BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OFINDIA

ADJUDICATION ORDER NO. EAD-7/BJD/NJMR/2018-19/1496

UNDER SECTION15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT,1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES,1995

In respect of

Pepson Steels Private Ltd.,
(PAN: AADCP4366N)
Registered Office & Works
IDCO Plot No. 219 A, B & C, Industrial Estate
Opp: IFGL Refractories Ltd.,
Kalunga – 770031. District Sundargarh.
Odisha.

In the matter of Illiquid Stock Options at BSE

BACKGROUND

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") leading to creation of artificial volume. Accordingly, SEBI conducted an investigation into the trading activities of certain entities in Illiquid Stock Options at BSE (hereinafter, referred to as "investigation") for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period").

2. It was observed that during the investigation period, total 2,91,643 trades comprising substantial 81.38% of all the trades executed in Stock Options Segment of BSE were found to be non-genuine trades. The aforesaid non-genuine trades resulted into creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in Stock Options segment of BSE during the investigation period.

3. It was observed that the said non- genuine trades were not restricted to any specific contract or between any specific set of entities. It was observed that

Pepson Steels Private Ltd., (hereinafter referred to as “Noticee”) was one of the various entities which were indulged in execution of non-genuine trades in Stock Options Segment of BSE during the investigation period. The following points narrate the dealings of the Noticee during the investigation period and the allegations against it for execution of non-genuine trades.

4. As regards to all the dealings of the Noticee in the Stock Options segment of BSE during the investigation period, it was observed that the Noticee had traded in 42 unique contracts, from which it has allegedly executed non genuine trades in 42 contracts wherein it executed total 100 non-genuine trades, which resulted in artificial volume of total 1,63,07,250 units.

5. Summary of dealings of the Noticee in 42 Stock Options contracts in which the Noticee allegedly executed non genuine trades during the investigation period is as follows:

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non Genuine trades of Noticee in the contract to Noticee’s Total trades in the Contract	% of Non Genuine trades of Entity 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	ADPW15JUN34.00CEW1	3.95	168000	6.95	168000	2	2	4	100%	50%	100%	54%
2	ADPW15MAY36.00CEW3	4.00	88000	6.25	88000	2	2	18	100%	11%	100%	10%
3	ALBK15MAY100.00CEW3	5.70	162000	8.15	162000	2	2	2	100%	100%	100%	100%
4	ANBK15MAY70.00CE	4.00	180000	8.20	180000	2	2	10	100%	20%	100%	28%
5	ANBK15MAY70.00CEW3	6.30	132000	9.30	132000	2	2	10	100%	20%	100%	20%
6	ARVI15APR250.00CE	13.00	350000	23.00	350000	2	2	2	100%	100%	100%	100%
7	BATA15MAR1200.00CE	1.00	166500	16.00	166500	2	2	8	100%	25%	100%	63%
8	BIOC15APR400.00CE	25.50	43500	48.50	43500	2	2	10	100%	20%	100%	9%
9	CANB15MAR400.00CE	6.00	250000	18.00	250000	2	2	10	100%	20%	100%	22%
10	DABU15MAR265.00CE	1.90	285000	8.90	285000	2	2	2	100%	100%	100%	100%
11	DISH15JUN110.00PEW2	10.20	92000	17.80	92000	2	2	2	100%	100%	100%	100%
12	DLFL15JUL100.00CEW3	11.30	166000	17.30	166000	2	2	2	100%	100%	100%	100%

