BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO. Order/GG/VP/2021-22/15212

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) RULES, 1995

In respect of:

Sanjay Agrawal HUF
(PAN: AAZHS5120G)

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

A. BACKGROUND OF THE CASE

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

2. Pursuant to a preliminary examination conducted in the Illiquid Stock Options matter an Interim order was passed by SEBI on August 20, 2015 against 59 entities which were confirmed vide Orders dated July 30, 2016 and August 22, 2016. Meanwhile, SEBI initiated a detailed investigation relating to trading in stock options segment of BSE which was completed in the year 2018. The investigation findings revealed that of all trades executed in the stock options

segment of BSE during the Investigation Period, 81.38% of the trades, that is 2,91,643 trades, were trades which involved a reversal of buy and sell positions by the clients and counterparties in a contract. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE's stock options segment during the investigation period. The proceedings initiated against the first set of 59 entities, vide the aforementioned Interim Order were disposed of vide final Order dated April 05, 2018, without any further directions, observing that the Adjudicating Officer shall continue the proceedings in accordance with the SEBI Act, 1992 and SEBI (Procedure for Holding and Imposing Penalties by Adjudicating Officer) Rules, 1995 and pass appropriate order on merits. It was also recorded therein that SEBI has decided to take appropriate action against all 14720 entities in phases. The captioned proceedings initiated against the Noticee is part of the aforesaid mass action initiated by SEBI against the large number of entities.

3. In the meantime, the Hon'ble Securities Appellate Tribunal (SAT), vide its Order dated October 14, 2019, in the case of *R. S. Ispat Ltd Vs SEBI*, *inter alia* observed that "*SEBI may consider holding a Lok Adalat or adopting any other alternative dispute resolution process with regard to the Illiquid Stock Options".*

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

5. It was observed that 13,186 entities had not availed of the opportunity of settlement and therefore Adjudication proceedings were initiated against the entities in a phased manner. In order, to duly expedite the Adjudication proceedings against the entities, SEBI had appointed additional Adjudicating officers to adjudicate against the said entities. However, owing to the huge

number of alleged entities, the adjudication proceedings are being conducted in a phased manner that would require adequate time to complete the proceedings against all entities.

6. It was observed that Sanjay Agrawal HUF (PAN: AAZHS5120G) (hereinafter referred to as the "**Noticee**") was one of the entities, who did not seek settlement under the Settlement Scheme in 2020. The reversal trades allegedly contributed to the generation of artificial volumes, leading to allegations that the Noticee had violated the provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1) and 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trading Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as the "**PFUTP Regulations**").

B. APPOINTMENT OF ADJUDICATING OFFICER

7. SEBI initiated adjudication proceedings and appointed me, as the Adjudicating Officer under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the "**SEBI Act**") read with rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as the "**SEBI Adjudication Rules**") *vide* order dated November 12, 2021 to inquire into and adjudge under section 15HA of the SEBI Act, with respect to the allegations against the Noticee.

C. SHOW CAUSE NOTICE, REPLY AND HEARING

8. A show cause notice dated 15.12.2021 (hereinafter referred to as "**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 initiated against him and why penalty should not be imposed against him under section 15HA of the SEBI Act for the alleged violation of the provisions of regulations 3(a),(b),(c),(d), 4(1) and 4(2)(a) of the PFUTP Regulations.

9. The SCN issued to the Noticee, *inter alia* alleged, that the Noticee engaged in 5 non-genuine trades through 2 contracts, on 2 days viz. 18.06.2015 and 03.09.2015, through 2 counterparties viz. Eveningstar Dealtrade Private Limited and Onceover Vincom Private Limited, which led to generation of artificial volume of 216000 units. The 5 non-genuine trades each entered into by the Noticee were reversed on the same day with the same counterparties at a substantial price difference without there being any rationale. The summary of the dealings of the Noticee in the three stock option contracts, in which the Noticee allegedly executed the 5 non-genuine trades during the investigation period is as follows:

