BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO: ORDER/SBM/KL/2021-22/13643]

UNDER SECTION 15I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995.

In respect of:

A C COMMODITIES
PAN: AAVFA1543M

12 Shanti Sadan Estate Opp Dinbai
Tower Mirzapur Ahmedabad Guj

In the matter of
Dealings in illiquid stock options at BSE

FACTS OF THE CASE

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

2. It was observed during the course of investigation that a total of 2,91,643 trades comprising 81.38% of all the trades executed in the Stock Options Segment by various entities at BSE during the investigation period were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract on the same day.

It was also observed that the aforesaid trades resulted into alleged creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in the Stock Options segment of BSE during the investigation period. In view of the large scale reversal of trades that were observed in the illiquid Stock Options segment at BSE, it is alleged that these trades were non-genuine in nature.

3. It was observed that A C Commodities (hereinafter referred to as "**Noticee**") was one of the various entities which indulged in the execution of non-genuine trades in the Stock Options Segment at BSE during the above referred investigation period. It was observed that Noticee had entered into reversal trades with its counterparties which involved squaring off transactions with significant difference in sell value and buy value of the transactions. Therefore, it is alleged that Noticee had executed the reversal trades which were non-genuine in nature and have created false or misleading appearance of trading in terms of creation of artificial volume in the Stock Options segment at BSE and therefore, it is alleged that the Noticee has violated the provisions of Regulations 3 (a), (b), (c), (d) and Regulation 4(1), 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**"). In view of the above reasons, adjudication proceedings have been initiated against the Noticee under the provisions of section 15 HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act'**).

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer (hereinafter referred to as '**AO**'), vide communique dated April 26, 2021 under section 19 read with Section 15-I of the SEBI Act read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**') to inquire into and adjudge under the provisions of section 15HA of the SEBI Act for the aforementioned alleged violation of the provisions of law by the Noticee.

SHOW CAUSE NOTICE, HEARING AND REPLY

5. Show Cause Notice ref. SEBI/HO/EAD1/SBM/KL/11808 dated June 08, 2021 (hereinafter referred to as '**SCN'**) was issued to the Noticee in terms of Rule 4 of the Adjudication Rules requiring the Noticee to show cause as to why an inquiry should not be held against it and why penalty, if any, should not be imposed on the Noticee under the provisions of section 15HA of the SEBI Act. The SCN issued to the Noticee, *inter alia*, mentioned the following-:

i. *It is noted that Noticee was one of the various entities which were indulged in execution of such alleged non-genuine trades in Stock Options Segment of BSE during the Investigation period. Following points deal with the dealings of Noticee during the Investigation period and allegations against it for execution of non-genuine trades.*

ii. *For the purpose of illustration of non-genuine trades and creation of artificial volume by the Noticee, details of trading done by the Noticee in the contract viz. "AMBC15MAR230.00CE" on March 24, 2015 is given below:*

Date	*Buyer*	*Seller*	*Buy Order Time*	*Sell Order Time*	*Trade Time*	*Trade Rate (Rs.)*	*Trade Quantity*
24/03/2015	*A C COMMODITIES*	*N M IMPEX PRIVATE LIMITED*	*11:53:12.334935*	*11:53:12.638959*	*11:53:12.638959*	*25.1*	*75000*
24/03/2015	*A C COMMODITIES*	*N M IMPEX PRIVATE LIMITED*	*11:52:34.430654*	*11:52:34.836629*	*11:52:34.836629*	*25.9*	*1000*
24/03/2015	*A C COMMODITIES*	*N M IMPEX PRIVATE LIMITED*	*11:52:31.632470*	*11:52:31.736476*	*11:52:31.736476*	*22.6*	*1000*
24/03/2015	*A C COMMODITIES*	*N M IMPEX PRIVATE LIMITED*	*11:52:28.030213*	*11:52:28.334268*	*11:52:28.334268*	*18.1*	*1000*
24/03/2015	*N M IMPEX PRIVATE LIMITED*	*A C COMMODITIES*	*11:52:22.135913*	*11:52:23.131957*	*11:52:23.131957*	*15.5*	*352000*
24/03/2015	*A C COMMODITIES*	*N M IMPEX PRIVATE LIMITED*	*11:52:51.731695*	*11:52:52.137725*	*11:52:52.137725*	*25*	*142000*
24/03/2015	*A C COMMODITIES*	*N M IMPEX PRIVATE LIMITED*	*11:53:02.534335*	*11:53:02.938328*	*11:53:02.938328*	*25.05*	*132000*