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Entity 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
13	EXID15JUN155.00PEW1	1.20	90000	3.40	90000	2	2	2	100%	100%	100%	100%
14	EXID15MAY165.00PEW1	6.20	72000	13.53	72000	4	4	4	100%	100%	100%	100%
15	GRSM15MAR3650.00PE	7.00	51125	52.00	51125	2	2	16	100%	13%	100%	31%
16	HULL15MAR920.00CE	15.00	64500	32.00	64500	2	2	4	100%	50%	100%	52%
17	IBRL15JUL65.00PE	7.30	172000	11.90	172000	2	2	6	100%	33%	100%	64%
18	IBRL15MAY65.00PEW3	5.00	148000	7.00	148000	2	2	10	100%	20%	100%	27%
19	IDBI15JUL45.00PEW2	0.05	200000	2.65	200000	2	2	6	100%	33%	100%	52%
20	IDBI15MAY60.00CEW2	6.50	76000	9.50	76000	2	2	4	100%	50%	100%	50%
21	IDBI15MAY75.00PE	3.70	100000	6.20	100000	2	2	6	100%	33%	100%	44%
22	IDFC15MAY150.00CEW2	8.30	84000	5.30	84000	2	2	2	100%	100%	100%	100%
23	IFCI15JUN16.00CE	6.50	304000	10.80	304000	2	2	2	100%	100%	100%	100%
24	IFCI15MAY26.00CE	3.20	128000	5.20	128000	2	2	28	100%	7%	100%	17%
25	IFCI15MAY28.00CE	2.00	168000	3.20	168000	2	2	16	100%	13%	100%	50%
26	IOBL15MAY36.00CEW3	6.60	84000	9.00	84000	2	2	18	100%	11%	100%	11%
27	IOCL15MAR340.00CE	2.00	117000	10.50	117000	2	2	22	100%	9%	100%	13%
28	JAIA15SEP14.00PE	3.00	152000	5.00	152000	9	9	11	100%	82%	100%	59%
29	JPPW15JUN14.00PEW1	4.60	255000	6.60	255000	2	2	8	100%	25%	100%	40%
30	NHPC15AUG20.00CEW3	0.05	407000	1.29	407000	3	3	6	100%	50%	100%	36%
31	NHPC15JUN10.00CEW2	5.50	190000	9.10	190000	2	2	16	100%	13%	100%	73%
32	NHPC15JUN10.00CEW3	5.50	410000	9.20	410000	2	2	6	100%	33%	100%	67%
33	NHPC15MAY14.00CEW2	3.10	150000	5.10	150000	2	2	16	100%	13%	100%	17%
34	RCOM15AUG85.00CEW2	0.05	244000	2.11	244000	4	4	10	100%	40%	100%	48%
35	RCOM15JUL55.00PEW3	0.05	940000	1.27	940000	4	4	19	100%	21%	100%	35%
36	RPOW15MAY60.00PEW2	4.00	188000	5.60	188000	2	2	2	100%	100%	100%	100%
37	SAIL15JUL45.00PE	0.05	228000	2.70	228000	4	4	16	100%	25%	100%	21%
38	SYND15SEP70.00CEW3	5.00	54000	7.80	54000	2	2	6	100%	33%	100%	44%
39	UCOB15JUL45.00PE	0.05	488000	2.10	488000	2	2	39	100%	5%	100%	17%
40	UCOB15JUL65.00PE	6.00	136000	11.30	136000	2	2	10	100%	20%	100%	27%

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Entity 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
41	UNIT15MAY18.00PEW2	2.50	270000	3.60	270000	2	2	4	100%	50%	100%	67%
42	YESB15MAR800.00CE	21.00	100000	48.00	100000	2	2	14	100%	14%	100%	21%

6. From the above table, the following is observed as regards to dealings of the Noticee:

   a) The Noticee had executed non genuine trades in 42 contracts, wherein in respect of 10 contract, all the trades were non genuine trades.
   b) The number of non-genuine trades of the Noticee had significantly contributed to the total number of trades from the market in the above contracts, as a substantial 5% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by the Noticee.
   c) A substantial 9% to 100% of volumes generated by the Noticee in each of the above contracts were artificial volume, and further artificial volume generated by it also contributed to significant contribution of the total volume from the market in said contracts.
   d) Non genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

7. In view of the foregoing, it was alleged that the Noticee, indulged in execution of reversal of trades in Stock Options with same entities on the same day. Such trades are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore alleged to be manipulative, deceptive in nature. Thus, it was alleged that the Noticee had violated the provisions of Regulation 3(a), (b), (c), (d), 4(1) and 4(2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003.

APPOINTMENT OF ADJUDICATING OFFICER

8. Pursuant to investigation, SEBI, after being satisfied that there are sufficient grounds to inquire into the affairs and adjudicate upon the alleged violations as mentioned above inter-alia in respect of the Noticee, had appointed the undersigned as the Adjudicating Officer vide Order dated April 3, 2018, under section 19 read with section 15I(1) of the SEBI Act, 1992 and Rule 3 of SEBI(Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter, referred to as "SEBI Adjudication Rules") to conduct adjudication proceedings in the manner specified under rule 4 of SEBI Adjudication Rules, 1995 read with section 15I (1) and (2) of SEBI Act, and if satisfied that penalty is liable, impose such penalty deemed fit in terms of Rule 5 of SEBI Adjudication Rules 1995 and Section 15HA of SEBI Act.

SHOW CAUSE NOTICE, REPLY AND HEARING

9. A Show Cause Notice (hereinafter referred to as "SCN") bearing ref. no. SEBI/HO/EAD-7/BJD/NJMR/23552/2018 dated August 23, 2018 was served upon the Noticee under Rule 4 of SEBI Adjudication Rules to show cause as to why an inquiry be not held against him in terms of Rule 4 of the Adjudication Rules and penalty be not imposed under Section 15HA of SEBI Act, 1992 for the violations alleged to have been committed by it.

