BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/JS/VC/2025-26/31746]

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

In respect of:

Middleton Goods Pvt. Ltd.

(PAN: AACCM0757H)

In the matter of dealings in Illiquid Stocks Options on BSE

BACKGORUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**"), observed large scale reversal of trades in the Illiquid Stock Options (hereinafter also referred to as "**ISO**") at BSE Ltd. (hereinafter referred to as "**BSE**") leading to creation of artificial volume. In view of the same, SEBI conducted an investigation into the trading activities of certain entities in ISO at BSE for the period from April 1, 2014 to September 30, 2015 (hereinafter referred to as **"IP"**).

2. Investigation by SEBI revealed that during the IP, a total of 2,91,744 trades comprising 81.41% of all the trades executed in stock options segment of BSE were trades involving reversal of buy and sell positions by the clients and counterparties in a contract. In these trades, entities reversed their buy or sell position in a contract with subsequent sell or buy position with the same counter party. These reversal trades were alleged to be non-genuine as they lacked basic trading rationale and allegedly lead to false or misleading appearance of trading leading to creation of artificial volume in those contracts. In view of the same, such reversal trades were alleged to be deceptive and manipulative in nature.

3. During the IP, 14,720 entities were found to have executed non-genuine trades in BSE's stock options segment. It was observed that Middleton Goods Pvt. Ltd. (hereinafter referred to as the **"Noticee"**) was one of the entities who indulged in execution of reversal trades in stock options segment of BSE during the IP. Noticee's trades were alleged to be non-genuine in nature which created false or misleading appearance of trading in terms of artificial volumes in stock options. Therefore, its trades were alleged to be manipulative and deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for alleged violation of the 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**").

APPOINTMENT OF ADJUDICATING OFFICER

4. Pursuant to transfer to the cases from erstwhile Adjudicating Officer (hereinafter referred to as "**AO**"), the undersigned was appointed as AO in the matter vide order dated April 03, 2025, under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the **"SEBI Act"**) read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as **"Rules"**), to inquiry into and adjudge under the provisions of section 15HA of the SEBI Act for the alleged violations by the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. A Show Cause Notice dated April 12, 2022 (hereinafter referred to as "**SCN**") was served to the Noticee under rule 4(1) of Rules to show cause as to why an inquiry should not be held and penalty, if any, should not be imposed upon it for the alleged violations of the provisions of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations.

6. It was alleged in the SCN that the Noticee was indulged in reversal trades, which allegedly created false and misleading appearance of trading, thereby generated

artificial volumes in the stock options segment of BSE during the IP. The trades entered in the unique contract were reversed on the same day with same counterparty, at a price difference which had no underlying basis and without an intention of performing it or there being a change of ownership/rights in the contract. These factors indicate that these trades were allegedly artificial and non-genuine in nature. The details of the non-genuine reversal trades including the trade dates, name of the counterparties, time, price and volume etc. were provided to the Noticee as Annexure to the SCN.

7. Vide Part B of the said SCN, Noticee was also informed that SEBI had introduced a Settlement Scheme, i.e., SEBI Settlement Scheme, 2022 (hereinafter referred to as "**Settlement Scheme 2022**") in terms of regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 (hereinafter referred to as "**Settlement Regulations**"). It was informed that the Settlement Scheme, 2022 provided a one-time opportunity to the entities against whom proceedings were initiated and appeals against the said proceedings were pending. The scheme commenced from August 22, 2022 and remained open for a period of three months. The SCN was duly served to the Noticee through Speed Post Acknowledgement Due (hereinafter referred to as **"SPAD"**).

8. Subsequently, vide public notice dated November 21, 2022, it was advertised/informed that "*Considering the interest of entities in availing the Scheme, the competent authority has extended the period of the Scheme till January 21, 2023*". However, the Noticee did not avail the Settlement Scheme 2022. Accordingly, the adjudication proceedings against it were resumed.

9. On March 06, 2024, a post SCN Intimation (hereinafter referred to as **"PSI"**) was issued to the Noticee, wherein it was informed that SEBI had introduced another Settlement Scheme, i.e., SEBI Settlement Scheme, 2024 (hereinafter referred to as "**Settlement Scheme 2024**") in terms of regulation 26 of Settlement Regulations. It was informed to the Noticee that the Settlement Scheme 2024

provided an opportunity to the entities against whom proceedings were initiated and appeals against the said proceedings were pending. The applicable period of the scheme was from March 11, 2024 to May 10, 2024. The PSI was served to the Noticee through SPAD and email. The Settlement Scheme 2024 was extended till June 10, 2024 by SEBI vide Public Notice dated May 08, 2024.

10. It was observed that Noticee did not avail the Settlement Scheme 2024, therefore, the adjudication proceedings against it were resumed. Accordingly, vide notice of hearing dated January 01, 2025, Noticee was granted an opportunity of hearing on January 16, 2025, which it did not avail.

