BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. : ORDER/SRP/HKS/2018-19/1763]

ORDER UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992, READ WITH RULE 5 OF THE SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES, 1995, IN THE ADJUDICATION PROCEEDINGS INITIATED AGAINST M/S. FINELINK SUPPLIERS PRIVATE LIMITED, PRESENTLY KNOWN AS STREAM SUPPLIERS PRIVATE LIMITED [PAN: AABCF5480B] IN THE MATTER OF ITS DEALINGS IN ILLIQUID STOCK OPTIONS AT BOMBAY STOCK EXCHANGE LIMITED.

BACKGROUND

1. The Securities and Exchange Board of India (hereinafter referred to as **"SEBI"**), initiated adjudication proceedings against M/s. Finelink Suppliers Private Limited, presently known as Stream Suppliers Private Limited (hereinafter referred to as **"Noticee"**) for the alleged violation of the provisions of Regulation 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter referred to as **"PFUTP Regulations"**) for carrying out alleged reversal of trades in illiquid stock options at Bombay Stock Exchange Limited (hereinafter referred to as **"BSE"**) with same entities on the same day. It was alleged that these reversal of trades of the Noticee were non-genuine in nature and have created false and misleading appearance of trading in terms of artificial volumes in the stock options segment of BSE.

APPOINTMENT OF ADJUDICATING OFFICER

2. Initially, Shri Biju. S was appointed as the Adjudicating Officer by SEBI, in the matter. Subsequently, on July 06, 2018 the undersigned has been appointed as the Adjudicating Officer, to inquire into and adjudge under Section 15HA of the Securities and Exchange Board of India Act, 1992, (hereinafter referred to as **"SEBI Act"**) the aforesaid violations alleged to have been committed by the Noticee.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

3. Show Cause Notice dated September 24, 2018 (hereinafter referred to as **"SCN"**) was issued to the Noticee in terms of Rule 4 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as **"Adjudication Rules"**) read with Section 15-I of the SEBI Act, to show cause as to why an inquiry should not be initiated and penalty should not be imposed under Section 15HA of the SEBI Act, on the Noticee for the alleged violation of Regulation 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations.

4. Noticee vide its letter dated October 09, 2018 filed its reply to the SCN. The relevant extracts of the aforesaid reply of the Noticee are *inter-alia* reproduced hereunder.

   - *It is submitted that the transaction on Stock Options Segment of BSE with respect of Rate, Quantity and time difference of the respective Buy trade or Sale trade orders it was just a matter of chance. With regard to creation of volume in the Stock Options Segment of BSE along with other entities* *whose name mentioned in the SCN as well as in annexure is just a matter of chance.*

- *Noticee denied that there is any relations with any of the other entities. It is not possible to know that who are the buyer / seller or how many entities are involved in the matter. Noticee has traded in the Stock Options Segment of BSE on the basis of working knowledge without any vested interest.*

- *Noticee further denied any involvement in inflating the price or creating false volumes through continuous self-deals as alleged. It is submitted that all the trade fully controlled by the Surveillance Manager or In charge of BSE or any other Exchange.*

- *It is submitted that the Noticee has carried the trades in terms of applicable provision, regulations rules and laws of SEBI.*

- *It is submitted that the trade in Stock Options Segment of BSE was done after due compliance of the applicable provisions relating to 'Client-Broker-Relationship'. Trades of the Noticee were conducted fairly and genuinely accordingly Noticee has denied the allegation of execution of non-genuine trades.*

- *It is further submitted that in respect of this Stock Options Segment of BSE Noticee made some profit and at the same time incurred loss also. It is totally depended upon volatile market conditions. So there are no questions of any unjustified enrichment.*

5. In the interest of natural justice and in terms of Rule 4 of the Adjudication Rules, the Noticee was granted an opportunity of personal hearing on November 28, 2018. Mr. Rajiv Kumar Choudhary, Advocate, the Authorized Representative

(**AR**) of the Noticee appeared on November 28, 2018 for personal hearing on behalf of the Noticee. AR reiterated the submissions made by the Noticee vide its aforementioned reply to the SCN and further submitted that the alleged matching of trades was a matter of coincidence and there was no intention of the Noticee to create artificial volume. AR also agreed to furnish copy of fresh incorporation certificate regarding change in name and address of the Noticee.

