

BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/GR/PU/2021-22/15068]

UNDER SECTION 15-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

Goodfaith Infra Ventures Private Limited

(PAN: AAECG6498B)

In the matter of Trading in Illiquid Stock Options at BSE

BACKGROUND OF THE CASE

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**”), which resulted in the creation of artificial volume at BSE. Pursuant to a preliminary examination conducted in the Illiquid Stock Options matter, Interim order was passed by SEBI on August 20, 2015 which was confirmed vide orders dated July 30, 2016 and August 22, 2016. In view of the same, 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 “**IP**”) and completed in the year 2018. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE’s stock option segment during the investigation period.

2. Pursuant to the investigation, it was observed that total 2,91,643 trades comprising substantial 81.38% of all the trades executed in stock options segment of BSE during the IP were 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 IP. It was observed that Goodfaith Infra Ventures Pvt. Ltd. (PAN-AAECG6498B) (hereinafter referred to as the “**Noticee**”) was one of the various entities who indulged in execution of reversal trades in stock options segment of BSE during the IP. Such trades were observed to be non-genuine in nature and created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore were alleged to be manipulative as well as deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for the violation of provisions of Regulations 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

3. While disposing of the aforesaid interim order vide final order dated April 05, 2018, it was considered and decided that appropriate action would be initiated against the said 14,720 entities in a phased manner. Further, during the course of hearing in the case of **R. S. Ispat Ltd Vs SEBI**, the Hon’ble Securities Appellate Tribunal (**SAT**), vide its order dated October 14, 2019, inter alia observed that “*SEBI may consider holding a Lok Adalat or adopting any other alternative dispute resolution process with regard to the Illiquid Stock Options*”.

4. Accordingly, a Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided one-time opportunity for settlement of proceedings in the Illiquid Stock Options matter. The said scheme was kept open from August 01, 2020 till December 31, 2020. Adjudication proceedings were initiated against those entities who had not availed of the opportunity of settlement.
5. In this regard, 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 Adjudicating Officer (**‘AO’**), conveyed vide communique dated April 26, 2021, under Section 19 read with Section 15-I(1) of the SEBI Act, 1992 (hereinafter referred to as **“SEBI Act”**) and Rule 3 of the SEBI (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 15-I (1) and (2) of the SEBI Act, and if satisfied that penalty is liable, may impose such penalty as deemed fit in terms of Rule 5 of Adjudication Rules and Section 15HA of the SEBI Act.

SHOW CAUSE NOTICE, REPLY AND HEARING

6. A Show Cause Notice dated September 16, 2021 (hereinafter referred to as **‘SCN’**) was issued to the Noticee, under Rule 4(1) of the Adjudication Rules to show-cause as to why an inquiry should not be initiated against it for the violation of provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations, 2003 and why penalty should not be imposed under Section 15HA of the SEBI Act for the alleged violations specified in the SCN.

7. The SCN with reference number SEBI/HO/EAD/EAD-4/P/OW/2021/24241/1 was issued to the Noticee via Speed Post Acknowledgement Due (SPAD) and also via email dated September 20, 2021. The SCN issued through SPAD had returned undelivered, however the SCN sent vide e-mail dated September 20, 2021 was duly delivered to the Noticee. Thereafter, vide e-mail dated October 06, 2021, an opportunity of personal hearing was granted to the Noticee on October 26, 2021. The Noticee vide its letter dated October 16, 2021, requested for adjournment of the said personal hearing. Subsequently, vide letter dated October 22, 2021, the Noticee filed its partial response in the matter. Accordingly, vide e-mail dated October 25, 2010 another opportunity of personal hearing was granted to the Noticee on November 02, 2021. Thereafter, vide e-mail dated November 01, 2021, the Noticee sought another adjournment of the said personal hearing in the matter. Further, the Noticee submitted its additional reply vide letter dated October 31, 2021, in the matter. Thereafter, vide e-mail dated November 01, 2021, a last and final opportunity of personal hearing was granted to the Noticee on November 09, 2021. Vide e-mail dated November 08, 2021, the Noticee once again sought for adjournment of the said personal hearing. The said request for adjournment was not acceded to and the same was communicated to the Noticee vide e-mail dated November 09, 2021. However, the Noticee did not attend the said personal hearing. The details of the Noticee's replies, have been summarized as below:

- The Noticee has inter-alia contended that there is an inordinate delay of over 6 years from the date of the alleged transactions in issuance of the SCN.
- The Noticee sought for inspection of documents.
- The Noticee contended that scrip is highly liquid in nature i.e. derivatives of IOBL15JAN50.00PEW2. All these scrips are regularly traded in the cash and derivative segment on NSE & BSE. Therefore, it is incorrect to allege that there has been dealing in illiquid stock options as any securities listed for free trading on the floor of the exchange are not classified as illiquid stocks. Further, it is stated

that till such time these securities are permitted to be listed and traded on the floor of the exchange, it cannot complain of any manipulation till such time specific instances are highlighted that would substantiate fraud, price rigging or veiled trading in securities and no complaints have been received from the exchange as against the Noticee.

- The Noticee denies the violation of PFUTP Regulations as there is no indirect buy or sell of securities, no substance has been provided to prove the fraud, the trades were conducted through legal mechanism and no third party prejudice was caused. Further there is no fraud as envisaged under Regulation 2 (1) (c) of the PFUTP Regulations.
- The Noticee stated that its trade in the platform of BSE Exchange is 15% of the total trade and 21.7% of the total volume traded in the said contract. Its trades are insignificant and therefore unlikely to disturb or influence the market volume. Traded only for one day.
- It has stated that it has not generated artificial volume by executing non genuine trades- not executed non genuine trades. Based on the fact that a buy or sell position are reversed with the same counterparty it cannot be alleged that such Trades are fraudulent or manipulative or violative of PFUTP Regulations. Monetary compensation for the transactions executed have been settled.
- Trades were placed telephonically, through the stock broker, therefore there is a possibility that the broker may have committed an error as far as the transactions in question. Therefore, the notice cannot be held responsible for the same. BSE did not raise any objections. Further, the Noticee also stated that the trades were executed with an objective to make profit and the order logs were displayed in the anonymous screen, which makes it impossible to know the counter parties. Therefore, the meeting of mind is not possible and also there is no price matching.

CONSIDERATION OF ISSUES AND FINDINGS

8. I have carefully perused the charges levelled against the Noticee, its reply and the documents / material available on record. The issues that arise for consideration in the present case are:

- (a) *Whether the Noticee has violated provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003?*
- (b) *Does the violation, if any, attract monetary penalty under Section 15HA of the SEBI Act?*
- (c) *If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in Section 15J of the SEBI Act?*

9. Before proceeding further, I would like to refer to the relevant provisions of *Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a)* of PFUTP Regulations, 2003, allegedly violated by the Noticee as below:

PFUTP Regulations, 2003

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

- (a) buy, sell or otherwise deal in securities in a fraudulent manner;*
- (b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;*
- (c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;*
- (d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.*

4. Prohibition of manipulative, fraudulent and unfair trade practices

- (1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.*
- (2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—*
 - (a) indulging in an act which creates false or misleading appearance of trading in the securities market;*

Issue No. I: Whether the Noticee has violated the provisions of Regulations 3(a), (b), (c), (d) , 4(1) and 4(2)(a) of the PFUTP Regulations, 2003?

10. I now proceed to consider the matter on merits. I note that the allegation against the Noticee is that, while dealing in the stock option contracts at BSE during the IP, the Noticee had executed reversal trades which were allegedly non-genuine trades and the same had resulted in generation of artificial volume in stock option contracts at BSE. I note that reversal trades are considered to be 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 alleged to be non-genuine trades as they are not executed in the normal course of trading, lack basic trading rationale, lead to false or misleading appearance of trading in terms of generation of artificial volumes and hence are deceptive & 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.