Table-1

Summary of dealings in contracts wherein the Noticee executed reversal trades as given below:

S. No.	Contract Name	Date of transaction	Trade Time (Buy Side)	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Trade Time (Sell Side)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Total vol 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	LNTF15JUN70.00PEW3	18/06/2015	14:57:43.608759	4.8	40000	14:58:31.484307	7.3	40000	80000	100%	7.69%
2	LNTF15SEP75.00PEW3	03/09/2015	15:04:23.552605	7.4	68000	15:09:05.210610	11.09	68000	136000	100%	100%

10. The allegation is that the above trades were non-genuine trades executed by the Noticee in the stock options contract, through two contracts, involving reversal of trades in two days with the same counterparty at a substantial price difference, as shown above in Table-1.

11. The abovementioned contracts which resulted in 2 reversal trades creating artificial volumes is elaborated through an illustration of one of the contracts viz. “LNTF15JUN70.00PEW3” (Serial.no. 1 of the above table), which is as follows:

(a) During the investigation period, in the said contract viz. “LNTF15JUN70.00PEW3” the Noticee on 18/06/2015 has executed 2 trades for total volume of 4000 units with counterparty, viz. Eveningstar Dealtrade Private Limited.

(b) While dealing in the said contract on 18/06/2015, the Noticee at 14:57:43.608759 hrs executed one buy trade for 40000 units at the rate of Rs. 4.8 per unit with counterparty Eveningstar Dealtrade Private Limited. In 48 seconds of the aforementioned buy trade, the Noticee reversed the trade by executing one sell trade at 14:58:31.484307 hrs for 40000 units at the rate of Rs. 7.3 per unit with the same counterparty.

(c) From the above, it is noted that while dealing in aforesaid contract (i.e LNTF15JUN70.00PEW3) during the investigation period, the Noticee executed a total of 2 trades (1 buy trade and 1 sell trade). This made up to 7.69% of the total market volume for this contract during the investigation period. Likewise, in the second contract shown at Table.1 of para 9, the Noticee has executed 1 reversal trade, which constituted 100% of market volume.

12. Based on the above, it was alleged that the Noticee by indulging in execution of the aforesaid non-genuine reversal trades, has violated Regulations 3(a),(b),(c),(d) and 4(1), 4(2)(a) of the PFUTP Regulations, text of which is reproduced as under:

PFUTP Regulations

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;

………

13. The SCN was issued on 15.12.2021 wherein 14 days' time was granted to Noticee to submit reply to the SCN. The SCN was dispatched by SPAD and is shown as delivered on 21.12.2021 as per tracking details available on www.indiapost.gov.in. Thus, the said SCN was served upon the Noticee in terms of rule 7 of the Adjudication Rules by SPAD. However, no reply to the SCN was received.

14. Further, vide Hearing Notice No. EAD-6/GG/VP/230411/2022 dated 19.01.2022, it was communicated to the Noticee that an opportunity of personal hearing on 27.01.2022 was being granted to the Noticee in accordance with rule 4 (3) of the Adjudication Rules. The said Hearing Notice was delivered by SPAD on 25.01.2022.

15. Another opportunity of Hearing was granted to the Noticee on 25.02.2022 vide Hearing Notice No. EAD-6/GG/VP/5719/4/2022 dated 10.02.2022 in terms of rule 4(3) of the Adjudication Rules. The said Hearing Notice was sent through SPAD and the same was delivered to the Noticee on 16.02.2022, however, no reply to the SCN was received.

16. From the above, I note that despite proper service of SCN and Hearing Notice, the Noticee has not responded. Hence, I am compelled to proceed ex-parte in the matter. As laid down by the Hon'ble SAT in its order dated May 12, 2017 in the matter of Shri. B.Ramalinga Raju vs. SEBI (Appeal no. 286 of 2014), "even though the Noticees remained ex-parte, I find it relevant that I should be guided by the documents available on record". I hereby proceed with the matter, based on the material available on record.