11. Pursuant to appointment of the undersigned as AO, vide notice of hearing dated July 24, 2025, Noticee was granted a fresh opportunity of hearing on August 18, 2025. However, vide e-mails dated August 17 and 18, 2025, Noticee requested one weeks' time for filing reply to the SCN and personal hearing, which was granted. Thereafter, Noticee submitted its response to the SCN vide letter dated August 25, 2025. On August 29, 2025, authorised representative of the Noticee (hereinafter referred to as **'AR'**), Mr. Samyak Gangwal appeared for the hearing through video-conferencing and reiterated the submissions made by the Noticee vide letter dated August 25, 2025. During hearing, AR submitted that Noticee is willing to settle the matter through a settlement scheme. In this regard, AR was informed that the settlement schemes in the ISO matter were closed.

12. Noticee's reply to the SCN is, *inter alia*, as under:

(a) Noticee denied all the allegations leveled against it in the Notice.

(b) Noticee stated that it is ready and willing to avail the SEBI Settlement Scheme, if offered.

<u>Preliminary Submissions</u>

(c) That the trades executed in the illiquid stock options segment were carried out in the normal course of business, based on Noticee's understanding of the market and available information at the time. Noticee had no arrangement, agreement, or understanding with any counterparty to execute matched or reversal trades and was

unaware of the identity of counterparties and placed orders through the anonymous exchange mechanism without any intent to manipulate price or volume.

(d) *That Noticee trades in the securities market in the ordinary course. While trading Noticee has never defaulted in meeting the payment or delivery obligations on any occasion.*

(e) *Noticee denied that it has indulged in any reversal trades which allegedly created false and misleading appearance of trading or generating artificial volumes as alleged. Admittedly, all the impugned trades have been executed by Noticee through its broker on the platform of the stock exchange within the permissible price bands. Post execution of the trades the same have been settled as per the norms of the exchange and the broker has issued contract note for the impugned trades. Therefore, the impugned trades executed by him cannot be alleged to be non-genuine trades.*

(f) *That at the relevant time, the contracts in question were illiquid, and due to low participation in the segment, there was a high probability that trades would match with the same counterparty without any active coordination or malafide intent and any appearance of reversal or matching in trades is incidental to the illiquid nature of the market and not a result of any prearrangement.*

(g) *That in so far as allegations pertaining to reversal trades are concerned, it may be noted that at the relevant time Noticee was not aware that its trades were in the nature of reversals as alleged. At no point of time, it was aware of any counterparty to the trades, or the trades of any other entities.*

(h) *That when alleged trades took place there was nothing in the public domain about anything amiss in the trades done by Noticee. Further, neither BSE nor SEBI had raised any grievance in public domain about the execution of reversal trades and non-genuine trade in the options segment at that point in time.*

(i) *With regard to trading in the options segment, it may be pointed out that according to the website of BSE, they have full proof surveillance system in place and according to information given on their website the functions of the surveillance department are as follows: (a) Monitoring price and volume movement (volatility) as well as by detecting potential market abuses (fictitious/artificial transactions, circular trading, false and misleading impression, insider trading etc.) at the nascent stage, with a view to minimize the ability of market participants to influence the price of any Security in the absence of any meaningful information and (b) Taking timely actions to manage default risk. The website further provides that BSE having three cells under its surveillance department viz. Price monitoring; Investigation and Positioning Monitoring. Further, in addition to fool proof surveillance mechanism at BSE they have power to annual the trades in future and options segment whenever they observe that the trades were executed for fraud and/or willful misrepresentation. All the options trades executed by Noticee were genuine and in accordance with the Rules,* *Regulations and Byelaws of BSE so same were cleared by surveillance mechanism of BSE and also not investigated by BSE for annulment.*

(j) That Noticee has not earned any undue profit nor avoided any loss from the alleged trades. The trades did not cause any harm to other investors or adversely impact the integrity of the securities market.

(k) The brokers/trading members have to be qualified before they are permitted to do stock/derivatives trading on behalf of the clients/investors. Therefore, in normal course of business an investor who trades in stocks/derivatives, is not aware of the alleged trades to be non-genuine or reversal. If they were non-genuine, why did BSE and SEBI not cancel the alleged trades at that point of time itself?

(l) That the alleged trades are of the year 2014; for which Noticee is getting a notice in the year, 2022 and now in 2025. Such proceedings are ex-facie vitiated in law and are a complete abuse of process. Such a long delay in initiation of the proceedings by itself poses grave difficulties and extreme hardships for Noticee's defense, highly prejudiced any such inordinate delay on the part of SEBI and may not be in a position to locate or lay hands on relevant material/information. In this regard, notice's kind attention is drawn to inter alia, the following case laws:

Hon'ble SAT in Libord Finance Limited v SEBI, Appeal No.37/2008. SAT order dated 31.03.2008 observed the following- "Before concluding, we cannot resist observing that there has been an inordinate delay in initiating action against the appellant. It is alleged to have committed the irregularities in the earlier part of the year 1996 and the show-cause notice was admittedly issued in June 2004. How could anyone file a proper reply after a lapse of more than eight year? This long delay itself causes grave injustice to the delinquent and results in the violation of the principles of natural justice. Such delays defeat the very purpose of the proceedings."

(m) Attention is also drawn to the judgement of Hon'ble Supreme Court of India in Government of India v. Citadel Fine Pharmaceuticals, Madras & others [AIR (1989) SC 1771]. Wherein it was held that in the absence of any period of limitation, the authority is requested to exercise its power within a reasonable period.

