**BEFORE THE ADJUDICATING OFFICER**
**SECURITIES AND EXCHANGE BOARD OF INDIA**
**[ADJUDICATION ORDER NO. EAD/SR/PP/AO/88/2019-20]**

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

**In respect of**

**SPFL Securities Limited**

(Address: **15/63-M Civil Lines, Kanpur, Uttar Pradesh, India, 208001**)

**(PAN: AABCS2452C)**

**In the matter of dealings in illiquid stock options at BSE**

## FACTS OF THE CASE IN BRIEF

1. A department (hereinafter referred to as **OD**) of Securities and Exchange Board of India (hereinafter referred to as **SEBI**) conducted an investigation into the trading activity in illiquid Stock Options at Bombay Stock Exchange Limited (hereinafter, referred to as **BSE**) for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as **Investigation period / IP**). Investigating Authority (hereinafter, referred to as **IA**) observed that majority of volume generated in BSE's stock option segment was artificial volume which was created by execution of reversal trades.

2. IA observed that a total of 2,91,643 trades comprising 81.38% of all the trades executed during IP in Stock Options Segment of BSE were non-genuine /reversal trades. The said non-genuine trades resulted into creation of artificial volume to the tune of 826.21 crore units i.e. 54.68% of the total market volume in Stock Options segment of BSE during the investigation period. It was further observed by IA that SPFL Securities Limited (hereinafter, referred to as **Noticee**) was one of the several entities which indulged in execution of reversal trades in Stock Options Segment of BSE during the investigation period. The Noticee was thus alleged to have violated the provisions of regulations 3(a),(b),(c) & (d), 4(1) and 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter, referred to as **PFUTP Regulations, 2003**).

## APPOINTMENT OF ADJUDICATING OFFICER

3. In this matter, OD of SEBI initiated Adjudication Proceedings against the Noticee and SEBI appointed the undersigned as an Adjudicating Officer, under section 15-I of The Securities and Exchange Board of India Act, 1992 (hereinafter referred to as **the SEBI Act, 1992**) read with (r/w) rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as **AO Rules, 1995**) to inquire into and adjudge under section 15HA of the SEBI Act, 1992 the alleged violations of provisions of regulations 3(a),(b),(c) & (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003. The same was conveyed to me vide communique dated May 29, 2018.

## SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

4. A show cause notice dated October 25, 2018 (hereinafter referred to as **SCN**) was issued to the Noticee under rule 4 of the AO Rules, 1995 to show cause as to why an inquiry should not be held against it and why penalty under section 15HA of the SEBI Act, 1992 be not imposed on it for the violations alleged in the said SCN. The SCN was sent through the speed post acknowledgment due (SPAD). The said SCN was received by the Noticee.

5. The allegations levelled against the Noticee in the said SCN are summarised as under:
   (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 the Stock Options Segment of BSE during the Investigation Period.
   (b) That the Noticee engaged in 126 such reversal trades in 60 contracts, which led to generation of artificial volume of 46,48,000 units, during the IP.
   (c) That the trades entered by the Noticee were reversed on the same day with 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 non-genuine in nature.
   (d) A summary of dealings of the Noticee in the 60 Stock Options contracts in which the Noticee allegedly executed non-genuine / reversal trades during the Investigation Period, provided to the Noticee in the said SCN is reproduced below-

