BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OFINDIA
ADJUDICATION ORDER NO. EAD-7/BD/VS/2019-20/5846

UNDER SECTION15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995

In respect of:

M/s Rajbanshi Trading
[PAN No. AQEPR0750Q]
Ghosh Para Panihati Khardah,
North 24 Parganas,
West Bengal – 700112

In the matter of Illiquid Stock Options at BSE

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') observed large scale reversal of trades in Stock Options segment of Bombay Stock Exchange (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"/ "IP").

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. It was observed that M/s Rajbanshi Trading (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 it for execution of non-genuine trades.

4. As regards to all the dealings of Noticee in the Stock Options segment of BSE during the Investigation Period, it was observed that the Noticee had traded in 55 unique contracts, from which it has allegedly executed non genuine trades in 55 contracts wherein it executed total 288 non-genuine trades, which resulted in artificial volume of total 2,81,17,500 units.

5. Summary of dealings of the Noticee in 55 Stock Options contracts in which the Noticee allegedly executed non genuine trades during the investigation period is as follows:

S. No	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Number of non genuine trades execute d by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades execute d 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 generate d by Noticee in the contract to Total Volume in the Contract
1	ANBK15JUL60.00CEW1	17.00	60000	8.90	60000	2	2	4	100%	50%	100%	47%
2	APLT15MAR165.00CEW1	5.30	202000	10.61	202000	7	7	18	100%	39%	100%	62%
3	ARVI15MAR280.00CEW3	10.80	481000	20.85	481000	8	8	8	100%	100%	100%	100%
4	AXIS15APR520.00CEW4	18.80	294000	35.80	294000	4	4	6	100%	67%	100%	95%
5	BIOC15MAR410.00CEW1	11.11	125000	18.40	125000	7	7	26	100%	27%	100%	21%
6	BIOC15MAR410.00CEW3	21.15	624000	37.80	624000	10	10	25	100%	40%	100%	52%
7	CANB15FEB420.00PE	10.80	175000	23.57	175000	12	12	21	100%	57%	100%	47%
8	CANB15MAR370.00CEW2	22.10	126000	38.30	126000	8	8	8	100%	100%	100%	100%
9	CANB15MAR370.00CEW3	25.60	358000	39.20	358000	7	7	7	100%	100%	100%	100%
10	CANB15MAR390.00CEW2	10.10	252000	19.08	252000	7	7	12	100%	58%	100%	44%

S. No	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Number of non genuine trades execute d by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades execute d 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 generate d by Noticee in the contract to Total Volume in the Contract
11	CANB15MAR 400.00CEW1	11.40	252000	23.36	252000	10	10	10	100%	100%	100%	100%
12	CESC15APR62 0.00PE	14.00	88000	48.00	88000	2	2	10	100%	20%	100%	53%
13	COAL15APR3 80.00PE	16.50	200000	30.00	200000	4	4	20	100%	20%	100%	27%
14	COAL15MAR3 80.00PEW1	4.70	160000	10.95	160000	6	6	6	100%	100%	100%	100%
15	COAL15MAR3 90.00PEW2	11.50	136000	22.33	136000	8	8	11	100%	73%	100%	31%
16	COAL15MAR4 00.00PEW1	12.55	340000	27.69	340000	15	15	15	100%	100%	100%	100%
17	DISH15MAR6 5.00CEW2	10.90	484000	19.53	484000	9	9	34	100%	26%	100%	48%
18	DLFL15MAR1 30.00CEW2	12.01	182000	20.40	182000	7	7	17	100%	41%	100%	38%
19	DRRL15APR3 400.00PE	6.00	72875	54.00	72875	2	2	14	100%	14%	100%	34%
20	EXID15JUL15 5.00PEW3	10.10	98000	5.00	98000	2	2	4	100%	50%	100%	80%
21	GMRI15JUL20 .00PEW2	5.50	195000	2.90	195000	2	2	2	100%	100%	100%	100%
22	GMRI15JUL22 .00PEW3	7.50	286000	4.00	286000	2	2	2	100%	100%	100%	100%
23	GMRI15JUL8. 00CEW2	6.50	208000	4.40	208000	2	2	4	100%	50%	100%	33%
24	GRSM15APR3 550.00PE	5.00	22875	48.00	22875	2	2	8	100%	25%	100%	11%
25	HDFC15APR1 290.00CE	49.00	40000	99.00	40000	2	2	4	100%	50%	100%	50%
26	HDFC15APR1 320.00PE	10.00	41250	41.00	41250	2	2	4	100%	50%	100%	58%
27	HDFC15APR1 380.00CE	2.00	91750	16.00	91750	2	2	4	100%	50%	100%	75%
28	HPCL15APR6 40.00PE	6.60	131500	15.60	131500	2	2	47	100%	4%	100%	32%

