

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO. Order/PM/NS/2022-23/15814**

**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:
Rajeshree Haresh Lathia.
PAN: AABPL0564B

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 Rajeshree Haresh Lathia (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 February 17, 2022 (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 executed 7 instances in 1 unique contract 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 1 Stock Options contract 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	SESA15MAR190.00CEW1	19	43000	30.86	43000	41.18	21.83

- 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 email dated March 05, 2022 submitted her reply to the charges alleged in the SCN, This is with the reference to the show cause notice against Rajeshree h Lathia , age 60 years , i am writing to you to apologise for the careless mistake which has happened unknowingly .we are a genuine tax payers from last 30 years and never went through illegal vioalations. I understand that i cannot undo or correct it, but i assure you that this will never happen again .I greatly value the SEBI norms and regulations. I respectfully request you to please consider the penalty amount to the least or minimum whichever is lesser.Since 2020, its a difficult phase goin on and such hefty amount will be a big burden on me and my family.*
7. After considering the facts and circumstances of the case, an opportunity of personal hearing was granted to the Noticee on March 22, 2022 vide Notice of Hearing dated March 15, 2022.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 reiterates the submission made by Noticee on March 05, 2022.

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. As stated in preceding paragraphs, the position/trades entered into by the Noticee were squared up within a short span. The striking feature of the trades of the Noticee was that all the positions/trades were squared with the same counterparties with whom the Noticee had originally traded/created position. The squaring up of the position/trade by the Noticee was at a substantial variation of price from the original position/trade. Thus, it is alleged that the Noticee had indulged in reversal trades. The said allegation is 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. 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 7 instances in 1 unique options contract during the Investigation Period.
10. To illustrate, on March 03rd, 2015, the Noticee bought 43000 units of the contract "SESA15MAR190.00CEW1" from Bharat Jayantilal Patel at an average price of ₹19. Thereafter, the Noticee reversed her position by selling 43000 units to the same counterparty at an average price of Rs 30.86. Thus, the position of the

Noticee was squared up at a difference of Rs 11.86. In the above illustration, the entire volume of 86000 units in the said options contract was arising out of the trades done by the Noticee. It is observed from the trading of the Noticee that in all the trades of the Noticee the buy order and sell order have been entered in very short span of time of each other. As stated earlier, there is a substantial variation in price in both the legs.

11. 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...."*
12. 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.

13. 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....."*.
14. 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 accepted the trades mentioned in Table 1. I note that Noticee has taken a position at a particular price and squared it up at significant price difference variation. 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 significant 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 Noticee wanted to execute non-genuine trades.

15. Further, it is observed from Table 1 above that the Noticee has contributed 21.83% of the volume in the contract "SESA15MAR190.00CEW1". The high contribution of the trading of Noticee in the aforesaid contract shows that the general public was not interested in such contract where the strike price was far from the market price of underlying. Thus, the aforesaid contract was easy to manipulate and was chosen by the Noticee to execute non-genuine trades.
16. 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.

17. 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”*.
18. I once again find it relevant to place reliance on the decision of the Supreme Court in ***Rakhi Trading*** (*supra*) wherein, the Supreme Court while deciding 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.”*
19. 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 the aforesaid 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 the regulations 3(a), (b), (c), (d), 4(1) and 4(2) (a) of the PFUTP Regulations 2003.

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?

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Issue No. III: If the answer to Issue No. II is in affirmative, 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?

20. Since violation of the regulations 3(a), (b), (c), (d), 4(1) and 4(2) (a) of the 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 provided below:

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].*

**Substituted for the words “twenty-five crore rupees or three times the amount of profits made out of such failure, whichever is higher” by the Securities Laws (Amendment) Act, 2014, w.e.f. 08-09-2014.*

21. 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.
22. 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 contract where there was negligible participation by the public. Investigation has shown the 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

23. 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 read with rule 5 of the SEBI Adjudication Rules, I hereby impose a penalty of Rs 5,00,000/- (Rupees Five Lakhs only) upon the Noticee *i.e.*, Rajeshree Haresh Lathia 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.
24. 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.
25. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of demand draft in 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 of any difficulties in payment of penalties, the Noticee may contact the support at portalhelp@sebi.gov.in

26. 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-6, 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

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

Date: April 07, 2022
Place: Mumbai

PRASANTA MAHAPATRA
ADJUDICATING OFFICER