| Sr. No. | SCRIPNAME | Average Buy rate | Buy Quantity | Average Sell rate | Sell Quantity | % of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract | % of Artificial Volume generated by Entity in the contract to Total Volume in the Contract |
|---|---|---|---|---|---|---|---|---|---|
| 1 | ABNV15AUG1830.00PE W3 | 12.00 | 25000 | 4.25 | 25000 | 100% | 50% | 100% | 53% |
| 2 | ABNV15AUG2100.00CE W3 | 45.00 | 25000 | 31.25 | 25000 | 100% | 100% | 100% | 100% |
| 3 | ABNV15JUL1590.00PE | 23.25 | 35000 | 9.00 | 35000 | 100% | 25% | 100% | 49% |
| 4 | ASPL15JUL680.00PE | 4.85 | 40000 | 1.05 | 40000 | 100% | 10% | 100% | 18% |
| 5 | ASPL15SEP860.00PE | 33.00 | 33000 | 20.25 | 33000 | 100% | 50% | 100% | 57% |
| 6 | AXIS15AUG460.00PEW1 | 5.50 | 30000 | 2.15 | 30000 | 100% | 100% | 100% | 100% |
| 7 | AXIS15AUG520.00PE | 6.00 | 36000 | 2.25 | 36000 | 100% | 14% | 100% | 11% |
| 8 | AXIS15OCT540.00PE | 10.00 | 25000 | 2.25 | 25000 | 100% | 33% | 100% | 24% |
| 9 | AXIS15SEP680.00CE | 6.00 | 40000 | 1.00 | 40000 | 100% | 14% | 100% | 15% |
| 10 | AXIS15SEP700.00CE | 6.00 | 35000 | 1.70 | 35000 | 100% | 100% | 100% | 100% |
| 11 | BAJT15JUL1890.00PE | 25.00 | 20000 | 16.00 | 20000 | 100% | 50% | 100% | 67% |
| 12 | BAJT15JUL1920.00PE | 25.88 | 32000 | 17.25 | 32000 | 100% | 67% | 100% | 64% |
| 13 | BAJT15JUL2430.00CE | 50.77 | 31000 | 34.35 | 31000 | 100% | 50% | 100% | 66% |
| 14 | BATA15AUG870.00PE | 14.00 | 36000 | 8.00 | 36000 | 100% | 25% | 100% | 47% |
| 15 | BATA15JUL900.00PE | 11.00 | 40000 | 7.00 | 40000 | 100% | 25% | 100% | 53% |
| 16 | BATA15SEP1290.00CE | 38.00 | 25000 | 28.25 | 25000 | 100% | 50% | 100% | 45% |
| 17 | BIOC15AUG430.00PE | 4.25 | 40000 | 1.00 | 40000 | 100% | 33% | 100% | 31% |
| 18 | BIOC15AUG500.00CE | 13.00 | 50000 | 9.00 | 50000 | 100% | 50% | 100% | 71% |
| 19 | BIOC15SEP500.00CE | 7.50 | 40000 | 3.25 | 40000 | 100% | 100% | 100% | 100% |
| 20 | CANB15AUG260.00PE | 5.00 | 45000 | 1.15 | 45000 | 100% | 50% | 100% | 60% |
| 21 | CANB15AUG330.00CE | 3.00 | 49000 | 0.55 | 49000 | 100% | 100% | 100% | 100% |
| 22 | CANB15JUL270.00PE | 4.25 | 40000 | 1.10 | 40000 | 100% | 100% | 100% | 100% |
| 23 | CANB15SEP330.00CE | 7.25 | 40000 | 5.00 | 40000 | 100% | 50% | 100% | 39% |
| 24 | CENT15AUG620.00PE | 11.15 | 42000 | 6.00 | 42000 | 100% | 20% | 100% | 24% |
| 25 | CENT15AUG760.00CE | 14.00 | 35000 | 8.25 | 35000 | 100% | 33% | 100% | 40% |
| 26 | CENT15AUG800.00CE | 15.00 | 63000 | 8.25 | 63000 | 100% | 100% | 100% | 100% |
| 27 | CENT15JUL700.00CE | 39.00 | 20000 | 27.00 | 20000 | 100% | 50% | 100% | 36% |
| 28 | CENT15SEP600.00PE | 8.57 | 70000 | 4.43 | 70000 | 100% | 50% | 100% | 53% |
| 29 | CENT15SEP640.00PE | 3.25 | 60000 | 8.75 | 60000 | 100% | 25% | 100% | 33% |
| 30 | CENT15SEP800.00CE | 24.00 | 42000 | 15.25 | 42000 | 100% | 100% | 100% | 100% |
| 31 | CIPL15AUG620.00PEW3 | 5.00 | 35000 | 3.00 | 35000 | 100% | 50% | 100% | 47% |
| 32 | CIPL15AUG680.00PE | 7.50 | 40000 | 5.00 | 40000 | 100% | 50% | 100% | 49% |
| 33 | CIPL15AUG720.00CE | 13.00 | 30000 | 6.00 | 30000 | 100% | 14% | 100% | 22% |
| 34 | CIPL15JUL660.00CE | 18.00 | 22000 | 9.00 | 22000 | 100% | 50% | 100% | 50% |