10. The Noticee vide its letter dated September 15, 2018 *(received on September 21, 2018)*, requested for extension of one month for filing its reply to the charges alleged in the SCN. Further, the Noticee vide letter dated October 4, 2018 *(received on October 9, 2018)* sought certain documents relating to the current Adjudication proceedings. Vide Notice dated October 15, 2018, the Noticee was informed that all the documents which were related and relied upon in the present Adjudication proceedings were provided along with the SCN. Accordingly, the Noticee was given one more opportunity to file its reply, if any, to the charges alleged in the SCN, by October 31, 2018.

11. Vide the aforesaid notice dated October 15, 2018, in the interest of natural justice and in terms of Rule 4 (4) of Adjudication Rules, the Noticee was also provided with an opportunity of personal hearing on November 1, 2018. The Noticee vide letter dated October 29, 2018 expressed its inability to attend the personal hearing scheduled on November 1, 2018 and also sought extension of time till 2nd week of December 2018.

12. In this connection, I would like to emphasise that the SCN dated August 23, 2018 was served upon the Noticee on September 7, 2018. As per the SCN, the Noticee was required to submit its reply, if any, within 14 days from the date of receipt of the SCN. The Noticee vide its initial letter dated September 15, 2018 sought extension of 4 weeks to submit its reply. In the meanwhile, the Noticee vide letter dated October 4, 2018 sought certain documents and again requested 4 weeks to submit its reply to the SCN. Further, pursuant to receipt of notice of hearing dated October 15, 2018, the Noticee vide letter dated October 29, 2018 requested for adjournment of personal hearing and again sought 4 weeks to furnish its reply.

13. The Noticee was informed that if no reply was received and/or no appearance is made for personal hearing by October 31 and November 1, 2018 respectively, the matter shall be decided on the basis of the facts / material available on record in terms of sub-rule (7) of Rule (4) of the Adjudication Rules. From the foregoing of facts, I note that it has been almost two months since the date of receipt of SCN by the Noticee, yet the Noticee has failed to submit its reply to the charges alleged in the SCN and also failed to avail an opportunity of personal hearing. I am of the view that the Noticee choose to delay the proceedings by seeking extension of time repeatedly, despite being provided sufficient time and opportunity for filing its reply and personal hearing. I note that the Noticee has been making repeated requests for extension of time to submit its reply and to appear for personal hearing, which is not tenable.

14. In this regard, I would like to refer to the observations of the Hon'ble Securities Appellate Tribunal (SAT) in the matter of Dave Harihar Kirtibhai Vs SEBI

(Appeal No. 181 of 214 dated December 19, 2014), wherein the Hon'ble SAT observed as under:

"...further, it is being increasingly observed by the Tribunal that many persons/entities do not appear before SEBI (Respondent) to submit reply to SCN or, even worse, do not accept notices/letters of Respondent and when orders are passed ex-parte by Respondent, appear before Tribunal in appeal and claim non-receipt of notice and do not appear and/or submit reply to SCN but claim violation of principles of natural justice due to not being provided opportunity to reply to SCN or not provided personal hearing. This leads to unnecessary and avoidable loss of time and resources on part of all concerned and should be eschewed, to say the least. Hence, this case is being decided on basis of material before this Tribunal..."

15. In view of the observations made by the Hon'ble SAT, I find no reason to take a different view and accordingly I deem it appropriate to proceed against the Noticee ex-parte, based on the material available on record.

CONSIDERATION OF ISSUES AND FINDINGS

16. After perusal of the material available on record, I have the following issues for consideration viz.,

    I. Whether the Noticee has violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003?

    II. Whether the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act?

    III. If so, what quantum of monetary penalty should be imposed on the Noticee?

FINDINGS

17. On perusal of the material available on record and giving regard to the facts and circumstances of the case and submissions of the Noticee, I record my findings hereunder.

ISSUE I: Whether the Noticees have violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003?

18. Before moving forward, it is pertinent to refer to the relevant provisions of SEBI (PFUTP Regulations), 2003 which reads as under:

Regulation 3 of SEBI (PFUTP) Regulations: - Prohibition of certain dealings in securities

3. No person shall directly or indirectly—
(a) buy, sell or otherwise deal in securities in a fraudulent manner;
(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a 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, 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 thereunder.

Regulation 4 of SEBI (PFUTP) Regulations: - 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;

19. It has been alleged that the Noticee had indulged in execution of reversal of trades in Stock Options with same entities on the same day. Such trades are

non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volume in stock options and therefore alleged to be manipulative, deceptive in nature.

20. I note that reversal trades have been considered as those trades in which an entity reverse its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversals trades are non-genuine trades as they are not executed in normal course of trading, lacks basic trading rationale, and lead to false or misleading appearance of trading in terms of generation of artificial volume, hence were deceptive and manipulative. Artificial volume is considered to be the volume (no. of units) reversed in both legs of said reversal trades while keeping out the volume, if any, which is not reversed.

21. I note that the Noticee had executed 100 non-genuine trades in 42 unique contracts on 30 trading days i.e., from March 11, 2015 to September 8, 2015. The details of non-genuine trades executed by the Noticee are furnished hereunder.