iii. *It is observed from the table above that the trades entered by the Noticee in the contract of "AMBC15MAR230.00CE" on March 24, 2015, with its counterparty viz. N M Impex Private Limited were reversed between the Noticee and the same counterparty on the same day resulting in reversal of trades which are, prima facie, considered to be non-genuine. Therefore, in the process artificial volume in the stock option contract at BSE has been generated by the Noticee through such non-genuine trades. From the table above, it is observed that the artificial volume created as* *no. of units reversed in non-genuine trades is 7,04,000 shares comprising both volume of initial trade and volume of reversal trade, while not considering the volume which is not reversed.*

iv. *It is further observed from the trade data of the Noticee that it has allegedly entered into non-genuine trades in 1 contract wherein it executed a total of 7 trades all of which were, prima facie, non-genuine trades. In view of this, it is alleged that such fraudulent trades of the Noticee had resulted into creation of artificial volume of total 7,04,000 units.*

v. *In this regard, details of all the alleged non-genuine trades of the Noticee in Stock Option Segment of BSE during relevant period are attached as Annexure B. From the perusal of the trade data of the alleged non-genuine trades of the Noticee, it is observed that Noticee has allegedly executed non-genuine trades in 1 contract. The total volume of 7,04,000 units generated by the Noticee in these 1 contract due to its alleged non-genuine trades was artificial volume generated by the Noticee in the stock option segment of BSE. These alleged 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.*

vi. *In view of the foregoing, it is alleged that the Noticee, by indulging in execution of reversal trades in Stock Options with same entities on the same day, which were non-genuine in nature, has created false or misleading appearance of trading in the aforementioned contracts traded in the option segment of BSE. In view of the fact that these options contracts were illiquid in nature, having very small volume in trading, the Noticee allegedly created artificial volumes in stock options which was manipulative and deceptive in nature. Therefore, in view of above, it is alleged that the Noticee has violated Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003.*

6. The Noticee vide its reply dated August 20, 2021, inter alia submitted the following:

i. *We deny that our dealings in the stock options can be termed as "illiquid" as wrongly contended in the SCN. It is further submitted that firstly the SCN has failed to define the term "illiquid". Thereafter, the SCN has proceeded to allege that our five trades in a single contract on 20.02.2015 in stock options was by indulging in execution of non-genuine reversal of trades with same entities on the same day, created false and misleading appearance of trading in stock options. It is submitted that for this reason itself the SCN is faulty and flawed since the same is based on presumptions and assumptions and hence carry no force of law.*

ii. *We wish to submit that we have not been provided any material/ data of total market volume in Stock Option Segment of BSE during the Investigation Period. We have also not been provided Trade and Order Log for total 2,91,643 Trades comprising 81.38% of all trades executed in Stock*

Market Segment of BSE during the Investigation Period which were allegedly found to be non-genuine trades. We, however, refute that our Firm had executed any non-genuine trades which resulted into creation of artificial volume.

iii. *It is further pertinent to mention that Trades of our Firm in option segment of BSE were only in well-known Company. All the Trades in option segment of BSE were executed on anonymous screen based trading platform provided by BSE wherein identity of the counter parties remain undisclosed. Hence, the question of any non-genuine trade does not arise at all unless it is proved that such Trades were executed in connivance with any counter party. However, the counter party whose name have been disclosed now in your SCN was completely unknown to us.*

iv. *We further wish to submit that BSE has a sophisticated surveillance system and if there had been any reversal of trade, the system could have alarmed BSE to take corrective measures to restrain any non-genuine trades happening in its trading platform. However, we have not received any warning or caution letter from BSE for any of the trades executed by our Firm in its option segment during the period of investigation. Thus, the allegation of execution of non-genuine trades by our Firm in option segment of BSE which purportedly resulted into creation of artificial volume is totally farfetched and is based on presumptions, assumptions, surmises and conjectures.*