| Sr. No. | SCRIPNAME | Average Buy rate | Buy Quantity | Average Sell rate | Sell Quantity | % of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract | % of Artificial Volume generated by Entity in the contract to Total Volume in the Contract |
|---|---|---|---|---|---|---|---|---|---|
| 35 | CIPL15SEP640.00PE | 7.50 | 40000 | 3.05 | 40000 | 100% | 50% | 100% | 53% |
| 36 | DABU15AUG220.00PE | 4.25 | 40000 | 2.15 | 40000 | 100% | 50% | 100% | 50% |
| 37 | DABU15JUL230.00PE | 3.15 | 50000 | 1.25 | 50000 | 100% | 50% | 100% | 41% |
| 38 | DHFL15AUG290.00PE | 5.90 | 42000 | 2.25 | 42000 | 100% | 50% | 100% | 46% |
| 39 | DRRL15JUL3500.00PE | 14.00 | 18000 | 2.25 | 18000 | 100% | 50% | 100% | 60% |
| 40 | GRSM15AUG2900.00PE | 35.00 | 15000 | 12.00 | 15000 | 100% | 50% | 100% | 52% |
| 41 | HDFC15AUG1350.00CE | 32.00 | 15000 | 20.00 | 15000 | 100% | 20% | 100% | 20% |
| 42 | HULL15SEP820.00PE | 10.00 | 25000 | 5.15 | 25000 | 100% | 100% | 100% | 100% |
| 43 | HULL15SEP860.00PE | 16.00 | 36000 | 7.25 | 36000 | 100% | 100% | 100% | 100% |
| 44 | ICIC15OCT320.00CE | 12.00 | 40000 | 7.55 | 40000 | 100% | 50% | 100% | 38% |
| 45 | IOCL15AUG310.00PE | 5.25 | 50000 | 2.35 | 50000 | 100% | 25% | 100% | 29% |
| 46 | IOCL15AUG320.00PE | 5.50 | 70000 | 2.55 | 70000 | 100% | 33% | 100% | 58% |
| 47 | IOCL15JUL340.00PE | 4.30 | 70000 | 1.50 | 70000 | 100% | 100% | 100% | 100% |
| 48 | KOTB15SEP690.00PE | 25.00 | 34000 | 16.75 | 34000 | 100% | 100% | 100% | 100% |
| 49 | LNTL15AUG1560.00PE | 23.00 | 22000 | 8.00 | 22000 | 100% | 20% | 100% | 35% |
| 50 | MIND15SEP1110.00PE | 11.00 | 25000 | 5.05 | 25000 | 100% | 33% | 100% | 42% |
| 51 | MIND15SEP1170.00PE | 12.00 | 29000 | 4.25 | 29000 | 100% | 33% | 100% | 49% |
| 52 | PIDI15AUG380.00PE | 5.00 | 30000 | 1.00 | 30000 | 100% | 50% | 100% | 45% |
| 53 | PLNG15AUG160.00PE | 2.75 | 50000 | 1.05 | 50000 | 100% | 100% | 100% | 100% |
| 54 | SBIL15SEP250.00PE | 3.40 | 50000 | 1.45 | 50000 | 100% | 33% | 100% | 22% |
| 55 | SBIL15SEP270.00PE | 6.50 | 50000 | 4.05 | 50000 | 100% | 100% | 100% | 100% |
| 56 | SHTF15AUG920.00CE | 36.00 | 20000 | 18.25 | 20000 | 100% | 100% | 100% | 100% |
| 57 | SHTF15JUL960.00CE | 14.00 | 20000 | 7.00 | 20000 | 100% | 100% | 100% | 100% |
| 58 | TAMO15SEP450.00CE | 9.00 | 72000 | 4.25 | 72000 | 100% | 100% | 100% | 100% |
| 59 | TECM15SEP440.00PE | 6.00 | 50000 | 2.25 | 50000 | 100% | 33% | 100% | 37% |
| 60 | TISC15SEP250.00PE | 4.00 | 90000 | 1.15 | 90000 | 100% | 100% | 100% | 100% |

(e) From the above table, the following was alleged as regards dealings of the Noticee:

i. all the trades executed by the Noticee in the said contracts were non-genuine trades.

ii. Percentage of non-genuine trades of the Noticee in stock options contracts to total trades in the contracts were in the range of 10% to 100%. The non-genuine trades of the Notice have significantly contributed to total trades in the market in the above contracts.

iii. Percentage of artificial volume generated by the Noticee in the contract to the total volume in the contract was in the range of 11% to 100%. Therefore, substantial volume generated by the Noticee in each of the above contracts were artificial volume.

iv. Non-genuine trades executed by the Noticee in above contracts had varied buy rates and sell rates considering that the trades were reversed on same day.