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

11.1. I note from the annexures to the SCN that the Noticee had traded in 4 unique contracts and had executed 17 non-genuine trades in the stock options segment of BSE during the IP. I further note that the above mentioned trades of the Noticee had resulted in the creation of artificial volume of 2726000 units in the said 4 contracts. Summary of the said non-genuine trades of the Noticee 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)	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee 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	ALLD15JAN65.00CEW3	2.15	208000	0.05	208000	100	100	100	100
2	GMRI15JAN10.00PEW4	1.55	306000	0.05	306000	100	54.55	100	37.78

3	IOBL15JAN50.00PEW2	3.25	204000	0.05	204000	100	15	100	21.7
4	JPPW15JAN10.00PEW2	1.83	645000	0.05	645000	100	55.56	100	24.36

11.2. It is noted that the Noticee had executed non-genuine trades in 4 contracts, wherein the percentage of non-genuine trades of the Noticee in stock options contracts to total trades in the contracts was in the range of 15% to 100% in the aforesaid contracts. Further, artificial volume generated by the Noticee in the contracts amounted to the entire 100% of total volume generated by it in all the contracts. It is also noted that artificial volume generated by the Noticee contributed significantly viz 21.7% to 100% of the total volume from the market in the said contracts. It is observed that the trades executed by the Noticee in the above contracts had significant difference in buy rates and sell rates and also were squared up within a short span of time with the same counterparty i.e. trades were reversed on the same day. Thus, it is observed that the Noticee had indulged in reversal trades with its counterparties in the stock option segment of BSE and the same were non-genuine trades.

11.3. The details of squaring up done by the Noticee in the contract “IOBL15JAN50.00PEW2” are as under;

Trade Date	Client Name	CP Client Name	Trade Time	Trade Rate (Rs.)	Traded Quantity
06/01/2015	GOODFAITH INFRA VENTURES PRIVATE LIMITED	MAMMON CONCAST PRIVATE LIMITED	15:01:53.850017	3.2	4000
06/01/2015	GOODFAITH INFRA VENTURES PRIVATE LIMITED	MAMMON CONCAST PRIVATE LIMITED	15:01:53.850017	3.25	200000
06/01/2015	MAMMON CONCAST PRIVATE LIMITED	GOODFAITH INFRA VENTURES PRIVATE LIMITED	15:07:33.746645	0.05	204000

11.4. From the above table, I note that, on January 06, 2015 at 15:01:53 hrs the Noticee had entered into 2 buy trades with counterparty viz. Mammon Concast Pvt. Ltd. for 4000 units and 200000 units at the rate of Rs 3.2 and

Rs 3.25, respectively, per unit. Thereafter, on the same day, the Noticee at 15:07:33 hrs entered into 1 sell trade with same counterparty for 204000 units at the rate of Rs. 0.05 per unit in the same contract. It is noted that while dealing in the said contract during the I.P., the Noticee executed reversal trades with same counterparty viz. Mammon Concast Pvt. Ltd. on the same day and with significant price difference in buy and sell rate. Thus, the Noticee, through its dealing in the contract viz. “IOBL15JAN50.00PEW2” during the I.P., executed non genuine trades which was 15% of the total trades from the market in the said contract during the I.P., and thereby, the Noticee generated artificial volume of 408000 units which was 21.7% of the volume traded in the said contract from the market during the I.P.

- 11.5. 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, the Noticee reversed the position with the counterparties with significant price difference, which suggests the non-genuineness of these trades executed by the Noticee. The fact that the transactions in a particular contract were reversed with the same counterparties indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. Since these trades were done in illiquid option contracts, there was no trading in the said contracts and hence, there was no price discovery in the strictest terms. The wide variation in prices of the said contracts, within a short span of time, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. Thus, it is observed that Noticee

had indulged in reversal trades with its counterparties in the stock options segment of BSE and the same were non-genuine trades.

