BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

ADJUDICATION ORDER NO. Order/GG/VV/2021-22/ 15054

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

In respect of:

SANJANNA MEHRA

(PAN: CGBPM2795P)

In the matter of Dealings in Illiquid Stock Options at BSE

A. BACKGROUND OF THE CASE

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

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

BSE which was completed in the year 2018. The investigation findings revealed that of all trades executed in the stock options segment of BSE during the Investigation Period, 81.38% of the trades, that is 2,91,643 trades, were trades which involved a reversal of buy and sell positions by the clients and counterparties in a contract. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE's stock options segment during the investigation period.

3. The proceedings initiated against the first set of 59 entities, vide the aforementioned Interim Order were disposed of vide final Order dated April 05, 2018, without any further directions, observing that the Adjudicating Officer shall continue the proceedings in accordance with the SEBI Act, 1992 and SEBI (Procedure for Holding and Imposing Penalties by Adjudicating Officer) Rules, 1995 and pass appropriate order on merits. It was also recorded therein that SEBI has decided to take appropriate action against all 14720 entities in phases. The captioned proceedings initiated against the Noticee is part of the aforesaid mass action initiated by SEBI against the large number of entities.

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

5. Thereafter, a Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided a one-time opportunity for settlement of proceedings in the Illiquid Stock Options matter. The said scheme was kept open from August 01, 2020 till December 31, 2020. Finally, adjudication

proceedings were initiated against those entities who had not availed of the opportunity of settlement.

6. It was observed that 13,186 entities had not availed of the opportunity of settlement and therefore Adjudication proceedings were initiated against the entities in a phased manner. In order, to duly expedite the Adjudication proceedings against the entities, SEBI had appointed additional Adjudicating officers to adjudicate against the said entities. However, owing to the huge number of alleged entities, the adjudication proceedings are being conducted in a phased manner that would require adequate time to complete the proceedings against all entities.

7. It was observed that, Sanjanna Mehra (PAN: CGBPM2795P) (hereinafter referred to as the "**Noticee")** was one of the entities, who did not seek settlement under the Settlement Scheme in 2020 and whose reversal trades allegedly involved squaring off of open positions with a significant price difference without any basis. The aforesaid reversal trades allegedly contributed to the generation of artificial volumes, leading to allegations that the Noticee had violated the provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1) and 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trading Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as the "**PFUTP Regulations**").

B. APPOINTMENT OF ADJUDICATING OFFICER

8. SEBI initiated adjudication proceedings and appointed me, as the Adjudicating Officer under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the "**SEBI Act**") read with Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as

the “**SEBI Adjudication Rules**”) *vide* communication dated November 12, 2021 to inquire into and adjudge under section 15HA of the SEBI Act, with respect to the allegations against the Noticee.)

C. SHOW CAUSE NOTICE, REPLY AND HEARING

9. A Show Cause Notice dated December 13, 2021 (hereinafter referred to as “**SCN**”) was served upon the Noticee, vide Speed post with acknowledgement due (hereinafter referred to as ‘**SPAD**’) and by email, under Rule 4(1) of the SEBI Adjudication Rules to show cause as to why an inquiry should not be initiated against the Noticee and thereafter penalty imposed against him under section 15HA of the SEBI Act for the alleged violation of the provisions of Regulations 3((a),(b),(c),(d)), 4(1) and 4(2)(a) of the PFUTP Regulations.