v. *It is submitted that the trades executed by our Firm in the BSE Stock Option Segment were in the normal course of business devoid of any fraudulent intentions. In the derivative segment, only those stock and indices are permitted which are very liquid and there is a robust risk mitigation mechanism is in place. Since our Firm had traded in the Options of very well-known Companies which has tradeable position in the market, there was no reason to doubt credibility of the platform provided by the Exchange as approved by SEBI. The allegation of trades being non-genuine has no basis as your goodself has failed to provide any evidence to prove that there was a misleading appearance created in the market by the trades executed by our Firm.*

vi. *In Para 8 of the Captioned SCN it is stated that our Firm had executed trades in only one unique contract, wherein 7 trades (6 buy and 1 sell trades) were non-genuine trades. We say and submit that it is beyond our comprehension that how an allegation of fraud can be alleged against our Firm for execution of mere 6 buy trades and 1 sell trade. It is very pertinent to state that the said trades were matched with one entity only*

vii. *It is alleged by referring Annexure enclosed with the SCN that our Firm had*

viii. *generated 77.78% of the volume in 1 Unique Contract. It is submitted that these allegations are merely an eyewash as it does not take into consideration the number of trades and volumes generated in complete Option Segment in BSE in a particular Scrip on a particular day. It may be noted that the stock exchange platform at the relevant point of time gave a choice to write options at various strike prices as per the suitability of the trader. What has been considered in the SCN is only an option with a particular strike price and not the total trading on Option Segment in a* *particular scrip at the relevant point of time. Thus, the percentages shown in the SCN are misleading and cannot he relied upon.*

ix. *It is also submitted that, as none of the acts or trades executed by our Firm*

x. *fall under the definition of fraud as provided in regulation 2(1) (c) of PFUTP Regulation, the genuineness of the trades executed by our Firm cannot be questioned and therefore, our Firm cannot be alleged to have violated any PFUTP Regulations.*

xi. *We draw your attention to the following Judgements passed by the Hon'ble Tribunal in the following matters:*

   a. *In the matter of KSL & Industries Ltd. vs. SEBI (Appeal No. 9 of 2003, Date of decision 30th September, 2003)*

   b. *In the matter of Vintel Securities Pvt. Ltd. vs. SEBI (Appeal No. 219 of 2009, Date of decision 23rd November, 2009)*

   c. *In the matter of Dhvani Darshan Kothari & Anr. (Appeal No. 276 of 2020, Order dated 21-01-2021)*

xii. *We say and submit that it is the discretion of the Adjudicating Officer to decide the quantum of penalty which is need to be imposed in a case where charges are proved. There is no restriction or bar in the SEBI Act which prohibits an Adjudicating Officer to impose lesser penalty than Rs. 5.00,000/- under Section 15HA of the SEBI Act. In this connection, we place reliance on the Judgement of Hon'ble Apex Court dated 28-02-2019 in Civil Appeal No. 11311 of 2013 in the matter of Adjudicating Officer, SEBI v/s Bhavesh Pabari.*

xiii. *Thus, there is no bar in the SEBI Act which restrict your goodself to impose lesser penalty than Rs. 5,00,000/-.*

xiv. *We further submit that your goodself should exercise the discretion provided to your goodself as Adjudicating Officer judiciously and ought to consider the factors enumerated in Section 15J of the SEBI Act, 1992. Since one of the Ld. AO while passing the Adjudication Order dated 30-11-2018 against Mr. Jai Prakash Agarwal and has imposed a penalty of Rs. 5,00,000/- for generation of artificial volume of 3,94,91,500 shares by execution of 56 reversal trades in 25 Unique Contracts. In comparison to this case our Firm is facing allegation of execution of 6 buy and 1 sell trades in one Unique Contract and total volume generated due to alleged trades were 7,04,000 shares. Thus, for the sake of proportionality, a token penalty should be imposed in the case of our Firm.*

xv. *Our Firm had suffered a loss of Rs. 33,49,700/- while trading in the Option Segment of BSE during the period of investigation.*

7. In terms of the adjudication rules, the Noticee was provided with an opportunity of personal hearing in the matter on September 09, 2021, through the online Cisco webex platform. Mr. Vikas Bengani appeared as the Authorized Representative (‘**AR’**)

on behalf of the Noticee on the stipulated date of hearing. During the course of hearing, the AR reiterated the submissions made by the Noticee in its reply dated August 20, 2021.