6. By indulging in execution of aforesaid non-genuine reversal trades, the Noticee is alleged to have violated regulations 3(a),(b),(c) & (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003, text of which has been reproduced 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"*

7. In terms of AO Rules, 1995, the Noticee was granted time to submit its reply to the said SCN. The Noticee vide letter dated December 06, 2018 submitted its reply to the SCN. Submissions of the Noticee are summarized as under:

a. Noticee has suffered a loss of Rs. 1,20,69,650 and therefore also the question of imposing any penalty does not arise. There is no allegation in the SCN that the Noticee had made any disproportionate gains from the alleged trades.

b. The alleged trades and the units traded therein as highlighted in the SCN constituted less than 0.05% and 0.06% respectively, of the total volume of reversal trades and the total volume of units traded in the market as observed by SEBI during the investigation period. Thus, the proportion of the trades (as well as the units traded) carried out by the Noticee as compared to the total volume of reversal trades (as well as the overall units traded) in the market as alleged by SEBI during the investigation period is very insignificant, negligible small proportion and had no impact on the markets (cash as well as derivative) or on any other investors.

c. It is the obligation of the department to bring out in the SCN as to how the loss suffered on such impugned transactions have been reversed amongst the counter parties.

d. There was no allegation that we had defrauded any person or class of persons.

8. Vide hearing notice dated December 20, 2018, sent by SPAD, Noticee was given an opportunity of personal hearing on January 10, 2019. Vide email dated December 27, 2018 Noticee requested for postponement of the hearing. Acceding to the request of Noticee, the hearing was postponed to January 23, 2019 and same is intimated to the Noticee vide email dated January 01, 2019. The Authorised Representative (**AR**) of the Noticee, who had appeared before the undersigned in another matter on January 22, 2019, had requested for hearing in the present matter also on the same day. Accordingly, hearing was conducted on January 22, 2019. AR reiterated the submissions made in the reply dated December 06, 2018. Hearing minutes are on record.

9. After taking into account, the allegations levelled in the SCN, reply of the Noticee and other material on record, I hereby proceed to decide the case on merit.

## CONSIDERATION OF ISSUES, EVIDENCES AND FINDINGS

10. The issues arising for consideration in the instant proceedings before me are:-

a. **Whether the Noticee has violated the provisions of regulations 3(a), (b), (c), & (d), 4(1), and 4(2)(a) of the PFUTP Regulations, 2003?**

b. **If yes, whether Noticee is liable for imposition of monetary penalty under section 15HA of the SEBI Act, 1992?**

c. **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, 1992 read with rule 5(2) of the AO Rules, 1995?**

**Issue a: Whether the Noticee has violated the provisions of regulations 3(a), (b), (c), & (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003?**

11. It has been alleged that the Noticee had indulged in execution of reversal of trades in Illiquid 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 have been manipulative, deceptive in nature.

12. I note that reversal trades have been considered as those trades in which an entity reverses it's buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversal trades are 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 are deceptive and manipulative. Artificial volume is considered to be the volume (no. of units) reversed in both legs of said trades while keeping out the volume, if any, which is not reversed.

13. I note from data provided to the Noticee as Annexures B to D of the SCN that the Noticee had executed 126 non-genuine trades in 60 unique contracts on 28 trading days from June 09, 2015 to August 12, 2015.

    a. The details of non-genuine trades executed by the Noticee are furnished hereunder.

| Sr. No. | SCRIPNAME | Average Buy rate | Buy Quantity | Average Sell rate | Sell Quantity | % of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract | % of Artificial Volume generated by Entity in the contract to Total Volume in the Contract |
|---|---|---|---|---|---|---|---|---|---|
| 1 | ABNV15AUG1830.00PE W3 | 12.00 | 25000 | 4.25 | 25000 | 100% | 50% | 100% | 53% |
| 2 | ABNV15AUG2100.00CE W3 | 45.00 | 25000 | 31.25 | 25000 | 100% | 100% | 100% | 100% |
| 3 | ABNV15JUL1590.00PE | 23.25 | 35000 | 9.00 | 35000 | 100% | 25% | 100% | 49% |

