BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO. Order/PM/NS/2022-23/16008

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

In respect of:

Ridhi's Hi-Fashion Pvt. Ltd.

PAN: AADCR3606F

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

FACTS OF THE CASE

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

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

APPOINTMENT OF ADJUDICATING OFFICER

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

SHOW CAUSE NOTICE, REPLY AND HEARING

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

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

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

b) That the Noticee engaged in 16 instances in 4 unique contracts which led to generation of artificial volume in these unique contracts.

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

d) A summary of dealings of the Noticee in the 4 Stock Options contracts in which the Noticee executed non-genuine reversal trades during the Investigation Period are as under:

Table 1: Summary of trading of the Noticee in Illiquid Stock Options on BSE

Sl. No.	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	% of Artificial trades of the Noticee in the contract to Total trades in the contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	ALBK15MAR120.00PE	22.9	250000	13.05	250000	38.46	59.81
2	AMTK15MAR155.00PE	12.4	108000	12.4	108000	100	100
3	ANBK15MAR100.00PE	20.93	104000	12.6	104000	44.44	29.89
4	HAIL15MAR280.00CEW3	22.28	137000	10.5	137000	100	100

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

*"**SEBI (Prohibition of Fraudulent and Unfair Trading Practices Related to Securities Markets) Regulations, 2003***

3. Prohibition of certain dealings in securities

No person shall directly or indirectly -

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made thereunder;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or

proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud or may include all or any of the following, namely:-

(a) indulging in an act which creates false or misleading appearance of trading in the securities market;

….."

6. The Noticee vide the aforesaid letter dated October 18, 2021 submitted its reply to the charges alleged in the SCN, which are summarized hereunder:

a) *We would like to submit that SEBI and BSE registered stock broker M/S Goodluck Securities was our stock broker and we had opened a client account With M/S Goodluck Securities for doing securities transactions in various segments of Securties market However we have never placed any order for trade with M/S Goodluck Securities and that trade carried out by M/S Goodluck Securities in options contracts in the name of our company are without our consent/authorization Our company have never agreed to or accepted these trades and also have hot recorded the same in books of accounts of our company The amount given to broker M/S Goodluck Securities has been shown under Loans and Advances in audited financial statements for the financial year 2014-15;*

b) *We would like to submit that since alleged trades were never recorded in books of account of our company, we have not claimed any loss in the return of income filed for the financial year 2014-15 (assessment year 2015-16) from abovementioned alleged trades We are enclosing herewith Income tax return for the financial year 2014-15 (assessment year 2015-16) and audited financial statements for the financial year 2014-15 (As per annexure A);*

c) *We again reiterate that we have not carried out any transaction through M/S Goodluck Securities in the stock exchange and the same is also evident from the enclosed ledger account of M/S Goodluck Securities in the books* *of accounts of our company from financial year 2014-15 till date (As per Annexure B) Thus it is very clear that no contract note related to unauthorized trade has been recorded by us in our books of accounts and amount given to M/S Goodluck Securities is shown as Loans and Advances recoverable from M/S Goodluck Securities;*

d) We cannot be charged under the provisions of regulations 3(a), (b), (c), (d) and 4(1), 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") since SEBI registered stock broker MS Goodluck Securities had traded in option segment in our account without our consent or authorization and we have not recorded unauthorized 'trades in our books of accounts so our company cannot be said to have directly or indirectly bought, sold or otherwise dealt in securities in fraudulent manner and unauthorized trades by a SEBI registered stock broker cannot be related to us.

e) We would like to submit that we had opened our account with SEBI registered and authorized broker in good faith and believing that a registered broker will trade only after taking authorization from us but he traded in our account without our consent or without any authorization from us and hence we did not record these unauthorized trades in our books which is quite evident from the return of income of the company filed for the financial year 2014-15(assessment year 2015-16) and audited financial statements for the year ended 31 march 2015 We would therefore like to submit that we are a victim of fraud of a SEBI registered broker and hence should not be held guilty.*

7. After considering the facts and circumstances of the case, an opportunity of personal hearing was granted to the Noticee on December 15, 2021 *vide* Notice of Hearing dated December 08, 2021. In view of the prevailing circumstances owing to Covid-19 pandemic, the hearing was scheduled through video conferencing on Webex platform. On the scheduled date of hearing, the Authorized Representative of the Noticee appeared before me through video conference and requested to take into account the submissions made by the Noticee vide its letter dated October 18, 2021, as his oral submissions.