(n) That the Securities and Appellate Tribunal (SAT) quashed SEBI's order of penalty against several traders who the regulator said were indulging in creation of artificial trading volumes in a particular script, because there was a six-year delay in issuing show cause notices (SCNs) to the alleged wrongdoers for violation of trading norms. SAT rationed, even though there is no period of limitation prescribed in the SEBI Act and the authority is required to exercise its powers within a reasonable period as held recently in Adjudicating Officer, Securities and Exchange Board of India v. Bhavesh Pabari (2019) SCC Online SC 294. In the instant case, because the power to adjudicate has not been exercised within a reasonable period of time, therefore no penalty could be imposed.

(o) That the allegation regarding creating false and misleading appearance of trading or creating artificial volume in these Contracts or that the transactions are not genuine is not true. The dictionary meaning of the word 'artificial', in the present context, would mean 'not truly intended'. Non Genuine means something which is not genuine, not real. It bears nothing that the gain or loss arising from these contracts was settled by clearing corporation of BSE, and same was collected/paid to respective clients by BSE through respective brokers. BSE had collected transaction charges on these transactions, stamp duty was collected by state government through BSE, SEBI had collected turnover fees and the broker had collected by brokerage. This was done for both ends of the transaction. The volume was recorded by BSE and is a part of historical data. Thus, the trading did not have the character of false or misleading appearance of trade and the volume was not artificial and trade genuine, as the trades were acted upon by all the entities involved. It is power of BSE and Clearing Corporation to cancel non-genuine trades but the same was not done as the trades were found genuine. It has not been alleged that someone was misled by Noticee's trades as it was false or misleading. Noticee had fulfilled its obligations arising out of these transactions. The same is a matter of record and easily verifies from the Broker. It is submitted, that provisions of regulations 3 and 4 of PFUTP Regulations, is not attracted in Noticees case. The essence of regulation 2(c) pf PFUTP Regulations, and also unfair trade practices.

(p) The essential ingredient in this definition is "to induce another person or his agent to deal in securities". As Noticee has already explained, there is no material of record brought out in the Notice, or in the price movement of the impugned options contracts and the underlying securities, that its trade were intended to induce or that the trades actually induces, any one to trade taking a leaf out of our trades. In the absence of any such concrete averment in Notice, allegation of fraud cannot be levelled blankly. There must be sold material such as a person alleging he has been induced by Noticee's trades or circumstances show the effect of alleged inducement. Similarly, unfair trade practice has to be specifically alleged as to how it is unfair trade practice and not just implied. Both are absent in the present case. It is further submitted that the trades done by Noticee were not reversal trades and the bids and offers made were open and available to the entire universe of participants.

(q) Essential feature of a reversal trade is 'meeting of mind', meaning both buyer and seller being on the same page to execute a trade at the same time at the same price. Such meeting of mind is possible only if the buyer and seller are known to each other. It is known that trading on stock exchanges takes place anonymously and identity of buyer and seller is not known to anyone. As is discernible from the data provided with the Notice, all the orders placed were open orders, meaning for the entire trading universe to see and act upon. Thus the trades ultimately executed by us cannot be called synchronized or reversal and it does not conclude collusion or meeting of mind unless the buyer and seller are known to each other. These names have appeared before us for the first time in the Notice. No allegation to the effect that buyer and

seller knew each other has been made in the Notice. Thus, Noticee denies that these were reversal of trades.

(r) *Thus, it is submitted that on the touchstone of time gap between placement of order and difference in prices, such trades cannot be termed non-genuine. Preponderance of probability in this case points to a genuine trade executed in the course of normal business.*

(s) *It is submitted that Sec15 HA of SEBI Act 1992 applies only if a person indulges in fraudulent and unfair trade practices relating to securities. Such "fraudulent and unfair trade practices" has been defined in Regulation 4(2) (a) of PFTUTP Regulations 2003. An activity becomes fraudulent if it involved fraud and may including in an act which creates false or misleading appearance of trading in the securities market. It is a trite law that a penalty provision should be constructed strictly and not too widely and should be applied only in extreme situations, as Noticee has demonstrated that there is no factual allegation in the Notice about false or misleading appearance of trading, or that fraud was committed by it, and Regulation 4(2) (a) of PFUTP Regulations 2003 are not attracted. We have already explained in abovementioned paragraphs that such acts have not been committed by Noticee. It is therefore, submitted that application of Section15 HA is not called for.*

(t) *In fact, Noticee would like to point out that:*
- *No Complaints by any investor or anyone else.*
- *No loss was suffered to anyone to Noticee's knowledge.*
- *No fraud was committed by anyone.*
- *No one was misguided to believe as true, what was not true.*
- *No evidence of any kind was found or produced against anyone.*
- *All trades were done legally on the platform of the oldest and functional stock exchange of the country under surveillance of SEBI.*
- *The price range was within the permitted limit by SEBI/BSE.*
- *Trades were not done with parties not permitted to trade with.*
- *BSE, who performs the first check, approved these transactions as Bonafide.*
- *All payments were made by cheque/banking channels.*
- *All taxes including STT, stamp duty and other were paid.*
- *There is no warning anywhere to alter traders to not reverse the transaction with the same counterparty on the same day.*

