BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. : Order/GR/RK/2021-22/14171]

ORDER UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992, READ WITH RULE 5 OF THE SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995, IN THE ADJUDICATION PROCEEDINGS INITIATED AGAINST EDEN TRADING SERVICES PRIVATE LIMITED [PAN: AADEC1272A] IN THE MATTER OF ITS DEALINGS IN ILLIQUID STOCK OPTIONS AT THE BOMBAY STOCK EXCHANGE LIMITED.

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as **'SEBI'**) observed large scale reversal of trades in the Stock Options segment of Bombay Stock Exchange (hereinafter referred to as **'BSE'**) leading to creation of artificial volume. In this regard, SEBI conducted an investigation into the trading activity in the illiquid Stock Options Segment at BSE for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as **'Investigation Period'**).

2. It was observed during the course of investigation that a total of 2,91,643 trades comprising 81.38% of all the trades executed in the Stock Options Segment at BSE during the investigation period were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract on the same day. It was also observed that the aforesaid trades resulted into creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in Stock Options segment of BSE during the investigation period.

3. In view of the large scale reversal of trades that were observed in the illiquid Stock Options segment at BSE, it is alleged that these trades were non-genuine in nature.

It was observed that Eden Trading Services Pvt. Ltd. (hereinafter referred to as '**Noticee**') was one of the various entities which indulged in execution of the non-genuine trades in the Stock Options Segment at BSE during the above referred investigation period. It was observed that Noticee had entered into reversal trades with its counterparties which involved squaring off transactions with significant difference in sell value and buy value of the transactions.

4. Therefore, it is alleged that Noticee had executed the reversal trades which were non-genuine in nature and had created false or misleading appearance of trading in terms of creation of artificial volume in the Stock Options segment at BSE and therefore, it is alleged that Noticee has violated the provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1), 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as '**PFUTP Regulations**'). In view of the above, adjudication proceedings have been initiated against the Noticee under the provisions of section 15HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**').

APPOINTMENT OF ADJUDICATING OFFICER

5. Initially, Shri Biju. S, Chief General Manager was appointed as the Adjudicating Officer (hereinafter referred to as '**AO'**) by SEBI, in the matter to inquire into and adjudge under Section 15HA of the SEBI Act, the aforesaid violations alleged to have been committed by the Noticee. Subsequently, Shri Satya Ranjan Prasad, Chief General Manager was appointed as AO in the matter in the place of Shri Biju S. Pursuant to the transfer of Shri Satya Ranjan Prasad, the undersigned has been appointed as the AO in the matter by SEBI and the same was communicated to the undersigned vide communique dated May 22, 2019. These proceedings have therefore been carried forward where they had been left off by the previous AO.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

6. Show Cause Notice dated August 30, 2018 (hereinafter referred to as **"SCN"**) was issued by the erstwhile AO to the Noticee in terms of Rule 4 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "**SEBI Adjudication Rules**") read with Section 15-I of the SEBI Act, to show cause as to why an inquiry should not be initiated and penalty be not imposed under Section 15HA of the SEBI Act, on the Noticee for the alleged violation of Regulation 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations.

7. In response to the said SCN, the Noticee vide its letter dated July 18, 2019 and email dated August 16, 2019, submitted that they are in process of filing settlement application and hence they requested to keep the adjudication proceedings in abeyance. The Noticee filed their application for settlement vide their letter dated September 03, 2021, however it withdrew the said application on February 25, 2021.

8. Subsequently, vide email dated August 11, 2021, the Noticee was advised to submit its reply to the SCN latest by August 25, 2021.

9. Accordingly, the Noticee vide its email dated August 14, 2021 filed its submissions to the SCN, which is summarized as below:

   a) *At the outset, the Noticee denies all the allegations levelled against the Noticee in the said SCN, except to the extent specifically admitted by the Noticee.*

   b) *We acted as bonafide trader and have transacted in stock option segment in normal course of our business activity and our trading in the same was very much within our own financial and risk bearing capacity.*

c) *We submit that in any business activity in stock market, one can either make profit or loss. We humbly submit that at the relevant time we had no idea of any profit or loss in said transactions and we traded in option segment taking into account our 'risk and reward' parameters.*

d) *We are not connected to counterparties of our transactions in option segment and neither do we have any relation with promoters/directors/ key management person of underlying scrips in cash segment.*

e) *We believe there has been no grievance by any investor, broker, stock exchange or any other agency concerned with respect to our dealing in the option segment of BSE Ltd.:*

f) *We have an impeccable record of dealing in stock market and no action has ever been taken against us in past in respect of dealing in securities market.*

10. Subsequently, the said hearing dated August 26, 2021 was attended by the Authorized Representative ('**AR**') of the Noticee in which it reiterated the submission made vide its aforementioned letter dated August 25, 2021.