CONSIDERATION OF ISSUES AND FINDINGS

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

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

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

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

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

9. I note that the position/trades entered into by the Noticee were squared up within a short span of time. The striking feature of the trades of the Noticee was that all the positions/trades were squared with the same counterparty with whom Noticee had originally traded/created position. The squaring up of the position/trade was at the substantial variation of price from the original position/trade. Thus, it was alleged that the Noticee had indulged in reversal trades. The said allegation was supported with evidence from the trade log containing records of all trades and reversal trades carried out by the Noticee in the Stock Options segment of the BSE during the Investigation Period and was also provided to the Noticee along with the SCN. On perusal of the details of trades carried out by the Noticee, it is observed that the Noticee took positions and then squared it up in 16 instances in 4 unique option contracts during the Investigation Period.

10. To illustrate, on February 03, 2015, the Noticee sold 137000 units of the contract HAIL15MAR280.00CEW3 at 13:35:28 to Coronet Vyapaar Pvt Ltd. at a price of ₹10.5. Thereafter, the Noticee reversed its position by buying (a) 1000 units at 13:35:36 (b) 71000 units at 13:36:50 (c) 1000 units at 13:35:53 and (d) 64000 units at 13:36:10(total of 137000 units) from the same counterparty on the same day at an average price of ₹22.28. Thus, the position of the Noticee was squared up at an average difference of ₹11.78. The entire volume of 274000 units in the said option contract was arising out of the trades done by the Noticee.

11. A similar modus operandi is seen to be adopted by the Noticee in his trades in the other option contracts. It is observed from the trading of the Noticee that in all the trades of the Noticee the buy order and sell order has been entered in a short span of time. The non-genuineness of these transactions executed by the Noticee is evident from the fact that there was no commercial basis as to why, within a short span of time, the Noticee reversed the position with same counterparties with significant price difference. The time taken for reversing the trades in an illiquid stock option contract suggests the non-genuineness of these trades executed by the Noticee. The fact that the transactions in a particular contract were reversed with the same counterparties indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. Since these trades were done in illiquid option contracts, there was no trading in the said contract and hence, there was no price discovery in the strictest terms. The wide variation in prices of the said contracts, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. Thus, it is observed that Noticee had indulged in reversal trades with his counterparties in the stock options segment of BSE and the same were non-genuine trades.

12. From the reply of the Noticee, I note that the Noticee has interalia contended that…..*SEBI and BSE registered stock broker M/S Goodluck Securities was our stock broker and we had opened a client account With M/S Goodluck Securities for doing securities transactions in various segments of Securties market However we have never placed any order for trade with M/S Goodluck Securities and that trade carried out by M/S Goodluck Securities in options contracts in the name of our company are without our consent/authorization Our company have never agreed to or accepted these trades and also have hot recorded the same in books of accounts of our company……Noticee had further contended that…… We cannot be charged under the provisions of regulations 3(a), (b), (c), (d) and 4(1), 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") since SEBI registered stock broker MS Goodluck Securities had traded in option segment in our account without our consent or authorization and we have not recorded unauthorized 'trades in our books of accounts so our company cannot be said to have directly or indirectly bought, sold or otherwise dealt in securities in fraudulent manner and unauthorized trades by a SEBI registered stock broker cannot be related to us*. *Therefore, the broker was in the best position to know about the technical aspects pertaining to the aforesaid trades in Illiquid Stock Options*. I note that in the instant matter, the allegations pertain to the violation of impugned provisions of PFUTP Regulations, 2003. The obligation to comply with the same regulations primarily lies on the Noticee. The trades executed by the broker is based on the consent of the clients i.e Broker executed the trades on behalf of clients. I further note that noticee did not provide any evidence which can prove that he was defrauded by his broker or there was no consent from the Noticee regarding the concerned trades. It is evident from the trade log that all the trades were executed in Noticee's Pan linked trading account. Thus, the obligation to ensure genuineness of trades as regards instant considerations primarily lies on the Noticee. In view of the same the contention of Noticee in this regard doesn't hold any merit.