CONSIDERATION OF ISSUES AND FINDINGS:

8. I have taken into consideration the facts and circumstances of the case, the material available on record and the reply submitted by the Noticee. It is alleged that the Noticee had executed reversal trades, which were non-genuine trades and the same has resulted in the generation of artificial volume in the Stock Option contracts at BSE. In view of the same, it is alleged that Noticee has violated the provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1), 4(2)(a) of PFUTP Regulations and, therefore, it is alleged that Noticee is liable for penalty under the provisions of Section 15HA of the SEBI Act.

9. Before moving forward, the relevant provisions of law allegedly violated by the Noticee and as mentioned in the SCN are reproduced below:--

PFUTP Regulations

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;

10. The Noticee has contended that SEBI has not provided it with all the relevant documents, reports etc. In this regard, I note that all the relied upon records/documents based on which the charges/allegations were levelled against the Noticee in the SCN were already furnished to the Noticee along with the SCN. In this context, Hon'ble SAT in its Order dated February 12, 2020 in the matter of Shruti Vora vs SEBI has held that ".*In the instant case, the show cause notice relies upon certain documents which have been made available. Thus the investigation report is not required to be supplied*". Therefore, the contention of the Noticee that it was not provided with the relevant records/documents pertaining to the matter is baseless and without any merit.

11. Reversal trades are considered as those trades in which an entity reverse 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, and allegedly lead to false or misleading appearance of trading in terms of generation of artificial volumes, hence these trades are deceptive and manipulative. From the facts/material made available on record, I find that the repeated reversal trades executed by the Noticee, which were observed in the present case, were undertaken by the Noticee with its counterparties with a predetermined

arrangement to book profit or losses respectively, and therefore, the parties to the trades were not trading in the normal sense and ordinary course of business. Therefore, it is alleged that the Noticee by indulging in such reversal trades with its counterparties in the illiquid stock option segment at BSE has managed to generate artificial volume in the Stock Options segment at BSE during the investigation period.

12. In this regard, it is observed from the trade log of the Noticee that it had traded in 1 non-genuine contract in the Stock Options segment of BSE during the above mentioned investigation period. The examination of the Trade log of the Noticee during the relevant period revealed that it had executed 7 non-genuine trades in 1 contract in the Stock Options segment of BSE. I note that the abovementioned trades of the Noticee had resulted in the creation of artificial volume of a total of 7,04,000 units in the given 1 contract. Further, it is observed that the trades executed by the Noticee were squared up within a short span of time with the same counterparty i.e. trades were reversed within minutes on the same day. Thus, it is observed that Noticee had indulged in reversal trades with its counterparties in the stock option segment of BSE and the same were non-genuine trades.

13. Further, it is observed that most of these trades were squared up by the Noticee with its counterparties within a short span of time and mostly within few minutes and with a significant price difference. The non-genuineness of these transactions executed by the Noticee is evident from the fact that there was no commercial basis to suddenly, within a matter of few minutes, reverse the position with its counterparties with significant price difference when the value of the underlying had not undergone any significant change. The frequent trade reversals in the said case points out to the fact that the parties to the transactions, including the Noticee, did not intend to transfer the beneficial ownership and through these orchestrated transactions, the intention of which was not regular trading, other investors have been excluded from participating in these trades/ contracts. As already mentioned above, there was very little time gap between the buy and sell orders placed by the Noticee with its counterparties in different trades. The time gap between both the trades ranged from few seconds/ minutes, but always on the same day. Given the fact that the Stock Option contracts

were illiquid in nature at BSE and also in view of the observations made above, I am convinced that Noticee has entered into reversal/non-genuine trades with its counter parties and in the process also generated artificial volume in the otherwise illiquid stock option contracts at BSE.

