BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. MC/DPS/2018-19/ 2398]

UNDER SECTION 15-I (2) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES, 1995.

In respect of –

1. **Jeevaka Industries Private Limited** (PAN: AAACJ5113G) having address at – 11-6-27/17, 1st Floor, Opp Idpl Factory, Balanagar, Hyderabad, Andhra Pradesh, India, 500037 and H.no.15-2-358, 1st Floor, Mukhtyar Gunj, Hyderabad, Andhra Pradesh, India, 500 012

In the matter of Dealing in Illiquid options on the BSE.

BACKGROUND

1. The Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted an investigation into the trading activity in illiquid Stock options at BSE for the period between April 1, 2014 to September 30, 2015 (hereinafter referred to as the "**Investigation Period**") after observing large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange Ltd. (hereinafter referred to as "**BSE**").

2. Investigation revealed that during the Investigation Period, a total of 2,91,643 trades comprising 81.38% of all the trades executed in BSE Stock Options Segment were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract. Jeevaka Industries Private Limited ("**the Noticee**") was one such client whose reversal trades involved squaring off transactions with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly resulted into generation

of artificial volumes by the aforesaid clients and counterparties, leading to allegations that the Noticee had violated Regulation 3(a),(b),(c),(d) and Regulation 4(1), 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter, referred to as "**PFUTP Regulations, 2003**").

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer (hereinafter referred to as "**AO**") under section 15-I of the SEBI Act read with rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter be referred to as the "**Adjudication Rules**") vide order dated May 31, 2018, to inquire into, and adjudge under section 15 HA of the SEBI Act, the alleged violations of the aforesaid provisions of the PFUTP Regulations, 2003, by the Noticee. The appointment of the AO was communicated vide order dated June 4, 2018.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice No. EAD5/MC/DPS/33423/1/2018 dated December 6, 2018 (hereinafter referred to as "**SCN**"), was issued to the Noticee in terms of Rule 4 (1) of the Adjudication Rules, to show cause as to why an inquiry should not be held and penalty not be imposed against the Noticee in terms of section 15 HA of the SEBI Act, for alleged violation of Regulation 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

5. The allegations levelled against the Noticee in the SCN are summarized as below:
    a) The Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in the Stock Options Segment of BSE during the Investigation Period.

b) The Noticee is alleged to have engaged in 137 such reversal trades in 66 unique contracts, which led to generation of alleged artificial volume of 2743000 units, between March 16, 2015 and March 26, 2015.

c) The trades entered by the Noticee were reversed on the same day with same counterparties at a substantial price difference without any basis for significant change in the contract price which indicates that these trades are artificial and are non-genuine in nature.

d) A summary of dealings of Noticee in 66 Stock Options contracts in which Noticee allegedly executed non genuine reversal trades during the Investigation Period, provided in the SCN is reproduced below-

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	AMBC15APR210.00CE	27.15	15000	44.75	15000	100%	56%
2	AMBC15MAY210.00CE	36.99	35000	50.50	35000	100%	27%
3	ARVI15APR250.00CEW3	27.20	17000	46.00	17000	100%	100%
4	ARVI15MAY230.00CE	21.55	50000	38.00	50000	100%	49%
5	ASPL15APR760.00CEW4	31.90	20000	59.25	20000	100%	57%
6	AXIS15APR500.00CEW3	38.50	25000	62.90	25000	100%	100%
7	AXIS15MAY500.00CE	38.90	10000	75.00	10000	100%	40%
8	BHEL15APR210.00CE	30.75	16000	55.00	16000	100%	15%
9	BHRT15APR340.00CEW4	34.55	20000	57.00	20000	100%	38%
10	BHRT15MAY330.00CE	34.85	17000	59.90	17000	100%	100%
11	BOIL15APR195.00CE	16.65	25000	30.00	25000	100%	56%
12	BOIL15MAY185.00CE	12.20	50000	22.90	50000	100%	100%
13	CARN15APR200.00CE	15.10	25000	28.00	25000	100%	9%
14	CENT15APR520.00CEW4	19.25	8500	51.25	8500	100%	100%
15	CESC15MAY500.00CE	61.00	20000	98.00	20000	100%	100%
16	DABU15APR230.00CEW4	23.95	20000	39.00	20000	100%	100%
17	ENGI15MAY150.00CE	31.60	10000	53.00	10000	100%	100%
18	EXID15MAY155.00CE	17.25	30000	30.00	30000	100%	11%
19	FEDB15APR120.00CEW4	11.30	10000	18.95	10000	100%	100%
20	HAIL15APR240.00CE	36.05	12000	64.00	12000	100%	100%
21	HAIL15APR250.00CE	30.05	15000	55.00	15000	100%	100%
22	HDIL15MAY90.00CE	15.50	28000	28.00	28000	100%	100%

