**BEFORE THE ADJUDICATING OFFICER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**

**ADJUDICATION ORDER NO. Order/RJ/VS/2021-22/13846**

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**UNDER SECTION15-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:
**Surabhi Mittal**
**[PAN: AKMPM1456C]**
6796 Daulat Ganj,
Kanpur, Uttar Pradesh, 208001

**In the matter of Illiquid Stock Options at BSE Limited**

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**BACKGROUND**

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') observed large scale reversal of trades in Stock Options segment of BSE Limited (hereinafter referred to as '**BSE**') leading to creation of artificial volume. Accordingly, SEBI conducted an investigation into the trading activities of certain entities in Illiquid Stock Options at BSE for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as "**Investigation Period**").

2. It was observed that during the Investigation Period, total 2,91,643 trades comprising substantial 81.38% of all the trades executed in Stock Options Segment of BSE were found to be non-genuine trades. The aforesaid non-genuine 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. It was observed that the said non- genuine trades were not restricted to any specific contract or between any specific set of entities. Ms. Surabhi Mittal (hereinafter referred to as '**Noticee'**) was one of the various entities who were

indulged in execution of non-genuine trades in Stock Options Segment of BSE during the investigation period. The following points narrate the dealings of the Noticee during the investigation period and the allegations against her for execution of non-genuine trades.

4. As regards the dealings of Noticee in the Stock Options segment of BSE during the Investigation Period, it was observed that the Noticee had traded in 1 unique contract, in which she has allegedly executed total of 2 non-genuine trades, which resulted in artificial volume of total 1,80,000 units.

5. Summary of dealings of the Noticee in the Stock Options contract in which the Noticee allegedly executed non genuine trades during the investigation period is as follows:

| S. No | Contract Name | Avg. Buy Rate (₹) | Total Buy Volume (no. of units) | Avg. Sell Rate (₹) | Total Sell Volume (no. of units) | Number of non genuine trades executed by Entity in the Contract | Total number of trades executed by the Entity in the Contract | Total number of trades executed 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 | BHEL15AUG220.00PEW1 | 0.55 | 90000 | 1.75 | 90000 | 2 | 2 | 2 | 100% | 100% |

6. From the above table, the following is observed as regards the dealings of the Noticee:

   a) During the Investigation Period, 2 trades for 1,80,000 units were executed by the Noticee in the said contract on 16/07/2015.

   b) That while dealing in the said contract during the Investigation Period, Noticee executed total 2 reversal trades (1 buy trade + 1 sell trade) with same counterparty viz J.B. OVERSEAS on the same day.

   c) Thus, Noticee, through its dealing in the contract viz, "BHEL15AUG220.00PEW1" during the Investigation Period, executed 2 non genuine trades and thereby allegedly generated artificial volume of 1,80,000 units which is 100% of the total volume traded in the said contract in the market during the Investigation Period.

7. In view of the foregoing, it was alleged that the Noticee, indulged in execution of reversal of trades in Stock Options with same entity on the same day. Such trades are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore alleged to be manipulative, deceptive in nature. Thus, it was alleged that the Noticee had violated the provisions of Regulation 3(a), 3(b), 3(c), 3(d), 4(1) and 4(2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**").

**APPOINTMENT OF ADJUDICATING OFFICER**

8. Pursuant to investigation, SEBI, after being satisfied that there are sufficient grounds to inquire into the affairs and adjudicate upon the alleged violations as mentioned above, *inter-alia*, in respect of the Noticee, had appointed the undersigned as the Adjudicating Officer vide Order dated April 30, 2021, under section 19 read with section 15I(1) of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act**" and Rule 3 of the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "**Adjudication Rules**") to conduct adjudication proceedings in the manner specified under Rule 4 of Adjudication Rules read with section 15I (1) and (2) of SEBI Act, and if satisfied that penalty is liable, impose such penalty as deemed fit in terms of Rule 5 of Adjudication Rules 1995 and Section 15HA of SEBI Act.