6. Vide email dated November 30, 2018, AR forwarded scanned copy of fresh incorporation certificate of the Noticee in respect of change in name from Finelink Suppliers Private Limited to Stream Suppliers Private Limited with effect from July 13, 2016.

ISSUES FOR CONSIDERATION AND FINDINGS

7. I have carefully perused the SCN, the documents / material available on record and submissions of the Noticee. The issues that arise for consideration in the present case are:

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

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

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

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

Regulation 3. Prohibition of certain dealings in securities.

"No person shall directly or indirectly—

(a) *buy, sell or otherwise deal in securities in a fraudulent manner;*

(b) *use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;*

(c) *employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;*

(d) *engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under."*

Regulation 4. Prohibition of manipulative, fraudulent and unfair trade practices.

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

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

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

9. I note that the allegation levelled in the SCN is to the effect that the Noticee has created false and misleading appearance of trading in terms of artificial volumes

in the stock options segment of BSE by way of reversal of trades in illiquid stock options at BSE and thereby the Noticee, violated the provisions of Regulation 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations.

10. SEBI observed large scale reversal of trades in the Stock Options Segment of BSE leading to creation of artificial volume. Therefore, SEBI conducted investigations into the trading activity in illiquid Stock Options at BSE for the period from April 01, 2014 to September 30, 2015 (hereinafter referred to as **"Investigation Period"**).

11. Reversal trades have been considered those trades in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversal trades are non-genuine trades as they are not executed in normal course of trading, lack basic trading rationale, and allegedly lead to false or misleading appearance of trading in terms of generation of artificial volume, hence, are deceptive and manipulative. 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.

12. Pursuant to investigation, 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.

13. It was observed that said non-genuine trades were not restricted to any specific contract or between any specific set of entities. It was observed that the Noticee was one of the various entities which 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 in illiquid stock options at BSE.

14. As regards to all the dealings of the Noticee in the Stock Options segment of BSE during the investigation period, it was observed that the Noticee had traded in total 33 unique contracts, from which it allegedly executed 84 non genuine trades in the said 33 contracts, which resulted in artificial volume of total 1,09,03,900 units.

15. For the purpose of understanding the trading pattern of the Noticee in the aforementioned 33 contracts in respect of non-genuine trades and artificial volume created by the Noticee are illustrated through the dealings of the Noticee in the contract viz, **"DISH15JUN90.00CEW3"** as under:

Trade Date	Client Name	CP Client Name	Trade Time	Trade Rate	Traded Quantity
12-06-2015	PRATIK KUMAR MORE HUF	FINELINK SUPPLIERS PRIVATE LIMITED	13:34:30.833871	7.80	112000
12-06-2015	FINELINK SUPPLIERS PRIVATE LIMITED	PRATIK KUMAR MORE HUF	13:35:35.084152	14.80	112000

(a) I note that during the investigation period, total 2 trades for 2,24,000 units were executed in the said contract on June 12, 2015, wherein Noticee was party to all the said trades.

(b) While dealing in the said contract on June 12, 2015, Noticee at 13:34:30 hrs. entered into 1 sell trade with counter party viz, PRATIK KUMAR MORE HUF for 1,12,000 units at the rate of Rs. 7.80 per unit. Thereafter, on the same day, within 1 minute from the above trade, Noticee, at 13:35:35 hrs.

entered into 1 buy trade with same counterparty for 1,12,000 units at the rate of Rs. 14.80 per unit.

(c) From the above, it is noted 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, PRATIK KUMAR MORE HUF on the same day and with significant price differential in buy and sell rate.

(d) Thus, Noticee, through its dealing in the contract viz, “DISH15JUN90.00CEW3” 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, Noticee generated artificial volume of 2,24,000 units which is 100% of the volume traded in the said contract from the market during the investigation period.