S. No	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	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
29	HXTL15FEB250.00CE	10.20	160000	21.04	160000	9	9	12	100%	75%	100%	89%
30	HXTL15MAR255.00CEW1	8.00	150000	18.11	150000	3	3	8	100%	38%	100%	43%
31	HXTL15MAR290.00PE	9.40	356000	18.03	356000	7	7	18	100%	39%	100%	66%
32	HXTL15MAR310.00PEW2	29.34	112000	49.40	112000	8	8	8	100%	100%	100%	100%
33	IDEA15MAR140.00CEW1	10.23	162000	22.50	162000	6	6	13	100%	46%	100%	11%
34	IFCI15JUL20.00CEW2	6.25	176000	4.55	176000	2	2	6	100%	33%	100%	46%
35	IIBK15APR900.00PE	12.00	250000	32.00	250000	4	4	12	100%	33%	100%	53%
36	INCM15MAR120.00PEW3	12.40	556000	21.23	556000	8	8	37	100%	22%	100%	34%
37	IOBL15JUL30.00CEW1	7.90	120000	5.40	120000	2	2	2	100%	100%	100%	100%
38	IOCL15APR370.00PE	10.00	32000	24.00	32000	2	2	4	100%	50%	100%	15%
39	JPPW15JUL12.00CEW3	1.55	1444000	0.05	1444000	4	4	6	100%	67%	100%	85%
40	JPPW15JUL12.00PEW1	5.10	209000	3.00	209000	2	2	2	100%	100%	100%	100%
41	JPPW15JUL4.00CEW3	3.00	152000	2.00	152000	2	2	2	100%	100%	100%	100%
42	JPPW15JUL4.00PEW3	1.35	1539000	0.05	1539000	2	2	2	100%	100%	100%	100%
43	KARB15MAR140.00PEW1	3.70	252000	6.40	252000	7	7	7	100%	100%	100%	100%
44	LICH15MAR470.00CEW1	11.45	112000	24.41	112000	5	6	7	83%	71%	99%	99%
45	LNTF15JUL50.00CEW2	18.00	64000	11.90	64000	2	2	2	100%	100%	100%	100%
46	MARU15APR3800.00CEW3	35.00	72500	55.00	72500	2	2	2	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)	Number of non genuine trades execute d by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades execute d 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 generate d by Noticee in the contract to Total Volume in the Contract
47	NHPC15JUL12.00CEW2	7.90	242000	5.00	242000	2	2	6	100%	33%	100%	56%
48	OBNK15MAR220.00CEW2	8.60	335000	17.87	335000	6	6	10	100%	60%	100%	45%
49	PFCL15APR280.00PE	4.00	150000	14.00	150000	2	2	6	100%	33%	100%	79%
50	PFCL15MAR270.00CEW2	10.80	502000	19.80	502000	8	8	33	100%	24%	100%	43%
51	PFCL15MAR300.00PE	11.60	183000	23.25	183000	6	6	15	100%	40%	100%	58%
52	SMIL15MAR420.00CEW3	15.20	645000	30.81	645000	11	11	11	100%	100%	100%	100%
53	VOLT15FEB230.00CE	20.77	154000	34.60	154000	10	10	10	100%	100%	100%	100%
54	YESB15APR880.00PE	40.00	54000	77.00	54000	2	2	8	100%	25%	100%	23%
55	ZEEL15FEB370.00PE	12.90	150000	27.90	150000	11	11	11	100%	100%	100%	100%

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

   a) The Noticee had executed non genuine trades in 55 contracts, wherein in respect of 19 contracts, all the trades were non genuine trades.

   b) Number of non-genuine trades of Noticee had significantly contributed to the total no. of trades from the market in the above contracts, as a substantial 4% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by the Noticee.

   c) A substantial 11% to 100% of volume generated by the Noticee in each of the above contracts was artificial volume and further artificial volume generated by it also contributed to significant contribution of the total volume from the market in said 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.