**SHOW CAUSE NOTICE, REPLY AND HEARING**

9. A Show Cause Notice (hereinafter referred to as '**SCN'**) bearing ref. no. PD1/AO/RLJ/VS/14149/1/2021 dated July 01, 2021 was served upon the Noticee under Rule 4 of Adjudication Rules to show cause as to why an inquiry be not held against her in terms of Rule 4 of the Adjudication Rules and penalty

be not imposed under Section 15HA of SEBI Act, 1992 for the violations alleged to have been committed by her. The SCN was sent to the Noticee vide Registered Post AD and was duly served on the Noticee as per the Tracking details obtained from the India Post website. However, no reply was received from the Noticee.

10. Since there was no reply filed by the Noticee, vide notice dated August 02, 2021, in the interest of natural justice and in terms of Rule 4 (3) of Adjudication Rules, the Noticee was given an opportunity of personal hearing on August 20, 2021.

11. In reply to the SCN, the Noticee vide her email dated August 12, 2021 submitted copies of letters dated July 18, 2021 and August 10, 2021 along with a copy of the PAN Card and Authority Letter in favour of CA Pradeep G Tulsian. Vide the letter dated August 10, 2021, it was submitted that the reply to the SCN was already sent vide the letter dated July 18, 2021, the copy of which was submitted by her vide the email as stated above. In this regard, it is noted that the said letters sent by the Noticee was not received by me, however the copy of the reply submitted by the Noticee has been taken on record. Vide the said reply dated July 18, 2021, the Noticee, *inter alia,* submitted as under:

*"...*
*In this regard, please note that I have already denied all the allegations made by SEBI on me as I was neither involved in any fraudulent or unfair trade practice nor manipulated any price of any of the stock at any time……*

*…..Script i.e. BHEL is no way an illiquid stock/option but it has huge volume on a daily basis. Further, a single transaction which was carried out (even by mistake of SEBI registered broker) there is neither intended to manipulate any price nor it has reflected in the price either on that date or subsequently as the trade entered is immediately reversed by the broker.*

*I further state that since I am no way connected with the said transaction and even if at all SEBI feels that the transaction is not as per the provisions of the SEBI regulations then the sole responsibility for the same is SEBI registered broker, who has carried out such kind of transaction without my consent and approval.*

*…."*

12. Further, the opportunity of hearing was availed online by the Noticee on August 20, 2021 vide her authorised representative ('**AR**'), CA Pradeep G Tulsian and Mr. Dhanpat Mittal. The hearing was conducted thorugh video conference mode using Webex platform and the contents of the SCN and the allegations levelled against the Noticee were explained to the AR. The AR reiterated the submissions of the reply dated July 18, 2021 and sought further time to file additional reply. The request of the AR was acceded to and the hearing was concluded.

13. Vide email dated August 27, 2021, additional reply was submitted by the Noticee wherein the Noticee reiterating her earlier reply further, *inter alia,* submitted as under:

*"….*
*In thisregard, please note that I have already denied all the allegations made by SEBI on me as I was neither involved in any fraudulent or unfair trade practice nor manipulated any price of any of the stock at any time. The below mentions are the facts of the case:*

1. *First of all, this is to inform you that, I am not dealing in Options in the stock market.*

2. *You should appreciate that myself or any of my family members is no where connected with any personal internal or external with relates to the BHEL(either in the past or till date or does not carry any information or any other reason for which the transaction can be carried out as insider trading.*

3. *Further, you should note that as on the date of the above transaction myself or any of my relative are not holding a single share of BHEL and therefore, the question of getting any advantage or intention of manipulating or inflating the price is arising.*

4. *It is the Broker who has entered the contract details, where my consent was not given.*

5. *Further, you should appreciate that I have closed my account with the broker after knowing that he has entered into an option contract of sale and purchase without my knowledge and stopped trading with it.*

6. *Further, you should appreciate that the script (i.e. BHEL) in which the option trade is carried is not the illiquid stock, but it is a very active stock in BSE/NSE not in cash market but also in Options and Futures.*

7. *Further note that the SEBI has allowed the transactions in this option contract and as per my knowledge on that day there is no restriction to carry out any transactions in BHEL.*

8. *Moreover, the circumstances and investigation report has pointed out certain points which draw the attention towards the some irregularities in the transaction, which cannot be denied. But since, these are technical in nature and no where I am involved in these, I cannot comment on the same.*