<u>ISSUES FOR CONSIDERATION AND FINDINGS</u>

11. I have taken into consideration the facts and circumstances of the case, the material on record, the reply submitted by the Noticee, and also the submissions made by the AR on behalf of the Noticee during the course of personal hearing. The issues that arise for consideration in the present case are:

1) Whether the Noticee violated the provisions of Regulation 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations?

2) Whether the Noticee is liable for imposition of monetary penalty under Section 15HA of the SEBI Act?

3) If yes, then what should be the quantum of monetary penalty?

12. It is pertinent to mention here the relevant provisions of Regulation 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations, allegedly violated by the Noticee, and the same is reproduced as under :-

Regulation 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."*

Regulation 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. With regards to the current proceedings, I note that the allegations levelled in the SCN are mainly to the effect that the Noticee has created false and misleading appearance of trading in terms of artificial volumes in the stock options segment of BSE by way of reversal of trades in illiquid stock options and thereby the Noticee violated the provisions of Regulation 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations.

14. Reversal trades have been considered those trades 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, lack basic trading rationale, and allegedly lead to false or misleading appearance of trading in terms of generation of artificial volume, hence, are deceptive and manipulative. In the present case it is alleged that, several repeated reversal trades executed by the Noticee were undertaken with the counterparties of the Noticee with a predetermined arrangement to book profit or losses respectively, and therefore, the parties to the trades were not trading in the normal sense and ordinary course of business. Therefore, it is alleged that the Noticee by indulging in such reversal trades with the counterparties in the illiquid stock option segment at BSE has managed to generate artificial volume in the Stock Options segment at BSE during the investigation period.

15. In this regard, it is pertinently noted from the trade log that the Noticee had traded in total 93 unique contracts in the Stock Options segment of BSE during the above mentioned investigation period. In 91 contracts out of these 93 contracts, it is observed that Noticee had executed 201 non-genuine trades. I note that the above mentioned trades of the Noticee had resulted in the creation of artificial volume of a total 51,99,000 units and profit of Rs. 6,81,37,938/- approx. Further, it is observed that the trades executed by the Noticee were squared up within a short span of time with the same counterparty i.e. trades were reversed within seconds/minutes on the same day. Thus, it is observed that Noticee had indulged in reversal trades with its counterparties in the stock option segment of BSE and the same were non-genuine trades.

16. It is further observed that the Noticee had contributed to significant 3% to 100% of the trading volume in the aforementioned 91 contracts at BSE during the above mentioned investigation period. As noted above, these trades executed by the Noticee were squared up with its counterparties within a short span of time and mostly within few seconds/minutes and with a significant price difference. The non-genuineness of these transactions executed by the Noticee is evident from the fact that there was no commercial basis to suddenly, within a matter of few seconds/minutes, reverse the position of the Noticee with its counterparties with significant price difference when the value of the underlying had not undergone any significant change. The frequent trade reversals in the said case points out to the fact that the parties to the transactions, including the Noticee, did not intend to transfer the beneficial ownership and through these orchestrated transactions, the intention of which was not regular trading, and whereby other investors have been excluded from participating in these trades.