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Entity 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	ADPW15JUN34.00CEW1	3.95	168000	6.95	168000	2	2	4	100%	50%	100%	54%
2	ADPW15MAY36.00CEW3	4.00	88000	6.25	88000	2	2	18	100%	11%	100%	10%
3	ALBK15MAY100.00CEW3	5.70	162000	8.15	162000	2	2	2	100%	100%	100%	100%
4	ANBK15MAY70.00CE	4.00	180000	8.20	180000	2	2	10	100%	20%	100%	28%
5	ANBK15MAY70.00CEW3	6.30	132000	9.30	132000	2	2	10	100%	20%	100%	20%
6	ARVI15APR250.00CE	13.00	350000	23.00	350000	2	2	2	100%	100%	100%	100%
7	BATA15MAR1200.00CE	1.00	166500	16.00	166500	2	2	8	100%	25%	100%	63%
8	BIOC15APR400.00CE	25.50	43500	48.50	43500	2	2	10	100%	20%	100%	9%
9	CANB15MAR400.00CE	6.00	250000	18.00	250000	2	2	10	100%	20%	100%	22%

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Entity 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
10	DABU15MAR265.00CE	1.90	285000	8.90	285000	2	2	2	100%	100%	100%	100%
11	DISH15JUN110.00PEW2	10.20	92000	17.80	92000	2	2	2	100%	100%	100%	100%
12	DLFL15JUL100.00CEW3	11.30	166000	17.30	166000	2	2	2	100%	100%	100%	100%
13	EXID15JUN155.00PEW1	1.20	90000	3.40	90000	2	2	2	100%	100%	100%	100%
14	EXID15MAY165.00PEW1	6.20	72000	13.53	72000	4	4	4	100%	100%	100%	100%
15	GRSM15MAR3650.00PE	7.00	51125	52.00	51125	2	2	16	100%	13%	100%	31%
16	HULL15MAR920.00CE	15.00	64500	32.00	64500	2	2	4	100%	50%	100%	52%
17	IBRL15JUL65.00PE	7.30	172000	11.90	172000	2	2	6	100%	33%	100%	64%
18	IBRL15MAY65.00PEW3	5.00	148000	7.00	148000	2	2	10	100%	20%	100%	27%
19	IDBI15JUL45.00PEW2	0.05	200000	2.65	200000	2	2	6	100%	33%	100%	52%
20	IDBI15MAY60.00CEW2	6.50	76000	9.50	76000	2	2	4	100%	50%	100%	50%
21	IDBI15MAY75.00PE	3.70	100000	6.20	100000	2	2	6	100%	33%	100%	44%
22	IDFC15MAY150.00CEW2	8.30	84000	5.30	84000	2	2	2	100%	100%	100%	100%
23	IFCI15JUN16.00CE	6.50	304000	10.80	304000	2	2	2	100%	100%	100%	100%
24	IFCI15MAY26.00CE	3.20	128000	5.20	128000	2	2	28	100%	7%	100%	17%
25	IFCI15MAY28.00CE	2.00	168000	3.20	168000	2	2	16	100%	13%	100%	50%
26	IOBL15MAY36.00CEW3	6.60	84000	9.00	84000	2	2	18	100%	11%	100%	11%
27	IOCL15MAR340.00CE	2.00	117000	10.50	117000	2	2	22	100%	9%	100%	13%
28	JAIA15SEP14.00PE	3.00	152000	5.00	152000	9	9	11	100%	82%	100%	59%
29	JPPW15JUN14.00PEW1	4.60	255000	6.60	255000	2	2	8	100%	25%	100%	40%
30	NHPC15AUG20.00CEW3	0.05	407000	1.29	407000	3	3	6	100%	50%	100%	36%
31	NHPC15JUN10.00CEW2	5.50	190000	9.10	190000	2	2	16	100%	13%	100%	73%
32	NHPC15JUN10.00CEW3	5.50	410000	9.20	410000	2	2	6	100%	33%	100%	67%
33	NHPC15MAY14.00CEW2	3.10	150000	5.10	150000	2	2	16	100%	13%	100%	17%
34	RCOM15AUG85.00CEW2	0.05	244000	2.11	244000	4	4	10	100%	40%	100%	48%
35	RCOM15JUL55.00PEW3	0.05	940000	1.27	940000	4	4	19	100%	21%	100%	35%
36	RPOW15MAY60.00PEW2	4.00	188000	5.60	188000	2	2	2	100%	100%	100%	100%
37	SAIL15JUL45.00PE	0.05	228000	2.70	228000	4	4	16	100%	25%	100%	21%