| Sr. No. | SCRIPNAME | Average Buy rate | Buy Quantity | Average Sell rate | Sell Quantity | % of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract | % of Artificial Volume generated by Entity in the contract to Total Volume in the Contract |
|---|---|---|---|---|---|---|---|---|---|
| 4 | ASPL15JUL680.00PE | 4.85 | 40000 | 1.05 | 40000 | 100% | 10% | 100% | 18% |
| 5 | ASPL15SEP860.00PE | 33.00 | 33000 | 20.25 | 33000 | 100% | 50% | 100% | 57% |
| 6 | AXIS15AUG460.00PEW1 | 5.50 | 30000 | 2.15 | 30000 | 100% | 100% | 100% | 100% |
| 7 | AXIS15AUG520.00PE | 6.00 | 36000 | 2.25 | 36000 | 100% | 14% | 100% | 11% |
| 8 | AXIS15OCT540.00PE | 10.00 | 25000 | 2.25 | 25000 | 100% | 33% | 100% | 24% |
| 9 | AXIS15SEP680.00CE | 6.00 | 40000 | 1.00 | 40000 | 100% | 14% | 100% | 15% |
| 10 | AXIS15SEP700.00CE | 6.00 | 35000 | 1.70 | 35000 | 100% | 100% | 100% | 100% |
| 11 | BAJT15JUL1890.00PE | 25.00 | 20000 | 16.00 | 20000 | 100% | 50% | 100% | 67% |
| 12 | BAJT15JUL1920.00PE | 25.88 | 32000 | 17.25 | 32000 | 100% | 67% | 100% | 64% |
| 13 | BAJT15JUL2430.00CE | 50.77 | 31000 | 34.35 | 31000 | 100% | 50% | 100% | 66% |
| 14 | BATA15AUG870.00PE | 14.00 | 36000 | 8.00 | 36000 | 100% | 25% | 100% | 47% |
| 15 | BATA15JUL900.00PE | 11.00 | 40000 | 7.00 | 40000 | 100% | 25% | 100% | 53% |
| 16 | BATA15SEP1290.00CE | 38.00 | 25000 | 28.25 | 25000 | 100% | 50% | 100% | 45% |
| 17 | BIOC15AUG430.00PE | 4.25 | 40000 | 1.00 | 40000 | 100% | 33% | 100% | 31% |
| 18 | BIOC15AUG500.00CE | 13.00 | 50000 | 9.00 | 50000 | 100% | 50% | 100% | 71% |
| 19 | BIOC15SEP500.00CE | 7.50 | 40000 | 3.25 | 40000 | 100% | 100% | 100% | 100% |
| 20 | CANB15AUG260.00PE | 5.00 | 45000 | 1.15 | 45000 | 100% | 50% | 100% | 60% |
| 21 | CANB15AUG330.00CE | 3.00 | 49000 | 0.55 | 49000 | 100% | 100% | 100% | 100% |
| 22 | CANB15JUL270.00PE | 4.25 | 40000 | 1.10 | 40000 | 100% | 100% | 100% | 100% |
| 23 | CANB15SEP330.00CE | 7.25 | 40000 | 5.00 | 40000 | 100% | 50% | 100% | 39% |
| 24 | CENT15AUG620.00PE | 11.15 | 42000 | 6.00 | 42000 | 100% | 20% | 100% | 24% |
| 25 | CENT15AUG760.00CE | 14.00 | 35000 | 8.25 | 35000 | 100% | 33% | 100% | 40% |
| 26 | CENT15AUG800.00CE | 15.00 | 63000 | 8.25 | 63000 | 100% | 100% | 100% | 100% |
| 27 | CENT15JUL700.00CE | 39.00 | 20000 | 27.00 | 20000 | 100% | 50% | 100% | 36% |
| 28 | CENT15SEP600.00PE | 8.57 | 70000 | 4.43 | 70000 | 100% | 50% | 100% | 53% |
| 29 | CENT15SEP640.00PE | 3.25 | 60000 | 8.75 | 60000 | 100% | 25% | 100% | 33% |
| 30 | CENT15SEP800.00CE | 24.00 | 42000 | 15.25 | 42000 | 100% | 100% | 100% | 100% |
| 31 | CIPL15AUG620.00PEW3 | 5.00 | 35000 | 3.00 | 35000 | 100% | 50% | 100% | 47% |
| 32 | CIPL15AUG680.00PE | 7.50 | 40000 | 5.00 | 40000 | 100% | 50% | 100% | 49% |
| 33 | CIPL15AUG720.00CE | 13.00 | 30000 | 6.00 | 30000 | 100% | 14% | 100% | 22% |
| 34 | CIPL15JUL660.00CE | 18.00 | 22000 | 9.00 | 22000 | 100% | 50% | 100% | 50% |
| 35 | CIPL15SEP640.00PE | 7.50 | 40000 | 3.05 | 40000 | 100% | 50% | 100% | 53% |
| 36 | DABU15AUG220.00PE | 4.25 | 40000 | 2.15 | 40000 | 100% | 50% | 100% | 50% |
| 37 | DABU15JUL230.00PE | 3.15 | 50000 | 1.25 | 50000 | 100% | 50% | 100% | 41% |
| 38 | DHFL15AUG290.00PE | 5.90 | 42000 | 2.25 | 42000 | 100% | 50% | 100% | 46% |