17. Summary of dealings of Noticee in 91 Stock Options contracts in which it executed non genuine trades during the investigation period, is as follows:

Table – Summary of dealings of Noticee in contracts wherein he executed non genuine trades

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Non Genuine trades of Noticee in the contract to Noticee'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 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	ABNV15MAY1560.00CE	47.05	6250	100.86	6250	100%	100%	100%	100%
2	ACCL15APR1440.00CEW4	92.15	250	157.15	250	100%	100%	100%	100%
3	ACCL15APR1500.00CE	55.35	12500	104.00	12500	100%	50%	100%	45%
4	ADEL15APR560.00CEW4	31.15	500	61.30	500	100%	100%	100%	100%
5	ADEL15MAR600.00CEW3	27.05	20000	47.10	20000	100%	3%	100%	1%
6	AMBC15APR210.00CEW4	25.05	47000	39.15	47000	100%	33%	100%	59%
7	AMTK15APR100.00CE	20.80	50000	34.55	50000	100%	100%	100%	100%
8	AMTK15APR105.00CE	29.40	16000	49.00	16000	100%	100%	100%	100%
9	ANBK15APR60.00CE	12.65	12000	23.00	12000	100%	50%	100%	43%
10	APLT15APR150.00CEW3	12.20	10000	22.00	10000	100%	33%	100%	18%
11	ARVI15MAY250.00CE	30.70	15000	52.00	15000	100%	25%	100%	24%
12	AXIS15APR500.00CEW4	39.05	15000	79.00	15000	100%	100%	100%	100%
13	AXIS15APR520.00CEW4	26.80	15000	61.10	15000	100%	33%	100%	5%
14	BHEL15APR220.00CE	24.50	18000	44.30	18000	100%	100%	100%	100%
15	BHEL15MAY210.00CE	31.40	17000	56.00	17000	100%	33%	100%	25%
16	BHRT15APR300.00CE	51.40	8500	88.00	8500	100%	100%	100%	100%
17	BHRT15MAY320.00CE	40.85	14000	73.00	14000	100%	50%	100%	54%
18	BOBL15MAY150.00CE	21.35	15000	35.60	15000	100%	100%	100%	100%
19	BOIL15APR195.00CE	15.35	20000	30.00	20000	100%	50%	100%	44%
20	CESC15APR500.00CE	58.94	67500	107.74	67500	100%	67%	100%	87%
21	CESC15APR520.00CEW4	46.35	62500	88.00	62500	100%	100%	100%	100%
22	CIPL15APR620.00CEW3	50.80	43000	86.05	43000	100%	100%	100%	100%
23	CIPL15MAY620.00CE	54.20	50000	94.95	50000	100%	100%	100%	100%
24	COAL15APR310.00CE	27.25	100000	49.00	100000	100%	33%	100%	81%
25	COAL15APR310.00CEW3	26.65	100000	48.65	100000	100%	100%	100%	100%
26	COAL15APR320.00CEW4	20.85	10000	40.85	10000	100%	100%	100%	100%
27	DABU15APR220.00CE	30.15	100000	50.35	100000	100%	6%	100%	21%
28	DABU15APR230.00CE	24.91	70000	40.61	70000	100%	100%	100%	100%
29	DABU15MAY230.00CE	34.50	20000	61.55	20000	100%	100%	100%	100%
30	ENGI15APR155.00CEW4	27.95	100000	48.35	100000	100%	100%	100%	100%