7. In view of the foregoing, it was alleged that the Noticee, indulged in execution of reversal of trades in Stock Options with same entities 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), (b), (c), (d), 4(1) and 4(2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as "PFUTP Regulations, 2003").

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 3, 2018, under section 19 read with section 15I(1) of the SEBI Act, 1992 and Rule 3 of SEBI(Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter, referred to as "Inquiry Rules, 1995") to conduct adjudication proceedings in the manner specified under rule 4 of Inquiry Rules, 1995 read with section 15I (1) and (2) of SEBI Act, 1992 and if satisfied that penalty is liable, impose such penalty deemed fit in terms of Rule 5 of Inquiry Rules, 1995 and Section 15HA of SEBI Act, 1992.

SHOW CAUSE NOTICE, REPLY AND HEARING

9. A Show Cause Notice (hereinafter referred to as "SCN") bearing ref. no. SEBI/HO/EAD-7/BJD/NJMR/23036/2018 dated August 16, 2018 was issued upon the Noticee under Rule 4 of Inquiry Rules, 1995 to show cause as to why an inquiry be not held against him in terms of Rule 4 of the Inquiry Rules, 1995 and penalty be not imposed under Section 15HA of SEBI Act, 1992 for the violations alleged to have been committed by it. I note that the said SCN was sent to the Noticee at its address on record i.e. *Ghosh Para Panihati Khardah, North 24 Parganas, West Bengal – 700112*. However, the same returned undelivered. It was also noted that no email address of the Noticee was available on record to communicate the SCN. Therefore, in terms of Rule 7(c) of the Inquiry Rules, 1995, an attempt was made to serve the Notice by way of affixture to the Notice at its last known address on record vide Notice dated October 14, 2019. However, it is noted from the record that the said attempt failed and SCN could not be affixed. In view of the same and considering the facts and circumstances of the case, opining that an inquiry needs to be held in the matter, the SCN was issued to the Noticee by way of Public Notice in terms of Rule 7(d) of the Inquiry Rules, 1995. Vide the said Public Notice, the Noticee was also provided with an opportunity of hearing on November 28, 2019. I note that the said Public Notice was published on November 12, 2019 in the Newspapers i.e. *Times of India* (Kolkata Edition), *Bartaman* (Newspaper in Bengali) and *Sanmarg* (Newspaper in Hindi, Kolkata Edition). However, the Noticee failed to submit any reply and also failed to appear before me on the date of hearing. In this regard, I would also like to refer to the observations of the Hon'ble Securities Appellate Tribunal (SAT) in the matter of Dave Harihar Kirtibhai Vs SEBI (Appeal No. 181 of 214 dated December 19, 2014), wherein the Hon'ble SAT observed as under:

"...further, it is being increasingly observed by the Tribunal that many persons/entities do not appear before SEBI (Respondent) to submit reply to SCN or, even worse, do not accept notices/letters of Respondent and when orders are passed ex-parte by Respondent, appear before Tribunal in appeal and claim non-receipt of notice and do not appear and/or submit reply to SCN but claim violation of principles of natural justice due to not being provided opportunity to reply to

SCN or not provided personal hearing. This leads to unnecessary and avoidable loss of time and resources on part of all concerned and should be eschewed, to say the least. Hence, this case is being decided on basis of material before this Tribunal...”

10. In view of the observations made by the Hon’ble SAT, I find no reason to take a different view and accordingly, considering the facts and circumstances of the instant case, I am of the opinion that it is a fit case to proceed further on the basis of the material available on record in terms of sub-Rule (7) of Rule (4) of the Inquiry Rules, 1995

CONSIDERATION OF ISSUES AND FINDINGS

11. 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, 2003?

    II. Whether the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act, 1992?

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

FINDINGS

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

ISSUE I: Whether the Noticees have violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of PFUTP Regulations, 2003?

