BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/SR/SM/2019-20/6176/140]

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

Shubhang Exports Ltd.

(Address: 1027, West End Mall, 11th Floor District Centre
Janak Puri, New Delhi – 110058)
(CIN – U45202DL1991PLC307203)
(PAN: AAJCS1526R)

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 Shubhang Exports Ltd. (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 vide communique dated May 29, 2018.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

4. A show cause notice dated October 22, 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) at the address "*Address 1: House no. 30/21, Maheshwari Mohal, Kanpur, Uttar Pradesh – 208001 and Address 2: 203, Sarad Bose Road, Above Canara Bank, Nr Deshpriya Park, Kolkata, West Bengal – 700029"* and e-mail at SHARMAHIREPURCHASE@GMAIL.COM. SHUBHEX@REDIFFMAIL.COM,MANOJKKNP@GMAIL.COM,DEEPAKARYAN000 @GMAIL.COM,SHUBHANGEX123@REDIFFMAIL.COM and SHUBHAG.EXPORTS@ GMAIL.COM.

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 147 such reversal trades in 51 contracts, which led to generation of artificial volume of 50,81,000 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 51 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	ACCL15APR1590.00PE	15.61	99000	56.00	99000	50%	8%	44%	7%
2	ADPW15MAR50.00CE	5.00	16000	8.50	16000	100%	10%	100%	2%
3	ADPW15MAR52.00CE	3.20	16000	6.00	16000	100%	3%	100%	0%
4	ALBK15MAR125.00PEW1	10.50	8000	15.00	8000	100%	33%	100%	5%
5	ALBK15MAR85.00CE	20.00	6000	27.00	6000	100%	13%	100%	2%
6	ALBK15MAR95.00CEW2	5.10	132000	8.97	132000	100%	40%	100%	49%
7	AMBC15MAR255.00CEW1	10.88	91000	19.80	91000	100%	100%	100%	100%
8	AMTK15MAR140.00CEW2	7.90	104000	14.60	104000	100%	56%	100%	76%
9	APLT15FEB190.00PE	8.10	44000	17.10	44000	100%	100%	100%	100%
10	ARVI15MAR330.00PE	5.10	6000	12.50	6000	100%	33%	100%	2%
11	AXIS15APR580.00CE	0.50	121000	17.00	121000	100%	13%	100%	34%
12	BHEL15FEB255.00CE	11.00	104000	20.98	104000	100%	22%	100%	22%
13	BHEL15FEB260.00CE	12.11	100000	24.20	100000	100%	20%	100%	36%
14	BHEL15MAR260.00CE	12.00	6000	16.50	6000	100%	10%	100%	1%
15	BHRT15MAR330.00CEW1	18.50	5000	26.50	5000	100%	20%	100%	1%
16	BHRT15MAR350.00CE	2.10	5000	7.00	5000	100%	3%	100%	0%
17	BPCL15APR720.00PE	2.00	100000	22.00	100000	100%	100%	100%	100%
18	CANB15FEB390.00CE	14.50	24000	25.00	24000	100%	11%	100%	9%
19	CANB15FEB420.00PE	4.10	102000	12.02	102000	100%	24%	100%	27%
20	CARN15MAR235.00CE	13.90	6000	18.90	6000	100%	33%	100%	2%
21	CENT15MAR520.00CE	31.55	81000	60.00	81000	100%	50%	100%	50%
22	CRGL15MAR165.00CEW1	6.20	88000	13.45	88000	100%	46%	100%	41%
23	DABU15MAR260.00CE	6.00	6000	10.50	6000	100%	50%	100%	23%
24	DABU15MAR280.00PE	12.00	7000	18.50	7000	100%	33%	100%	5%