9. *Further, you should appreciate that the person who has entered into the trade is not known to me as the broker even not disclosed the name of the other party with whom the contract is entered and you should appreciate that I am even not knowing the person or any relative of JB Overseas and with those I have no link with the party. Therefore, the transaction entered is totally unknown to me and I am no where involved or have any intention to manipulate the price of any script.*

10. *Further, point no 9 of the notice states that the transaction has created the false and misleading appearance of trading in stock options and therefore, allegedly violated the regulations. The table below shows the point wise reply of the same*

| *Reg. No.* | *Regulation* | *Reply* |
|---|---|---|
| *3(a)* | *buy, sell or otherwise deal in securities in a fraudulent manner;* | *The transaction is not fraudulent manner. The transaction was carried out through the SEBI approved broker and the stock exchange portal only and hence cannot be said to be fraudulent in nature.* |
| *3(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;* | *No such act involved as the transaction was carried out through the SEBI approved broker and the stock exchange portal only. Even no such allegation was made in the notice.* |
| *3(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;* | *No such act involved as the transaction was carried out through the SEBI approved broker and the stock exchange portal only. Even no such allegation was made in the notice* |

| | | |
|---|---|---|
| *3(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.* | *There is no fraud or deceit upon any person as the transaction was carried out through the SEBI approved broker and the stock exchange portal only. Even no such allegation was made in the notice.* |
| *4(1)* | *Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities* | *As stated above, there is no fraudulent transactions accrued out as the other party (JB overseas) has not made any complain against me and so far as unfair trade practice is concern, am not involved in any such practice and the transaction carried out is only single transaction which is even carried out by the SEBI registered broker by mistake, which it has reversed immediately as it came in its knowledge.* |
| *4(2)(a)* | *Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may There is no fraud happen to any person. So far as about it creates a false or misleading appearance of include all or any of the following, namely:-*<br>*(a) indulging in an act which creates false or misleading appearance of trading in the securities market;* | *trading, there is no my involvement in the said transactions as there is no relationship with the person with whom the transactions was carried out and the transactions was carried out by the SEBI registered broker, who has immediately reversed the same as he come to know about the same. You should appreciate that there is no further transaction of any nature.* |

*11. Therefore, you should appreciate that the Script i.e. BHEL is no way an illiquid stock/option but it has huge volume on a daily basis. Further, a single transaction which was carried out (even by mistake of SEBI registered broker) there is neither intended to manipulate any price nor it has reflected in the price either on that date or subsequently as the trade entered is immediately reversed by the broker. Further, except that there is no other transaction with any of the person and the person (JB Overseas), I have no relationship and even not knowing either itself or any other person who is connected with the same.*

*12. In the meanwhile, I come to know that the Stock Exchange i.e. BSE is having incentive schemes for the Brokers to enhance the volume on the Stock Exchange with name, i.e."Liquidity Enhancement Scheme in the Equity Cash & Equity Derivatives Segment" and the said scheme is in accordance with the SEBI issued Circular no.CIR/MRD/DP/14/2014 dated April 23, 2014. Accordingly BSE has launched new Liquidity Enhancement Incentive Programmes (LEIPS)onSingle Stock Options on 20 underlyingstocks which are part of S&P BSE SENSEX with effect from February 27,2015 with the goal of creating lasting,self sustainingliquidityinBSE'sEquityDerivativesSegment.*

*13. You should appreciate that the BHEL is one of the underlying stock out of the above 20 stocks approved by the BSE under the above scheme. (Annexure 3 item no. 12 of the scheme).*

*14. Further, you should appreciate that the Spread in the Contract is Rs. 1.20/- (i.e. 0.55 – 1.75 = 1.20) which is within the permitted Spread to get the incentive by the Broker under the scheme (the spread applicable range is Rs. 1.25 for price ranges above 200, which is given in Table 5 of the Scheme). This clearly indicates that transactions carried out by the Broker is within the permitted range of BSE exchange and just to earn the incentives as per the BSE Scheme).*

*15. I further state that since I am no way connected with the said transaction and even if at all SEBI feels that the transaction is not as per the provisions of the SEBI regulation then the sole responsibility for the same is SEBI registered broker and exchange, who has carried out such kind of transaction without my consent and approval.*

………."

14. In view of the above, noting that sufficient opportunity for submission of reply and personal hearing has been granted to the Noticee, I now proceed further for consideration of Issues.