23	HXTL15APR205.00CE	39.65	10000	66.70	10000	100%	38%
24	IBHF15MAY500.00CE	36.90	10000	71.55	10000	100%	100%
25	IDEA15APR155.00CEW4	12.65	24000	22.95	24000	100%	100%
26	JSWE15APR90.00CEW3	17.15	24000	30.65	24000	100%	100%
27	KARB15APR105.00CE	15.75	34000	28.10	34000	100%	100%
28	LICH15MAY410.00CE	34.60	11000	73.00	11000	100%	100%
29	MCRS15APR210.00CEW3	22.65	24000	38.00	24000	100%	60%
30	MFSL15MAY210.00CE	33.50	15000	59.50	15000	100%	20%
31	MPSL15APR270.00CEW3	29.45	15000	52.00	15000	100%	100%
32	MPSL15MAY270.00CE	31.10	15000	55.00	15000	100%	52%
33	MSSL15MAY440.00CE	33.75	12000	64.00	12000	100%	38%
34	NTPC15APR115.00CE	21.85	20000	36.50	20000	100%	32%
35	NTPC15MAY130.00CE	15.20	28000	29.00	28000	100%	100%
36	ONGC15APR270.00CEW3	24.80	16000	49.00	16000	100%	50%
37	ONGC15MAY270.00CE	29.50	25000	48.30	25000	100%	31%
38	PFCL15MAY230.00CE	34.35	15000	62.00	15000	100%	30%
39	PGCL15APR120.00CE	18.35	20000	29.95	20000	100%	100%
40	PGCL15MAY125.00CE	15.85	50000	28.95	50000	100%	33%
41	PLNG15APR155.00CE	16.10	30000	29.75	30000	100%	100%
42	PNBK15APR140.00CEW3	14.50	40000	23.95	40000	100%	100%
43	RANB15MAY740.00CE	45.40	12000	94.00	12000	100%	100%
44	RCAP15APR400.00CEW1	46.15	23500	153.40	23500	100%	20%
45	RECL15APR290.00CEW2	24.65	15000	41.95	15000	100%	100%
46	SAIL15APR45.00CE	15.20	32000	25.65	32000	100%	100%
47	SBIL15MAY240.00CE	30.65	15000	57.00	15000	100%	50%
48	SESA15APR165.00CE	18.65	25000	37.00	25000	100%	48%
49	SMIL15MAY400.00CE	32.05	12000	65.00	12000	100%	100%
50	SYND15APR85.00CE	17.05	28000	30.10	28000	100%	100%
51	TISC15MAY290.00CE	26.35	14500	54.50	14500	100%	37%
52	TITA15APR350.00CEW3	25.75	19000	44.00	19000	100%	100%
53	TMCL15APR240.00CE	24.95	20000	44.00	20000	100%	100%
54	TMCL15MAY180.00CE	49.35	11000	93.80	11000	100%	100%
55	TMCL15MAY200.00CE	43.30	10000	70.30	10000	100%	22%
56	UBIL15APR145.00CE	16.00	30000	28.00	30000	100%	100%
57	UBIL15APR150.00CEW3	12.75	30000	22.85	30000	100%	75%
58	UPHL15APR350.00CE	45.95	12000	75.00	12000	100%	100%
59	UPHL15APR370.00CEW3	33.15	14000	64.00	14000	100%	100%
60	UPHL15MAY370.00CE	34.76	31000	61.71	31000	100%	40%
61	UPHL15MAY380.00CE	25.50	12000	51.25	12000	100%	44%
62	VOLT15APR210.00CE	43.90	12000	73.90	12000	100%	29%
63	VOLT15APR230.00CEW4	27.85	10000	49.95	10000	100%	43%
64	VOLT15APR240.00CEW3	26.65	10000	46.00	10000	100%	100%
65	VOLT15MAY230.00CE	33.15	14000	58.85	14000	100%	100%