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
25	DISH15MAR80.00CE	5.00	8000	8.50	8000	100%	8%	100%	0%
26	DLFL15MAR140.00CE	11.00	6000	16.50	6000	100%	25%	100%	4%
27	DLFL15MAR140.00CEW1	9.00	6000	15.00	6000	100%	29%	100%	6%
28	DLFL15MAR145.00CEW2	5.40	112000	9.27	112000	100%	100%	100%	100%
29	DLFL15MAR150.00CE	2.10	8000	6.00	8000	100%	6%	100%	0%
30	DLFL15MAR150.00CEW1	3.40	126000	7.54	126000	100%	60%	100%	98%
31	DLFL15MAR170.00PE	14.50	6000	19.90	6000	100%	33%	100%	25%
32	HULL15APR900.00CE	10.00	111000	28.00	111000	100%	10%	100%	26%
33	HULL15APR940.00CE	2.70	50000	12.70	50000	100%	7%	100%	6%
34	IBRL15MAR70.00CE	5.00	8000	9.95	8000	100%	7%	100%	0%
35	IBRL15MAR70.00CEW1	5.00	12000	9.40	12000	100%	100%	100%	100%
36	IBRL15MAR90.00PE	10.80	8000	16.80	8000	100%	100%	100%	100%
37	IIBK15APR900.00PEW4	9.00	47500	29.00	47500	100%	50%	100%	50%
38	INCM15APR105.00PE	8.00	126000	14.30	126000	100%	50%	100%	50%
39	LICH15APR460.00PE	8.00	116000	23.00	116000	100%	50%	100%	50%
40	MARU15APR3650.00PE	43.00	45000	83.00	45000	100%	9%	100%	15%
41	MSSL15FEB460.00CE	12.90	151000	23.71	151000	100%	100%	100%	100%
42	PFCL15MAR270.00CEW2	9.50	107000	18.48	107000	100%	18%	100%	9%
43	PNBK15MAR190.00PE	14.00	7500	18.50	7500	100%	100%	100%	100%
44	RCAP15APR440.00PE	5.00	71000	19.00	71000	100%	25%	100%	33%
45	SAIL15MAR60.00CE	8.00	12000	11.00	12000	100%	50%	100%	23%
46	SAIL15MAR60.00CEW1	6.50	12000	11.00	12000	100%	100%	100%	100%
47	SAIL15MAR65.00CE	3.10	12000	6.10	12000	100%	22%	100%	1%
48	SAIL15MAR80.00PEW1	6.50	12000	10.50	12000	100%	100%	100%	100%
49	SYND15MAR100.00CEW1	17.00	8000	22.50	8000	100%	33%	100%	6%
50	SYND15MAR110.00CEW1	8.00	8000	12.00	8000	100%	100%	100%	100%
51	WIPR15MAR600.00CE	21.00	123000	47.00	123000	100%	33%	100%	33%

(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 3% to 100%. The non-genuine trades of the Noticee 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 0% 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. The said SCN was sent through SPAD and the same returned undelivered as seen from record. Attempts were made to serve the Noticee through affixture and also, the same

was not served to the Noticee. Further, the copy of SCN was sent through SPAD at the address *“1027, West End Mall, 11th Floor District Centre, Janak Puri, New Delhi – 110058”* and by e-mail at “*dayabuilders.1991@gmail.com*” as per website of Ministry of Corporate Affairs (MCA). The copy of SCN sent through SPAD returned undelivered and the proof is on record. Noticee vide its letter dated September 06, 2019 replied that it has received the SCN in the instant matter. In the said letter, Noticee requested for inspection of documents and also requested to provide a copy of the investigation report, trade log, order log etc. In the said reply letter, Noticee also mentioned that it has authorized one Mr. Vikas Bengani (email id - vikasbengani@hotmail.com) to take inspection of documents on behalf of the Noticee. However, no authorization letter was provided by the Noticee in this regard. Vide letter dated September 13, 2019, Noticee was advised to confirm the correct address on which Noticee will accept the communications sent to it by AO and provide the authority letter duly signed and stamped in original. The said letter was sent through SPAD at the address *“1027, West End Mall, 11th Floor District Centre, Janak Puri, New Delhi – 110058”* and by e-mail at *dayabuilders.1991@gmail.com*. The said letter sent through SPAD returned undelivered. The scan copy said letter was also sent at the e-mail id: vikasbengani@hotmail.com with an advice to convey the contact details of the Noticee wherein Noticee will accept the letters sent by AO. A reply was received vide e-mail dated October 03, 2019 informing AO that, the said notices may kindly deliver at his address. In this regard, the Shri Bengani (AR) was advised to convey the contact details of the Noticee.