**CONSIDERATION OF ISSUES AND FINDINGS**

15. After perusal of the material available on record, I have the following issues for consideration viz.,

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

II. If yes, whether the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act?

III. If so, what quantum of monetary penalty should be imposed on the Noticee?

**FINDINGS**

16. On perusal of the material available on record and giving regard to the facts and circumstances of the case and submissions of the Noticee, I record my findings hereunder.

***ISSUE I: Whether the Noticee has violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of PFUTP Regulations ?***

17. Before moving forward, it is pertinent to refer to the relevant provisions of PFUTP Regulations which reads as under:

***Regulation 3: - Prohibition of certain dealings in securities***

*3. 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 thereunder.*

***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;*

18. It has been alleged that the Noticee had indulged in execution of reversal of trades in Stock Options with same entity on the same day. Such trades are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volume in stock options and therefore alleged to be manipulative, deceptive in nature.

19. I note that reversal trades have been considered as 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, lacks basic trading rationale, and lead to false or misleading appearance of trading in terms of generation of artificial volume, hence are deceptive and manipulative. Artificial volume is considered to be the volume (no. of units) reversed in both legs of said reversal trades while keeping out the volume, if any, which is not reversed.

20. I note that the Noticee had executed 2 non-genuine trades in 1 contract on July 16, 2015. The details of non-genuine trades executed by the Noticee are furnished hereunder:

| S. No | Contract Name | Avg. Buy Rate (₹) | Total Buy Volume (no. of units) | Avg. Sell Rate (₹) | Total Sell Volume (no. of units) | Number of non genuine trades executed by Entity in the Contract | Total number of trades executed by the Entity in the Contract | Total number of trades executed in the contract | % 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 | BHEL15AUG220.00PEW1 | 0.55 | 90000 | 1.75 | 90000 | 2 | 2 | 2 | 100% | 100% | 100% | 100% |

21. I shall now proceed to deal with the transactions executed by Noticee in the alleged non-genuine trades.

### I. Scrip Name: BHEL15AUG220.00PEW1, Trade Date: 16/07/2015

| CLIENTNAME | CP_CLIENTNAME | TRADE_TIME | TRADE_RATE | TRADED_QTY |
|---|---|---|---|---|
| SURABHI MITTAL | J.B.OVERSEAS | 14:36:26.98 | 0.55 | 90000 |
| J.B.OVERSEAS | SURABHI MITTAL | 14:36:30.57 | 1.75 | 90000 |

(a) I note from the above table that during the investigation period, total 2 trades for 1,80,000 units were executed in the "BHEL15AUG220.00PEW1" contract on 16/07/2015 wherein the Noticee was party to both the said trades.

(b) The Noticee placed a buy limit order for 90,000 units at a price of ₹ 0.55 per unit and the said order was matched with the sell limit order (which was also for 90,000 units at a price of ₹ 0.55 per unit) of counterparty client J.B.OVERSEAS. I note that the said buy limit order by the Noticee was placed at 14:36:26.365777 almost at the same time as that of the entry of the sell limit order by the Counterparty. I also note that there was no modification of either price or quantity by either the Noticee or the counterparty and the buy limit order of the Noticee got executed into trade immediately with the counterparty. Subsequently within 4 seconds from the above trade, at 14:36:30.568932, the Noticee placed a sell limit order for 90,000 units at a price of ₹ 1.75 per unit and the said order was matched with the same counterparty (i.e. J.B.OVERSEAS), who placed a buy limit order for the same quantity (i.e. 90,000) and price (i.e. ₹ 1.75). I note that the said buy limit order was placed by the counterparty almost at the same time i.e. 14:36:30.568963 as that of the sell limit order by the Noticee. I also note that there was no modification of either price or quantity by either the Noticee or the counterparty and the sell limit order of the Noticee got executed into trade immediately with the buy limit order by the Counterparty.

(c) Therefore, it is noted that while dealing in the said contract on 16/07/2015, the Noticee at 14:36:26.98 hrs entered into 1 buy trade with counter party viz, J.B.OVERSEAS for 90,000 units at a rate of ₹ 0.55 per unit. Thereafter, on the same day, within 4 seconds from the above trade, Noticee, at 14:36:30.57 hrs entered into 1 sell trade with the same counterparty for 90,000 units at a rate of ₹ 1.75 per unit.