(u) *That Noticee submits that for any of the reason whatsoever, your good self decides to proceed in the matter then Noticee requests for a personal hearing so that it or its authorized representative could get an opportunity to defend herself and raise such necessary arguments to prove that it did not indulge in any unfair or fraudulent trade practices as has been alleged by the notice.*

<u>Procedural infirmities</u>

(v) Kindly take note of the case Sunita Agarwal and Ors v. SEBI, MANU/GH/0703/2022 wherein the Hon'ble High Court of Gauhati has held that:

"53. As a reading of the provision of Section 15-I makes it discernible that the investigation contemplated there under would have to be against the person concerned against whom the Board intends to hold an enquiry, it has to be understood that the expression 'whenever the Board is of the opinion that there are grounds of adjudging' as appearing in Rule 3 of the Procedure and Rules of 1995 would have to be understood that the expression 'opinion' referred therein would be a formation of an opinion by the Board against the specific person concerned.

…

90. The opinion to be formed under Rule 3 of the PR-1995 against the person specific is in the nature of a disclosure of an investigation report. Therefore, from the point of view of fulfilling the larger institutional purpose of fair trial and transparency, as enunciated by the Supreme Court in paragraphs 24 and 25 of T Takano (supra), we are of the view that there would be a requirement for the respondents in the SEBI to provide the Noticees the opinion formed against the individual Noticee under Rule 3 of PR-1995 along with any such notice that may be issued under Rule 4(1) of the PR-1995.

…

110. By following the aforesaid propositions of law laid down by the Supreme Court in Natwar Singh (supra) and T. Takano (supra), we have to arrive at a conclusion that a notice under Rule 4(1) of the PR-1995 would be a notice only for the purpose as to whether an enquiry should be held and such notice cannot embark into an actual adjudication being made which ultimately may lead to any of the penalties under sections 15A to 15HB. As clearly provided under Rule 4(3) of PR-1995, upon the causes being shown to the notice as to whether an enquiry is to be held, the adjudicating authority is required to form an opinion that in the case at hand, an enquiry is required to be held. Only upon forming such opinion that an enquiry is required to be held, the subsequent process of fixing a date of appearance for explaining the person concerned as to the alleged offence that had been committed by indicating the provisions of the Acts, Rules or Regulations that were contravened, can be carried forward."

(w) It is submitted that in the present case, Noticee has neither been provided any copy of the individual opinion formed by the Board under Rule 3 or the opinion formed by the AO under Rule 4 causing grave prejudice to Noticee. If indeed such opinions have been formed, you are requested to provide a copy of the same to Noticee.

(x) Furthermore, upon a bare reading Para 12 of the SCN dated 12.08.2022 issued under Rule 4(1), it is evident that AO had already made up their mind to conduct an enquiry and no opportunity of showing cause was provided to Noticee as to why an enquiry should not be conducted in violation of Rule 4(1) and the judgment of the Hon'ble Gauhati High Court. Para 12 of the SCN is reproduced below:

"12. In case you do not wish to avail of the facility under the SEBI Settlement Scheme, 2022, the adjudication proceedings in respect of the allegations contained in Para A of the SCN shall resume. Accordingly, an inquiry shall be held against you in terms of Adjudication Rules read with section 15-I of the SEBI Act, and penalty, if any, shall be imposed under Section 15HA of the SEBI Act. In such case, you are called upon to file your reply within 30 days of receipt of this Show Cause Notice."

(y) It is evident from the above, that the SCN dated 12.08.2022 did not provide Noticee an opportunity of showing "why an inquiry should not be held against him" as mandated by Rule 4(1). It is evident that the AO had already formed an opinion that an inquiry has to be conducted a penalty has to be imposed from a bare reading of the SCN causing grave prejudice to Noticee and denial of opportunity of showing cause as per Rule 4(1).

(z) That Noticee calls upon your good self to withdraw the Show Cause Notice dated 12.08.2022.

(aa) Without prejudice to the above, Noticee is ready and willing to avail the SEBI Settlement Scheme offered to avoid protracted litigation. Kindly provide Noticee an opportunity of availing the said Settlement Scheme.

CONSIDERATION OF ISSUES AND EVIDENCE

13. I have perused the allegations levelled against the Noticee in the SCN, its replies, submissions made during personal hearing and the material available on record. In the instant matter, the following issues arise for consideration and determination:

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

II. Do the violations, if any, on part of the Noticee attract monetary penalty under section 15HA of SEBI Act?

III. 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?

14. In his regard, it is pertinent to refer to the relevant provisions of PFUTP Regulations which are alleged to have been violated by the Noticee, as under:

Relevant provisions of 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 recognised 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 recognised 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 recognised stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder."

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

15. Before proceeding to the merits of the case, it is appropriate to deal with the following preliminary issues raised by the Noticee. Noticee submitted that it was neither provided a copy of the individual opinion formed by the Board under rule 3 of Rules nor the opinion formed by AO under rule 4 of Rules, which caused grave prejudice to it. In this regard, Noticee relied on the observations of Hon'ble High Court of Gauhati in the matter of Sunita Agarwal and Ors v. SEBI.