8. Vide hearing notice dated October 11, 2019, an opportunity of hearing was granted to the Noticee on November 05, 2019. In the said hearing notice, regarding the inspection of documents, it was informed to the Noticee all the documents relied upon by the AO have been provided to the Noticee and also advised the Noticee to submit its reply by October 25, 2019. Further, Noticee was advised to provide a copy of PAN, copy of address proof of the Noticee and authority letter in favour of AR. The said hearing notice was sent through SPAD and also through e-mail. The said hearing notice sent through SPAD to the Noticee returned undelivered and the proof is on record, however, the said hearing notice was also by e-mail and the same was delivered to the AR as seen from record. Vide e-mail dated October 23, 2019, the AR provided a scan copy of PAN card

of the Noticee, address of the Noticee (which is noted same as website of MCA), copies of PAN card and Aadhar card of one of the Director of the Noticee named as Bramha Nand Sharma. Noticee vide e-mail dated October 31, 2019 forwarded its reply vide letter dated October 25, 2019. In the said e-mail from which the undersigned received reply from the Noticee, was advised to provide the address in which the physical copy of SCN alongwith a CD containing trade data can be forwarded. The same was also sent to the AR at his e-mail and the AR replied that he is coming for the hearing scheduled on November 05, 2019 and he will collect the documents. AR was advised to bring the authorization letter to attend the hearing and to collect the documents.

9. The AR came for hearing on the scheduled date i.e. November 05, 2019 without any authorization letter. The AR reiterated the submissions made by the Noticee vide letter dated October 25, 2019 and informed that Noticee has not received the annexures to the SCN. During the proceedings of hearing regarding the inspection of documents as per the reply of the Noticee, it was clarified that upon receipt of the updated address, the annexures can be forwarded to the Noticee. Hearing minutes are on record. Noticee vide e-mail dated November 07, 2019 forwarded a letter dated November 05, 2019 providing the new address and authorization letter. Accordingly, vide letter dated November 07, 2019, the said annexures were sent at the address *"Shubhang Exports Limited, C/o Bramha Nand Sharma, 30/21 Maheshwari Mohal, Kamla Tower, Kanpur Nagar, Uttar Pradesh – 208001"* through SPAD and the same returned undelivered, as seen from record. The said annexures were forwarded to the AR vide letter dated November 19, 2019 through SPAD and the same was delivered to the AR. The said letter was also sent to the Noticee through e-mail and the same was delivered to AR as seen from record. Noticee vide its e-mail dated November 29, 2019 forwarded a letter dated November 29, 2019 submitted additional information to the SCN. In the said reply letter Noticee to keep the matter in abeyance mentioning that " *Hon'ble SAT has made a statement that SEBI is in the process of amending its Settlement Regulation or coming with a new one to settle these types of matter easily. Therefore request your goodself to keep the matter in abeyance till the final amendment or new settlement procedure not come*". In this context, Noticee was advised to submit documentary evidence of having approached the Hon'ble Securities Appellate Tribunal or having applied for consent/Settlement under Securities and Exchange Board of India (Settlement

proceeding) Regulations. Also it was informed to the Noticee that in case undersigned is not in receipt of documentary evidence within 15 days from the delivery of this communication, the matter shall be proceeded upon based on material on record. In this regard, no reply received from the Noticee.