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Entity 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
38	SYND15SEP70.00CEW3	5.00	54000	7.80	54000	2	2	6	100%	33%	100%	44%
39	UCOB15JUL45.00PE	0.05	488000	2.10	488000	2	2	39	100%	5%	100%	17%
40	UCOB15JUL65.00PE	6.00	136000	11.30	136000	2	2	10	100%	20%	100%	27%
41	UNIT15MAY18.00PEW2	2.50	270000	3.60	270000	2	2	4	100%	50%	100%	67%
42	YESB15MAR800.00CE	21.00	100000	48.00	100000	2	2	14	100%	14%	100%	21%

22. Before I proceed further, it is necessary to understand what an Option Contracts is and various factors which influence the price of the Options. Options are financial derivative sold by an option writer to an option buyer. The contract offers the buyer the right, but not the obligation, to buy (call option) or sell (put option) the underlying asset at an agreed-upon price during a certain period of time or on a specific date. The factors which influence the Options prices are underlying price, strike price, time until expiration, volatility, interest rates and dividends. There are various market based models (Black and Scholes Model) which throw an indicative price of the Option after inputting the various parameters mentioned above. I note that the seller of option contract will be the writer of the contract where the risk involved would be unlimited, as theoretically writer of options is obliged to honor the contract should the buyer exercise such option. Similarly, buyer of Option will have limited risk to the extent of premium paid. Therefore, both buyer and seller of options should ideally deal in options contracts considering various market parameters as mentioned above.

23. With above background in mind, I shall now proceed to deal with the transactions executed by Noticee in some of the instances of alleged non-genuine trades.

I. Scrip Name: ARVI15APR250.00CE, Trade Date: 31/03/2015

CLIENTNAME	CP_CLIENTNAME	TRADE_TIME	TRADE_RATE	TRADED_QTY
PEPSON STEELS PRIVATE LIMITED	SIDHIMANGAL NIRMAAN PVT LTD	10:57:06.160889	13	350000
SIDHIMANGAL NIRMAAN PVT LTD	PEPSON STEELS PRIVATE LIMITED	10:57:09.820138	23	350000

(a) I note from the above table that during the investigation period, total 2 trades for 7,00,000 units were executed in the "ARVI15APR250.00CE" contract on 31/03/2015 wherein the Noticee was party to all of the said trades. While dealing in the said contract on 31/03/2015, the Noticee at 10:57:06 hrs entered into 1 buy trade with counterparty viz., Sidhimangal Nirmaan Pvt., Ltd., for 3,50,000 units at the rate of ₹ 13 per unit. Thereafter, on the same day, within 3 seconds from the above trade, the Noticee at 10:57:09 hrs entered into 1 sell trade with the same counterparty for total 3,50,000 units each at ₹ 23 per unit.

(b) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed total 2 reversal trades (1 buy trade + 1 sell trade) with the same counterparties viz., Sidhimangal Nirmaan Pvt., Ltd., on the same day for the same quantity.

(c) Thus, the Noticee, through its dealing in the contract viz, "ARVI15APR250.00CE" during the investigation period, executed 2 non genuine trades which is 100% of the total trades from the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 7,00,000 units which is 100% of the volume traded in the said contract from the market during the investigation period.

II. Scrip Name: EXID15MAY165.00PEW1, Trade Date: 07/05/2015

CLIENTNAME	CP_CLIENTNAME	TRADE_TIME	TRADE_RATE	TRADED_QTY
PEPSON STEELS PRIVATE LIMITED	JORKO COMMODITIES PRIVATE LIMITED	14:18:51.498062	6.2	72000
JORKO COMMODITIES PRIVATE LIMITED	PEPSON STEELS PRIVATE LIMITED	14:19:01.070546	9.1	2000
JORKO COMMODITIES PRIVATE LIMITED	PEPSON STEELS PRIVATE LIMITED	14:19:06.970904	12.2	2000

JORKO COMMODITIES PRIVATE LIMITED	PEPSON STEELS PRIVATE LIMITED	14:19:35.096716	13.7	68000

(a) I note from the above table that during the investigation period, total 4 trades for 1,44,000 units were executed in the "EXID15MAY165.00PEW1" contract on 07/05/2015 wherein the Noticee was party to all of the said trades. While dealing in the said contract on 07/05/2015, the Noticee at 14:18:51 hrs entered into 1 buy trade with counter party viz., Jorko Commodities Private Ltd., for 72,000 units at the rate of ₹ 6.20 per unit. Thereafter, on the same day, within 10 seconds from the above trade, the Noticee from 14:19:01 hrs to 14:19:35 hrs entered into 3 sell trades with the same counterparty for a total 72,000 units at ₹ 13,53 per unit average.

(b) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed total 4 reversal trades (1 buy trade + 3 sell trades) with the same counterparty viz., Jorko Commodites Private Ltd., on the same day, for the same quantity.

(c) Thus, the Noticee, through its dealing in the contract viz, "EXID15MAY165.00PEW1," executed 4 non genuine trades which is 100% of the total trades from the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 1,44,000 units which is 100% of the volume traded in the said contract from the market during the investigation period.