16. Similarly, Noticee indulged in execution of non-genuine trades and generation of artificial volume in other contracts during the investigation period. I note that the Noticee had executed 84 non-genuine trades in 33 unique contracts and created artificial volume of total 1,09,03,900 units. Summary of dealings of the Noticee in the said 33 Stock Options contracts in which it 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 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	Artificial volume generated by Entity 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	ADPW15JUN24.00CEW3	5.00	116000	3.30	116000	2	2	6	232000	100%	33%	100%	33%
2	ADPW15JUN36.00PEW3	7.10	100000	4.58	100000	4	4	10	200000	100%	40%	100%	35%
3	ANBK15JUN60.00CE	12.89	212000	8.23	212000	4	4	24	424000	100%	17%	100%	24%

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	Artificial volume generated by Entity 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
4	ANBK15JUN60.00CEW3	8.75	100000	5.32	100000	4	4	8	200000	100%	50%	100%	24%
5	DISH15JUN90.00CEW3	14.80	112000	7.80	112000	2	2	2	224000	100%	100%	100%	100%
6	DISH15JUN95.00CE	18.86	252000	10.87	252000	4	4	12	504000	100%	33%	100%	56%
7	GMRI15JUN10.00CEW3	2.90	229325	1.80	229325	2	2	10	458650	100%	20%	100%	25%
8	GMRI15JUN16.00PEW2	3.50	18346	2.45	18346	2	2	10	36692	100%	20%	100%	3%
9	GMRI15JUN16.00PEW3	3.13	587072	2.03	587072	4	4	8	1174144	100%	50%	100%	63%
10	GMRI15JUN18.00PEW3	5.70	165114	3.30	165114	2	2	6	330228	100%	33%	100%	37%
11	GMRI15JUN20.00PEW3	7.70	165114	4.60	165114	2	2	6	330228	100%	33%	100%	19%
12	GMRI15JUN8.00CE	5.75	210979	3.20	210979	2	2	12	421958	100%	17%	100%	23%
13	IDBI15JUN55.00CEW3	6.60	204000	3.46	204000	4	4	14	408000	100%	29%	100%	39%
14	IDBI15JUN70.00PE	10.50	80000	5.80	80000	2	2	12	160000	100%	17%	100%	32%
15	IDBI15JUN70.00PEW3	8.70	148000	6.00	148000	2	2	6	296000	100%	33%	100%	37%
16	IFCI15JUN18.00CEW3	8.03	496000	5.23	496000	6	6	14	992000	100%	43%	100%	36%
17	IFCI15JUN20.00CE	6.75	216000	4.00	216000	2	2	8	432000	100%	25%	100%	26%
18	IFCI15JUN20.00CEW2	4.90	168000	3.10	168000	2	2	12	336000	100%	17%	100%	18%
19	IFCI15JUN20.00CEW3	6.50	128000	3.70	128000	2	2	16	256000	100%	13%	100%	9%
20	IFCI15JUN22.00CE	4.90	136000	2.70	136000	2	2	18	272000	100%	11%	100%	19%
21	IFCI15JUN22.00CEW3	4.35	272000	2.55	272000	4	4	22	544000	100%	18%	100%	20%
22	IFCI15JUN30.00PE	4.85	96000	3.00	96000	2	2	4	192000	100%	50%	100%	44%
23	IOBL15JUN30.00CEW3	6.80	76000	4.15	76000	2	2	12	152000	100%	17%	100%	15%
24	JAIA15JUN6.00CEW3	5.50	152000	3.60	152000	2	2	6	304000	100%	33%	100%	21%
25	JAIA15JUN8.00CEW2	3.40	200000	2.40	200000	2	2	8	400000	100%	25%	100%	20%
26	JPPW15JUN2.00CEW3	4.20	195000	2.60	195000	2	2	24	390000	100%	8%	100%	8%
27	NHPC15JUN12.00CEW2	7.00	150000	4.30	150000	2	2	14	300000	100%	14%	100%	25%
28	NMDC15JUN105.00CEW2	21.00	52000	12.60	52000	2	2	2	104000	100%	100%	100%	100%
29	RCOM15JUN50.00CEW2	13.00	80000	8.00	80000	2	2	2	160000	100%	100%	100%	100%
30	RPOW15JUN36.00CEW3	7.80	48000	5.80	48000	2	2	6	96000	100%	33%	100%	20%
31	RPOW15JUN38.00CEW3	5.80	44000	3.50	44000	2	2	8	88000	100%	25%	100%	12%
32	SOIB15AUG32.00PEW3	8.60	117000	5.30	117000	2	2	2	234000	100%	100%	100%	100%
33	UNIT15JUN10.00PEW2	2.50	126000	1.35	126000	2	2	2	252000	100%	100%	100%	100%

17. From the details in the above table, following is noted as regards to dealings of the Noticee in said 33 contracts:

a) Noticee has executed non-genuine trades in above 33 contracts, wherein 100% trades of the Noticee were non-genuine.

b) The number of non-genuine trades of the Noticee has significantly contributed to the total number of trades from the market in the above contracts, as a substantial 8% to 100% of the trades happened in the said 33 contracts were due to non-genuine trades executed by the Noticee.

c) A substantial 100% of volume generated by the Noticee in the said 33 contracts was artificial volume, and further artificial volume generated by the Noticee also contributed to significant 3% to 100% of the total volume from the market in the said 33 contracts.

d) 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 on same day.