17. Thus, it is relevant to note that the SCN and Hearing Notice were both duly served on the Noticee but the Noticee has not filed its reply to the SCN nor availed the opportunity of hearing granted to the Noticee on 27.01.2022 and 25.02.2022. Hence, I am of the view that after serving the SCN and Hearing Notices, sufficient time has been provided to the Noticee to submit a reply, which the Noticee has failed to submit, and also failed to appear for hearing. Hence, I am constrained to proceed with the present adjudication proceeding ex-parte on the basis of material available on record.

CONSIDERATION OF ISSUES AND FINDINGS

18. The issue that arises for consideration is whether the trading in illiquid stock options done by the Noticee during the Investigation Period was in violation of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations? If yes, whether the Noticee is liable for monetary penalty under section 15HA of the SEBI Act and what should be the quantum?

19. I note that SCN dated 15.12.2021 alleged that the Noticee contributed to the generation of artificial volumes by entering reversal trades thereby violated the provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1) and 4(2) (a) of the SEBI (PFUTP) Regulations, 2003.

Summary of the Noticees' trades contract-wise is extracted hereunder for analysis (Ref. Annexure-2 of the SCN)

Table 2: Summary of dealings in contract LNTF15JUN70.00PEW3

S. No.	Date of transaction	Name of the client	Name of the counter party client	Trade Time (in hrs)	Order_LM TIME	CP Order_LM TIME	Trade Rate (Rs.)	Trade Volume (no. of
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	18/06/2015	SANJAY AGRAWAL HUF	EVENINGSTAR DEALTRADE PRIVATE LIMITED	14:57:43.608759 (buy side of the Noticee)	14:57:43.608759	14:57:43.577488 (sell side)	7.3	40000
2	18/06/2015	EVENINGSTAR DEALTRADE PRIVATE LIMITED	SANJAY AGRAWAL HUF	14:58:31.484307 (buy side of CP)	14:58:31.484307	14:58:31.452841 (sell side)	4.8	40000

I note from the above table that, Noticee had placed his buy order at 14:57:43.608759 for 40000 units at Rs 7.3 per unit when counterparty sell order was pending which was placed at 14:57:43.577488 for 40000 units at Rs 7.3 per unit and the trade was executed at 14:57:43.608759. Hence, the time and quantum matched and synchronized. Within 48 seconds, Noticee placed his sell order at 14:58:31.452841 for 40000 units at Rs 4.8 per unit and immediately within a second's difference, the counter party placed buy order at 14:58:31.484307 for 40000 units at Rs 4.8 per unit thereby reversed the earlier trade with the same quantum of shares to the very same Counterparty incurring loss of Rs 1,00,000/-. I note that the Noticee has made loss only and seller has consciously made profit. The circumstances surrounding the trades point towards a prior understanding between the two parties to the trades, indicating that the trades were not bona fide.

20. Similar synchronization and reversal of trades were observed in the second contract which are demonstrated hereunder:

Table 3: Summary of dealings in contract LNTF15SEP75.00PEW3

S. No.	Date of transaction	Name of the client	Name of the counter party client	Trade Time (in hrs)	Order_LM TIME	CP Order_LM TIME	Trade Rate (Rs.)	Trade Volume (no. of
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
1	03/09/2015	SANJAY AGRAWAL HUF	ONCEOVER VINCOM PRIVATE LIMITED	15:04:23.552605 (buy side of Noticee)	15:04:22.318454	15:04:23.552605 (sell side)	7.4	68000
2	03/09/2015	ONCEOVER VINCOM PRIVATE LIMITED	SANJAY AGRAWAL HUF	15:09:05.210610 (buy side of CP)	15:09:05.194635	15:09:05.210610 (sell side)	11.1	48000
3	03/09/2015	ONCEOVER VINCOM PRIVATE LIMITED	SANJAY AGRAWAL HUF	15:09:15.616478 (buy side of CP)	15:09:15.600845	15:09:15.616478 (sell side)	11.05	20000