III. Scrip Name: IFCI15JUN16.00CE, Trade Date: 24/06/2015

CLIENTNAME	CP_CLIENTNAME	TRADE_TIME	TRADE_RATE	TRADED_QTY
PEPSON STEELS PRIVATE LIMITED	SNEHAPUSPH MARKETING PRIVATE LIMITED	12:59:07.677969	6.5	304000
SNEHAPUSPH MARKETING PRIVATE LIMITED	PEPSON STEELS PRIVATE LIMITED	13:00:59.975369	10.8	304000

(a) I note from the above table that during the investigation period, total 2 trades for 6,08,000 units were executed in the "IFCI15JUN16.00CE" contract on 24/06/2015 wherein the Noticee was party to all of the said trades. While dealing in the said contract on 31/03/2015, the Noticee at

12:59:07 hrs entered into 1 buy trade with counterparty viz., Snehapusph Marketing Private Ltd., for 3,04,000 units at the rate of ₹ 6.50 per unit. Thereafter, on the same day, within 1 minute from the above trade, the Noticee at 13:00:59 hrs entered into 1 sell trade with the same counterparty for total 3,04,000 units each at ₹ 10.80 per unit.

(b) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed total 2 reversal trades (1 buy trade + 1 sell trade) with the same counterparties viz., Snehapusph Marketing Private Ltd., on the same day for the same quantity.

(c) Thus, the Noticee, through its dealing in the contract viz, “IFCI15JUN16.00CE” during the investigation period, executed 2 non genuine trades which is 100% of the total trades from the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 6,08,000 units which is 100% of the volume traded in the said contract from the market during the investigation period.

24. From the above pattern of trades, I note that the Noticee had bought and sold option contracts with the same counter parties and also reversed its trades in less than 1 minutes from its earlier buy / sell trades, at substantial price difference. Similar modus operandi as mentioned above was observed in respect of the trades executed by the Noticee in the remaining contracts, which were non-genuine. Such pattern of dealings suggests beyond doubt that they were not driven by market factors as none of the parameters (underlying stock price, volatility, etc.,) for Option pricing, as mentioned above paragraphs, have undergone any change during the currency of trades. I note that the underlying stock price did not change to substantiate corresponding changes in the option price in a span of less than one minute. Therefore, I conclude that aforesaid trades of Noticee were non genuine and have created false or misleading appearance of trading in terms of artificial volume in stock options and therefore manipulative, deceptive in nature.

25. It is summarized from the above findings that the Noticee had executed non-genuine trades in 42 contracts, wherein in respect of 10 contracts, all the

trades were non genuine trades and contributed to 100% artificial volumes. The number of non-genuine trades of the Noticee had contributed to the total number of trades from the market in the above contracts, which was in the range of 5% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by the Noticee. The volumes generated by the Noticee in each of the above 42 contracts were artificial volume, and have contributed in the range of 9% to 100% of the total volume from the market in said contracts. Non genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

26. I note that derivative contracts by its very nature derives its value from various factors including underlying price. The transactions of the Noticee as mentioned in above paras clearly demonstrates that option contracts bought / sold were immediately reversed within span of few seconds at substantially different price, though there was no corresponding price changes in the underlying stock price. Further analysis of such trades also indicates that price differentials have been deliberately structured for manipulative purpose as one party to the contract had deliberately foregone profitable proposition at the time of executing trade. For example, in the second leg of transaction, the Noticee bought put option contract of "DISH15JUN110.00PEW2", on June 8, 2015 at ₹ 10.20. As per the terms of contract, the Noticee had bought Right to Sell Option at ₹ 110 for a premium of ₹ 10.20. This means the Noticee will incur profit (IN THE MONEY) if the underlying price of the scrip is less than ₹ 99.80 {Strike Price (₹ 110) - Premium (₹ 10.20)}. I note that the price of DISH TV INDIA LTD., (DISH) on equity segment on June 8, 2015 closed at ₹ 96.95. Thus, it is apparent that the Noticee was already in profit of ₹ 2.85 (difference of Spot Price – Strike Price after deduction of Premium) at the time of buying the contract. This implies that seller counterparty i.e., Yochana Vyapaar Private Ltd., had sold at ₹ 10.20 knowing full well that it was already loosing ₹ 2.85 at the time of Contract and the Noticee was also fully aware that it was already in the money by ₹ 2.85. Such pattern completely runs contrary to economic rationale of any investor to buy at lesser price and sell at higher

price. Any rational investor would never deal in the market to deliberately register loss to facilitate buyer to profit at the time of entering trades. Had the counterparties for trades of the Noticee are different, intraday squaring of positions would not have been possible as no genuine counter party investor would ever forego profits. The fact the counterparties are same corroborates that the trades were not genuine and executed for manipulative purpose. I also note that profits made by the Noticee was exactly same to the loss made by the counterparty which ratifies the manipulative scheme of operations.