| Sr. No. | SCRIPNAME | Average Buy rate | Buy Quantity | Average Sell rate | Sell Quantity | % of Non Genuine trades of Entity in the contract to Entity'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 Entity in the contract to Entity's Total Volume in the Contract | % of Artificial Volume generated by Entity in the contract to Total Volume in the Contract |
|---|---|---|---|---|---|---|---|---|---|
| 39 | DRRL15JUL3500.00PE | 14.00 | 18000 | 2.25 | 18000 | 100% | 50% | 100% | 60% |
| 40 | GRSM15AUG2900.00PE | 35.00 | 15000 | 12.00 | 15000 | 100% | 50% | 100% | 52% |
| 41 | HDFC15AUG1350.00CE | 32.00 | 15000 | 20.00 | 15000 | 100% | 20% | 100% | 20% |
| 42 | HULL15SEP820.00PE | 10.00 | 25000 | 5.15 | 25000 | 100% | 100% | 100% | 100% |
| 43 | HULL15SEP860.00PE | 16.00 | 36000 | 7.25 | 36000 | 100% | 100% | 100% | 100% |
| 44 | ICIC15OCT320.00CE | 12.00 | 40000 | 7.55 | 40000 | 100% | 50% | 100% | 38% |
| 45 | IOCL15AUG310.00PE | 5.25 | 50000 | 2.35 | 50000 | 100% | 25% | 100% | 29% |
| 46 | IOCL15AUG320.00PE | 5.50 | 70000 | 2.55 | 70000 | 100% | 33% | 100% | 58% |
| 47 | IOCL15JUL340.00PE | 4.30 | 70000 | 1.50 | 70000 | 100% | 100% | 100% | 100% |
| 48 | KOTB15SEP690.00PE | 25.00 | 34000 | 16.75 | 34000 | 100% | 100% | 100% | 100% |
| 49 | LNTL15AUG1560.00PE | 23.00 | 22000 | 8.00 | 22000 | 100% | 20% | 100% | 35% |
| 50 | MIND15SEP1110.00PE | 11.00 | 25000 | 5.05 | 25000 | 100% | 33% | 100% | 42% |
| 51 | MIND15SEP1170.00PE | 12.00 | 29000 | 4.25 | 29000 | 100% | 33% | 100% | 49% |
| 52 | PIDI15AUG380.00PE | 5.00 | 30000 | 1.00 | 30000 | 100% | 50% | 100% | 45% |
| 53 | PLNG15AUG160.00PE | 2.75 | 50000 | 1.05 | 50000 | 100% | 100% | 100% | 100% |
| 54 | SBIL15SEP250.00PE | 3.40 | 50000 | 1.45 | 50000 | 100% | 33% | 100% | 22% |
| 55 | SBIL15SEP270.00PE | 6.50 | 50000 | 4.05 | 50000 | 100% | 100% | 100% | 100% |
| 56 | SHTF15AUG920.00CE | 36.00 | 20000 | 18.25 | 20000 | 100% | 100% | 100% | 100% |
| 57 | SHTF15JUL960.00CE | 14.00 | 20000 | 7.00 | 20000 | 100% | 100% | 100% | 100% |
| 58 | TAMO15SEP450.00CE | 9.00 | 72000 | 4.25 | 72000 | 100% | 100% | 100% | 100% |
| 59 | TECM15SEP440.00PE | 6.00 | 50000 | 2.25 | 50000 | 100% | 33% | 100% | 37% |
| 60 | TISC15SEP250.00PE | 4.00 | 90000 | 1.15 | 90000 | 100% | 100% | 100% | 100% |

b. Details of one of the instances of alleged non-genuine trades executed by Noticee is given in the following table:

**Contract name: "ABNV15AUG2100.00CEW3"**

| Sr. No. | Client name | CP client name | Trade time | Order time | CP order time | Quantity | Trade rate |
|---|---|---|---|---|---|---|---|
| 1 | SPFL SECURITIES LIMITED | VIJAY SINGH MUNDHRA | 12:05:19.651635 | 12:05:19.651635 | 12:05:18.979536 | 25000 | 45 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2 | VIJAY SINGH MUNDHRA | SPFL SECURITIES LIMITED | 12:05:22.979502 | 12:05:22.979502 | 12:05:22.854752 | 25000 | 31.25 |

(i) I note from the above table that during the investigation period, total two trades for 50,000 units were executed in the "ABNV15AUG2100.00CEW3" contract on July 21, 2015 wherein the Noticee was party to both the said trades. While dealing in the said contract on July 21, 2015, the Noticee at 12:05:19 hrs entered into one buy trade with counter party viz, Vijay Singh Mundhra for 25,000 units at rate of Rs. 45 per unit. Thereafter, on the same day, within 3 seconds from the above trade, the Noticee, at 12:05:22 hrs entered into one sell trade with same counterparty for the same quantity 25,000 units at rate of Rs. 31.25 per unit.

(ii) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed a reversal trade (one buy trade + one sell trade) with the same counterparty viz. Vijay Singh Mundhra, on the same day for the same quantity.

(iii) Thus, the Noticee, through its dealing in the contract viz, "ABNV15AUG2100.00CEW3" during the investigation period, executed non genuine trades which is 100% of the total trades in the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 50,000 units which is 100% of the volume traded in the said contract in the options segment of BSE during the investigation period.

(iv) The trades entered by the Noticee were reversed on the same day with same counterparties and price changed in the said contract from Rs. 45 to Rs. 31.25 without change in price of underlying which indicates that these trades were non-genuine in nature.

c. I further note that a similar *modus operandi* is seen to be adopted by the Noticee in its trades on other days. It is also noted that most of the trades, buy or sell, of the Noticee were reversed within seconds of execution of the first sell / buy trade. Further, the execution of reversal trades by the Noticee is directly supported with evidence from the Annexures B to D provided to the Noticee as an enclosure to SCN which contain the records of all trades and reversal trades carried out by the Noticee in the Stock Options segment of the BSE during the Investigation Period. On perusal of the details of trades carried out by the Noticee, it is observed that the Noticee indulged in 126 reversal trades in 60 unique contracts during the IP.

d. I observe from the reversal trades carried out by the Noticee that it had bought / sold and sold / bought illiquid option contracts with the same counter parties and also reversed its trades within seconds from its earlier buy / sell trades, at a varied price difference. The pattern of trading suggests that such trades of the Noticee were driven by factors exogenous to options market thereby violating the sanctity of market mechanism. 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.

e. It is summarized from the above findings that the Noticee had executed non-genuine trades in 60 contracts, wherein percentage of non-genuine trades of the Noticee in stock options contracts to total trades in the contracts were in the range of 10% to 100%. Out of the said 60 contracts, in respect of 18 contracts all the trades of the Noticee contributed to 100% artificial volumes. Further, percentage of artificial volume generated by the Noticee in the contract to the total volume in the contract was in the range of 11% to 100%. 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. Further, I note that the Noticee generated a total trading volume of 46,48,000 units in 60 unique contracts through reversal of trades during the IP, details of which is mentioned above.

14. Regulation 3 of PFUTP Regulations, 2003 prevents any person from buying, selling or dealing in securities in fraudulent manner, use or employ any manipulative or deceptive device in contravention to the provisions of the Act, employ any device, scheme or artifice to defraud in connection with dealing in securities or engage in any act, practice, course of business which operates as fraud or deceit upon any person in connection with any dealing in or issue of securities. Regulation 4(1) of PFUTP Regulations, 2003 provides that no person shall indulge in a fraudulent or an unfair trade practice in securities. Regulation 4(2)(a) of PFUTP Regulations, 2003, prohibits a person from indulging in an act which creates false or misleading appearance of trading in the securities market.

15. I note that derivative contracts by its very nature derives its value from price of underlying asset, among various other factors influencing derivatives trading. However, the

transactions of the Noticee as mentioned in above paras clearly demonstrates that option contracts bought / sold were immediately reversed within span of seconds at varied prices, though there was no corresponding price changes in the underlying stock price thereby marring a price signalling purpose of stock exchange, and probably creating an externality of shifting profit/loss from Noticee to others.