13. From the available record, I note that the Noticee had executed the trades and subsequent reversal of trades as alleged in the SCN. In this regard, it may be noted that the Noticee was given details of its trades in the BSE options segment and the details of the trades, which are alleged to be reversed and manipulative. The material provided to the Noticee is sufficient to level allegation of non-genuine trades on the Noticee. Further, I find it relevant to refer to the decision of the Hon'ble Supreme Court in the matter of Securities and Exchange Board of India v. Kishore R. Ajmera [(2016) 6 SCC 368: AIR 2016 SC 1079] wherein, *the Supreme Court has held, "…According to us, knowledge of who the 2nd party / client or the broker is, is not relevant at all. While the screen based trading system keeps the identity of the parties anonymous it will be too naïve to rest the conclusions on the said basis which overlooks a meeting of minds elsewhere. Direct proof of such meeting of minds elsewhere would rarely be forthcoming. The test, in our considered view, is one of preponderance of probabilities so far* *as adjudication of civil liability arising out of violation of the Act or the provisions of the Regulations framed thereunder is concerned….*"

14. The Hon'ble Supreme Court, has further held that, "…*in the absence of direct proof of meeting of minds elsewhere in synchronized transactions, the test should be one of preponderance of probabilities as far as adjudication of civil liability arising out of the violation of the Act or provision of the Regulations is concerned. The conclusion has to 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 am of the view that manner of placement of the orders in both legs signify that the orders were entered in a premeditated manner and were not genuine in any manner.*

15. At this juncture, 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 analyzing the reversal transactions held that, "Considering the reversal transactions, quantity, price and time and sale, parties being persistent in number of such trade transactions with huge price variations, it will be too naive to hold that the transactions are through screen-based trading and hence anonymous. Such conclusion would be over-looking the prior meeting of minds involving synchronization of buy and sell order and not negotiated deals as per the board's circular. The impugned transactions are manipulative/deceptive device to create a desired loss and/or profit. Such synchronized trading is violative of transparent norms of trading in securities". The Court further stated that "...…quantity, time and significant variation of prices, without major variation in the underlying price of the securities clearly indicate that Respondent's trades are not genuine and hand only misleading appearance of trading in the securities market…..".*

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

17. I further note that the Supreme Court in the matter of Rakhi Trading (supra), *has held that, "Regulation 2(1)(c) defines fraud. Under Regulation 2(1)(c)(2) a suggestion as to a fact which is not true while he does not believe it to be true is fraud. Under Regulation 2(1)(c)(7), a deceptive behavior of one depriving another of informed consent or full participation is fraud. And Under Regulation 2(1)(c)(8), a false statement without any reasonable ground for believing it to be true is also fraud. In a reverse dealing in securities, with predetermined arrangement to book loss or gain between pre-arranged parties, all these vices are attracted." I am of the considered view that the scheme, plan, device and artifice employed by the Noticee in this case of executing reversal trades in illiquid stock options contracts at irrational, unrealistic and unreasonable prices, tantamount to fraud on the securities market in as much as it involves non-genuine/manipulative transactions in securities and misuse of the securities market. The non-genuine and deceptive transactions of the Noticee are prima facie covered under the* *definition of “fraud” and the dealings of the Noticee as discussed above were “fraudulent”, as defined under regulation 2(1)(c) of the PFUTP Regulations and prohibited under the provisions of regulations 3(a), (b), (c) and (d), 4(1) and 4(2)(a) of the PFUTP Regulations, thereof.*

18. Considering the synchronized manner of placing buy and sell orders and reversing trades within a short span of time 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 a misleading appearance of trading in the securities market. I am of the view that by engaging in such trades, the Noticee has violated the 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”.

19. 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 a case involving execution of reversal trades in index options, observed that “the traders thus having engaged in a fraudulent and unfair trade practice while dealing in securities are hence liable to be proceeded against for violation of Regulations 3(a), 4(1) and 4(2) (a) of the PFUTP Regulations.”

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

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

&

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

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

> ***SEBI Act***
>
> "***Penalty for fraudulent and unfair trade practices.***
>
> *15HA. If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.*"

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

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

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

(c) The repetitive nature of the default.

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

ORDER

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 read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of ₹5,00,000/- (Rupees Five Lakhs only) upon the Noticee i.e., Ridhi's Hi-Fashion Pvt. Ltd., under Section 15HA of the SEBI Act for violation of Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the SEBI (PFUTP) Regulations.

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

26. The Noticee shall remit / pay the said amount of penalty within 45 days from the date of receipt of this Order, either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through online payment facility available on the SEBI website **www.sebi.gov.in** on the following path by clicking on the payment link.

ENFORCEMENT → Orders → Orders of AO → PAY NOW

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

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

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

Date: April 19, 2022

Place: Mumbai

PRASANTA MAHAPATRA

ADJUDICATING OFFICER