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Non Genuine trades of Noticee in the contract to Noticee'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 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
31	ENGI15APR160.00CE	31.15	15000	53.85	15000	100%	100%	100%	100%
32	GAIL15APR340.00CEW3	26.65	12000	54.70	12000	100%	100%	100%	100%
33	GLPL15APR720.00CEW4	54.75	50000	94.65	50000	100%	50%	100%	94%
34	HAIL15APR230.00CE	41.95	10000	76.00	10000	100%	100%	100%	100%
35	HAIL15MAY240.00CE	41.10	75000	61.80	75000	100%	100%	100%	100%
36	HAIL15MAY250.00CE	38.40	11000	52.49	11000	50%	40%	91%	87%
37	HXTL15APR200.00CE	48.25	10000	82.35	10000	100%	50%	100%	45%
38	HXTL15APR205.00CE	52.75	16000	84.05	16000	100%	50%	100%	62%
39	HXTL15APR230.00CEW3	37.40	20000	61.35	20000	100%	100%	100%	100%
40	HXTL15APR240.00CE	31.95	38000	52.35	38000	100%	100%	100%	100%
41	HXTL15MAY220.00CE	40.84	26000	71.85	26000	100%	67%	100%	50%
42	IBHF15APR500.00CE	41.75	12000	72.75	12000	100%	100%	100%	100%
43	INGL15APR380.00CE	26.50	19000	48.00	19000	100%	100%	100%	100%
44	INGL15MAY380.00CE	27.75	17000	57.00	17000	100%	100%	100%	100%
45	IOCL15APR270.00CE	49.70	8000	86.60	8000	100%	100%	100%	100%
46	IOCL15APR280.00CE	44.00	10000	75.90	10000	100%	100%	100%	100%
47	ITCL15APR300.00CE	23.85	25000	43.80	25000	100%	100%	100%	100%
48	KOTB15MAR1200.00CE	82.50	20000	145.00	20000	100%	100%	100%	100%
49	KOTB15MAR1260.00CEW3	51.00	15000	90.00	15000	100%	100%	100%	100%
50	KOTB15MAR1500.00PEW3	100.00	25000	200.00	25000	100%	100%	100%	100%
51	LICH15APR410.00CE	25.20	51000	56.09	51000	100%	100%	100%	100%
52	LICH15APR430.00CE	20.85	15000	47.00	15000	100%	50%	100%	11%
53	LICH15MAY430.00CE	22.55	25000	49.70	25000	100%	100%	100%	100%
54	MCRS15APR185.00CE	37.95	15000	63.75	15000	100%	100%	100%	100%
55	MCRS15APR190.00CE	35.00	14000	60.00	14000	100%	100%	100%	100%
56	MCRS15MAY235.00CE	8.50	25000	24.00	25000	100%	100%	100%	100%
57	MFSL15APR210.00CE	32.50	12000	65.00	12000	100%	100%	100%	100%
58	MFSL15MAY220.00CE	27.50	14000	53.50	14000	100%	50%	100%	67%
59	MSSL15APR400.00CEW4	53.50	25000	103.45	25000	100%	100%	100%	100%
60	MSSL15APR410.00CEW4	41.40	50000	80.00	50000	100%	100%	100%	100%
61	MSSL15APR430.00CEW3	37.40	8500	73.00	8500	100%	100%	100%	100%

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Non Genuine trades of Noticee in the contract to Noticee'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 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
62	NMDC15APR110.00CEW3	12.35	24000	24.00	24000	100%	50%	100%	55%
63	NTPC15APR115.00CE	26.65	24000	40.00	24000	100%	33%	100%	39%
64	OBNK15MAY210.00CE	16.95	25000	32.00	25000	100%	100%	100%	100%
65	ONGC15MAY270.00CE	26.46	44000	56.42	44000	100%	50%	100%	54%
66	PFCL15APR230.00CEW3	30.50	12000	56.00	12000	100%	100%	100%	100%
67	PFCL15MAY240.00CE	28.40	16000	53.70	16000	100%	100%	100%	100%
68	PNBK15APR145.00CE	14.70	25000	25.50	25000	100%	33%	100%	19%
69	RECL15APR270.00CE	40.72	61000	68.98	61000	100%	21%	100%	51%
70	SAIL15MAY45.00CE	14.95	28000	26.00	28000	100%	20%	100%	16%
71	SBIL15APR240.00CE	29.65	20000	51.40	20000	100%	100%	100%	100%
72	SBIL15APR240.00CEW3	29.10	15000	51.40	15000	100%	100%	100%	100%
73	SBIL15MAY240.00CE	28.65	15000	55.00	15000	100%	50%	100%	50%
74	SESA15APR170.00CEW3	14.65	20000	31.00	20000	100%	100%	100%	100%
75	SMIL15APR380.00CEW3	40.85	15000	74.00	15000	100%	100%	100%	100%
76	SUNT15APR390.00CE	30.25	15000	52.00	15000	100%	100%	100%	100%
77	SYND15MAY90.00CE	13.60	30000	24.80	30000	100%	100%	100%	100%
78	TCHM15APR390.00CE	26.75	15000	48.00	15000	100%	100%	100%	100%
79	TCOM15APR360.00CEW1	42.65	8000	85.00	8000	100%	100%	100%	100%
80	TDVR15APR290.00CE	34.95	15000	56.00	15000	100%	50%	100%	38%
81	TMCL15MAY230.00CE	34.85	10000	60.00	10000	100%	100%	100%	100%
82	UBIL15APR150.00CEW3	13.25	10000	23.00	10000	100%	50%	100%	25%
83	UCOB15MAY50.00CE	10.95	12000	19.20	12000	100%	50%	100%	8%
84	UPHL15MAY380.00CE	29.15	15000	60.00	15000	100%	50%	100%	56%
85	VOLT15APR235.00CE	29.10	100000	49.20	100000	100%	100%	100%	100%
86	VOLT15APR240.00CE	26.13	135000	44.64	135000	100%	100%	100%	100%
87	VOLT15APR250.00CEW3	20.20	10000	37.00	10000	100%	13%	100%	11%
88	VOLT15MAY210.00CE	47.22	120000	79.01	120000	100%	67%	100%	92%
89	WIPR15APR580.00CEW3	32.60	14000	61.35	14000	100%	100%	100%	100%
90	ZEEL15APR300.00CE	42.35	14000	69.65	14000	100%	33%	100%	27%
91	ZEEL15APR330.00CE	17.65	10000	40.00	10000	100%	100%	100%	100%