11.6. The Noticee, *inter alia*, contended in its reply that the SCN is issued after a gap of 6 years from the date of alleged trades. In this regard, I note that the sequence of events/facts have been narrated appropriately in details in the aforesaid paragraphs i.e. 1, 3 & 4 on the initiation of this case which is self-explanatory. I note that SEBI initiated the investigation as soon as information regarding *malafide* actions came to its notice. Further, under the SEBI Act there is no limitation on initiation of adjudication proceedings for violation of various provisions of Act and Regulations made thereunder. Further, I note that the investigation as regards violation of PFUTP Regulations, 2003, is an exhaustive and time consuming process, which may require detailed analysis of the case facts. In this regard, I note that the Hon'ble SAT in the matter of **Pooja Vinay Jain vs SEBI** (Appeal No. 152 of 2019 decided on March 17, 2020) held that, "*The record would show that all the documents concerning the defense of the appellant were filed by her before the AO. Therefore, for want of any prejudice the proceedings cannot be quashed simply on the ground of delay in launching the same*".

11.7. I also note that the Hon'ble SAT in the matter of **Bipin R Vora vs SEBI** (decided on March 22, 2006) held that, "*As regards the plea of delay and laches and submission that the show cause notice is barred by limitation, I do not find any merit in these contentions as the time and efforts involved in an investigation though may vary from case to case, generally investigations per-se is a time consuming process which invariably involve collection, scrutiny and careful examination of voluminous records/*

order-trade details of all the concerned including the exchanges/recording of statements etc. and therefore no time limit can be fixed in this regard to enable a regulator to take appropriate disciplinary action for the safeguard and improvement of the system/market”.

11.8. In view of the above, and considering the facts and circumstances, I note that there was no delay in the issuance of SCN in the matter as argued by the Noticee, so the contentions of the Noticee in this regard are without merits. Further, delay in initiating the proceedings itself should not be a ground for discharging the Noticee.

11.9. The Noticee had sought for inspection of said documents. With regard to the same, it is observed that the Hon’ble SAT in the matter of **Anant R Sathe Vs. SEBI** (Appeal No. 150 of 2020) vide Order dated July 17, 2020, reaffirmed the principle elucidated in the judgment of Shruti Vora’s case, which has been reproduced herein above and held that: *“the Authority is required to supply the documents that they rely upon while serving the show cause notice which in the instant case has been done and which is sufficient for the purpose of filing an efficacious reply in his defence”*. Considering the fact that all the documents relied upon while issuing the SCN dated September 16, 2021, in the matter were duly provided to the Noticee along with the said SCN, in the matter, I note that the principles of natural justice have been complied with and the contentions in this regard are without merits

11.10. Further, the Noticee has stated that, the trades were placed telephonically, through the stock broker, therefore there is a possibility that the broker may have committed an error as far as the transactions in question for

which the Noticee cannot be held responsible. BSE did not raise any objection. Further, the Noticee also stated that trades were executed with an objective to make profit and the order logs were displayed in the anonymous screen, which makes it impossible to know the counter parties. Therefore, the meeting of mind is not possible and also there is no price matching. I note that it is not a mere coincidence that Noticee could match its trades with the same counterparties with whom it had undertaken the first leg of the respective trades. This is the outcome of meeting of minds elsewhere and it was a deliberate attempt to deal in such a fashion. Here I would like to rely on the judgment of the Hon'ble Supreme Court in **SEBI v Kishore R Ajmera (AIR 2016 SC 1079)** decided on February 23, 2016, 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..."*

11.11. Further, the Hon'ble Supreme Court had held in the same matter that – *"It is a fundamental principle of law that proof of an allegation levelled against a person may be in the form of direct substantive evidence or, as in many cases, such proof may have to be inferred by a logical process of reasoning from the totality of the attending facts and circumstances surrounding the allegations/charges made and levelled. While direct evidence is a more certain basis to come to a conclusion, yet, in the absence thereof the*

Courts cannot be helpless. It is the judicial duty to take note of the immediate and proximate facts and circumstances surrounding the events on which the charges/allegations are founded and to reach what would appear to the Court to be a reasonable conclusion therefrom. The test would always be that what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion."

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

11.13. I place my reliance on the judgment of Hon'ble Supreme Court in the matter in respect of **SEBI v Rakhi Trading Private Limited** (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018), in which the Hon'ble Supreme Court held that - *"Considering the reversal transactions, quantity, price and time and sale, parties being persistent in number of such trade transactions with huge price variations, it will be too naive to hold*

that the transactions are through screen-based trading and hence anonymous. Such conclusion would be over-looking the prior meeting of minds involving synchronization of buy and sell order and not negotiated deals as per the board's circular. The impugned transactions are manipulative/ deceptive device to create a desired loss and/or profit. Such synchronized trading is violative of transparent norms of trading in securities.....”