21. I note from the above table that, Noticee had placed his buy order at 15:04:22.318454 for 68000 units at Rs 7.4 per unit. Within one second, the counterparty placed sell order at 15:04:23.552605 for 68000 units at Rs 7.4 per unit and the trade was executed at 15:04:23.552605. Hence, the time and quantum matched and synchronized. After 4 minutes and 42 seconds, the counterparty placed his buy order at 15:09:05.194635 for 48000 units at Rs 11.1 per unit and immediately within 2 microseconds, the Noticee placed buy order at 15:09:05.210610 for 48000 units at Rs 11.1 per unit. the counterparty placed another buy order at 15:09:15.600845 for 20000 units at Rs 11.05 per unit and

immediately within a microsecond, the Noticee placed buy order at 15:09:15.616478 for 20000 units at Rs 11.05 per unit and thereby reversed the earlier trade with the same quantum of shares to the very same Counterparty earning profit of Rs 2,50,920/-. I note that the Noticee has made profit only and seller has consciously made loss, in the second contract. The circumstances surrounding the trades point towards a prior understanding between the two parties to the trades, indicating that the trades were not bona fide.

22. I note from the trading pattern of the Noticee and the manner of placing buy and sell orders in a synchronised manner within seconds of each other; the reversal of trades within a short time on the same day; and the wide variation in prices of the trades in the same contracts in a short time without any rational basis, that the trades executed by the Noticee were not genuine trades. Both the parties to the trades constituted 100% of the market in the aforesaid contract. The Noticee made profits and the counter party consciously made loss. By engaging in such trades, the Noticee violated provisions of Regulation 3(a), (b), (c) and (d) and Regulation 4(2)(a) of PFUTP Regulations, 2003 which states that dealing in securities will be deemed to be a fraudulent and unfair trade practice if it involves "indulging in an act which creates false or misleading appearance of trading in the securities market.

23. In the context of artificial trades, it is pertinent to rely on the judgment of the Hon'ble Supreme Court in the matter of Rakhi Trading (SEBI Vs. Rakhi Trading-CANo.1969/2011, Order dated February 8, 2018)

> *"1. Fairness, integrity and transparency are the hallmarks of the stock market in India".*
>
> *"35. Nobody intentionally trades for loss. An intentional trading for loss per se, is not a genuine dealing in securities. 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 make loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice."*

"38. Their Lordships have considered similar transactions in the same segment, "The repeated reversals and predetermined arrangement to book profits and losses respectively, made it clear that the parties were not trading in the normal sense and ordinary course. Resultantly, there has clearly been a restriction on the free and fair operation of market forces in the instant case."

"41. 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.".

"38. The smooth operation of the securities market and its healthy growth and development depends upon large extent on the quality and integrity of the market. Unfair trade practices affect the integrity and efficiency of the securities market and the confidence of the investors. Prevention of market abuse and preservation of market integrity are the hallmark of securities law …" (Paragraph No.1, 35, 38 and 41 of the part of the judgment authored by His Lordship Mr. Justice Kurian Joseph).

For this, the Hon'ble Judge also relied on the apex court observations in N.Narayanan Vs. Adjudicating Officer, Securities and Exchange Board of India(2013) 12 SCC 152 wherein it was inter alia observed: "Market abuse" impairs economic growth and erodes investor's confidence."

"42. Where certain unscrupulous elements are trying to manipulate the market to serve their own interest, it becomes imperative on the part of SEBI to intervene and to curb further mischief and to take necessary action to maintain public confidence in the integrity of the securities market…" (Paragraph No.42 of the part of the judgment authored by Her Ladyship Ms. Justice R. Bhanumathi).