66	ZEEL15MAY300.00CE	36.39	43000	58.27	43000	100%	58%

6. By indulging in execution of aforesaid non-genuine reversal trades, the Noticee was alleged to have violated regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003, text of which has been reproduced below:-

"*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"

7. The aforesaid SCN was issued through Speed Post Acknowledgement Due (SPAD) to the Noticee and also served to the Noticee vide email on December

7, 2018 at email ID: jeevakamail@gmail.com; jeevakagroup@gmail.com. Noticee vide letter dated December 28, 2018, submitted its reply.

8. An opportunity of personal hearing was provided to the Noticee on February 12, 2019 *vide* Notice of Hearing dated January 11, 2019, which was served by way of SPAD on January 19, 2019. Hearing notice was also communicated / served to Noticee through email dated January 11, 2019. Hearing on February 12, 2019 was attended by the Authorised Representative of the Noticee (AR) – Shri S. Sarveswar Reddy. AR of the Noticee reiterated the submissions made in its reply dated December 28, 2018.

9. The submissions made by the Noticee are summarized below:-
   (a) We had opened trading and demat account and have done trading as per the Rules and Regulations of the Stock Exchanges.

   (b) We had not done any fraudulent trading or deliberate reversal trading or created any misleading appearance of trading leading to contravention of SEBI (PFUTP), Regulations, 2003. All the transactions were done as per the norms of trading and there was never any intention to carry on reversal of trades. We further submit that there are no artificial or fictitious trades done nor was there any allegation that the transactions were not as per the rules and regulations of the stock exchange which goes to show that the transactions would not affect the price movement and thus it does not tantamount to violation under the PFUTP Regulations. There was no intention to hike the price and all the trades executed in the said scrip were purely based on commercial terms.

   (c) It is submitted that some portion of the trading in the total volume of trading was done. Many other investors who no way connected with it traded in the scrip which indicates broad based trading. Based on the performance and future prospects of the Companies, other investors have voluntarily participated in trading without any influence. No investor was put to loss.

   (d) The online trading is done through the algorithmic Trading Software approved by the Exchanges. The instances of reversal of trades are purely incidental to the execution of the trading strategy and are not planned to be executed. The random nature of timing, quantity, dealers and partial matching with other market participants substantiate that these are unintentional and are a matter of pure co-incidence. The human involvement is very less for putting the parameters of orders for the day and the trading take place through the algorithmic trading software connected to the server/ CTCL ID and the orders are passed on to the Exchanges and the same are matched at the Exchange level. All the trades/ transactions are Jobbing/ Arbitrage in nature and due to High Speed of trading in small lots spread across the day evenly.

(e) We further submit that the trading was done on market and during the trading on the screen it is not possible to know the shares sold by it are the same shares bought by the other persons and vice versa. All the transactions were as per the norms of trading and there was never an intention to carry on reversal of notice.

(f) When a trading takes place on the screen, there is a possibility of a match between trades and / or shares purchased by an individual and the shares sold by another. This does not necessarily should be construed as group trading in the form of reversal of trades in order to influence the market in respect of the volume or the price. We had not created any artificial demand in the scrip and gave false or misleading appearance of trading in the securities market with respect to the scrip. We had not executed any transaction with a view to manipulate the market or to result in circular trading or is dubious in nature or with a view to avoid regulatory detection or to result in upsetting the market equilibrium etc.,

(g) We submit that we does not have any relation/nexus with other brokers and / or clients involved as counter party broker / client or any of its directors/promoters . All the transactions done by us are in the ordinary and normal course of business in the securities market. Futures market is not liquid and the rate movement in the Futures market is dependent not only on the cash market price but also a whole host of factors such as open interest, depth, overall sentiment, Sensex/Nifty value etc., and hence the transactions done by us are of genuine in nature and not manipulative.