11.14. Further, the Hon’ble SAT in its judgement dated September 14, 2020 in the matter of **Global Earth Properties and Developers Pvt Ltd** relied upon the aforesaid judgment of 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.*”

11.15. The subsequent reversal of trades as alleged in the SCN and the trading behaviour of the Noticee confirms that such trades were not normal as it resulted in wide variation in the prices of the trades in the same contract in a short time, without any basis. Hence, execution of non-genuine trades and creation of artificial volume indicate that these acts were done deliberately by the Noticee along with the counter parties while dealing in the securities. Therefore, the contentions of the Noticee in this regard are without merits. Further, in this regard, it is noted that the Noticee has admitted to the possibility of the broker committing error by routing the

Noticee's account and BSE not raising any objects. However, as regards as its contention, it is pertinent to note that the allegations in the present matter pertain to the violation of provisions of PFUTP Regulations. The obligation to comply with the same regulations primarily lies on the Noticee as from the facts provided above it is deemed that it had consented to the said trades which were executed on its behalf. Thus, the obligation to ensure genuineness of trades in relation to the instant considerations primarily lies on the Noticee. Further, I note that stock exchange merely provide a platform for carrying out the trades, while the obligation to ensure genuineness of trades as regards instant considerations lies squarely on the Noticee. Therefore, the Noticee's contention in this regard is without any basis and is liable to be rejected.

- 11.16. The Noticee contended that its trade in the platform of BSE Exchange is 15% of the total trade and 21.7% of the total volume traded in the said contract. Its trades are insignificant and therefore unlikely to disturb or influence the market volume. The Noticee denies the violation of PFUTP Regulations as there is no indirect buy or sell of securities, no substance has been provided to prove the fraud, the trades were conducted through legal mechanism and no third party prejudice was caused. Further there is no fraud as envisaged under Regulation 2 (1) (c) of the PFUTP Regulations. It has stated that it has not generated artificial volume by executing non genuine trades- not executed non genuine trades. Based on the fact that a buy or sell position are reversed with the same counterparty it cannot be alleged that such trades are fraudulent or manipulative or violative of

PFUTP Regulations. Monetary compensation for the transactions executed have been settled.

11.17. I note that Noticee executed reversal trades which defy market rationality when looked along with attending circumstances *in toto*. In this regard, I note that the scheme, plan, device and artifice employed by the Noticee in this case of executing reversal trades in illiquid stock options contracts at irrational, unrealistic and unreasonable prices, tantamount to fraud on the securities market in as much as it involves non-genuine/ manipulative transactions in securities and misuse of the securities market mechanism. The non-genuine and deceptive transactions of the Noticee are covered under the definition of 'fraud' and the dealings of the Noticee as discussed herein above were "fraudulent", as defined under Regulation 2 (1) (c) of PFUTP Regulation and prohibited under the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) PFUTP Regulations, thereof. In this regard, the observations of the Hon'ble Supreme Court in the case of **Rakhi Trading (supra)** on whether such reversal of trades as has been detailed above, constitutes "fraud" under PFUTP Regulations, is reproduced herein below: "*Regulation 2(1)(c) defines fraud. Under Regulation 2(1) (c)(2) a suggestion as to a fact which is not true while he does not believe it to be true is fraud. Under Regulation 2(1) (c)(7), a deceptive behaviour of one depriving another of informed consent or full participation is fraud. And under Regulation 2(1)(c)(8), a false statement without any reasonable ground for believing it to be true is also fraud. In a synchronised and reverse dealing in securities, with predetermined arrangement to book loss or gain between pre-arranged parties, all these vices are attracted.*"

11.18. 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, Noticee's trades, irrespective of quantum of such trades, were manipulative and intended to create misleading appearance of trading, so that contentions of Noticee in this regard are liable to be rejected. Thus, 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.