27. Considering the fact that all these reversal transactions were carried out through a screen based trading platform on a segment with hundreds of different contracts, the placement of orders repeatedly within a time span of less than 60 seconds and a significantly high percentage of matching of these orders, appear to be practically impossible unless there is a prior understanding or a pre-meditated plan between the two entities executing them. The repeated sell/buy of illiquid stock options by the Noticee and subsequent reversal trades with the same set of entities for the same quantity, within a short span of time with a significant difference in buy and sell value of stock options, in itself, exhibits abnormal market behaviour and defies economic rationality. I note from the above trading pattern of the Noticee that it was deliberately making blatant misuse of trading platform for creating artificial volume in the illiquid stock options and generated profit through its reversal trades in stock options. I note that the rationale for such transactions entered by the Noticee are not genuine and irrational.

28. 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.

29. The non-genuine and deceptive transactions of these entities 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.

30. Further, with respect to the reversal of trades carried out by the Noticee, I note that the Hon’ble Supreme Court in the matter of SEBI vs. Rakhi Trading Private Ltd., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018 had observed that *“the price discovery system itself was affected by synchronization and rapid reverse trade, which also had the impact of excluding other investors from participating in the market. The Supreme Court, therefore found that the traders 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 PFUTP Regulations”.* The Apex Court also observed that “*considering the reversal transactions, quantity, price and time and sale, parties being persistent in the number of such trade transactions with huge price variations, it will be too naïve 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.”*

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

32. The Noticee vide his letter dated October 4, 2018 had sought certain documents relating to the present Adjudication proceedings. In this

connection, I would like to emphasize that all the documents which were relevant and relied upon in the SCN were provided to the Noticee, which are detailed hereunder:

a) *Copy of communication of Order dated May 29, 2018 regarding appointment of Adjudication Order;*
b) *Integrated trade log of all trades of Noticee in Stock Option segment of BSE during the investigation period;*
c) *Integrated trade log of all non-genuine trades of Noticee in Stock Option segment of BSE during the investigation period;*

33. In this connection, I would like to refer to the observations of the Hon'ble SAT in the matter of Mayrose Capfin Private Limited Vs SEBI (decided on 30.03.2012) wherein SAT observed that:*"....................the principles of natural justice require that the inquiry officer should make available such document and material to the delinquent on which reliance is being placed in the inquiry. It is not necessary for the inquiry officer to make available all the material that might have been collected during the course of investigation but has not been relied upon for proving charge against the delinquent. No prejudice can, therefore, be said to have been caused to the appellant on this count...."*

34. In view of the above, since all the documents which were relevant and relied upon in the instant proceedings have been provided to the Noticee along with the SCN, I am of the opinion that principles of natural justice have been duly complied with in the instant proceedings and no prejudice has been caused to the Noticee.

35. I note that in the screen based trading, the manipulative or fraudulent intent can be inferred from various factors such as conduct of the party, pattern of transactions, etc., 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, Hon'ble SAT has observed 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."

36. Further, I would like to rely on the judgement of Hon'ble Supreme Court in the matter of SEBI vs. Rakhi Trading Private Ltd., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018, wherein the Apex Court upheld that "*the entities were engaged in a fraudulent and unfair trade practice while dealing in Options and hence were liable for violation of SEBI (PFUTP) Regulations".* The Hon'ble Apex Court has also observed that in the absence of direct proof of meeting of minds, the test should be one of preponderance of probability and also stated that the conclusion has to be gathered various circumstances like volume of trade, period of persistence of trading, particulars of buy and sell orders, proximity of time between the two and such other relevant factors.

37. In line with the aforesaid judgements of Hon'ble SAT and Hon'ble Supreme Court, I note from the foregoing findings that the trading pattern of the Noticee in terms of volume of reversal trades, proximity of buy/sell and subsequent reversal evidences the indulgence of the Noticee beyond a reasonable doubt of the manipulative intent in creation of artificial volume. Further, consistent pattern of dealings by Noticee only in such options contracts which are illiquid clearly demonstrates that the manipulative intent to use stock exchange platform to carry out non-genuine trades with the aim to execute such trades for various manipulative purposes. I also note that Income Tax Provisions allows set off / carry forward of capital loss against the other capital gains which would enable reduction of tax burden to that extend. The possibility of avoidance of Income Tax by the Noticee cannot be ruled out especially when the trades executed on the stock exchange platform are non-genuine and artificial.