(h) Therefore, the number of trading days and alleged reversal of trades on BSE during the investigation are not that big enough in nature to influence the market and cannot be construed to either create artificial volume or to contribute to Last Traded Price (LTP) leading to trading in fraudulent manner.

(i) We believed that the scrip will rise and yield profits. It is clear that these were individual trades independent of each other.

(j) Further we re-iterate that "matching " was a mere coincidence and not with the intention to commit a "reversal-trades" and thus, was not fraudulent or malafide. There is no malafide intent in executing the alleged trades and these trades arise out of the normal course of business and are within the prescribed Rules and Regulations.

(k) None of company's directors/Employees/Associates has any relationship with any of the entities. We always fulfilled the margin requirements and has always been prompt in making payments towards its debits. The trades executed by us were independent in nature.

(l) The reversal trades executed by us and the trades which got matched with the alleged counter party were incidental in nature and there was no pre schemed plan. In the instant case all the trades executed were genuine trade transactions since they were:

- Executed through the Price & Order Matching mechanism of the Exchange.
- At the prevailing market prices.
- In conformity with the applicable rules and regulations followed.

(m) All our trades are in line within the prescribed Statutes, Rules and Regulations and Guidelines and are not in any way deviant from the normal market activities. There was no intention on part of company to manipulate the price of the scrip or create any false or artificial or ingenuine market. It is also humbly brought to the kind notice of SEBI that we are Law abiding one and has not incurred any loss or caused harm to any investor or society at large. We once again reiterate that at no point of time there was any intention on part of us to defraud or mislead any persons or investors and our trading transactions in the scrip are genuine but not fake as they are all ended on the floor of the stock exchange.

(n) We submit once again that our company has not done any fraudulent trading or created any misleading appearance of trading leading to contravention of SEBI (PFUTP), Regulations, 2003 and hence kindly request SEBI to drop further proceedings against us for which kind act we will be grateful to SEBI.

CONSIDERATION OF ISSUES AND FINDINGS

10. The issues that arise for consideration in the instant matter are:

Issue No. I Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?

Issue No. II	If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?
Issue No. III	If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?

Issue No. I **Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?**

11. The allegation that the Noticee carried out reversal trades is directly supported by evidence from the trade log records in Annexures B and C of the SCN. Between March 16, 2015 and March 26, 2015, the Noticee is seen to have indulged in 137 reversal trades in 66 contracts.

12. To illustrate, on March 16, 2015, Noticee executed 1 buy trade at 11:33:53.93 hrs for 23500 units, at rate of Rs. 46.15 per unit with counterparty viz, Gajanan Enterprises of the contract named “RCAP15APR400.00CEW1”. Thereafter, on the same day, after 28 seconds of the above trade, Noticee executed one sell trade with same counterparty for 23500 units at rate of Rs. 153.4 per unit with a substantial price difference of Rs.107.25 between the two legs of the trade in the same contract.

13. A similar modus operandi is seen to have been adopted by the Noticee with respect to trades on March 19, 23, 24 and March 26, 2015. It is also noted that out of 137 reversal trades, in 136 reversal trades, the time difference between the buy and sell order was less than one second indicating that the buy and sell orders were synchronized for most of the trades. Additionally, there was no justification for the significant price difference in the same contract in a span of seconds.

14. Noticee in its reply submitted that Noticee had not done any fraudulent trading or deliberate reversal trading or created any misleading appearance of trading leading to contravention of PFUTP Regulations and it was not related or connected in any manner whatsoever to the alleged counterparty / counterparty broker or any of its directors / promoters; that "matching " was a mere coincidence and not with the intention to commit a "reversal-trades" and thus, was not fraudulent or malafide; all the trades are executed through price and order matching mechanism of the exchange. I note that as brought out above, in 136 reversal trades out of 137 trades, the time difference between the buy and sell order was less than one second indicating that the buy and sell orders were synchronized for most of the trades, hence most of the reversal trades of the Noticee were synchronized with the counterparties. While synchronised trades may occur by accident in a liquid stock, execution of synchronised trades in an illiquid market with anonymous trading indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. The nature of trading as brought out above clearly indicates an element of prior meeting of minds and hence collusion to carry out trades at pre-determined prices. Hence, the aforesaid contentions of the Noticee are unacceptable.