10. Submissions of the Noticee vide letter dated October 25, 2019 and November 29, 2019 are summarized as under:

a) Noticee denied the allegation contained in the SCN against it. Noticee submitted that its trades in the Option Segment of BSE during the Investigation Period comprising of 18 months was only restricted to few days. Noticee refuted that it had executed any non-genuine trades which resulted into creation of artificial volume.

b) Noticee submitted that its trades in option segment of BSE were only in well-known Companies. All the Trades in option segment of BSE were executed on anonymous screen based trading platform provided by BSE wherein identity of the counter parties remain undisclosed. Hence, the question of any non-genuine trade does not arise at all unless it is proved that such Trades were executed in connivance with any counter party. However, the counter party whose name has been disclosed in SCN is completely unknown to it.

c) Noticee submitted that BSE has a sophisticated surveillance system and if there had been any reversal of trade, that system could have alarmed BSE to take corrective measures to restrain any non-genuine trades happening in its trading platform. However, it has not received any warning or caution letter from BSE for any of its trade in its option segment during the period of trading and any period thereafter during the Investigation period. Thus. The allegation of execution of non-genuine trades by it in option segment of BSE which purportedly resulted into creation of artificial volume is totally farfetched and is based on presumptions.

d) Further, Noticee submitted that it is a matter of common knowledge that the option trading platform of the BSE has not been as vibrant as NSE. In such a situation it is just coincidence that the Orders placed by it might have been matched. However, nowhere in the entire SCN it is alleged that Noticee or its Directors had any connection /association/relationship with any of the counter parties. In absence of any such connection/ association/ relationship with any of the counter party to the trades, it is totally illogical and irrational to allege that our trades with the said Counter Parties were non -genuine trades which resulted into creation of any artificial volume.

e) It is submitted by the Noticee that the trades executed by it in the BSE Stock Option Segment were in the normal course of business devoid of any fraudulent intentions. In the derivative segment, only those stock and indices are permitted which are very liquid and there is a robust risk mitigation mechanism is in place. Since Noticee had traded in the Options of very well-known Company which has tradable position in the market, there was no reason to doubt credibility of the platform provided by the

Exchange as approved by SEBI.

f) Noticee submitted that these trades were executed on the anonymous platform the Exchange, without any knowledge of counter party at price ranges that were permitted by the Exchange and SEBI and the obligations arising out of it have been settled through the clearing mechanism of the Exchange. The genuineness of the trades executed by the Company cannot be questioned and therefore Noticee cannot be alleged to have violated any PFUTP Regulations.

g) Noticee submitted that the trades in the BSE Stock Options Segment were completely genuine and without any intention to create false and misleading appearance of trading in the market and therefore the Company could not be alleged to have violated PFUTP Regulations as alleged in the captioned notice. Noticee also requested to rely on the orders passed by other AOs and take a lenient view in the instant matter.

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

CONSIDERATION OF ISSUES, EVIDENCES AND FINDINGS

12. 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?

13. 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.

14. I note that reversal trades have been considered as those trades including in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversal trades are 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.

15. I note from data provided to the Noticee as Annexures B to D of the SCN that the Noticee had executed 21 non-genuine trades in 51 unique contracts on 16 trading days from February 20, 2015 to March 24, 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	ACCL15APR1590.00PE	15.61	99000	56.00	99000	50%	8%	44%	7%
2	ADPW15MAR50.00CE	5.00	16000	8.50	16000	100%	10%	100%	2%
3	ADPW15MAR52.00CE	3.20	16000	6.00	16000	100%	3%	100%	0%
4	ALBK15MAR125.00PEW1	10.50	8000	15.00	8000	100%	33%	100%	5%
5	ALBK15MAR85.00CE	20.00	6000	27.00	6000	100%	13%	100%	2%
6	ALBK15MAR95.00CEW2	5.10	132000	8.97	132000	100%	40%	100%	49%
7	AMBC15MAR255.00CEW1	10.88	91000	19.80	91000	100%	100%	100%	100%
8	AMTK15MAR140.00CEW2	7.90	104000	14.60	104000	100%	56%	100%	76%
9	APLT15FEB190.00PE	8.10	44000	17.10	44000	100%	100%	100%	100%
10	ARVI15MAR330.00PE	5.10	6000	12.50	6000	100%	33%	100%	2%
11	AXIS15APR580.00CE	0.50	121000	17.00	121000	100%	13%	100%	34%
12	BHEL15FEB255.00CE	11.00	104000	20.98	104000	100%	22%	100%	22%