(d) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed reversal trades through 1 buy trade and 1 sell trade with the same counterparty viz J.B.OVERSEAS, on the same day for the same quantity.

(e) Thus, the Noticee, through her dealing in the contract viz, "BHEL15AUG220.00PEW1" during the investigation period, executed 2 non genuine trades which is 100% of the total trades from the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 1,80,000 units which is 100% of the volume traded in the said contract from the market during the investigation period.

22. From the above pattern of trades, I note that the Noticee had bought and sold option contract with the same counter party and also reversed her trade in 4 seconds from her earlier buy trade, at substantial price difference. Such pattern of dealings suggests beyond doubt that they were not driven by market factors as none of the parameters (underlying stock price, volatility, etc.,) for Option pricing have undergone any change during period of trades. I note that the underlying stock price did not change to substantiate corresponding changes in the option price in a span of 4 seconds. Therefore, I am inclined to note that the aforesaid trades of Noticee were non genuine and have created false or

misleading appearance of trading in terms of artificial volume in stock options and therefore the same are manipulative, deceptive in nature.

23. As noted above, Noticee had executed non- genuine trades in 1 contract viz., BHEL15AUG220.00PEW1, where all the trades were non genuine trades and the Noticee contributed to 100% artificial volumes. Non genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed immediately on the same day.

24. The buying of illiquid stock options by the Noticee and subsequent reversal trade with the same entity for the same quantity, within a short span of time with a significant difference in buy and sell value of stock options, in itself, exhibits abnormal market behaviour and defies economic rationality. I note from the above trading pattern of the Noticee that she has deliberately made blatant misuse of trading platform for creating artificial volume in the illiquid stock options. I note that no justifiable rationale has been given for entering into such transactions by the Noticee as the behaviour exhibited by the Noticee defies the logic and basic economic sense. Had market been liquid with large number of investors, the manipulative scheme would not have been possible as the Noticee would not be able to square off her position as there would be no buyers for such contracts. The fact that the counterparties are same corroborates that the trades were not genuine and executed for manipulative purpose.

25. While the Noticee has contended that the scrip BHEL is not an illiquid stock and that the same is a very active stock, it is noted that the reversal of trades were carried out by the Noticee in the stock option contract of BHEL15AUG220.00PEW1 which was illiquid where the only 2 trades that were carried out during the Investigation period involved the Noticee as a buyer and a seller.

26. Further, the Noticee also stated that "..*BSE is having incentive schemes for the Brokers to enhance the volume on the Stock Exchange with name, i.e."Liquidity Enhancement Scheme in the Equity Cash & Equity Derivatives Segment" and the said scheme is in accordance with the SEBI issued Circular*

*no.CIR/MRD/DP/14/2014 dated April 23, 2014"* which was launched *with the goal of creating lasting, self sustaining liquidity in BSE's Equity Derivatives Segment.* The Noticee submitted that the BHEL was one of the underlying stock out of the 20 stocks approved by the BSE under the above scheme and that the Spread in the Contract is ₹ 1.20/- (i.e. 0.55 – 1.75 = 1.20) which is within the permitted Spread to get the incentive by the Broker under the scheme (the spread applicable range is ₹ 1.25 for price ranges above 200, which is given in Table 5 of the Scheme). The Noticee submitted that the trades were carried out by the brokers just to earn the incentives as per the BSE Scheme. While no evidence is placed in front of me in support of her contention that the trades were carried out by the broker without her consent or if the Broker was registered as the Market Maker as per the Scheme, even if the same is considered, the above submission referring to the incentive in no way justifies or regularises the reversal of trades of the nature which have been executed by the Noticee in the instant case. As noted above, the Noticee, while trading in the illiquid stock options has instantaneously reversed her buy trade wherein the price, volume and time has matched with her counterparty in both the legs separated by mere 4 seconds. The scheme, plan, device and artifice employed by the Noticee in this case of executing reversal trades in illiquid stock options contracts 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.