18. From the above table, following is noted as regards to dealings of Noticee in said 91 contracts:

a) Noticee has executed non-genuine trades in above 91 contracts, wherein in 90 contracts, 100% trades were non-genuine trades.

b) No. of non-genuine trades of Noticee has significantly contributed to the total no. of trades from the market in the above contracts, as a substantial 3% to 100% of the trades happened in aforementioned contracts were due to non-genuine trades executed by the Noticee.

c) A substantial 100% of volume generated by the Noticee in 90 of said 91 contracts was artificial volume, and further artificial volume generated by the Noticee also contributed to significant 1% to 100% of the total volume from the market in 90 of said 91 contracts.

d) Non-genuine trades executed by Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

19. For the purpose of understanding, the trading pattern of the Noticee in the aforementioned 91 contracts in respect of non-genuine trades and artificial volume created by the Noticee are illustrated through the dealings of the Noticee in one of the contracts viz, **“ABNV15MAY1560.00CE”** as under:

Trade Date	**Client Name**	**CP Client Name**	**Trade Time**	**Trade Rate (Rs.)**	**Traded Quantity**
26/03/2015	Eden Trading Services Private Limited	Quest Partners	10:02:30	47.05	6250
26/03/2015	Quest Partners	Eden Trading Services Private Limited	10:05:28	101	250
26/03/2015	Quest Partners	Eden Trading Services Private Limited	10:06:34	100.85	6000

(a) During the investigation period, total 3 trades for 12,500 units were executed in the said contract on 26/03/2015, wherein Noticee was party to all the said trades.

(b) While dealing in the said contract on 26/03/2015, Noticee at 10:02:30 hrs entered into 1 buy trade with counter party viz, QUEST PARTNERS for 6,250 units at rate of Rs. 47.05 per unit. Thereafter, on the same day, within 4 minutes from the above trade, Noticee, during the period 10:05:28 to 10:06:34 hrs entered into 2 sell trades with same counterparty for total 6,250 units at average rate of Rs. 100.86 per unit.

(c) From the above, it is noted that while dealing in the said contract during the investigation period, Noticee executed total 3 reversal trades (1 buy trade + 2 sell trades) with same counterparty viz, QUEST PARTNERS on the same day and with significant price differential in buy and sell rate.

(d) Thus, Noticee, through its dealing in the contract viz, "ABNV15MAY1560.00CE" during the investigation period, executed 3 non genuine trades which is 100% of the total trades from the market in the said contract during the investigation period, and thereby, Noticee generated artificial volume of 12,500 units which is 100% of the volume traded in the said contract from the market during the investigation period.

20. From the above trading pattern of the Noticee, I note that the Noticee had bought and sold option contracts with the same counter parties and thus reversed its trades on the same day, from its earlier buy / sell trades, at substantial price difference. Such pattern of dealings suggests that they were not driven by the market parameters like underlying stock price, volatility, etc.

21. I note that derivative contracts by its very nature derives its value from various factors including underlying price. The transactions of the Noticee as mentioned in

above paras demonstrates that option contracts bought / sold were immediately reversed on same day at substantially different price, though there was no corresponding price changes in the underlying stock price. Further, analysis of such trades also indicates that price differentials have been deliberately structured for manipulative purposes as one party to the contract had deliberately foregone profitable proposition at the time of executing trade. Further, the fact that the counterparties are same, corroborates that the trades were not genuine and executed for manipulative purposes.