15. Noticee in its reply contended that the online trading is done through the algorithmic trading software approved by the exchanges; the instances of reversal of trades are purely incidental to the execution of the trading strategy and are not planned to be executed; the random nature of timing, quantity, dealers and partial matching with other market participants substantiate that these are unintentional and are a matter of pure co-incidence; the human involvement is very less for putting the parameters of orders for the day and the trading take place through the algorithmic trading software connected to the server/ CTCL ID and the orders are passed on to the Exchanges and the same are matched at the Exchange level; All the trades/ transactions are Jobbing/ Arbitrage in nature and due to High Speed of trading in small lots spread across the day evenly. However, the Noticee has provided no material to substantiate

this contention that the transactions were jobbing or arbitrage transactions. It is also pertinent to not that jobbing/arbitrage including through algorithmic trading takes place in liquid securities with large trading volumes, and the activity of jobbing itself introduces liquidity in the traded security. As the impugned trades were in illiquid stock options, where the Noticee contributed 100% of the volumes in as many as 35 contracts, the question of jobbing does not arise, and consequently, the contention of the Noticee is without basis and hence unacceptable.

16. The contentions of the Noticee that at no point of time there was any intention on its part to defraud or mislead any persons or investors; its trading transactions in the scrip are genuine but not fake as they are all ended on the floor of the stock exchange; no one including investors was misled, are not acceptable as the reversal trades by the Noticee generated artificial volume without change of beneficial ownership and the resultant trading volume in stock options was misleading.

17. Thus the trading volumes generated by the aforesaid trades were non-genuine and artificial. I note that the law in this regard is well-settled through the decision of the Hon'ble Supreme Court in *Securities and Exchange Board of India v. Rakhi Trading Private Limited* (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 08, 2018), which was a similar case involving execution of reversal trades in index options. The Supreme Court observed - "*The non-genuineness of these transactions is evident from the fact that there was no commercial basis to suddenly, within a matter of minutes, reverse a transaction when the value of the underlying had not undergone any significant change*."

18. I note that as stated in the SCN, the Noticee generated a total trading volume of 2743000 units through such reversal between March 16, 2015 and March 26, 2015 in 66 separate contracts as per the table reproduced below:-

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	AMBC15APR210.00CE	27.15	15000	44.75	15000	100%	56%
2	AMBC15MAY210.00CE	36.99	35000	50.50	35000	100%	27%
3	ARVI15APR250.00CEW3	27.20	17000	46.00	17000	100%	100%
4	ARVI15MAY230.00CE	21.55	50000	38.00	50000	100%	49%
5	ASPL15APR760.00CEW4	31.90	20000	59.25	20000	100%	57%
6	AXIS15APR500.00CEW3	38.50	25000	62.90	25000	100%	100%
7	AXIS15MAY500.00CE	38.90	10000	75.00	10000	100%	40%
8	BHEL15APR210.00CE	30.75	16000	55.00	16000	100%	15%
9	BHRT15APR340.00CEW4	34.55	20000	57.00	20000	100%	38%
10	BHRT15MAY330.00CE	34.85	17000	59.90	17000	100%	100%
11	BOIL15APR195.00CE	16.65	25000	30.00	25000	100%	56%
12	BOIL15MAY185.00CE	12.20	50000	22.90	50000	100%	100%
13	CARN15APR200.00CE	15.10	25000	28.00	25000	100%	9%
14	CENT15APR520.00CEW4	19.25	8500	51.25	8500	100%	100%
15	CESC15MAY500.00CE	61.00	20000	98.00	20000	100%	100%
16	DABU15APR230.00CEW4	23.95	20000	39.00	20000	100%	100%
17	ENGI15MAY150.00CE	31.60	10000	53.00	10000	100%	100%
18	EXID15MAY155.00CE	17.25	30000	30.00	30000	100%	11%
19	FEDB15APR120.00CEW4	11.30	10000	18.95	10000	100%	100%
20	HAIL15APR240.00CE	36.05	12000	64.00	12000	100%	100%
21	HAIL15APR250.00CE	30.05	15000	55.00	15000	100%	100%
22	HDIL15MAY90.00CE	15.50	28000	28.00	28000	100%	100%
23	HXTL15APR205.00CE	39.65	10000	66.70	10000	100%	38%
24	IBHF15MAY500.00CE	36.90	10000	71.55	10000	100%	100%
25	IDEA15APR155.00CEW4	12.65	24000	22.95	24000	100%	100%
26	JSWE15APR90.00CEW3	17.15	24000	30.65	24000	100%	100%
27	KARB15APR105.00CE	15.75	34000	28.10	34000	100%	100%
28	LICH15MAY410.00CE	34.60	11000	73.00	11000	100%	100%
29	MCRS15APR210.00CEW3	22.65	24000	38.00	24000	100%	60%
30	MFSL15MAY210.00CE	33.50	15000	59.50	15000	100%	20%
31	MPSL15APR270.00CEW3	29.45	15000	52.00	15000	100%	100%
32	MPSL15MAY270.00CE	31.10	15000	55.00	15000	100%	52%
33	MSSL15MAY440.00CE	33.75	12000	64.00	12000	100%	38%
34	NTPC15APR115.00CE	21.85	20000	36.50	20000	100%	32%
35	NTPC15MAY130.00CE	15.20	28000	29.00	28000	100%	100%
36	ONGC15APR270.00CEW3	24.80	16000	49.00	16000	100%	50%