16. In this context, reference is drawn to the following judgments of Hon'ble Supreme Court and Hon'ble Securities Appellate Tribunal (SAT):

(a) In the matter of Kavi Arora v. SEBI[1], the Hon'ble Supreme Court held that:

"49. It is well settled that the documents which are not relied upon by the Authority need not be supplied as held in Natwar Singh (supra) where this Court held:-

[1] Special Leave Petition (Civil) No. 15149 of 2021 dated September 14, 2022

"48. On a fair reading of the statute and the Rules suggests that there is no duty of disclosure of all the documents in possession of the Adjudicating Authority before forming an opinion that an inquiry is required to be held into the alleged contraventions by a noticee. Even the principles of natural justice and concept of fairness do not require the statute and the Rules to be so read. Any other interpretation may result in defeat of the very object of the Act. Concept of fairness is not a one way street. The principles of natural justice are not intended to operate as roadblocks to obstruct statutory inquiries. Duty of adequate disclosure is only an additional procedural safeguard in order to ensure the attainment of the fairness and it has its own limitations. The extent of its applicability depends upon the statutory framework.

50. The High Court rightly did not interfere with the proceedings at the stage of the Show Cause Notice. The Petitioner has apparently been permitted to inspect the opinion formed under Rule 3 of the SEBI Adjudication Rules. There is apparently no rule which requires SEBI to furnish the opinion under Rule 3 to the noticee in its entirety. The documents relied upon for formation of opinion under Rule 3, are not required to be disclosed to the noticee unless relied upon in the inquiry……"

(b) In the matter of Madhyam Agrivet Industries Ltd. v. SEBI[2], the Hon'ble SAT held that:

"It is held herein that it is sufficient to disclose materials relied upon for issuance of show cause notice."

17. In view of the above, since all the relevant and relied upon documents in the instant proceedings were provided to the Noticee, the submission of the Noticee in this regard is devoid of merit.

18. Noticee further submitted that there was a long delay in initiation of the proceedings which poses grave difficulties and extreme hardships in its defense and it is highly prejudiced by such inordinate delay on the part of SEBI and may not be in a position to locate or lay hands on relevant material/information. In this regard, I note that pursuant to a preliminary examination conducted in the Illiquid Stock Options matter, an Interim Order was passed by SEBI on August 20, 2015 which was confirmed vide Orders dated July 30, 2016 and August 22, 2016.

[2] *Appeal No. 258 of 2024 dated May 22, 2024*

Meanwhile, SEBI initiated a detailed investigation relating to stock options segment of BSE which was completed in the year 2018. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE's stock options segment during the IP. The proceedings initiated vide the aforementioned Interim Order were disposed of vide Final Order dated April 05, 2018 also considering that appropriate action was initiated against the said 14,720 entities in a phased manner. During the course of hearing in the case of R. S. Ispat Ltd v. SEBI, the Hon'ble 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".*

19. A Settlement Scheme was framed under the Settlement Regulations, which provided one-time opportunity for settlement of the 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 in the said scheme. Further, another settlement scheme, i.e., Settlement Scheme 2022 was introduced from August 22, 2022 to January 21, 2023. Finally, a third settlement scheme, i.e., Settlement Scheme 2024 was introduced from March 11, 2024 to June 10, 2024.

20. It is further noted that there are no timelines prescribed in the SEBI Act for the purpose of identifying trades as non-genuine. In this regard, it is pertinent to note that, in the matter of *SEBI v. Bhavesh Pabari* (2019) SCC Online SC 294, the Hon'ble Supreme Court, *inter alia*, held that:

"There are judgments which hold that when the period of limitation is not prescribed, such power must be exercised within a reasonable time. What would be reasonable time, would depend upon the facts and circumstances of the case, nature of the default/statute, prejudice caused, whether the third-party rights had been created etc."

21. Pursuant to appointment of AO on September 20, 2021 in the instant matter, SCN dated August 12, 2022 was issued to the Noticee. Vide Part B of the SCN, Noticee was also informed regarding Settlement Scheme 2022, however, Noticee did not avail the said settlement scheme. Subsequently, the Noticee was informed regarding the Settlement Scheme 2024, vide PSI dated March 06, 2024. Since the Noticee failed to avail the third settlement scheme, it was provided a personal hearing on January 16, 2025 by erstwhile AO, which it did not attend. Further, pursuant to appointment of the undersigned as AO, vide notice of hearing dated July 24, 2025, Noticee was granted a fresh opportunity of hearing on August 18, 2025, which the Noticee availed. Hence, considering the narration of facts in the foregoing paragraphs, I note that there has been no inordinate delay in initiation of the proceedings as contended by the Noticee.