14. To illustrate, it is observed that the Noticee had executed a total of 7 trades during the Investigation period in the contract "AMBC15MAR230.00CE". All the aforesaid trades were done by the Noticee on March 24, 2015 wherein, Noticee bought 1000 units at 11:52:28 at the rate of Rs. 18.1 per unit, 1000 units at 11:52:31 at the rate of Rs. 22.6 per unit, 1000 units at 11:52:34 at the rate of Rs. 25.9 per unit, 75,000 units at 11:53:12 at the rate of Rs. 25.1 per unit, 1,42,000 units at 11:52:52 at the rate of Rs. 25 per unit and 1,32,000 units at 11:53:02 at the rate of Rs. 25.05 per unit, from N M Impex Private Limited (hereinafter referred to as '**N M Impex**'), respectively. The Noticee then sold 3,52,000 units at 11:52:23 at the rate of Rs. 15.5 and 1,42,000 units at Rs. 25 per unit at 11:52:52 to N M impex. Thus, in the above manner, the Noticee executed a total of 7 trades in the contract "AMBC15MAR230.00CE" and generated artificial volume of 7,04,000 units in the above said contract through such non-genuine and reversal trades. It is also observed that the Noticee was instrumental in contributing significantly towards the total volume recorded on BSE in the said unique contract, wherein, the contribution of the Noticee was 91.19% to the total volume at BSE on March 24, 2015.

15. The Noticee has contended that the anonymous trading system of the stock exchange does not allow a transacting party to know the details of the counterparties to the trade. I note that in the screen based trading system, which is virtually anonymous, it is not possible for anyone to enter into such reversal trades. However, considering the precision at which the reversal transactions had taken place, the quantity, price and time and sale, parties being persistent in a large number of such trade transactions with huge price variations, I am of the view that it will be too naïve to hold that these 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 w.r.t the transactions entered into by the Noticee with its

counterparties and such synchronized trading is clearly violative of the transparent norms of trading in the securities market. In view of the above observations, I hold that all the 7 transactions executed by the Noticee in 1 Option Contract were synchronized trades, which were reversed within a small time gap with prior meeting of mind between the parties to the trade. Needless to mention the fact that these transactions were manipulative/deceptive device with a view to create a desired loss and/or profit in the books of the parties to the transactions and in the process, artificial volumes were also generated through such contracts. As per the material available, the Noticee made a loss of Rs. 33,49,700 /- as result of these trades.

16. At this juncture, it is pertinent to refer to the decision of the Hon'ble Supreme Court of India in the matter of *Securities and Exchange Board of India v. Rakhi Trading Private Limited* (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 dated February 08, 2018) wherein, the Hon'ble Supreme Court while cumulatively analyzing the reversal transactions held that, "*From the facts before us, it is clear that the traders in question did not intend to transfer beneficial ownership and therefore these trades are non-genuine. Rather than allowing the market forces to operate in their natural course, the traders repeatedly carried out the impugned transactions which deprived other market players from full participation. The repeated reversals and predetermined arrangement to book profits and losses respectively, made it clear that the parties were not trading in the normal sense and ordinary course. Resultantly, there has clearly been a restriction on the free and fair operation of the market forces in the instant case"*.

17. In the same matter, Hon'ble Supreme Court had further stated that-

> "……..*quantity, time and significant variation of prices, without major variation in the underlying price of the securities clearly indicate that Respondent's trades are not genuine and had only misleading appearance of trading in the securities market*…………...".

"35…. Contextually and in simple words, it means a practice which does not conform to the fair and transparent principles of trades in the stock market. In the instant case, one party booked gains and the other party booked a loss. Nobody intentionally trades for a loss. An intentional trading for loss per se, is not a genuine dealing in securities. 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 losses and that too in a preplanned manner and rapid trades, it is not genuine……"

18. In this context, I also find it relevant to refer to the decision of Hon'ble Supreme Court in the matter of *Securities and Exchange Board of India v. Kishore R Ajmera {(2016)} 6 SCC 368 : AIR 2016 SC 1079}* wherein, the Hon'ble Supreme Court has held that , " ….. *According to us, knowledge of who the 2nd party/client or the broker is, is not relevant at all. While the screen based trading system keeps the identity of the parties anonymous it will be too naïve to rest the final conclusions on the said basis which overlooks a meeting of minds elsewhere. Direct proof of such meeting of minds elsewhere would rarely be forthcoming. The test, in our considered view, is one of preponderance of probabilities so far as adjudication of civil liability arising out of violation of the Act or the provisions of the Regulations framed thereunder is concerned….."*

19. In the same matter, the Hon'ble Supreme Court, has further 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 trade effected; the period of persistence in trading in a particular scrip; the particulars of buy and sell orders, namely the volume thereof; the proximity of time between the two and such relevant factors…….."*