13. Before moving forward, it is pertinent to refer to the relevant provisions of PFUTP Regulations, 2003 which reads as under:

Regulation 3 of SEBI (PFUTP) Regulations: - 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 of SEBI (PFUTP) Regulations: - 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;

14. It has been alleged that the Noticee had indulged in execution of reversal of trades in Stock Options with same entities 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.

15. 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 were 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.

16. I note that the Noticee had executed 288 non-genuine trades in 55 unique contracts on 17 trading days in the months of February, March and June of 2015. The details of non-genuine trades executed by the Noticee are furnished hereunder:

S. No	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	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	ANBK15JUL60.00CEW1	17.00	60000	8.90	60000	2	2	4	100%	50%	100%	47%
2	APLT15MAR165.00CEW1	5.30	202000	10.61	202000	7	7	18	100%	39%	100%	62%
3	ARVI15MAR280.00CEW3	10.80	481000	20.85	481000	8	8	8	100%	100%	100%	100%
4	AXIS15APR520.00CEW4	18.80	294000	35.80	294000	4	4	6	100%	67%	100%	95%
5	BIOC15MAR410.00CEW1	11.11	125000	18.40	125000	7	7	26	100%	27%	100%	21%
6	BIOC15MAR410.00CEW3	21.15	624000	37.80	624000	10	10	25	100%	40%	100%	52%
7	CANB15FEB420.00PE	10.80	175000	23.57	175000	12	12	21	100%	57%	100%	47%
8	CANB15MAR370.00CEW2	22.10	126000	38.30	126000	8	8	8	100%	100%	100%	100%
9	CANB15MAR370.00CEW3	25.60	358000	39.20	358000	7	7	7	100%	100%	100%	100%
10	CANB15MAR390.00CEW2	10.10	252000	19.08	252000	7	7	12	100%	58%	100%	44%
11	CANB15MAR400.00CEW1	11.40	252000	23.36	252000	10	10	10	100%	100%	100%	100%
12	CESC15APR620.00PE	14.00	88000	48.00	88000	2	2	10	100%	20%	100%	53%

S. No	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	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
13	COAL15APR380.00PE	16.50	200000	30.00	200000	4	4	20	100%	20%	100%	27%
14	COAL15MAR380.00PEW1	4.70	160000	10.95	160000	6	6	6	100%	100%	100%	100%
15	COAL15MAR390.00PEW2	11.50	136000	22.33	136000	8	8	11	100%	73%	100%	31%
16	COAL15MAR400.00PEW1	12.55	340000	27.69	340000	15	15	15	100%	100%	100%	100%
17	DISH15MAR65.00CEW2	10.90	484000	19.53	484000	9	9	34	100%	26%	100%	48%
18	DLFL15MAR130.00CEW2	12.01	182000	20.40	182000	7	7	17	100%	41%	100%	38%
19	DRRL15APR3400.00PE	6.00	72875	54.00	72875	2	2	14	100%	14%	100%	34%
20	EXID15JUL155.00PEW3	10.10	98000	5.00	98000	2	2	4	100%	50%	100%	80%
21	GMRI15JUL20.00PEW2	5.50	195000	2.90	195000	2	2	2	100%	100%	100%	100%
22	GMRI15JUL22.00PEW3	7.50	286000	4.00	286000	2	2	2	100%	100%	100%	100%
23	GMRI15JUL8.00CEW2	6.50	208000	4.40	208000	2	2	4	100%	50%	100%	33%
24	GRSM15APR3550.00PE	5.00	22875	48.00	22875	2	2	8	100%	25%	100%	11%
25	HDFC15APR1290.00CE	49.00	40000	99.00	40000	2	2	4	100%	50%	100%	50%
26	HDFC15APR1320.00PE	10.00	41250	41.00	41250	2	2	4	100%	50%	100%	58%
27	HDFC15APR1380.00CE	2.00	91750	16.00	91750	2	2	4	100%	50%	100%	75%
28	HPCL15APR640.00PE	6.60	131500	15.60	131500	2	2	47	100%	4%	100%	32%
29	HXTL15FEB250.00CE	10.20	160000	21.04	160000	9	9	12	100%	75%	100%	89%
30	HXTL15MAR255.00CEW1	8.00	150000	18.11	150000	3	3	8	100%	38%	100%	43%