11.19. The Noticee contended that the scrip is highly liquid in nature i.e. derivatives of IOBL15JAN50.00PEW2. All these scrips are regularly traded in the cash and derivative segment on NSE & BSE. Therefore, it is incorrect to allege that there has been dealing in illiquid stock options as any securities listed for free trading on the floor of the exchange are not classified as illiquid stocks. Further, it is stated that till such time these securities are permitted to be listed and traded on the floor of the exchange, it cannot complain of any manipulation till such time specific instances are highlighted that would substantiate fraud, price rigging or veiled trading in securities. With regard to the same, I note that the liquidity of options is very different from liquidity of the underlying scrip. Former is traded in derivatives segment, in which there are different strike prices, of which some may be illiquid, whereas the latter is traded in cash segment. Hence, the contention of Noticee in this regard is not tenable. Besides, the allegation is not of trading in illiquid stock options, but of executing non-

genuine trades. Further, I note that the percentage of non-genuine trades of the Noticee in stock options contracts to total trades in the contracts was in the range of 15% to 100% in the aforesaid contracts, while the artificial volume generated by the Noticee was in the range of 21.7% to 100% of the total volume from the market in the said contracts. I also note that Noticee's trades, although few in number, contributed substantially to total market volume in said contract indicating that the stock options segment of BSE was illiquid as regards the aforesaid contracts. Also, specific instance have been pointed out and provided in the annexures to the SCN. Hence, the contention of the Noticee in this regard, is not tenable.

11.20. 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 find that the allegation of violation of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003 by the Noticee stands established.

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

12. Considering the finding that the Noticee as mentioned above has executed non-genuine trades resulting in the creation of artificial volume, thereby violating provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003 and in terms of the judgment of the Hon'ble Supreme Court of India in the matter of **SEBI Vs. Shri Ram Mutual Fund [2006] 68 SCL 216(SC)** decided on

May 23, 2006 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...”*, I am convinced that it is a fit case for imposition of monetary penalty on the Noticee under the provisions of Section 15HA of the SEBI Act which reads as under:

Penalty for fraudulent and unfair trade practices.

15HA. If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty - five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

Issue 3: If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in Section 15J of the SEBI Act?

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

Factors to be taken into account by the adjudicating officer.

15J. 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.

14. I observe, that the material 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, the Noticee has entered into 17 non-genuine trades in 7 stock option contracts which demonstrates the repetitive nature of default on its part.
15. Therefore, I note that the Noticee had indulged in execution of reversal trades in stock options contracts in the IP which were non-genuine and created false and misleading appearance of trading in terms of artificial volumes in the illiquid stock options at BSE, leading to the violation of Regulation 3(a),(b),(c),(d) and 4(1),(2)(a) of the PFUTP Regulations, 2003.

ORDER

16. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in Section 15J of the SEBI Act and in exercise of power conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose following penalty under Section 15HA of the SEBI Act on the Noticee:

Name of the Noticee	Violation provisions	Penalty
Goodfaith Infra Ventures Private Limited (PAN: AAECG6498B)	Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003	Rs 5,00,000/- (Rupees Five Lakhs only)

I am of the view that the said penalty is commensurate with the lapse/omission on the part of the Noticee.

17. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of “SEBI - Penalties Remittable to Government of India”, payable at Mumbai, OR through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

Enforcement → Orders → Orders of AO → Pay Now

18. The aforesaid Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to “**The Division Chief (Enforcement Department 1 DRA-1), Securities and Exchange Board of India, SEBI Bhavan, Plot No. C – 4 A, “G” Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400051**”. The Noticee shall also provide the following details while forwarding DD / payment information:

- Name and PAN of the Noticee
- Name of the case / matter
- Amount paid
- Date of payment
- Purpose of Payment – Payment of penalty under AO proceedings
- Bank Name and Account Number
- Transaction Number

19. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this order, SEBI may initiate consequential actions including but not limited to recovery proceedings under Section 28A of the SEBI Act for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

20. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

Date: February 24, 2022

Place: Mumbai

G. RAMAR

ADJUDICATING OFFICER