22. Further, Noticee contended that AO had already made up his mind to conduct an enquiry and no opportunity of showing cause was provided to the Noticee as to why an enquiry should not be conducted, which is in violation of rule 4(1) of Rules and the judgment of the Hon'ble Gauhati High Court. It submitted that the SCN did not provide him an opportunity of showing "why an inquiry should not be held against him" as mandated under rule 4(1) of Rules and a bare reading of the SCN indicates that AO had already formed an opinion that an inquiry has to be conducted. In this regard, it is noted that the SCN dated August 12, 2022 was issued to the Noticee under rule 4(1) of Rules, which mentioned the allegation of trade reversal in Illiquid Stock Options on BSE by the Noticee and stated that *"In case you do not wish to avail of the facility under the SEBI Settlement Scheme, 2022, the adjudication proceedings in respect of the allegations contained in Para A of the SCN shall resume. Accordingly, an inquiry shall be held against you in terms of Adjudication Rules read with section 15-I of the SEBI Act, and penalty, if any, shall be imposed under Section 15HA of the SEBI Act.* ***In such case, you are called upon to file your reply within 30 days of receipt of this Show Cause Notice****."* Therefore, it is noted that the Noticee was granted an opportunity of filing

its reply to the SCN. Further, since no reply to the SCN was furnished by the Noticee despite service of the SCN and PSI, Noticee was again advised to furnish its reply to the SCN vide notices of hearing dated January 01, 2025 and July 24, 2025. Hence, the contention of the Noticee that AO had already made up his mind to conduct an enquiry and no opportunity of showing cause was provided to the Noticee is untenable.

23. Further, Noticee submitted that it is willing to settle the matter through a settlement scheme. In this regard, during hearing, Noticee was informed that the settlement schemes in the ISO matter were closed and currently there is no settlement scheme active.

24. Therefore, the preliminary issues raised by the Noticee are not acceptable. I shall now proceed to address the key issues that arise for consideration, in light of the facts of the case and the submissions made by the Noticee.

25. I note that it was alleged in the SCN that the Noticee, while dealing in the stock options contract at BSE during the IP, had executed reversal trades which were allegedly non-genuine trades and the same had resulted in generation of artificial volume in stock options contract at BSE. The said reversal trades were alleged to be non-genuine trades as they were 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, were deceptive and manipulative.

26. From the documents on record, it is noted that the Noticee was one of the entities who had indulged in creating artificial volume of 80,000 units through 2 non-genuine reversal trades in 1 stock options contract during the IP. The summary of trades is given below:

Table No. 1

Contract name	Avg. buy rate (₹)	Total buy volume (no. of units)	Avg. sell rate (₹)	Total sell volume (no. of units)	% of Artificial volume generated by the Noticee in the contract to Noticee's Total volume in the contract	% of Artificial volume generated by the Noticee in the contract to Total volume in the contract
A	B	C	D	E	F	G
STAC15MAR1110.00PE	54	40,000	30	80,000	33.33%	8.13%

27. On March 26, 2015, the Noticee, at 13:33:19 hours, entered into a sell trade in a contract, viz., 'STAC15MAR1110.00PE' with counterparty 'Vishva Electrotech Limited' for 80,000 units at Rs. 30/- per unit. On the same day, at 14:31:46 hours, Noticee entered into a buy trade of same contract with the same counterparty for 40,000 units at Rs. 54/- per unit. It is noted that the Noticee while dealing in the said contract during the IP, executed a total of 2 trades (1 buy trade and 1 sell trade) with same counterparty, viz., Vishva Electrotech Limited on the same day and with significant price difference in buy and sell rates. It is observed that the Noticee's 2 trades while dealing in the aforesaid contract during the IP generated artificial volume of 80,000 units, which made up 8.13% of total market volume in the said contract during the IP.

28. In response, Noticee in its replies submitted that BSE approved these transactions as bona fide and the volume was recorded by BSE as a part of historical data. In this regard, it is noted that trades on BSE which is recorded as historical data does not mean that the said trades were bona fide. That being so, the reversal trades executed by the Noticee in the options segment of BSE cannot be claimed to be genuine. Therefore, the said contentions of the Noticee are devoid of any merit.

29. Further, Noticee contended that there were no complaints by any investor or anyone else and there was nothing in the public domain about anything amiss with

respect to its dealings in the options segment of BSE and neither BSE nor SEBI had raised any grievance in public domain about the execution of reversal trades and non-genuine trades in the options segment. I note that the allegations pertaining to the Noticee's non-genuine reversal trades neither depend nor rely upon the receipt of any grievance against the Noticee or anything in the public domain about the reversal trades.

30. Noticee further submitted that it placed orders through the anonymous exchange mechanism within the permissible price bands without any intent to manipulate price or volume, there was no warning anywhere to not to reverse the transaction with the same counterparty on the same day and it was not aware that its trades were in the nature of reversal as alleged, BSE has full proof surveillance system in place, BSE has power to annul the alleged fraudulent trades and questioned as to why BSE or SEBI failed to cancel the alleged trades at that point of time itself if the trades were non-genuine. In this regard, it is noted that the responsibility of ensuring the genuineness of trades rests with the Noticee. Noticee is expected to act with due diligence and cannot shift responsibility for its own trading decisions on the stock exchange or SEBI. Further, Noticee admitted that all the impugned trades were executed by it through stock broker on the platform of the stock exchange and the trades were settled as per the norms of the stock exchange and stock broker issued contract note to it, therefore, Noticee was well aware of the impugned non-genuine reversal trades and cannot claim that it was not aware that the trades were in the nature of reversal and hence it cannot shift the liability on stock exchange or SEBI. Therefore, the contentions of the Noticee in this regard are not tenable.