S. No	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	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
31	HXTL15MAR290.00PE	9.40	356000	18.03	356000	7	7	18	100%	39%	100%	66%
32	HXTL15MAR310.00PEW2	29.34	112000	49.40	112000	8	8	8	100%	100%	100%	100%
33	IDEA15MAR140.00CEW1	10.23	162000	22.50	162000	6	6	13	100%	46%	100%	11%
34	IFCI15JUL20.00CEW2	6.25	176000	4.55	176000	2	2	6	100%	33%	100%	46%
35	IIBK15APR900.00PE	12.00	250000	32.00	250000	4	4	12	100%	33%	100%	53%
36	INCM15MAR120.00PEW3	12.40	556000	21.23	556000	8	8	37	100%	22%	100%	34%
37	IOBL15JUL30.00CEW1	7.90	120000	5.40	120000	2	2	2	100%	100%	100%	100%
38	IOCL15APR370.00PE	10.00	32000	24.00	32000	2	2	4	100%	50%	100%	15%
39	JPPW15JUL12.00CEW3	1.55	1444000	0.05	1444000	4	4	6	100%	67%	100%	85%
40	JPPW15JUL12.00PEW1	5.10	209000	3.00	209000	2	2	2	100%	100%	100%	100%
41	JPPW15JUL4.00CEW3	3.00	152000	2.00	152000	2	2	2	100%	100%	100%	100%
42	JPPW15JUL4.00PEW3	1.35	1539000	0.05	1539000	2	2	2	100%	100%	100%	100%
43	KARB15MAR140.00PEW1	3.70	252000	6.40	252000	7	7	7	100%	100%	100%	100%
44	LICH15MAR470.00CEW1	11.45	112000	24.41	112000	5	6	7	83%	71%	99%	99%
45	LNTF15JUL50.00CEW2	18.00	64000	11.90	64000	2	2	2	100%	100%	100%	100%
46	MARU15APR3800.00CEW3	35.00	72500	55.00	72500	2	2	2	100%	100%	100%	100%
47	NHPC15JUL12.00CEW2	7.90	242000	5.00	242000	2	2	6	100%	33%	100%	56%
48	OBNK15MAR220.00CEW2	8.60	335000	17.87	335000	6	6	10	100%	60%	100%	45%

S. No	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Number of non genuine trades execute d by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades execute d 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 generate d by Noticee in the contract to Total Volume in the Contract
49	PFCL15APR280.00PE	4.00	150000	14.00	150000	2	2	6	100%	33%	100%	79%
50	PFCL15MAR270.00CEW2	10.80	502000	19.80	502000	8	8	33	100%	24%	100%	43%
51	PFCL15MAR300.00PE	11.60	183000	23.25	183000	6	6	15	100%	40%	100%	58%
52	SMIL15MAR420.00CEW3	15.20	645000	30.81	645000	11	11	11	100%	100%	100%	100%
53	VOLT15FEB230.00CE	20.77	154000	34.60	154000	10	10	10	100%	100%	100%	100%
54	YESB15APR880.00PE	40.00	54000	77.00	54000	2	2	8	100%	25%	100%	23%
55	ZEEL15FEB370.00PE	12.90	150000	27.90	150000	11	11	11	100%	100%	100%	100%

17. Before I proceed further, it is necessary to understand what an Option Contracts is and various factors which influence the price of the Options. Options are financial derivative sold by an option writer to an option buyer. The contract offers the buyer the right, but not the obligation, to buy (call option) or sell (put option) the underlying asset at an agreed-upon price during a certain period of time or on a specific date. The factors which influence the Options prices are underlying price, strike price, time until expiration, volatility, interest rates and dividends. There are various market based models (Black and Scholes Model) which throw an indicative price of the Option after inputting the various parameters mentioned above. I note that the seller of option contract will be the writer of the contract where the risk involved would be unlimited, as theoretically writer of options is obliged to honor the contract should the buyer exercise such option. Similarly, buyer of Option will have limited risk to the extent of premium paid. Therefore, both buyer and seller of options should ideally deal in options contracts considering various market parameters as mentioned above.