22. From the reply of the Noticee, I note that the Noticee had not disputed execution and subsequent reversal of trades as alleged in the SCN. The Noticee has argued that all its trades were executed on anonymous screen based trading platform wherein identity or the counterparties remain undisclosed and 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 counterparty. In this regard, I am of the view that the transactions in a particular contract were reversed with the same counterparties indicates a prior meeting of mind 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, within a short span of time, 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 its counterparties in the stock options segment of BSE and the same were non-genuine trades. Therefore, the Noticee's contentions are not acceptable and hence rejected.

23. Further, with regard to the reversal trades carried out by the Noticee, I note that the Hon'ble Supreme Court in the matter of ***SEBI vs. Rakhi Trading Private Ltd.***, in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 31743177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018 had observed that *"the price*

discovery system itself was affected by synchronization and rapid reverse trade, which also had the impact of excluding other investors from participating in the market. The Supreme Court, therefore found that the traders 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 PFUTP Regulations".

24. I further note that it is not mere coincidence that Noticee could match its trades with the same counterparties with whom it had undertaken first leg of the respective trades. This is the outcome of meeting of minds elsewhere and it was a deliberate attempt to deal in such a fashion. Here I would like to rely on the judgment of Hon'ble Supreme Court in ***SEBI v Kishore R Ajmera*** (AIR 2016 SC 1079), wherein it was 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 be gathered from various circumstances like that volume of the trade effected; the period of persistence in trading in the particular scrip; the particulars of the buy and sell orders, namely, the volume thereof; the proximity of time between the two and such other relevant factors. The illustrations are not exhaustive..."*

25. The Hon'ble Supreme Court further held in the same matter that – *"It is a fundamental* principle *of law that proof of an allegation levelled against a person may be in the form of direct substantive evidence or, as in many cases, such proof may have to be inferred by a logical process of reasoning from the totality of the attending facts and circumstances surrounding the allegations/charges made and levelled. While direct evidence is a more certain basis to come to a conclusion, yet, in the absence thereof the Courts cannot be helpless. It is the judicial duty to take note of the immediate and proximate facts and circumstances surrounding the events on which the charges/allegations are founded and to reach what would appear to the Court to be a reasonable conclusion therefrom. The test would always be that what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion."*

26. The Noticee has further contended that, in the absence of any connection or relationship with any of the counterparties, it cannot be alleged that the trades were non-genuine trades. In this regard, I note that direct evidence is not forthcoming in the present matter as regards to meeting of minds or collusion of the Noticee with other entities. However, I note that the trading behaviour of the Noticee makes it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level. In this context, I deem it appropriate to refer to the Hon'ble SAT order dated July 14, 2006, in the case of ***Ketan Parekh vs. SEBI*** *(Appeal no. 2/2004)*, wherein the Hon'ble SAT has held that - *"The nature of transactions executed, the frequency with which such transactions are undertaken, the value of the transactions, the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is from the cumulative effect of these that an inference will have to be drawn."*

27. Further, I place my reliance on the judgment of Hon'ble Supreme Court in the matter in respect of ***SEBI v Rakhi Trading Private Limited*** (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018), in which the Hon'ble Supreme Court 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….."*

28. Further, the Noticee has contended that all their transactions were genuine and the same were not fraudulent in any manner and there were no manipulative or

deceptive device or contrivance in contravention of the provisions of SEBI Act or the rules or regulations made there under. In this regard, I note that the price of a stock option is based on several parameters such as price of underlying stock, intrinsic value of option, expected volatility, interest rates, dividends etc. The change in price has to be justifiable based on change in the various underlying parameters. There is no justifiable basis for the wide variation in prices at which the contracts are traded within minutes and some, even seconds, except for an element of pre-determination in the prices by both counterparties when reversing the trades. In this regard, reliance is also placed upon the observations of the Hon'ble Supreme Court in **Rakhi Trading** (Supra), wherein the Apex Court stated at Para 35 and Para 41 of the Order that "*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 makes loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice*". *"According to SAT, only if there is market impact on account of sham transactions, could there be violation of the PFUTP Regulations. We find it extremely difficult to agree with the proposition. As already noted above, SAT has missed the crucial factors affecting the market integrity, which may be direct or indirect. 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."*