31. Noticee contended that it placed orders through the anonymous exchange mechanism, trades were settled as per the norms of the stock exchange, the stock broker issued contract note for the impugned trades and all payments were made by cheque/banking channels, all taxes including STT, stamp duty and other dues such as transaction charges, turnover fees and brokerage, etc., were paid, it never

defaulted in meeting the payment or delivery obligations on any occasion, the price range was within the permitted limit by SEBI/BSE and trades were not done with parties not permitted to trade with. In this regard, it is noted that in the present proceedings, genuineness of the reversal trades executed by the Noticee is in question and not that how the trades were placed or whether the trades were settled as per the norms of the stock exchange or whether Noticee received contract note or whether statutory due were paid or not. Further, SCN neither alleged that the Noticee's trades were not in the price range set by BSE nor that the trades were done with parties not permitted to trade with, hence, the said submission of Noticee is irrelevant. The manner in which impugned trades were executed by the Noticee indicates that there was pre-determination of the prices and timings of trades between the counterparties while executing the trades and the trades were reversed with same counterparty within an hour with significant price difference. Hence, this submission of the Noticee is not tenable.

32. Noticee further submitted that the trades did not cause any harm to other investors or adversely impact the integrity of the securities market and no one was misguided to believe as true, what was not true. In this regard, I would like to refer to the judgment of Hon'ble Supreme Court in the matter of *SEBI v. Rakhi Trading Private Limited*, Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011, decided on February 8, 2018, wherein it was held that *"……...Orchestrated trades are a misuse of the market mechanism. It is playing the market and it affects the market integrity.*

………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."

Therefore, it is noted that the synchronization and reversal trades affects the price discovery system and have an adverse impact on the fairness, integrity and transparency of the stock market. Hence, the submission of the Noticee in this regard is devoid of merit.

33. Noticee further contended that the trades executed in the stock options segment were carried out in the normal course of business, based on its understanding of the market and available information at the time, all trades were done legally on the platform of the stock exchange under surveillance of SEBI, and it had no arrangement, agreement, or understanding with any counterparty to execute matched or reversal trades and was unaware of the identity of counterparties and on the touchstone of time gap between placement of order and difference in prices, such trades cannot be termed non-genuine. In this regard, I note that the non-genuineness of the transactions executed by the Noticee is evident from the fact that there was no commercial basis as to why, within an hour, the Noticee reversed the position with the same counterparty with significant price difference on the same day. It is noted that for the sell trade of the Noticee in the said contract, the difference in its order time (13:30:16) and order time of the counterparty for the said trade (13:33:19) was around 3 minutes. Similarly, for buy trade of the Noticee in the said contract, the difference in its order time (14:31:46) and order time of the counterparty for the said trade (14:31:15) was only 31 seconds. Further, the fact that the transaction in the particular contract was reversed with the same counterparty 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 options contract, there was negligible trading in the said contract and hence, there was no price discovery in the strictest terms. The wide variation in price of the said contract, 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 counterparty in the stock options segment of BSE and the same were non-genuine trades.

34. Noticee contended that the contracts in question was illiquid, and due to low participation in the segment, there was a high probability that trades would match with the same counterparty without any active coordination or mala fide intent and any appearance of reversal or matching in trades is incidental to the illiquid nature of the market and not a result of any pre-arrangement. Noticee further submitted that essential feature of a reversal trade is 'meeting of mind', of buyer and seller, which is possible only if the buyer and seller are known to each other, however, trading on stock exchanges takes place anonymously and identity of buyer and seller is not known to anyone. Noticee also contended that no fraud was committed by anyone and there is no evidence of any kind was found or produced against anyone. In this regard, I note that it is not mere coincidence that the Noticee could match its trades with the same counterparty with whom it had undertaken first leg of the respective trades. The fact that the transactions in a particular contract were reversed with the same counterparty within an hour and orders were placed by Noticee and its counterparty to the trade within few seconds to minutes, indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. It is further noted that direct evidence is not forthcoming in the present matter as regards to meeting of minds or collusion with other entities, *inter alia*, the counterparties or agents/fronts. However, trading behaviour as noted above make it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level.

35. In this regard, reliance is placed on the judgement of Hon'ble Supreme Court in the matter of *SEBI v. Kishore R Ajmera* (AIR 2016 SC 1079), wherein it was 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...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.*

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."

36. Therefore, applying the ratio of the above judgment, it is observed that the execution of trades by the Noticee in the illiquid options segment with such precision in terms of order placement, time, price, etc., and also the fact that the transactions were reversed with the same counterparty clearly indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. The only reason for the wide variation in price of the same contract, within short span of time was a clear indication that there was pre-determination in the prices by the counterparties. 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 counterparty to carry out the trades at pre-determined prices.