18. With above background in mind, I shall now proceed to deal with the transactions executed by Noticee in some of the instances of alleged non-genuine trades.

I. Scrip Name: GMRI15JUL20.00PEW2, Trade Date: 26/6/2015

CLIENTNAME	CP_CLIENTNAME	TRADE_TIME	TRADE_RATE	TRADED_QTY
A K INVESTMENTS	RAJBANSHI TRADING	12:30:03.910143	2.9	195000
RAJBANSHI TRADING	A K INVESTMENTS	12:30:07.910221	5.5	195000

(a) I note from the above table that during the investigation period, total 2 trades amounting to total volume of 3,90,000 units were executed in the said contract on 26/06/2015 wherein Noticee was party to both of the said trades. While dealing in the said contract on 26/06/2015, Noticee at 12:30:03 hrs entered into 1 buy trade with counter party viz, A K INVESTMENTS for 1,95,000 units at the rate of Rs. 2.9 per unit. Thereafter, on the same day, almost immediately i.e within 4 seconds from the above trade, Noticee, at 12:30:07 hrs entered into sell trade with same counterparty for 1,95,000 units at Rs. 5.5 per unit.

(b) From the above, it is noted that while dealing in the said contract during the I.P., Noticee executed total 2 trades forming a pair of reversal trade (1 buy trade + 1 sell trade) with same counterparty viz A K INVESTMENTS on the same day.

(c) Thus, Noticee, through his dealing in the contract viz, "GMRI15JUL20.00PEW2" during the I.P, executed 2 non genuine trades which is 100% of the total trades from the market in the said contract during the I.P., and thereby, Noticee generated artificial volume of 3,90,000 units which is 100% of the volume traded in the said contract from the market during the I.P.

II. Scrip Name: JPPW15JUL12.00PEW1, Trade Date: 26/6/2015

CLIENTNAME	CP_CLIENTNAME	TRADE_TIME	TRADE_RATE	TRADED_QTY
ATMA RAM NAVETIA HUF	RAJBANSHI TRADING	13:07:42.172722	3	209000
RAJBANSHI TRADING	ATMA RAM NAVETIA HUF	13:07:48.685814	5.1	209000

(a) I note from the above table that during the investigation period, total 2 trades amounting to total volume of 4,18,000 units were executed in the said contract on 26/6/2015 wherein Noticee was party to both of the said trades. While dealing in the said contract on 26/6/2015, Noticee at 13:07:42 hrs entered into 1 buy trade with counter party viz, ATMA RAM NAVETIA HUF for 2,09,000 units at rate of Rs. 3 per unit. Thereafter, on the same day, almost immediately i.e. within 6 seconds from the above trade, Noticee, during 13:07:48 hrs entered into sell trade with same counterparty for 2,09,000 units at Rs. 5.1 per unit.

(b) From the above, it is noted that while dealing in the said contract during the I.P., Noticee executed total 2 trades forming a pair of reversal trade (1 buy trade + 1 sell trade) with same counterparty viz ATMA RAM NAVETIA HUF on the same day.

(c) Thus, Noticee, through his dealing in the contract viz, "JPPW15JUL12.00PEW1" during the I.P, executed 2 non genuine trades which is 100% of the total trades from the market in the said contract during the I.P., and thereby, Noticee generated artificial volume of 90,000 units which is 100% of the volume traded in the said contract from the market during the I.P.

19. From the above pattern of trades, I note that the Noticee had bought and sold option contracts with the same counter parties and also reversed its trades in a few minutes from its earlier buy / sell trades, 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, as mentioned in above paragraphs, 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 less than few

seconds/minutes. I also note that similar *modus operandi* as mentioned above was observed in respect of the remaining 53 contracts. Therefore, I conclude that 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 manipulative, deceptive in nature.