27. The non-genuineness of these transactions executed by the Noticee is evident from the fact that there was no commercial basis as to why, within a short span of time (viz. approx. 4 seconds), the Noticee reversed the position with the same counterparty client with a significant price difference. Such short span of time in reversing the trades in the contract suggests the non-genuineness of these trades executed by the Noticee. The fact that the orders of the Noticee and her counterparty matched with such precision (considering that there was a perfect match of price and quantity as well as a short time difference between placing of the orders by the Noticee and counterparty) indicates a prior meeting of minds with a view to execute the reversal trades at a predetermined price. Since these

trades were done in illiquid option contracts, there was very little 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. Therefore, it is observed that the Noticee had indulged in reversal trades with her counterparty in the stock options segment of BSE and the same were non-genuine trades.

28. The non-genuine and deceptive transactions of these entities 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 the PFUTP Regulations and prohibited under the provisions of Regulations 3(a), 3(b), 3(c) and 3(d) and 4(1) and 4(2)(a) of the PFUTP Regulations.

29. Further, with respect to the reversal of 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 decided on February 8, 201 held 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 the PFUTP Regulations. The Apex Court also held that "*considering the reversal transactions, quantity, price and time and sale, parties being persistent in the number of such trade transactions with huge price variations, it will be too naïve 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.*"

30. Additionally, the Hon'ble Securities Appellate Tribunal (hereinafter referred to as "**SAT**") in its judgment dated September 14, 2020 in the matter of **Global Earth Properties and Developers Pvt Ltd Vs SEBI** (Appeal No. 212 of 2020) relied upon the aforesaid judgment of the Hon'ble Supreme Court and held that *"…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*."

31. 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. In view of the foregoing, I hold that the Noticee had indulged in execution of reversal trades in Stock Options with same entitiy on the same day, which are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes.

32. It is also the submission of the Noticee that she is not knowing the counterparty or any relative of the counterparty and that she does not have any link. She has submitted that the trades were carried out by the Broker without her consent. In this regard, it is noted that the Noticee has not filed any complaint against the broker and neither has she produced any evidence of any sort in support of her statement that the trades were carried out without her consent. Furthermore, in regard to the submission of the Noticee that she is not connected to the counterparty, I note that in the screen based trading, the manipulative or fraudulent intent can be inferred from various factors such as conduct of the party, pattern of transactions, etc. I note that it is not a mere coincidence that Noticee could match her trades (with the corresponding price and quantity entered by both the Noticee and counterparty being equal) with the same counterparty with whom she had undertaken first leg of the respective trades. It indicates meeting of minds. In this context, I would like to rely on the judgment of the Hon'ble Supreme

Court of India in **SEBI Vs 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...*"

33. The Hon'ble Supreme Court of India further held in the said case 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.*"

34. In the instant matter, I note that though direct evidence regarding meeting of minds or collusion of the Noticee with the counterparty is not forthcoming, the trading behavior of the Noticee makes it clear that the 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 order dated July 14, 2006 passed by Hon'ble SAT, in the case of **Ketan Parekh vs. SEBI** (Appeal no. 2/2004), wherein, 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."*

35. Further, I would like to rely on the judgement of Hon'ble Supreme Court passed in the case of **SEBI vs. Rakhi Trading Private Ltd**. (*supra)*, wherein the Apex Court held that "*the entities were engaged in a fraudulent and unfair trade practice while dealing in Options and hence were liable for violation of SEBI (PFUTP) Regulations".* The Hon'ble Apex Court has also held that in the absence of direct proof of meeting of minds, the test should be one of preponderance of probability and also stated that the conclusion has to be gathered from various circumstances like volume of trade, period of persistence of trading, particulars of buy and sell orders, proximity of time between the two and such other relevant factors.

36. In line with the aforesaid judgements of Hon'ble SAT and Hon'ble Supreme Court, I note from the foregoing findings that the trading pattern of the Noticee in terms of volume of reversal trades, proximity of buy/sell and subsequent reversal evidences the indulgence of the Noticee beyond a reasonable doubt of the manipulative intent in creation of artificial volume. Further, the dealings by Noticee only in such options contracts which was illiquid clearly demonstrates the manipulative intent to use stock exchange platform to carry out non-genuine trades with the aim to execute such trades for manipulative purposes.

37. In this regard, I would like to rely on the judgement of Hon'ble Supreme Court in the matter of **SEBI vs. Rakhi Trading Private Ltd.** (*supra)* decided on February 8, 2018, where Apex Court held that, *"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."*

38. From the foregoing, it is established that the Noticee by indulging in reversal trades on the stock exchange platform which are manipulative / unfair / fraudulent / non-genuine, in nature, had created artificial volumes in the contracts. In view of above, I conclude that the Noticee had violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of PFUTP Regulations.