10. The SCN issued to the Noticee, *inter alia* alleged, that the Noticee engaged in executing 4 trades in 2 unique contracts with 2 counterparties viz. Gold View Financial Services Limited and Choudhary Management Private Limited, on 2 days viz. 14/05/2015 and 15/06/2015, which led to the generation of artificial volume of 504000 units. The 4 trades each entered into by the Noticee were reversed on the same day with the same counterparties at a substantial price difference without there being any rationale. The summary of the dealings of the Noticee in the two stock option contracts, in which the Noticee allegedly executed the 4 trades during the investigation period is given as Table No.1:

Table No.1 - Summary of the dealings of the Noticee in 2 stock option contracts

S. No.	Date	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Total Vol in the contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1.	14/05/2015	ADPW15MAY36.00CEW2	3.8	168000	5.05	168000	968000	100	34.71
2.	15/06/2015	IBRL15JUN40.00CEW3	2.6	84000	5.5	84000	368000	100	45.65

Source: Trade log provided by BSE

11. The abovementioned contracts which resulted in 4 non-genuine trades creating artificial volumes may be understood through an illustration of one of the contract viz. "IBRL15JUN40.00CEW3" (*Serial.no. 2 of the above Table- 1)*, which is as follows:

a) During the investigation period, in the said contract viz. "IBRL15JUN40.00CEW3", the Noticee on 15/06/2015 has executed 2 trades for a total volume of 168000 units with counterparty, viz. Choudhary Management Private Limited.

b) While dealing in the said contract on 15/06/2015, I observe from the trade log of the Noticee provided by BSE that at 13:40:23.367747 hrs the Noticee executed one buy trade for 84000 units at the rate of Rs.2.6 per unit with counterparty, Choudhary Management Private Limited. In one minute after the aforementioned buy trade, the Noticee reversed the trade by executing one sell trade at 13:41:23.071101 hrs for 84000 units at the rate of Rs.5.5 per unit with the same counterparty.

c) From the above, it is noted that while dealing in aforesaid contract (i.e IBRL15JUN40.00CEW3) during the investigation period, the Noticee executed a total of 2 trades (1 buy trade and 1 sell trade). This made up to 45.65% of the total market volume for this contract during the investigation period. Likewise, in the contract shown at S.no.1 of Table.1, the Noticee has executed 2 reversal trades, which constituted 34.71% of market volume.

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

PFUTP Regulations

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—
(a) buy, sell or otherwise deal in securities in a fraudulent manner;
(b)use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;
(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;
(d)engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

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

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

13. The Noticee had replied to the SCN, vide email dated December 29, 2021 attaching a reply letter dated December 29, 2021 and a Vakalatnama for engaging Mr. Subhash Chandra Agarwal, Advocate as the Authorized Representative (hereinafter referred to as "**AR**"). The relevant submissions made by the Noticee from the reply letter are reproduced below:

Submissions:

a) It is submitted that there is considerable delay in the issuance of notice (13.12.2021) and the date of alleged transaction (s) (15.06.2015) i.e., there is a delay of more than six years in the initiation of the proceedings under the SEBI Act r.w. Rules issued there under.

b) Due to considerable delay in initiating proceedings, the noticee is not in a position to defend itself since the documentary evidences could not be preserved due to long lapse of time.

c) The Noticee has, on few occasions, undertaken certain stock market transactions through a registered broker of a recognized stock exchange but has not indulged ever into any fraudulent and/or unfair trade practices pertaining to stock market transactions and / or otherwise nor has ever instructed their broker to indulge into any such transaction on behalf of the notice. It is submitted that the modus operandi adopted by the Noticee while trading in stocks is by way of placing orders telephonically to the stock broker and not through punching of saudas directly in the terminal. Therefore, the broker might have committed an error as far as the transactions in question are concerned for which the Noticee cannot be blamed.

d) It is submitted that the Noticee has never entered into any collusive or manipulative transaction in the stock market and / or otherwise

e) *Without prejudice to the denial of the transactions in question having been done by or at the instructions of the Noticee, it is submitted that- the few trades out of 2.92 lakh trades are few drops in the ocean. In the absence of multiple transactions and / or voluminous transactions, inference of fraud and / or undue trade practices cannot be drawn.*

f) *The Noticee has always done transactions in the stock market and / or otherwise in a genuine manner and in good faith. There is no question of the Noticee having created any artificial volume in the market and / or made any undue profit. Therefore, the Noticee has not violated 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.*

g) *The Noticee is not aware of the identity of the counterparty and does not know either the counterparty or the management of the company in question.*

h) *It is well-settled position of law that the person who alleges has to prove the alleged fact.*

i) *The Noticee further submits that in the facts and circumstances alleged in the SCN, Courts have given the rulings in favour of the citizens / Noticees.*

14. The Noticee's submissions were taken into consideration and subsequently, the Noticee was granted an opportunity of personal hearing on January 11, 2022, vide hearing Notice dated December 30, 2021 issued through SPAD and email.