29. The Noticee has denied the alleged violations in the SCN, and the same pertained to the provisions of Regulations 3(a), (b), (c), (d) and 4(1), 4(2)(a) of the PFUTP Regulations. In this regard, I note 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 mechanism. The non-

genuine and deceptive transactions of the Noticee are 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 PFUTP Regulation and prohibited under the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) PFUTP Regulations, thereof. In this regard, the observations of the Hon'ble Supreme Court in the case of ***Rakhi Trading*** *(supra)* on whether such reversal of trades as has been detailed above, constitutes "fraud" under PFUTP Regulations, is reproduced herein below:

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

30. Keeping in mind the dicta of the Hon'ble Supreme Court as reproduced above, I see no reason to take a different view in the present case. Therefore, I hold that the Noticee had indulged in execution of reversal trades in Stock Options with same entities on the same day, which are non-genuine in nature and had created false or misleading appearance of trading in terms of artificial volumes.

31. Therefore, I am of firm opinion that the Noticee by indulging in reversal of trades on the stock exchange platform, which are manipulative / unfair / fraudulent / non-genuine, in nature, had created artificial volumes in the contracts and thereby Noticee had violated the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.

32. At this juncture, reliance is placed upon the Order of the Hon'ble Supreme Court in the matter of ***Chairman, SEBI Vs Shriram Mutual Fund {[2006]5 SCC 361}*** – where the Hon'ble Supreme Court of India held that *"In our considered opinion, penalty is*

attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant…..".

33. The aforesaid violation of the provisions of PFUTP Regulations by the Noticee attract monetary penalty under Section 15HA of the SEBI Act, which at the time of the violation committed by the Noticee, *inter-alia* reads as follows:

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.*

34. While determining the quantum of penalty under Section 15HA of the SEBI Act, it is important to consider the factors stipulated in Section 15J of the SEBI Act, which reads as under:-

"15J - Factors to be taken into account while adjudging quantum of penalty

While adjudging quantum of penalty under section 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely:-

(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

Explanation – *For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E,clauses (b) and (c) of section 15F,15G,15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section."*

35. Having regard to the factors listed in section 15J, it is noted that itis not possible to determine the consequent loss caused to investors as a result of the default as found in this case. It is worth considering that generally, there is NIL or negligible participation of the public in the trading in such illiquid Stock Option contracts. When the impact of artificial volume created by the two counterparties is seen as a whole, it is not possible from the material on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counter parties or the consequent loss caused to investors as a result of the default. However, considering the fact that the trades of the Noticee in 91 Unique Stock Option contracts which resulted into artificial volume in range of 1% to 100%, generated out of the said non-genuine trades of the Noticee, I am of the view that such trades had created a misleading appearance of trading in the scrip. In these circumstance I am of the view that for the market abuse and fraudulent practices by the Noticee monetary penalty needs to be imposed under section 15HA of the SEBI Act.

36. In view of the forgoing, I conclude that the Noticee indulged in execution of reversal of trades in Stock Options segment of BSE with same entities on the same day. Such trades are non-genuine in nature and have created false and misleading appearance of trading in terms of artificial volumes in the stock options segment of BSE and thus the Noticee had violated the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations and liable for penalty under Section 15HA of the SEBI Act.

ORDER

37. After taking into consideration the nature and gravity of the charges established in the preceding paragraphs, factors mentioned under Section 15J of the SEBI Act and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act, read with Rule 5 of the SEBI Adjudication Rules, I hereby impose a penalty of Rs. 18,20,000/- (Rupees Eighteen Lacs and Twenty Thousand only) on the Noticee in

terms of Section 15HA of the SEBI Act, for the violation of the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations.

38. 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 favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT → Orders → Orders of AO → PAY NOW.

39. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to "The Division Chief (Enforcement Department - 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.". The Noticee shall also provide the following details while forwarding DD / payment information:

1. Case Name:	
2. Name of payee:	
3. Date of payment:	
4. Amount paid:	
5. Transaction no.:	
6. Bank details in which payment is made:	
7. Payment is made for : (like penalties/ disgorgement/ recovery/ settlement amount and legal charges etc.)	

40. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings 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

41. In terms of Rule 6 of the SEBI Adjudication Rules, copy of this Order is sent to the Noticee and also to the Securities and Exchange Board of India.

Date : November 11, 2021 **Shri G Ramar**

Place : Mumbai **Adjudicating Officer**