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
13	BHEL15FEB260.00CE	12.11	100000	24.20	100000	100%	20%	100%	36%
14	BHEL15MAR260.00CE	12.00	6000	16.50	6000	100%	10%	100%	1%
15	BHRT15MAR330.00CEW1	18.50	5000	26.50	5000	100%	20%	100%	1%
16	BHRT15MAR350.00CE	2.10	5000	7.00	5000	100%	3%	100%	0%
17	BPCL15APR720.00PE	2.00	100000	22.00	100000	100%	100%	100%	100%
18	CANB15FEB390.00CE	14.50	24000	25.00	24000	100%	11%	100%	9%
19	CANB15FEB420.00PE	4.10	102000	12.02	102000	100%	24%	100%	27%
20	CARN15MAR235.00CE	13.90	6000	18.90	6000	100%	33%	100%	2%
21	CENT15MAR520.00CE	31.55	81000	60.00	81000	100%	50%	100%	50%
22	CRGL15MAR165.00CEW1	6.20	88000	13.45	88000	100%	46%	100%	41%
23	DABU15MAR260.00CE	6.00	6000	10.50	6000	100%	50%	100%	23%
24	DABU15MAR280.00PE	12.00	7000	18.50	7000	100%	33%	100%	5%
25	DISH15MAR80.00CE	5.00	8000	8.50	8000	100%	8%	100%	0%
26	DLFL15MAR140.00CE	11.00	6000	16.50	6000	100%	25%	100%	4%
27	DLFL15MAR140.00CEW1	9.00	6000	15.00	6000	100%	29%	100%	6%
28	DLFL15MAR145.00CEW2	5.40	112000	9.27	112000	100%	100%	100%	100%
29	DLFL15MAR150.00CE	2.10	8000	6.00	8000	100%	6%	100%	0%
30	DLFL15MAR150.00CEW1	3.40	126000	7.54	126000	100%	60%	100%	98%
31	DLFL15MAR170.00PE	14.50	6000	19.90	6000	100%	33%	100%	25%
32	HULL15APR900.00CE	10.00	111000	28.00	111000	100%	10%	100%	26%
33	HULL15APR940.00CE	2.70	50000	12.70	50000	100%	7%	100%	6%
34	IBRL15MAR70.00CE	5.00	8000	9.95	8000	100%	7%	100%	0%
35	IBRL15MAR70.00CEW1	5.00	12000	9.40	12000	100%	100%	100%	100%
36	IBRL15MAR90.00PE	10.80	8000	16.80	8000	100%	100%	100%	100%
37	IIBK15APR900.00PEW4	9.00	47500	29.00	47500	100%	50%	100%	50%
38	INCM15APR105.00PE	8.00	126000	14.30	126000	100%	50%	100%	50%
39	LICH15APR460.00PE	8.00	116000	23.00	116000	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
40	MARU15APR3650.00PE	43.00	45000	83.00	45000	100%	9%	100%	15%
41	MSSL15FEB460.00CE	12.90	151000	23.71	151000	100%	100%	100%	100%
42	PFCL15MAR270.00CEW2	9.50	107000	18.48	107000	100%	18%	100%	9%
43	PNBK15MAR190.00PE	14.00	7500	18.50	7500	100%	100%	100%	100%
44	RCAP15APR440.00PE	5.00	71000	19.00	71000	100%	25%	100%	33%
45	SAIL15MAR60.00CE	8.00	12000	11.00	12000	100%	50%	100%	23%
46	SAIL15MAR60.00CEW1	6.50	12000	11.00	12000	100%	100%	100%	100%
47	SAIL15MAR65.00CE	3.10	12000	6.10	12000	100%	22%	100%	1%
48	SAIL15MAR80.00PEW1	6.50	12000	10.50	12000	100%	100%	100%	100%
49	SYND15MAR100.00CEW1	17.00	8000	22.50	8000	100%	33%	100%	6%
50	SYND15MAR110.00CEW1	8.00	8000	12.00	8000	100%	100%	100%	100%
51	WIPR15MAR600.00CE	21.00	123000	47.00	123000	100%	33%	100%	33%

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

Contract name: "APLT15FEB190.00PE"