16. Further, from the reply of the Noticee, I note that the Noticee has not disputed the execution of trades as mentioned in the SCN. However, the Noticee, in its reply, has contended that the said transactions entered were fair and genuine.

a. At this juncture, 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 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.* 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....*"

b. I also note that the Hon'ble Supreme Court, in ***Kishore R. Ajmera*** (*supra*) has held that, "*The conclusion has to gathered from various circumstances like that volume of trade effected; the period of persistence in trading in a particular scrip; the particulars of buy and sell orders, namely the volume thereof; the proximity of time between the two and such relevant factors...*". Placing reliance of the observation of the Hon'ble Supreme Court in the aforementioned matter, I find it difficult to 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.

c. I also 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 analysing the reversal transactions held 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 had only misleading appearance of trading in the securities market.....*".

d. Applying the rationale of the Supreme Court in the matter of ***Kishore R. Ajmera*** (*supra*) and ***Rakhi Trading*** (*supra*), I am of the view that there is no justification for the wide variation in prices of the same contract, within minutes and some, even seconds, except for an element of pre-determination in the prices by both counterparties when reversing 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.

e. 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 behaviour 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 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 such varying 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 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 PFUTP Regulations, 2003 and prohibited under the provisions of regulations 3(a), (b), (c) and (d) and 4(1) and 4(2)(a) PFUTP Regulations, 2003.

17. Considering the reversing of trades within seconds with widely varying prices of the two legs of trade in the same contract without any basis for such wide variation, I find that the reversal trades executed by the Noticee were *non-genuine* in nature and created an impression of artificial trading volumes in respective contracts. I am of the view that by

engaging in such trades, the Noticee has violated provisions of Regulation 4(2)(a) of the PFUTP Regulations, which states that dealing in securities will be deemed to be a fraudulent or unfair trade practice if it involves "*indulging in an act which creates false or misleading appearance of trading in the securities market*".

18. 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 deciding 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),3(b),3(c),3(d), 4(1) and 4(2)(a) of the PFUTP Regulations.*"

19. In view of the aforesaid, 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 view that the aforesaid act of the Noticee is in violation of regulations 3(a), (b), (c) and (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003.

**Issue b** **If yes, whether the violation, on the part of the Noticee would attract monetary penalty under section 15HA of the SEBI Act?**

**&**

**Issue c** **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, 1992 r/w Rule 5 (2) of the AO Rules, 1995?**

20. Since violation of regulations 3(a), (b), (c) and (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003 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, 1992 text of which is produced as under :

***The SEBI Act, 1992***
"***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.*"

21. While determining the quantum of penalty under section 15HA of the SEBI Act, 1992 the following factors stipulated in section 15J of the SEBI Act, 1992 have to be given due regard:

***The SEBI Act, 1992***
***Factors to be taken into account by the adjudicating officer***

***15J*** *-: 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.*

22. As established in the preceding paragraphs, the reversal 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 general public which I construe a mitigating factor while determining the quantum of penalty. 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.

23. Therefore, taking into account the facts and circumstances of this matter, I am of the view that a penalty of Rs. 11,80,000/- (Rupees Eleven Lakh Eighty Thousand Only) will be commensurate with the violations of regulations 3(a), (b), (c) and (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003 committed by the Noticee.

## ORDER

24. 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, 1992 r/w rule 5 of the AO Rules, 1995, I hereby impose a penalty of Rs. 11,80,000/- (Rupees Eleven Lakh Eighty Thousand Only) upon the Noticee, i.e. SPFL Securities Limited under section 15HA of the SEBI Act, 1992 for violation of regulations 3(a), (b), (c) and (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003.

25. 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:

| Account No. for remittance of penalties levied by Adjudication Officer | |
|---|---|
| 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 |

26. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to the Enforcement Department – Division of Regulatory Action – I of SEBI. The Noticee shall provide the following details while forwarding DD/ payment information:
    a) Name and PAN of the entity (Noticee)
    b) Name of the case / matter
    c) Purpose of Payment – Payment of penalty under AO proceedings
    d) Bank Name and Account Number
    e) Transaction Number

27. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

28. Copies of this Adjudication Order are being sent to the Noticee and also to SEBI in terms of rule 6 of the AO Rules, 1995.

**Date: June 27, 2019**

**Place: Mumbai**

**SANGEETA RATHOD**

**ADJUDICATING OFFICER**