18. From the above trading pattern of the Noticee, I note that the Noticee had bought and sold option contracts with the same counter parties and also reversed its trades on the same day, 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 like underlying stock price, volatility, etc. Therefore, I note that the aforesaid trades of the 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.

19. Noticee has contended that the trade in Stock Options Segment of BSE was done after due compliance of the applicable provisions relating to 'Client-Broker-Relationship' and hence these trades of the Noticee were fair and genuine. Noticee has further contended that it made some profit and at the same time incurred loss also in Stock Options Segment of BSE. It was totally depended upon volatile market conditions so there was no questions of any unjustified enrichment. Noticee denied any involvement in inflating the price or creating false volumes through his trades. In this regard, I note that Stock Options 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 on same day at substantially different price, though there was no corresponding price changes in the underlying stock price. Further analysis of such trades also indicates that price differentials have been deliberately structured for manipulative purpose as one party to the contract had deliberately foregone profitable proposition at the time of executing trade. Such pattern completely runs contrary to economic rationale of any investor to buy at lesser price and sell at higher price. Any rational investor would never deal in the market to deliberately register loss to facilitate buyer to profit at the time of entering trades. Had the counterparties for trades of the Noticee are different, intraday squaring of positions would not have been possible as no genuine counter party investor would ever forego profits. The fact the counterparties are same corroborates that the trades were not genuine and executed for manipulative purpose. Therefore, I find no merit in the submission of the Noticee that the impugned reversal of trades are genuine in nature.

20. Noticee further submitted that it has carried the trades in terms of applicable provisions, regulations, rules and law of SEBI. In this regard, I am of the view that the scheme, plan, device and artifice employed by the Noticee in this case of

executing reversal trades in illiquid stock options contracts at irrational, unrealistic and unreasonable prices, tantamount to fraud on the securities market in as much as it involves non-genuine/ manipulative transactions in securities and misuse of the securities market. The non-genuine and deceptive transactions of the Noticee is, *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 PFUTP Regulation and prohibited under the provisions of Regulations 3 and 4 of PFUTP Regulations, thereof.

21. 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”.* The 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.”*

22. The Noticee has denied any relations with any of the other entities and submitted that it was not possible to know who was the buyer / seller or how many entities were involved in the transactions. It is submitted that the Noticee has traded in the Stock Options Segment of BSE on the basis of working knowledge without any vested interest. In this regard, I note 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 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 and the rationale for such transactions entered by the Noticee are not genuine and irrational.

23. Noticee submitted that the alleged matching of trades was a matter of coincidence and there was no intention of the Noticee to create artificial volume. In this context, 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. Further, in the absence of direct proof of meeting of minds, the conclusion can be derived from various circumstances like volume of trade, period of persistence of trading, particulars of buy and sell orders, proximity of time and such other relevant factors. In this regard, it is 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: *"… in order to find out whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism, will depend upon the intention of the parties which could be inferred from the attending circumstances of the cases, because direct evidence in such cases may not be available."*

24. With regard to creation of volume in the Stock Options Segment of BSE along with other entities Noticee has submitted that it was just a matter of chance. 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.

25. In this regard, reliance is placed upon the judgement of Hon'ble Supreme Court in the matter of ***SEBI vs. Rakhi Trading Private Ltd.***, (Supra), 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."*

26. Keeping in mind the dicta of the Hon'ble Supreme Court as reproduced above, I see no reason to take a different view in the present case. Therefore, I hold that the Noticee had indulged in execution of reversal trades in Stock Options with

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

27. Therefore, I am of firm opinion that the Noticee by indulging in reversal of trades on the stock exchange platform, which are manipulative / unfair / fraudulent / non-genuine, in nature, had created artificial volumes in the contracts and thereby Noticee had violated the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003. The aforesaid violation of PFUTP Regulations by the Noticee attract monetary penalty under Section 15HA of the SEBI Act, which at the time of the violation committed by the Noticee, *inter-alia* reads as follows:

> ***88[Penalty for fraudulent and unfair trade practices.***
> ***15HA.*** *If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty* ***89****[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].*
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> ***88*** *Inserted by the SEBI (Amendment) Act, 2002, w.e.f.29-10-2002.*
> ***89*** *Substituted for the words —twenty-five crore rupees or three times the amount of profits made out of such failure, whichever is higher || by the Securities Laws (Amendment) Act, 2014, w.e.f. 08-09-2014*

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

> **“15J - Factors to be taken into account 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

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

29. At this juncture, reliance is placed upon the Order of the Hon'ble Supreme Court in the matter of ***Chairman, SEBI Vs Shriram Mutual Fund {[2006]5 SCC 361}*** – where the Hon'ble Supreme Court of India held that *"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant….."*

30. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading in illiquid stock option contracts. Investigations has shown amount of profit / loss of the counterparties to the trades as a result of the non-genuine trades. However, I note that the Noticee indulged in creation of artificial volumes by way of reversal of trades in illiquid options contracts, where wider market participation was not involved in the trades, and the trades are such that one of the counterparty books a profit while the other counterparty books a loss. Hence, it would be appropriate to consider the impact of these transactions between the two counterparties in totality. When the impact of artificial volumes created by the two counterparties is seen as a whole, it is not possible from material available on record to quantify the amount of

disproportionate gain or unfair advantage resulting from the artificial trades between the counterparties or the consequent loss caused to investors as a result of the default. However, as observed in the preceding paragraphs that the Noticee executed non-genuine trades in 33 contracts, wherein it executed total 84 non-genuine trades, which resulted in artificial volume of total 1,09,03,900 units. In all the 33 contracts 100% trades of the Noticee were non-genuine. The number of non-genuine trades of the Noticee had contributed to the total number of trades from the market in the said 33 contracts, which was in the range of 8% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by the Noticee. A substantial 100% of volume generated by the Noticee in the said 33 contracts was artificial volume. Further artificial volume generated by the Noticee also contributed to significant (in range of 3% to 100%) of the total volume from the market in the said 33 contracts. 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 on same day.

31. In cases of such nature, it is difficult to quantify with mathematical precision the disproportionate gains or unfair advantage enjoyed by an entity and the consequent loss suffered by the investors. 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.

32. In view of the forgoing, I conclude that the Noticee indulged in execution of reversal of trades in Stock Options segment of BSE with same entities on the same day. Such trades are non-genuine in nature and have created false and

misleading appearance of trading in terms of artificial volumes in the stock options segment of BSE and thus the Noticee had violated the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations and liable for penalty under Section 15HA of the SEBI Act.

ORDER

33. After Taking into consideration the nature and gravity of the charges established in the preceding paragraphs, factors mentioned under Section 15J of the SEBI Act and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act, read with Rule 5 of the SEBI Adjudication Rules, I hereby impose a penalty of Rs.10,00,000/- (Rupees Ten Lakh Only) on the Noticee viz. M/s. Finelink Suppliers Private Limited, presently known as Stream Suppliers Private Limited in terms of Section 15HA of the SEBI Act, for the violation of the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations 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.

34. The amount of penalty shall be paid either by way of demand draft in favour of “SEBI - Penalties Remittable to Government of India”, payable at Mumbai, or by e-payment in the account of “SEBI - Penalties Remittable to Government of India”, A/c No. 31465271959, State Bank of India, Bandra Kurla Complex Branch, RTGS Code SBIN0004380 within 45 days of receipt of this Order. The said demand draft or forwarding details and confirmations of e-payments made (in the format as given in table below) should be forwarded to “The Division Chief (Enforcement Department-DRA-I), the Securities and Exchange Board of India, SEBI Bhavan, Plot No. C4 – A, “G” Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051.”

1. Case Name :	
2. Name of Payee :	
3. Date of Payment:	
4. Amount Paid :	
5. Transaction No. :	
6. Bank Details in which payment is made :	
7. Payment is made for : (like penalties/ disgorgement/ recovery/ settlement amount and legal charges along with order details)	

35. In terms of Rule 6 of the Adjudication Rules, 1995, copy of this Order is sent to the Noticee and also to the Securities and Exchange Board of India.

Date : December 26, 2018
Place : Mumbai

Satya Ranjan Prasad
Adjudicating Officer