20. It is summarized from the above findings that the Noticee had executed non-genuine trades in 55 contracts, wherein in respect of 19 contracts, all the trades were non genuine trades and the Noticee contributed to 100% artificial volumes. A number of non-genuine trades of the Noticee had contributed to the total number of trades from the market in the above contracts, which was in the range of 4% to 100% of the trades that happened in the aforementioned contracts. The volumes generated by the Noticee in each of the above contracts were artificial volume, and have contributed in the range of 11% to 100% of the total volume from the market in said contracts. Non-genuine trades executed by the Noticee in the above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

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 clearly demonstrates that option contracts bought / sold were immediately reversed within span of few seconds / minutes at substantially different price, though there was no corresponding price changes in the underlying stock price. Further analysis of such trades also indicates that there has been a deliberate structuring for manipulative purpose as one party to the contract had deliberately foregone profitable proposition at the time of executing trade. For example, the Noticee bought call option contract of "GMRI15JUL20.00PEW2", on June 26, 2015 at Rs. 2.9 for 1,95,000 units. As per the terms of contract, the Noticee had bought Right to Sell Option at Rs. 20 for a premium of Rs.2.9. This means that the Noticee will incur profit (IN THE MONEY) if the underlying price of the scrip is lesser than Rs. 17.1 {Strike Price (20) - Premium (2.9)}. I note that the underlying stock price of GMR INFRASTRUCTURE LTD. (GMRI) on equity segment on June 26, 2015 opened at Rs. 15.35 and

reached a high of Rs. 15.44 and a low of Rs. 14.34 and closed at Rs. 14.53. I note that the Weighted Average price (WAP) of the scrip on the said day was Rs. 14.77. Thus, it is noted that the Noticee was at a profitable position of Rs. 2.33 {(Strike Price - Premium)-WAP} each for 1,95,000 units at the time of buying the contract.

22. I am of the view that any rational investor who deals in derivatives market would compare the market price of the option contract with theoretical price of the options which accounts for relevant factors like underlying price, volatility, time to expiry etc. I note that the Noticee had bought the right to sell on July 28, 2015 in the contract "GMRI15JUL20.00PEW2" which made the Noticee to be in a profitable position at the time of buying as mentioned at the para above. Any rational investor who is buying such put option expects the price of underlying stock to fall further or remain the same or not to raise any further that causes loss of the premium that is paid in buying the said option before the date of expiry of the contract in order to exercise his buy option. Since in the instant case, the expiry date of the contract is July 9, 2015, the rationale of the Option writer would be to expect the price of underlying to raise above the difference of strike price and premium and the option buyer to be as explained above. However, I note that the Noticee who was already in a profitable position to a tune of the Rs. 2.33 each for 1,95,000 units at the time of buying the aforesaid contract, he immediately reversed the contract for exact same quantity within 4 seconds to the same counterparty at a premium of Rs. 5.5 without any change in market conditions. Such a pattern of trading clearly demonstrates that Noticee at the time of buying options contract did not take market parameters into consideration but had malafide intent as the price of buying and selling options were completely away from fair market prices. The above trade seen in the context of immediate reversal of trades almost immediately i.e within 4 seconds with the same counterparty for the same quantity at a substantial difference, without corresponding change in the underlying stock price as noted defies economic rationale and therefore such trades are non-genuine. Any rational investor would never deal in the market to deliberately register loss to facilitate buyer to profit at the time of entering trades which has happened in the instant case between the Noticee and the counterparties in each of the aforesaid 55

contracts.. The fact that the counterparties are same corroborates that the trades were not genuine and executed for manipulative purpose. I also note that profits made by one entity was exactly same to the loss made by the counterparty which ratifies the manipulative scheme of operations.

23. Considering the fact that all these reversal transactions were carried out through a screen based trading platform on a segment with hundreds of different contracts, the placement of orders repeatedly within a time span of few seconds and a significantly high percentage of matching of these orders, appear to be practically impossible unless there is a prior understanding or a pre-meditated plan between the two entities executing them. The repeated sell/buy of illiquid stock options by the Noticee and subsequent reversal trades with the same set of entities 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 it was deliberately making blatant misuse of trading platform for creating artificial volume in the illiquid stock options. I note that the rationale for such transactions entered by the Noticee are not genuine as the behaviour exhibited by the Noticee defies the logic and basic economic sense.

