined prices. It is not possible to comprehend the reason for which the Noticee would enter into an option contract with a strike price very far away from the current market price of the underlying except for the fact that it wanted to execute non-genuine trades.

20. I further note that the Supreme Court in the matter of ***Rakhi Trading*** (*supra*), has held that, "*Regulation 2(1)(c) defines fraud. Under Regulation 2(1)(c)(2) a suggestion as to a fact which is not true while he does not believe it to be true is fraud. Under Regulation 2(1)(c)(7), a deceptive behavior of one depriving another of informed consent or full participation is fraud. And Under Regulation 2(1)(c)(8), a false statement without any reasonable ground for believing it to be true is also fraud. In a reverse dealing in securities, with predetermined arrangement to book loss or gain between pre-arranged parties, all these vices are attracted."* I am of the considered 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. The non-genuine and deceptive transactions of the Noticee are, prima-facie, 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 the SEBI (PFUTP) Regulations, 2003 and prohibited under the provisions of Regulations 3(a), (b), (c) and (d) and 4(1) and 4(2)(a) SEBI (PFUTP) Regulations, thereof.

21. I once again find it relevant to place reliance on the decision of the Supreme Court in ***Rakhi Trading*** (*supra*) wherein, the Supreme Court while decision upon a case involving execution of reversal trades in index options, observed, "*the traders thus having engaged in a fraudulent and unfair trade practice while dealing in securities are hence liable to be proceeded against for violation of Regulations 3(a), 4(1) and 4(2) (a) of the PFUTP Regulations*."

22. In view of the aforesaid findings, I find that the Noticee, by engaging in such non-genuine transactions, created a misleading impression of trading in respective contracts while dealing in Stock Options contracts in a fraudulent manner I am of the considered view that the aforesaid act of the Noticee is in clear violation of Regulation 3(a), (b), (c), (d), 4(1) and 4(2) (a) of the SEBI (PFUTP) Regulations.

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

&

Issue No. III **If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5 (2) of the Adjudication Rules?**

23. Since violation of Regulation 3(a), (b), (c), (d), 4(1) and 4(2) (a) of the SEBI (PFUTP) Regulations by the Noticee is established, I am of the view that the same warrants imposition of monetary penalty upon the Noticee under Section 15HA of the SEBI Act, text of which is produced as under :

> ***SEBI Act***
>
> "***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.*"

24. While determining the quantum of penalty under Section 15HA of the SEBI Act, the following factors stipulated in Section 15J of the SEBI Act, have to be given due regard:

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.

25. As established in the preceding paragraphs, the trades carried out by the Noticee were non-genuine in nature and created a misleading appearance of trading. As brought out earlier, such trades were carried out by the Noticee in illiquid stock options contracts where there was negligible participation by the public. Investigation has shown amount of profit / loss of the counterparties to the trades as a result of such non-genuine trades. However, considering that the violation by the Noticee is creation of artificial trading volumes by trading between two counterparties and wider market is not involved in the trades, the trades are such that one of the counterparty books a profit while the other counterparty books a loss. Hence, it would be appropriate to consider the impact of these transactions between the two counterparties in totality. When the impact of artificial volumes created by the two counterparties is seen as a whole, it is not possible from the material available on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counterparties or the consequent loss caused to investors as a result of the default.

ORDER

26. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15I (2) of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of ₹5,00,000/- (Rupees Five Lakhs only) upon the Noticee i.e., Rexon Strips Limited., under Section 15HA of the SEBI Act for violation of Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the SEBI (PFUTP) Regulations.

27. The said penalty imposed on the Noticee, as mentioned above, is commensurate with the violation committed by the Noticee and acts as a deterrent factor for the Noticee and others in protecting the interest of investors.

28. The Noticee shall remit / pay the said amount of penalty within 45 days from the date 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 SEBI website **www.sebi.gov.in** on the following path by clicking on the payment link.

ENFORCEMENT → Orders → Orders of AO → PAY NOW

29. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid through e-payment to the Division Chief, Enforcement Department-I, DRA-VI, SEBI, in the format as given in table below:

Case Name	
Name of Payee	
Date of payment	
Amount Paid	
Transaction No	
Bank Details in which payment is made	
Payment is made for	Penalty

30. Copies of this Adjudication Order are being sent to the Noticee and to SEBI in terms of Rule 6 of the SEBI Adjudication Rules.

Date: April 21, 2022
Place: Mumbai

PRASANTA MAHAPATRA
ADJUDICATING OFFICER