37	ONGC15MAY270.00CE	29.50	25000	48.30	25000	100%	31%
38	PFCL15MAY230.00CE	34.35	15000	62.00	15000	100%	30%
39	PGCL15APR120.00CE	18.35	20000	29.95	20000	100%	100%
40	PGCL15MAY125.00CE	15.85	50000	28.95	50000	100%	33%
41	PLNG15APR155.00CE	16.10	30000	29.75	30000	100%	100%
42	PNBK15APR140.00CEW3	14.50	40000	23.95	40000	100%	100%
43	RANB15MAY740.00CE	45.40	12000	94.00	12000	100%	100%
44	RCAP15APR400.00CEW1	46.15	23500	153.40	23500	100%	20%
45	RECL15APR290.00CEW2	24.65	15000	41.95	15000	100%	100%
46	SAIL15APR45.00CE	15.20	32000	25.65	32000	100%	100%
47	SBIL15MAY240.00CE	30.65	15000	57.00	15000	100%	50%
48	SESA15APR165.00CE	18.65	25000	37.00	25000	100%	48%
49	SMIL15MAY400.00CE	32.05	12000	65.00	12000	100%	100%
50	SYND15APR85.00CE	17.05	28000	30.10	28000	100%	100%
51	TISC15MAY290.00CE	26.35	14500	54.50	14500	100%	37%
52	TITA15APR350.00CEW3	25.75	19000	44.00	19000	100%	100%
53	TMCL15APR240.00CE	24.95	20000	44.00	20000	100%	100%
54	TMCL15MAY180.00CE	49.35	11000	93.80	11000	100%	100%
55	TMCL15MAY200.00CE	43.30	10000	70.30	10000	100%	22%
56	UBIL15APR145.00CE	16.00	30000	28.00	30000	100%	100%
57	UBIL15APR150.00CEW3	12.75	30000	22.85	30000	100%	75%
58	UPHL15APR350.00CE	45.95	12000	75.00	12000	100%	100%
59	UPHL15APR370.00CEW3	33.15	14000	64.00	14000	100%	100%
60	UPHL15MAY370.00CE	34.76	31000	61.71	31000	100%	40%
61	UPHL15MAY380.00CE	25.50	12000	51.25	12000	100%	44%
62	VOLT15APR210.00CE	43.90	12000	73.90	12000	100%	29%
63	VOLT15APR230.00CEW4	27.85	10000	49.95	10000	100%	43%
64	VOLT15APR240.00CEW3	26.65	10000	46.00	10000	100%	100%
65	VOLT15MAY230.00CE	33.15	14000	58.85	14000	100%	100%
66	ZEEL15MAY300.00CE	36.39	43000	58.27	43000	100%	58%

19. From the table above, I note that the Noticee on average contributed 71% of the volume in the 66 contracts traded, and an average of 74% volume in 63 of the 66 contracts, which indicates a lack of public participation in the contracts.