15. The AR vide email dated January 08, 2022, confirmed attendance for the hearing through video conference, which was an option given due to the Covid -19 pandemic situation. The AR of the Noticee, appeared for the hearing and reiterated the contentions in his reply dated December 29, 2021. The AR further *interalia* submitted that the case proceedings were initiated with a delay of 6 years and was hit by the law of limitation. He stated that there was no connection with the counterparty of the alleged trades. The AR submitted that as the trades was in options segment it did not have an adverse effect on third parties.The AR sought further time to file his final submissions and was granted time till January 18,2022 for the same.

16. The AR made additional submissions vide email dated January 11, 2022 enclosing, a reply letter, wherein he had made additional submissions along with of reference of related case laws. A summary/extract of his submissions is reproduced below:

a) *That it is trite law that the burden to prove the facts alleged against the Noticee is unequivocally cast upon the Adjudicating Authority (`Adjudicating Officer'). The effort to discharge this burden by the relevant authority, in \terms of meeting the documentary threshold of evidence ought to be substantive.*
b) *It may be noticed that as per the general rules of evidence. which find its applicability in adjudicating matters pertaining to fiscal regulatory laws, there is distinction between set of facts 'not proved' and 'facts disproved 'and 'facts proved'. Benefit of the principle that mere non-satisfactory nature of explanation furnished cannot amount to proof of falsity of explanation furnished, can apply in case the fact-finding authority reaches to a stage where it can only conclude that the fact alleged is 'not proved'(due to a substantive lack of documentary evidence implicating the Noticee): which would result that except rejection of the explanation furnished by the Noticee, there is no material on record (except conjectures and non-conclusive presumptions) to levy a penalty.*
c) *it can be noted from the Show Cause Notice issued against my client that no documentary/ otherwise proof of causal connection (of an illegal schematic arrangement) has been established by the Authorities between the Noticee and the counter-party nor any substantive statement against the Noticee is placed on record implicating him/ her in engaging in any fraudulent trade practice on the registered stock exchange*.
d) *That no data has been provided in the Show Cause Notice issued, to show the price behavioral pattern of the particular scrip in question after the alleged transaction took place. There has to be a correlation shown if the alleged transaction has adversely impacted a third party, however, no such impact (adverse) is shown to have caused to a third party*.
e) *It also has to be pointed out that as per the Risk Disclosure Document issued by SEBI: the possibility of a wide spread price difference in illiquid options contract prevails. Also, SEBI or the respective exchange platforms have not put in place any price band mechanism in the options segment, thereby, leading to an inexorable conclusion that the prices, at which the alleged trades too place and were executed, are genuine.*

f) The Show Cause Notice merely relies upon the data reported by the exchange platform in regard to the alleged reversal trade, which is not a sufficient benchmark to prove the allegation made against the Noticee. There may persist several benign reasons for the occurrence of the alleged reversal trade such as the broker committing an error due to the fat finger syndrome or entering into the alleged transactions with an ulterior motive against the Noticee.

g) It is submitted that the Noticee has already relied upon numerous court decisions in the written reply submitted earlier in support of the contentions/ averments made therein. The Noticee is also aware of some adverse decisions but humbly submits that these decisions are not applicable to the Noticee's facts but the principles laid down therein are certainly in favour of the present notice.

h) In our case, the value of transaction is a pittance and frequency is NIL/negligible. The surrounding circumstances and the theory of preponderance of probability is clearly in favour of the Noticee in our case.

i) It is thus apparent that the essence of the Hon'ble Supreme Court ruling is that proximity of time between the buy and sell orders is not the sole determinant of a questionable transaction in an isolated case (as is happening in the instant Noticee's case before your good self) but only it trading (which inherently carries with it repetitiveness, which fact is conspicuous by its absence in our case) is coupled with huge volume, only than a transaction can be questioned. In our case, it is apparent from the data provided in the SCN that financial implication of transaction in question is negligible. Thus, the ratio of this decision is clearly in favour of the present Noticee.