20. The observations made in the aforesaid judgments of Hon'ble Supreme Court apply with full force to the facts and circumstances of the present case. Therefore, applying

the ratio of the above judgments, I am convinced that the execution of trades by the Noticee in the illiquid options segment with such precision in terms of order placement, time, price, quantity etc. and also the fact that the transactions were reversed consistently with the same counterparties clearly indicates a prior meeting of mind with a view to execute the reversal trades at a pre-determined price. It is observed that in respect of these trades executed in the illiquid stock options contracts, the strike price was far away from the price of the underlying. The only reason for the wide variation in prices of the same contract and execution time within seconds/minutes was a clear indication that there was pre-determination in the prices by both the counterparties when executing the trades. Thus, the nature of trading, as brought out above, clearly indicates an element of prior meeting of minds and therefore, a collusion of the Noticee with its counterparties to carry out the trades at predetermined prices. It is not possible to comprehend the reason for which the Noticee would enter into an option contract with a strike price very far away from the current market price of the underlying except for the fact that Noticee wanted to execute non-genuine trades.

21. Rather than allowing the market forces to operate in their natural course, the Noticee repeatedly carried out the impugned transactions with its counterparties which deprived other market players from full participation. The repeated reversals and predetermined arrangement to book profits and losses respectively, made it clear that the parties were not trading in the normal sense and ordinary course. Resultantly, there has clearly been a restriction on the free and fair operation of market forces in the instant case.

22. Such trading also involves an act amounting to manipulation of the price of the security in the sense that the price has been artificially and apparently prefixed. The price does not at all reflect the value of the underlying asset. It is also a transaction without any intention of performing it and without any intention of effecting a change of ownership of such securities, ownership being understood in the limited sense of the rights in the contract. By synchronization and repeated reversal trades, as has been carried out by the Noticee in the instant case, the price discovery system has been 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.

23. Therefore, from the foregoing paragraphs and the observations/findings contained therein, I hold that the Noticee has violated the provisions of Regulations 3(a), 4(1) and 4(2)(a) of the PFUTP Regulations.

24. In view of the above, I conclude that the Noticee is liable for monetary penalty 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.*

25. In this regard, the provisions of Section 15J of the SEBI Act and Rule 5 of the Adjudication Rules require that while adjudging the quantum of penalty, 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.

26. Clearly, from the above observations, the Noticee was instrumental in the creation of artificial volume in the illiquid stock option contracts at BSE during the investigation period by executing reversal / non-genuine transactions in the illiquid stock options segment at BSE. The Noticee has entered into 7 non-genuine transactions in 1 option contract with its counterparties, which demonstrates the repetitive nature of the default on its part. It is not possible from the material available on record to quantify the amount of loss caused to genuine investors as a result of the reversal trades/ non-genuine trades executed by the Noticee with its counterparties. From the manner in

which Noticee executed the above mentioned transactions, the Noticee has violated the statutory provisions of law. In this context, reliance is placed upon the order of the Hon'ble Supreme Court of India in the matter of Chairman, SEBI Vs Shriram Mutual Fund { [2006]5 SCC 361 } – wherein 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*…………...."

ORDER

27. Having considered all the facts and circumstances of the case, the material available on record and the factors mentioned in the preceding paragraphs, I, in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules, hereby impose a penalty of Rs.5,00,000/- (Rupees Five Lakh only) on the Noticee viz. A C Commodities under the provisions of Section 15HA of the SEBI Act for the violation of Regulations 3(a), 4(1) and 4(2)(a) of the PFUTP Regulations. I am of the view that the said penalty is commensurate with the default committed by the Noticee.

28. The Noticee shall remit / pay the said amount of penalty within 45 (forty five) days of the receipt of this order either by way of Demand Draft (DD) in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai and the said DD should be forwarded to the Division Chief, Enforcement Department - I (EFD), Division of Regulatory Action - I [EFD1-DRA-1] SEBI Bhavan, Plot No.C4-A,' G' Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai – 400 051 and also send an email to tad@sebi.gov.in with the following details:

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)	

OR

29. Payment can also be made online by following the below path at SEBI website www.sebi.gov.in ENFORCEMENT → Orders → Orders of AO → Click on PAY NOW or at https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html.

30. 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, 1992 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

31. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is sent to the Noticee viz. A C Commodities and also to Securities and Exchange Board of India.

Place: Mumbai
Date: September 30, 2021

SURESH B MENON
ADJUDICATING OFFICER