24. Finally, to answer the question as to whether these trades fall within the ambit of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations, I would like to rely on the following extract of the judgment of the Hon'ble Supreme Court in the matter of **Rakhi Trading:**

*"**40.** Regulation 3(a) expressly prohibits buying, selling or otherwise dealing in securities in a fraudulent manner. Under Regulation 4(2) dealing in securities shall be deemed to be fraudulent if the trader indulges in an act which creates a false or misleading appearance of trading in the securities market. It is a deeming provision. Such trading also involves an act amounting to manipulation of the price of the security in the sense that the price has been artificially and apparently prefixed. The price does not at all reflect the value of the underlying asset. It is also a transaction in securities entered into without any intention of performing it and without any intention of effecting a change of ownership of such securities, ownership being understood in the limited sense of the rights of the contract." (per His Lordship Mr.Justice Kurian Joseph's findings in paragraph No. 40)*

25. The Hon'ble Appellate Tribunal has summarised the circumstances identified by the Apex court in **Rakhi Trading Judgment** in the case of **Global Earth Properties and Developers Pvt. Ltd. Vs Securities and Exchange Board of India (Appeal No.212 of 2020 decided on September 14, 2020).** In para 14 of the said order, the Hon'ble SAT enlisted the following circumstances:

*"**14 d.** An intentional trading for loss per se, is not a genuine dealing in securities. Trading is always with the aim to make profits. But if one party consistently makes loss and that too in preplanned and rapid reverse trades, it is not genuine and the same is an unfair trade practice.*

e. *….In synchronised and reverse trades, there is no genuine change of rights in the contract. "*

26. Further in paragraph No. 20 of the said order in **Global Earth (supra),** the Hon'ble Tribunal held as below:

*"**20.** From the aforesaid cumulative analysis of the reversed transactions with the counter party, quantity, time and significant variation of the price clearly indicates that the trades were non-genuine and had only misleading appearance of trading in the securities market without intending to transfer the beneficial ownership. One finds it to be naïve to presume that the perception of the two counter parties to a trade changed within few seconds/minutes and positions were interchanged and the*

contracts were changed where one party made profit and the other party ended up making losses every time without prior meeting of mind. It is not a mere coincidence that the Appellants could match the trades with the counter party with whom he had undertaken the first leg of respective trade. In our opinion, the trades were non-genuine trades and even though direct evidence is not available in the instant case but in the peculiar facts and circumstances of the present case there is an irresistible inference that can be drawn that there was meeting of minds between the Appellants and the counter parties, and collusion with a view to trade at a predetermined price."

27. From the above position in law and facts, it follows that the Noticee's transactions in question falls within the mischief of unfair and fraudulent or manipulative trade practice, as contemplated in the SEBI (PFUTP) Regulations. Hence, I am inclined to impose monetary penalty on the Noticee.

28. As regards the quantum of penalty to be levied, the Amendment of Section 15HA vide the Securities Laws (Amendment) Act, 2014 which came into force on 08/09/2014, provided that the penalty shall not be less than five lakh rupees. Considering all the facts and circumstances in this matter and bearing in mind the parameters laid down in section 15J, I am inclined to impose a minimum penalty against the Noticee, as provided under section 15HA of the SEBI Act.

ORDER

29. In exercise of powers conferred upon me under section 15-I (2) of the SEBI Act read with rule 5 of the Adjudication Rules, I hereby impose a penalty of Rs 5,00,000/- (Rupees Five Lakhs only) upon the Noticee i.e., **Sanjay Agrawal HUF (PAN: AAZHS5120G)** under section 15HA of the SEBI Act for violation of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations.

30. 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 favor 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

In case further assistance would be required in payment of penalties, the Noticee may contact the support at portalhelp@sebi.gov.in.

31. The Noticee shall forward the said demand draft or the details / confirmation of penalty so paid through e-payment to the Division Chief, Enforcement Department-I, DRA-I, SEBI, in the format 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

32. In terms of rule 6 of the SEBI Adjudication Rules, copies of this order are sent to the Noticee and also to SEBI.

Date: February 28, 2022 **GEETHA G**
Place: Mumbai **ADJUDICATING OFFICER**