17. The submissions made by the Noticee and by the AR of the Noticee, have been taken into consideration.

D. CONSIDERATION OF ISSUES

18. I have taken into consideration the facts of the case, the material on record and the submissions made in the case. I now proceed to consider the issues that arise in this case.

19. The Noticee has contended that the present proceedings have been initiated with a delay of more than 6 years. It may be noted, that the factors leading to the time taken for investigation and adjudication in the instant case, have been brought out in the introductory paragraphs of this order and is also a matter on record. I observe, that the period of alleged delay includes, the time taken for the investigation against the initial set of 59 entities, the subsequent set of 22 entities and finally the time taken to identify the entire universe of 14270 entities who had done similar violations in the market, following the principle of parity in initiation of enforcement action.

20. The time taken to initiate the current proceedings was also due to the Board having framed a Settlement Scheme, keeping it open in the first instance from August 01, 2020 to October 31, 2020 and further extending it to 31st December, 2020. In this connection, it is worth mentioning that since several entities did not go in for settlement. Finally, Adjudication proceedings were initiated against those 13,186 entities, who did not go in for settlement. Delay in these cases is merely owing to the huge number of entities involved in the matter. On merits of the contention of delay, I feel that the propensity for the violation exhibited by these many entities in the illiquid stock option segment of BSE at the relevant time, is such that, delay cannot by itself, be treated as a reason for vitiating the proceedings.

21. The Noticee has interalia contended that the proceedings are barred by limitation. It is settled legal position that if a statute does not prescribe a period of limitation, then the action ought to be initiated within a reasonable period. On the issue of delay, ***The Supreme Court in Government of India vs. Citedal Fine Pharmaceuticals, Madras and Others, [AIR 6 (1989) SC 1771]*** *held that in the absence of any period of limitation, the authority is required to exercise its powers within a reasonable*

period. What would be the reasonable period would depend on the facts of each case and that no hard and fast rule can be laid down in this regard as the determination of this question would depend on the facts of each case.

22. This proposition of law has been consistently reiterated by the Supreme Court in:

- ***Bhavnagar University v. Palitana Sugar Mill (2004) Vol.12 SCC 670,***

- ***State of Punjab vs. Bhatinda District Coop. Milk P. Union Ltd (2007) Vol.11 SCC 363 and***

- ***Joint Collector Ranga Reddy Dist. & Anr. vs. D. Narsing Rao & Ors. (2015) Vol. 3 SCC 695.***

- *The Supreme Court recently in the case of* **Adjudicating Officer, SEBI vs. *Bhavesh Pabari (2019) SCC Online SC 294*** *held "There are judgments which hold that when the period of limitation is not prescribed, such power must be exercised within a reasonable time. What would be reasonable time, would depend upon the facts and circumstances of the case, nature of the default/statute, prejudice caused, whether the third-party rights had been created etc."*

Since the delay in the instant case, is justified on facts, as brought out above, I feel that delay cannot be said to vitiate the instant proceedings.

23. The core issue that arises for consideration in the instant matter is whether the trading in illiquid stock options done by the Noticee during the Investigation Period was in violation of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations? If yes, whether the Noticee is liable for Monetary penalty to be levied under section 15HA of the SEBI Act or not and how much should be the quantum of penalty?

24. I have brought out the details of the Noticee's trades for each contract in two tables (Table No.2 and 3) shown hereunder, culling out the relevant fields from the Trade log of the Noticee provided by BSE, (that was enclosed as Annexure II to the SCN), for analysis.