24. I am of the considered view that the scheme, plan, device and artifice employed by the Noticee in this case of executing reversal trades in illiquid stock options contracts at irrational, unrealistic and unreasonable prices, tantamount to fraud on the securities market in as much as it involves non-genuine/ manipulative transactions in securities and misuse of the securities market.

25. The non-genuine and deceptive transactions of these entities are, prima-facie, 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, 2003 and prohibited under the provisions of Regulations 3(a), (b), (c) and (d) and 4(1) and 4(2)(a) SEBI (PFUTP) Regulations, thereof.

26. 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 with Civil Appeal Nos., 3174-3177 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".* Further Apex Court also observed 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."*

27. 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 entities on the same day, which are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes.

28. 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., 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, Hon'ble SAT has observed 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."

29. Further, I would like to rely on the judgement of 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., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018, wherein the Apex Court upheld 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 observed 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 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.

30. 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, consistent pattern of dealings by Noticee only in such options contracts which are illiquid clearly demonstrates that the manipulative intent to use stock exchange platform to carry out non-genuine trades with the aim to execute such trades for various manipulative purposes.

31. 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., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018, where Apex Court stated at Para 35 and Para

41 of that said 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". "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."*

32. 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 has violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of PFUTP Regulations, 2003.

ISSUE -2: Does the violation, if any, attract monetary penalty under Section 15HA of SEBI Act.?

33. 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 55 contracts. Out of the 55 contracts, in respect of 19 contracts, all the trades were non genuine trades, which contributed to 100% artificial volume.

34. 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. Moreover, the impact of such trading on the

traded volume and the price of stock options contracts is huge. 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 pattern of the Noticee in the instant matter was abnormal and was 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.

35. I find that the Noticee by indulging in execution of reversal trades in Stock Options with same entities on the same days, 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 PFUTP Regulations, 2003. Accordingly, the Noticee is liable for appropriate monetary penalty under Section 15HA of SEBI Act, 1992 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 – 3: If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act?

36. While determining the quantum of monetary penalty under Section 15HA of SEBI Act, I have considered the factors stipulated in Section 15-J of 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.

37. I note from the facts of the case that the first leg of trades of Noticee were reversed within a few seconds of such trades, with the same counter party, at such option prices which no rational investor would undertake, as explained in above paras. Consequent to such manipulative trades, both the parties of the trades could structure and generate profits / loss in their accounts wherein profit / loss made by one entity was exactly equal to the loss / profit made by the counterparty.

38. Considering the above, I am of the view that it will be appropriate to take into account the payoff of transactions between the two parties together, rather than viewing it independently. Therefore, in respect of the non-genuine trades carried out by the Noticee which resulted in creation of artificial volume in Illiquid Stock Options, it is not possible to quantify the amount of disproportionate gain or unfair advantage made by the Noticee. Further, there is also no material on record to assess the amount of loss caused to investors as a result of the Noticee's default. The persistent trading pattern of the Noticee, which was fraudulent and deceptive, affects the normal price discovery mechanism in the securities market. People who indulge in manipulative, fraudulent and deceptive transaction, or abet the carrying out of such transaction which are fraudulent and deceptive should be suitably penalized for such acts of omissions and commissions.

ORDER

39. 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 SEBI Act, 1992 read with Rule 5 of the Inquiry Rules, 1995, I hereby impose a penalty of Rs. 10,00,000/- (Rupees Ten Lakhs Only) on the Noticee i.e., M/s Rajbanshi Trading, under Section 15HA of the SEBI Act, 1992, for indulging in execution of reversal trades in Stock Options with same entities on the same day, thereby creating artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE.

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

41. M/s Rajbanshi Trading 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.inon the following path, by clicking on the payment link.

ENFORCEMENT → Orders → Orders of AO → PAY NOW

42. M/s Rajbanshi Trading shall forward said Demand Draft or the details / confirmation of penalty so paid to the "The Division Chief, Division of Regulatory Action-1, Enforcement Department (EFD1 – 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". M/s Rajbanshi Trading 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

43. 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 SEBI Act for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

44. In terms of rule 6 of the Inquiry Rules, 1995, copies of this order are sent to the Noticee i.e., M/s Rajbanshi Trading and also to SEBI.

November 29, 2019
Mumbai

B J Dilip
Adjudicating Officer