37. Further, Noticee contended that the essential ingredient in the definition of fraud is "to induce another person or his agent to deal in securities", however, there is no material of record brought out in the Notice or in the price movement of the impugned options contracts and the underlying securities that its trade were intended to induce or that the trades actually induced any one to trade in the said contract. In this regard, it is relevant to refer to judgement of the Hon'ble Securities Appellate Tribunal in the matter of *Ketan Parekh v. SEBI* (in Appeal No. 2 of 2004; date of decision July 14, 2006), wherein it was held as follows:

"In other words, if the factum of manipulation is established it will necessarily follow that the investors in the market had been induced to buy or sell and that no further proof in this regard is required. The market, as already observed, is so wide spread that it may not be humanly possible for the Board to track the persons who were actually induced to buy or sell securities as a result of manipulation and law can never impose on the Board a burden which is impossible to be discharged. This, in our view, clearly flows from the plain language of Regulation 4 (a) of the Regulations."

38. In this regard, further reliance is placed on judgment of Hon'ble Supreme Court in the matter of *SEBI v. Rakhi Trading Private Limited*, decided on February 8, 2018 on similar factual circumstances, which, *inter alia,* stated as under:

"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….."

39. Therefore, the trading behaviour of the Noticee confirms that such trades were not normal, indicating that the trades executed by the Noticee were not genuine trades

and being non-genuine, created an appearance of artificial trading volumes in respective contract. In view of the above, I find that the allegation of violation of regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of PFUTP Regulations by the Noticee stands established.

Issue No. 2: Do the violations, if any, on part of the Noticee attract monetary penalty under section 15HA of SEBI Act?

40. In the findings made in foregoing paragraphs, it has been established that the Noticee executed non-genuine reversal trades, which created false and misleading appearance of trading, thereby generated artificial volumes in the stock options segment of BSE during the IP, therefore, Noticee violated the provisions of regulations 3(a), (b), (c) and (d) and regulation 4(1) and 4(2)(a) of the PFUTP Regulations.

41. Noticee submitted that it has not earned any undue profit nor avoided any loss from the alleged trades and no loss was suffered to anyone. In this regard, I note that Hon'ble SAT in the matter of *Komal Nahata v. SEBI (Appeal No. 5 of 2014 dated January 27, 2014)* observed that *"Argument that no investor has suffered on account of non-disclosure and that the AO has not considered the mitigating factors set out under Section 15J of SEBI Act, 1992 is without any merit because firstly penalty for noncompliance of SAST Regulations, 1997 and PIT Regulations, 1992 is not dependent upon the investors actually suffering on account of such non-disclosure"*.

42. Further, it is noted that in Appeal No. 78 of 2014 in the case of *Akriti Global Traders Ltd. v. SEBI*, the Hon'ble SAT vide order dated September 30, 2014 observed that *"… Argument of appellant that the delay was unintentional and that the appellant has not gained from such delay and therefore penalty ought not to have been imposed is without any merit, because, firstly, penal liability arises as soon as*

provisions under the regulations are violated and that penal liability is neither dependent upon intention of parties nor gains accrued from such delay".

43. Therefore, considering the above findings and the judgement of Hon'ble Supreme Court in the matter of *SEBI v. Shriram Mutual Fund* [2006] 68 SCL 216 (SC) decided on May 23, 2006, wherein it was 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. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must made by the defaulter with guilty intention or not.",* I am convinced that it is a fit case for imposition of monetary penalty under the provisions of section 15HA of 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 No. 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?

44. While determining the quantum of penalty under section 15HA of the SEBI Act, the following factors as stipulated in section 15J of the SEBI Act are taken into account-

"Factors to be taken into account while adjudging quantum of penalty.

15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or 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."

45. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading in the aforesaid contract. I note that when the impact of artificial volume created by the two counterparties is seen as a whole, it is not possible, from the material on record, to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counter parties or the consequent loss caused to investors as a result of the default. Further, the material available on record does not demonstrate any repetitive default on the part of the Noticee. However, considering that the two non-genuine trades entered by the Noticee in one options contract led to creation of artificial trading volumes which had the effect of distorting the market mechanism in the stock options segment of BSE, I find that the aforesaid violations were detrimental to the integrity of securities market and therefore, the quantum of penalty must be commensurate with the serious nature of the aforesaid violations.

ORDER

46. Taking into account the facts and circumstances of the case, material available on record, submissions of the Noticee, findings hereinabove and factors mentioned in section 15J of the SEBI Act, in exercise of the powers conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Rules, I hereby impose monetary penalty of ₹ 5,00,000/- (Rupees Five Lakh only) on the Noticee (Middleton Goods Pvt. Ltd.) under section 15HA of SEBI Act for the violation of regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of PFUTP Regulations. I am of the view that the said penalty is commensurate with the violations committed by Noticee.

47. The Noticee shall remit/pay the said amount of penalty within 45 days of receipt of this order in either of the way, such as by following the path at SEBI website www.sebi.gov.in:

ENFORCEMENT >Orders >Orders of AO> PAYNOW;

48. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the 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 of Noticee.

49. In terms of the provisions of rule 6 of the Rules, a copy of this order is being sent to the Noticee and to SEBI.

JAI SEBASTIAN

Digitally signed by JAI SEBASTIAN
Date: 2025.10.30 12:54:41 +05'30'

Place: Mumbai
Date: October 30, 2025

JAI SEBASTIAN
ADJUDICATING OFFICER