Table No.2 Summary of dealings of Noticee in contract IBRL15JUN40.00CEW3

S. No.	Date	Name of the client	Name of the counter party client	Trade Time (in hrs)	Order LM(Last traded) TIME	CP Order _LM TIME	Trade Rate (Rs.)	Order _LM rate	CP Order _LM rate	Trade quantity (qty) / Vol (no. of units)	Order _LM QTY	CP Order _LM OTY
1.	15/06/2015	Choudhary Management Pvt Ltd	Sanjanna Mehra(sell)	13:41:23.071101	13:41:22.977326	13:41:23.071101	5.5	5.5	5.5	84000	84000	84000
2.	15/06/2015	Sanjanna Mehra(buy	Choudhary Management Pvt Ltd	13:40:23.368018	13:40:23.367747	13:40:23.368018	2.6	2.6	2.6	84000	84000	84000

Source: Trade log provided by BSE

25. I note from Table - 2 above, the following aspects of trading in the first contract:

a) The Noticee on 15/06/2015 executed one buy trade at 13:40:23.367747 hrs and instantly reversed the trade by executing one sell trade at 13:41:23.071101 hrs with counterparty, Choudhary Management Private Limited in 59.61 seconds i.e.in less than 1 minute, which indicates that the reversal of trades were synchronized.
b) The Noticee and the counterparty have placed their buy orders and sell orders exactly at the same time or within a difference of seconds that show synchronization of time even in placing the orders.
c) The Noticee executed the buy trade at the rate of Rs. 2.6 and the sell trade at the rate of Rs.5.5, reversing the trade with a difference in rate of Rs.2.9 in less than a minute.
d) The Noticee and the counterparty had placed identical buy and sell order rates and quantity.
e) The Noticee has reversed the buy trade by placing a sell trade for the exact quantity of 84000 units
f) The Noticee by reversing the buy and sell trades, with a price difference of Rs. 2.9 for 84000 units had made profits to the extent of Rs.2,43,600/-.
g) I observe that the counterparty has made an equivalent loss and that such loss incurred by the counterparty was due to the high buy order rate followed by a low sell order rate placed within a minute.
h) The reverse trades executed between the Noticee and counterparty did not intend to have a genuine change of rights of 84000 units traded in the first contract, as the Noticee bought and then sold the same quantum of units to the same counterparty viz. Choudhary Management Private Limited.

i) The non-genuine trades of the Noticee in this contract had led to the generation of artificial volume of 168000 units.

j) The Noticee trades in the contract had contributed to 45.65% of the market volume of the contract.

26. Therefore, I observe that both the limbs of the reversal transaction were synchronized time wise and were put with identical rate and quantity, that led to the execution of trades. The above aspects of the Noticee's trades in the first contract such as, the exactness of the quantity that got reversed between the two parties, the proximity in the time of the reversal of trades and above all the absence of rationale to justify the variation in the sell and buy price placed within a minute, no effective change of rights of the units traded, certainly go to show that these are non-genuine artificial trades.

27. Likewise, I observe a similar pattern of trading in the second contract entered by the Noticee, as given in the Table No. 3

Table No.3 Summary of dealings of Noticee in contract ADPW15MAY36.00CEW2

S. No.	Date	Name of the client	Name of the counter party client	Trade Time (in hrs)	Order _LM TIME	CP Order _LM TIME	Trade Rate (Rs.)	Order _LM rate	CP Order _LM rate	Trade quantity (qty) / Volume (no. of units)	Order _LM QTY	CP Order _LM OTY
1.	14/05/2015	Sanjanna Mehra	Gold View Financial Services Limited	13:14:29. 590739	13:14:29. 543554	13:14:29. 590739	3.8	3.8	3.8	168000	168000	168000
2.	14/05/2015	Gold View Financial Services Limited	Sanjanna Mehra	13:15:13. 700135	13:15:13. 700135	13:15:13. 653230	5.05	5.05	5.05	168000	168000	168000