20. Considering the manner of placing buy and sell orders in a synchronised manner within seconds of each other, reversal of the trades within a short time on the same day, and wide variation in prices of the trades in the same contract in a short time without any basis for such wide variation, I find that the trades executed by the Noticee were not genuine trades and being non-genuine,

created an appearance of artificial trading volumes in respective contracts. By engaging in such trades, the Noticee violated provisions of Regulation 4(2)(a) of PFUTP Regulations, 2003 which states that dealing in securities will be deemed to be a fraudulent and unfair trade practice if it involves "*indulging in an act which creates false or misleading appearance of trading in the securities market*".

21. The Noticee, by engaging in non-genuine transactions which created a misleading impression of trading in respective contracts, dealt in the stock options contracts in a fraudulent manner in violation of Regulation 3(a) and 4(1) of the PFUTP Regulations, 2003.

22. I find it relevant to note that 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 decided on February 08, 2018), which was a similar case involving execution of reversal trades in index options, the Hon'ble Supreme Court observed that "…*the traders thus having engaged in a fraudulent and unfair trade practice while dealing in securities, are hence liable to be proceeded against for violation of Regulations 3(a), 4(1) and 4(2)(a) of PFUTP Regulations…"*

Issue No. II **If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?**

&

Issue No. III **If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?**

23. As it has been established that the Noticee violated provisions of Regulations 3(a), 4(1) and 4(2) (a) of the PFUTP Regulations, 2003, hence the Noticee is liable for imposition of monetary penalty under Section 15 HA of the SEBI Act.

24. While determining the quantum of penalty under Section 15HA of the SEBI Act, the following factors stipulated in Section 15J of the SEBI Act, have to be given due regard:

    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.

25. As established above, the trades by the Noticee were non genuine in nature and created a misleading appearance of trading. I note that the trading was in illiquid stock option contracts where there was negligible participation by the public. Investigation has shown amount of profit / loss of the counterparties to the trades as a result of the non-genuine trades. However, considering that the violation by the Noticee is creation of artificial trading volumes by trading between two counterparties and wider market is not involved in the trades, the trades are such that one of the counterparty books a profit while the other counterparty books a loss. Hence, it would be appropriate to consider the impact of these transactions between the two counterparties in totality. When the impact of artificial volumes created by the two counterparties is seen as a whole, it is not possible from material available on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counterparties or the consequent loss caused to investors as a result of the default. I further note that the Noticee contributed around 0.05% of the artificial reversal trades in the market during the Investigation Period.

26. The Noticee has contributed to artificial volumes in 66 contracts through 173 trades on 5 days during the Investigation Period. Therefore, taking into account the facts and circumstances of this matter, and the proportion of trading by the Noticee as compared to the total volume of reversal trades in the market during

the Investigation Period, I am of the view that a penalty of ₹11,00,000 will be commensurate with the violations committed by the Noticee.

ORDER

27. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15I (2) of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of ₹11,00,000/- (Rupees Eleven Lakh only) upon the Noticee, i.e. Jeevaka Industries Private Limited, under Section 15HA of the SEBI Act, for violation of regulations 3(a), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

28. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through e-payment facility into Bank Account the details of which are given below:

Account No. for remittance of penalties levied by Adjudication Officer	
Bank Name	State Bank of India
Branch	Bandra-Kurla Complex
RTGS Code	SBIN0004380
Beneficiary Name	SEBI – Penalties Remittable To Government of India
Beneficiary A/c No.	31465271959

29. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to the Enforcement Department – Division of Regulatory Action – I of SEBI. The Noticee shall provide the following details while forwarding DD/ payment information:
    a) Name and PAN of the entity (Noticee)
    b) Name of the case / matter
    c) Purpose of Payment – Payment of penalty under AO proceedings
    d) Bank Name and Account Number
    e) Transaction Number

30. Copies of this Adjudication Order are being sent to the Noticee and also to SEBI in terms of Rule 6 of the Adjudication Rules.

DATE: MARCH 15, 2019
PLACE: MUMBAI

MANINDER CHEEMA
ADJUDICATING OFFICER