***ISSUE - II: If yes, whether the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act?***

39. Pursuant to detailed analysis as brought out above, it is established that reversal trades are not normal transactions and it clearly demonstrates beyond reasonable doubt that the Noticee had intentionally executed these trades and manipulated the volume by artificial trading pattern in the contract BHEL15AUG220.00PEW1 where the total of 2 trades executed during the Investigation Period in the said contract were non genuine trades and the Noticee was part of those trades.

40. I am of the view that the misuse of stock options as shown above not only displays an unreal picture of market activity to other investors but also defeats the basic premise of screen based electronic trading system and price discovery mechanism by repeated execution of pre decided reversal trades at irrational / arbitrary prices. Such activity deliberately or otherwise damages market integrity apart from presenting wrong picture of liquidity to gullible investors which could affect their trading/investment decisions. Options as financial instruments, ordinarily, provide hedging avenues to investors. The trading of the Noticee in the instant matter was abnormal and was clearly designed to create artificial volumes in the illiquid stock options, fail to justify any of the normal strategies of hedging / speculation / arbitrage. In my view, the abuse of such financial instruments, which are made available to the investors for the purpose of protection of their investment portfolios from the

risks of adverse price movement, cannot be tolerated and needs to be dealt with strictly.

41. I find that the Noticee by indulging in execution of reversal trades in Stock Options with same entity on the same day, had created artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE and therefore violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1), and 4 (2) (a) of the PFUTP Regulations. Accordingly, the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act, the provisions of which are furnished hereunder.

**Section 15HA of SEBI Act - Penalty for fraudulent and unfair trade practices**

*"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".*

***ISSUE – III: If so, what quantum of monetary penalty should be imposed on the Noticee?***

42. While determining the quantum of monetary penalty under Section 15HA of the SEBI Act, I have considered the factors stipulated in Section 15-J of the SEBI Act, which reads as under:

*Section 15J - Factors to be taken into account by the Adjudicating Officer*

*While adjudging quantum of penalty under section 15 - I, 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.*

43. I observe that the material / documents made available on record does not quantify any disproportionate gains or unfair advantage, if any, made by the Noticee and the losses, if any, suffered by the investors due to such violations on part of the said Noticee. However, Noticee has entered into non-genuine trades in stock option contract during the Investigation Period.

## ORDER

44. After taking into consideration the nature and gravity of the violations established in the preceding paragraphs and in exercise of the powers conferred upon me 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, I hereby impose a penalty of ₹ 5,00,000 (Rupees Five Lakhs Only ) (minimum penalty that can be levied) on the Noticee i.e., Ms. Surabhi Mittal, under Section 15HA of the Securities and Exchange Board of India Act, 1992, for indulging in execution of reversal trades in Stock Options with the same entity on the same day, thereby creating artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE.

45. The said penalty imposed on the Noticee, as mentioned above, shall commensurate with the violation committed by the Noticee.

46. Ms. Surabhi Mittal 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 SEBI website www.sebi.gov.in on the following path, by clicking on the payment link:

**ENFORCEMENT → Orders → Orders of AO →PAY NOW**

47. Ms. Surabhi Mittal shall forward said Demand Draft or the details / confirmation of penalty so paid to the "The Division Chief, Division of Regulatory Action-3, Enforcement Department (EFD1 – DRA III), Securities and Exchange Board of India, SEBI Bhavan, Plot No. C –4 A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai –400 051". Ms. Surabhi Mittal shall provide the following details while forwarding DD/ payment information:

a) Name and PAN of the entity

b) Name of the case / matter

c) Purpose of Payment – Payment of penalty under AO proceedings

d) Bank Name and Account Number

e) Transaction Number

48. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under Section 28A of the Securities and Exchange Board of India 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.

49. In terms of the provisions of Rule 6 of the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, a copy of this order is being sent to Ms. Surabhi Mittal and also to the Securities and Exchange Board of India, Mumbai.

**October 22, 2021**
**Mumbai**

**Ratan Lal Jat**
**Adjudicating Officer**