Source: Trade log provided by BSE

28. I note from Table No. 3 above, that the Noticee had adopted the same strategy of buying at a high rate and selling at a lower rate, in the second contract too. In the second contract, the trades are placed by the Noticee with the counter party Gold View Financial Services Limited. It is also relevant to note the following aspects of the second contract:

a) The Noticee had executed the buy trade at 13:14:29.590739 hrs and then reversed it with a sell trade at 13:15:13.700135 hrs, on 14/05/2015 within 44.11 seconds which is less than a minute, which means that the reversal of trades were synchronized;
b) The Noticee and the counterparty have placed their buy orders and sell orders exactly at the same time or within a difference of seconds that show synchronization of time even in placing the orders;
c) The Noticee's trades were executed at a buy price of Rs.3.8 and at a sell price of Rs.5.05, which means that the trades were reversed with a price difference of Rs.1.25, in less than a minute;
d) I note that the buy order and sell order quantities, between the Noticee and the counter party were each for 168000 units exactly.
e) The Noticee by reversing the buy and sell trades with a price difference of Rs.1.25 for 168000 units had made profits to the extent of Rs. 2,10,000/-.
f) The counterparty has borne an equivalent loss, by buying at a higher price and selling at a lower price from the Noticee within seconds as seen in the first contract, which is not genuine.
g) The Noticee's trades cannot result in any transfer of rights of 168000 units in the contract, as he bought and then sold the same quantum of units, merely generating an artificial volume in the contract.

h) The non-genuine trades of the Noticee in this contract had led to the generation of artificial volume of 366000 units.

i) The non-genuine trades of the Noticee in the contract had contributed to 34.71% of the market volume of the contract.

29. From the facts brought out in Tables Nos.1, 2 and 3 given above, I observe that by reversing the trades with substantial price variations with short span of a minute in both the contracts, the Noticee has made profits to a total of Rs. 4,53,600/- on one trading day.

30. I note that in both the contracts, the reversal of trades by the Noticee, was done within a minute and was thereby synchronized. Furthermore, I observe that in the two contracts, even when the counterparty in each contract was different, there is a similar pattern of synchronization of the order time, order rate and order quantity. When I take a look at the contribution of trading by the Noticee in the stock option segment of BSE during the investigation period, I find that the Noticee through trading in the two contracts had contributed to 34.71% and 45.65% of the market volume of the contracts traded as given in Table-1.

31. On observing the facts of the case and the pattern of trading by the Noticee, I am convinced that the trades were a consequence of pre-meditated decision of both parties and hence are unfair trades for the purpose of SEBI (PFUTP) Regulations. The trades of the Noticee, fall in the category of non-genuine trades, as there is no change of rights in a contract. The trades ex facie appear to be pre-meditated to book profits for the Noticee and for the counterparty to bear losses in both the contracts. The non-genuine trades executed by the Noticee, therefore is a manipulative act of

contributing to merely generating an artificial volume in the stock options segment of BSE and a violation of SEBI(PFUTP) Regulations.

32. In this context, it is relevant to quote the judgment of the Hon'ble Supreme Court in the matter of **Rakhi Trading (SEBI Vs. Rakhi Trading- CANo.1969/2011, Order dated February 8, 2018)**

> *"**1**. Fairness, integrity and transparency are the hallmarks of the stock market in India"*.