38. In this regard, I would like to rely on the judgement of Hon'ble Supreme Court in the matter of SEBI vs. Rakhi Trading Private Ltd., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018, where Apex Court stated at Para 35 and Para 41 of that said Order that *"The platform of the stock exchange has been used for a non-genuine trade. Trading is always with the aim to make profits. But if one party consistently makes loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice". "The stock market is not a platform for any fraudulent or unfair trade practice. The field is open to all the investors. By synchronization and rapid reverse trade, as has been carried out by the traders in the instant case, the price discovery system itself is affected. Except the parties who have pre-fixed the price nobody is in the position to participate in the trade. It also has an adverse impact on the fairness, integrity and transparency of the stock market."*

39. From the foregoing, it is established that the Noticee by indulging in reversal trades on the stock exchange platform which are manipulative / unfair / fraudulent / non-genuine, in nature, had created artificial volumes in the contracts. In view of above, I conclude that the Noticee had violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003.

ISSUE -2: Does the violation, if any, attract monetary penalty under Section 15HA of SEBI Act.?

40. Pursuant to detailed analysis as brought out above, it is established that reversal trades are not normal transactions and it clearly demonstrates beyond reasonable doubt that the Noticee had intentionally executed these trades and manipulated the volume by artificial trading pattern in 42 contracts. Out of the 42 contracts, in respect of 10 contracts, all the trades were non genuine trades, which contributed to 100% artificial volumes.

41. I am of the view that the misuse of stock options as shown above not only displays an unreal picture of market activity to other investors but also defeats the basic premise of screen based electronic trading system and price discovery mechanism by repeated execution of pre decided reversal trades at irrational / arbitrary prices. Moreover, the impact of such trading on the traded volume and the price of stock options contracts is huge. Such activity deliberately or otherwise damages market integrity apart from presenting wrong picture of liquidity to gullible investors which could affect their trading/investment decisions. Options as financial instruments, ordinarily, provide hedging avenues to investors. The trading pattern of the Noticee in the instant matter was abnormal and was designed to create artificial volumes in the illiquid stock options, fail to justify any of the normal strategies of hedging / speculation / arbitrage. In my view, the abuse of such financial instruments, which are made available to the investors for the purpose of protection of their investment portfolios from the risks of adverse price movement, cannot be tolerated and needs to be dealt with strictly.

42. I find that the Noticee by indulging in execution of reversal trades in Stock Options with same entities on the same day, had created artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE and therefore violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1), and 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003. Accordingly, the Noticee is liable for monetary penalty under Section 15HA of SEBI Act, the provisions of which are furnished hereunder.

Section 15HA of SEBI Act - Penalty for fraudulent and unfair trade practices

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

ISSUE – 3: If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act?

43. While determining the quantum of monetary penalty under Section 15HA of SEBI Act, I have considered the factors stipulated in Section 15-J of SEBI Act, which reads as under:

Section 15J - Factors to be taken into account by the Adjudicating Officer

While adjudging quantum of penalty under section 15 - I, the Adjudicating Officer shall have due regard to the following factors, namely:

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

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

(c) the repetitive nature of the default.

44. I note from the facts of the case that the first leg of trades of Noticee were reversed within few minutes of such trades, with the same counter party, at such option prices which no rational investor would undertake, as explained in above paras. Consequent to such manipulative trades, both the parties of the trades could structure and generate profits / loss in their accounts wherein profit / loss made by one entity was exactly equal to the loss / profit made by the counterparty.

45. Considering above, I am of the view that it will be appropriate to take into account the payoff of transactions between the two parties together, rather than viewing it independently. Therefore, in respect of the non-genuine trades carried out by the Noticee which resulted in creation of artificial volume in Illiquid Stock Options, it is not possible to quantify the amount of disproportionate gain or unfair advantage made by the Noticee. Further, there is also no material on record to assess the amount of loss caused to investors as a result of the Noticee’s default. The persistent trading pattern of the

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

ORDER

46. After taking into consideration the nature and gravity of the violations established in the preceding paragraphs and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act, 1992 read with Rule 5 of the SEBI Adjudication Rules, 1995, I hereby impose a penalty of ₹ 20,00,000 (Rupees Twenty Lakhs Only) on the Noticee i.e., Pepson Steels Private Ltd., under Section 15HA of the SEBI Act, 1992, for indulging in execution of reversal trades in Stock Options with same entities on the same day, thereby creating artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE

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

48. 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 e-payment facility into Bank Account the details of which are given below:

<u>Account No. for remittance of penalties levied by Adjudication Officer</u>

Bank Name	State Bank of India
Branch	Bandra-Kurla Complex
RTGS Code	SBIN0004380
Beneficiary Name	SEBI – Penalties Remittable To Government of India
Beneficiary A/c No	31465271959

49. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid through e-payment to the General Manager, Enforcement Department-1, DRA-I, 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

50. In terms of rule 6 of the Adjudication Rules, copies of this order are sent to the Noticee i.e., Pepson Steels Private Ltd., and also to SEBI.

Date: 5 November 2018 **B J DILIP**
Place: Mumbai **Adjudicating Officer**