S.N.	Client name	Counter Party (CP) client name	Trade time	Order time	CP order time	Quantity	Trade rate
1	Shubhang Exports Ltd	Prompt Commodities Ltd	09:52:59.745292	09:52:58.996128	09:52:59.745292	44000	8.1
2	Prompt Commodities Ltd	Shubhang Exports Ltd	09:53:10.745867	09:53:10.745867	09:53:10.623011	44000	17.1

c. I note from the above table that during the investigation period, total two trades for 8,56,000 units were executed in the "APLT15FEB190.00PE" contract on February 25, 2015 wherein the Noticee was party to all of the said trades. While dealing in the said contract on on February 25, 2015, the Noticee entered into one buy trade with counter party viz, Prompt Commodities Ltd for 44,000 units at rate of Rs. 8.1

per unit. Thereafter, on the same day, within few seconds from the above trade, the Noticee entered into one sell trade with same counterparty for the same quantity 44,000 units at the price Rs. 17.1 per unit.

d. From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed reversal trades (one buy trade + one sell trade) with the same counterparty viz. Prompt Commodities Ltd, on the same day for the same quantity.

e. Thus, the Noticee, through its dealing in the contract viz, “APLT15FEB190.00PE” 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 88,000 units which is 100% of the volume traded in the said contract in the options segment of BSE during the investigation period.

f. The trades entered by the Noticee were reversed on the same day with same counterparties and price changed in the said contract from Rs. 8.1 to Rs. 17.1 without change in price of underlying which indicates that these trades were non-genuine in nature.

g. 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 minutes 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 147 reversal trades in 51 unique contracts during the IP.

h. 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 minutes 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.

i. It is summarized from the above findings that the Noticee had executed non-genuine trades in 51 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 3% to 100%. Out of the said 51 contracts, in respect of 11 contracts, 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 0% 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 50,93,000 units in 51 unique contracts through reversal of trades during the IP, details of which is mentioned above.

16. 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.

17. 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 demonstrate that option contracts bought / sold were immediately reversed within span of minutes 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.

18. 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) & (d) and 4(1) and 4(2)(a) PFUTP Regulations, 2003.

19. Considering the reversing of trades within minutes 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*".

20. 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*."

21. 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) & (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003.

<u>Issue b</u> If yes, whether the violation, on the part of the Noticee would attract monetary penalty under section 15HA of the SEBI Act, 1992?

&

<u>Issue c</u> 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?

22. Since violation of regulations 3(a),(b),(c)&(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."

23. 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:

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.

24. 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.

25. Therefore, taking into account the facts and circumstances of this matter, I am of the view that a penalty of Rs. 6,00,000/- (Rupees Six Lakh Only) will be commensurate with the violations of regulations 3(a),(b),(c)&(d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003 committed by the Noticee.

ORDER

26. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under section 15-I(2) of the SEBI Act, 1992 r/w rule 5 of the AO Rules, 1995, I hereby impose a penalty of Rs. 6,00,000/- (Rupees Six Lakh Only) upon the Noticee, i.e. Shubhang Exports Ltd. under section 15HA of the SEBI Act, 1992 for violation of regulations 3(a),(b),(c)&(d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003.

27. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order by one of following two modes:

a. By using the web link https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html
b. By way of Demand Draft in favour of “SEBI - Penalties Remittable to Government of India”, payable at Mumbai

28. Details of Demand Draft made as given in format below shall be sent to "The Division Chief, EFD-DRA-I, Securities and Exchange Board of India, SEBI Bhavan, Plot no. C- 4 A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051." and also to e-mail id :- tad@sebi.gov.in

    a) Case Name
    b) Name of the 'Payer/Noticee'
    c) Date of Payment
    d) Amount Paid
    e) Transaction No.
    f) Bank Details in which payment is made
    g) Payment is made for (like penalties/disgorgement / recovery/ settlement amount and legal charges along with order details)

29. 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.

30. Copy of this Adjudication Order is being sent to the Noticee and also to SEBI in terms of rule 6 of the AO Rules, 1995.

Date: December 18, 2019 **SANGEETA RATHOD**

Place: Mumbai **ADJUDICATING OFFICER**