> ***"35. …*** *Nobody intentionally trades for loss. An intentional trading for loss per se, is not a genuine dealing in securities. The platform of the stock exchange has been used for a non-genuine trade. Trading is always with the aim to make profits. But if one party consistently make loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice."*

> **"37.** ... *even in the derivative segment there is a change of rights in a contract. In the instant case, through reverse trades, there was no genuine change of rights in the contract....*"

Their Lordships have considered similar transactions in the same segment,

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

*"**41** …. The stock market is not a platform for any fraudulent or unfair trade practice. The field is open to all the investors. By synchronization and rapid reverse trade, as has been carried out by the traders in the instant case, the price discovery system itself is affected. Except the parties who have pre-fixed the price, nobody is in the position to participate in the trade. It also has an adverse impact on the fairness, integrity and transparency of the stock market." (***Paragraph Nos. 1,35,37,38 and 41** of the part of the judgement authored by His Lordship Mr.Justice Kurian Joseph*).*

*"**38.** The smooth operation of the securities market and its healthy growth and development depends upon large extent on the quality and integrity of the market. Unfair trade practices affect the integrity and efficiency of the securities market and the confidence of the investors. Prevention of market abuse and preservation of market integrity are the hallmark of securities law…" (***Paragraph No.38** of the part of the judgment authored by Her Ladyship Ms. Justice R. Bhanumathi). *For this, the Hon'ble Judge also relied on the apex court observations in N.Narayanan Vs. Adjudicating Officer, Securities and Exchange Board of India(2013) 12 SCC 152 wherein it was inter alia observed: "Market abuse" impairs economic growth and erodes investor's confidence."*

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

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

"**39.** *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 synchronized and reverse dealing in securities, with predetermined arrangement to book loss or gain between pre-arranged parties, all these vices are attracted.*

40. *Regulation 3(a)expressly prohibits buying, selling or otherwise dealing in securities in a fraudulent manner. Under Regulation 4(2) dealing in securities shall be deemed to be fraudulent if the trader indulges in an act which creates a false or misleading appearance of trading in the securities market. It is a deeming provision. Such trading also involves an act amounting to manipulation of the price of the security in the sense that the price has been artificially and apparently prefixed. The price does not at all reflect the value of the underlying asset. It is also a transaction in securities entered into without any intention of performing it and without any intention of effecting a change of ownership of such securities, ownership being understood in the limited sense of the rights of the contract." (per His Lordship Mr.Justice Kurian Joseph's findings in paragraph Nos.* ***39&40****).*

31. The Hon'ble Appellate Tribunal has summarised the circumstances identified by the Apex court in **Rakhi Trading Judgment** in the case of **Global Earth**

Properties and Developers Pvt. Ltd. Vs Securities and Exchange Board of India (Appeal No.212 of 2020 decided on September 14, 2020). In para 14 of the said order, the Hon'ble SAT enlisted the following circumstances:

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

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

*"**20.** From the aforesaid cumulative analysis of the reversed transactions with the counter party, quantity, time and significant variation of the price clearly indicates that the trades were non-genuine and had only misleading appearance of trading in the securities market without intending to transfer the beneficial ownership. One finds it to be naïve to presume that the perception of the two counter parties to a trade changed within few seconds/minutes and positions were interchanged and the contracts were changed where one party made profit and the other party ended up making losses every time without prior meeting of mind. It is not a mere coincidence that the Appellants could match the trades with the counter party with whom he had undertaken the first leg of respective trade. In our opinion, the trades were non-genuine trades and even though direct evidence is not available in the instant case but in the peculiar facts and circumstances of the present case there is an irresistible inference that can be drawn that there was meeting of minds between the Appellants and the counter parties, and collusion with a view to trade at a predetermined price."*

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

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

E. ORDER

35. Therefore, in exercise of powers conferred upon me under Section 15-I (2) of the SEBI Act read with rule 5 of the Adjudication Rules, I hereby impose a penalty of Rs 5,00,000/- (Rupees Five Lakhs only) upon the Noticee *i.e.,* Sanjanna Mehra (PAN: CGBPM2795P) 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.

36. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of demand draft in favor of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, or through online payment facility available on the SEBI website **www.sebi.gov.in** on the following path by clicking on the payment link.

ENFORCEMENT → ORDERS → ORDERS OF AO → PAY NOW

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

37. 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-II, 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

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

Date: February 28, 2022 **GEETHA G**

Place: Mumbai **ADJUDICATING OFFICER**