BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

ADJUDICATION ORDER NO. Order/GG/VV-AS/2021-22/15792

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

In respect of:

SANJAY GODHA
(PAN: AEPPG8280F)

In the matter of Dealings in Illiquid Stock Options at BSE

A. <u>BACKGROUND OF THE CASE</u>

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted an investigation into the trading activity in illiquid stock options on Bombay Stock Exchange Limited (hereinafter referred to as "**BSE**") for the period from April 01, 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 BSE.

2. Pursuant to a preliminary examination conducted in the Illiquid Stock Options matter, an Interim order was passed by SEBI on August 20, 2015 against 59 entities which were confirmed vide Orders dated July 30, 2016 and August 22, 2016. Meanwhile, SEBI initiated a detailed investigation relating to trading in stock options segment of BSE which was completed in the year 2018. The investigation findings revealed that of all trades executed in the stock options

segment of BSE during the Investigation Period, 81.38% of the trades, that is 2,91,643 trades, were trades which involved a reversal of buy and sell positions by the clients and counterparties in a contract. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE's stock options segment during the investigation period.

3. The proceedings initiated against the first set of 59 entities, vide the aforementioned Interim Order were disposed of vide final Order dated April 05, 2018, without any further directions, observing that the Adjudicating Officer shall continue the proceedings in accordance with the SEBI Act, 1992 and SEBI (Procedure for Holding and Imposing Penalties) Rules, 1995 and pass appropriate order on merits. It was also recorded therein that SEBI has decided to take appropriate action against all 14720 entities in phases. The captioned proceedings initiated against the Noticee is part of the aforesaid mass action initiated by SEBI against the large number of entities.

4. In the meantime, the Hon'ble Securities Appellate Tribunal (hereinafter referred to as **"SAT"**), vide its Order dated October 14, 2019, in the case of *R. S. Ispat Ltd Vs SEBI*, *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".*

5. Thereafter, a Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided a one-time opportunity for settlement of proceedings in the Illiquid Stock Options matter. The said scheme was kept open from August 01, 2020 till December 31, 2020. Finally, adjudication proceedings were initiated against those entities who had not availed of the opportunity of settlement.

6. It was observed that 13,186 entities had not availed of the opportunity of settlement and therefore, Adjudication proceedings were initiated against the entities in a phased manner. In order to duly expedite the Adjudication proceedings against the entities, SEBI had appointed additional Adjudicating officers to adjudicate against the said entities. However, owing to the huge number of entities, the adjudication proceedings are being conducted in a phased manner that would require adequate time to complete the proceedings against all entities.

7. It was observed that, Sanjay Godha (PAN: AEPPG8280F) (hereinafter referred to as the "**Noticee"**) was one of the entities, who did not seek settlement under the Settlement Scheme in 2020 and whose reversal trades allegedly involved squaring off of open positions with a significant price difference without any basis. The aforesaid reversal trades allegedly contributed to the generation of artificial volumes, leading to allegations that the Noticee had violated the provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1) and 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trading Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as the "**PFUTP Regulations**").

B. APPOINTMENT OF ADJUDICATING OFFICER

8. SEBI initiated adjudication proceedings and appointed the undersigned, as the Adjudicating Officer 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 the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as the "**SEBI Adjudication Rules**"), conveyed vide communique dated November 12, 2021 to inquire into and adjudge under Section 15HA of the SEBI Act, with respect to the allegations against the Noticee.

C. SHOW CAUSE NOTICE, REPLY AND HEARING

9. A Show Cause Notice dated December 27, 2021 (hereinafter referred to as "**SCN**") was served on the Noticee, vide Speed post with acknowledgement due (hereinafter referred to as "**SPAD**") and by email, under Rule 4(1) of the SEBI Adjudication Rules to show cause as to why an inquiry should not be initiated against the Noticee and penalty should not be imposed under Section 15HA of the SEBI Act for the alleged violation of the provisions of Regulations 3(a),(b),(c),(d)), 4(1) and 4(2)(a) of the PFUTP Regulations.

10. The SCN issued to the Noticee, *inter alia* alleged, that the Noticee engaged in executing 9 non-genuine trades in 3 unique contracts on the same day, which led to the generation of artificial volume of 15,96,000 units. Noticee's trades in the said contracts involved reversal of the trades with the same counterparty on the same day, at different prices. Noticee had entered into 9 non-genuine trades on 2 days viz. 20/01/2015 and 21/01/2015, in 3 unique contracts with 3 counterparties viz. Prem Kumar Poddar & others (HUF), Shri Sarvasarai Balaji Steels Ltd and Brajeshwar Dealers Pvt Ltd. The 9 trades each entered into by the Noticee were reversed on the same day with the same counterparty at a substantial price difference, allegedly without any basis for significant change in the price which indicates that these trades were artificial and non- genuine in nature. The summary of the dealings of the Noticee in the 9 stock option contracts, in which the Noticee allegedly executed the 3 trades during the investigation period is given below (Table no: 1):

Table No: 1   Summary of the dealings of the Noticee in 3 stock option contracts

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Total Vol in the contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	ALLD15JAN70.00CEW4	0.1	400000	1.1	400000	4816000	100	16.61
2	GMRI15JAN14.00PEW4	0.1	198000	1.1	198000	3474000	100	11.4
3	SAIL15JAN90.00CEW4	0.1	200000	2.1	200000	1400000	100	28.57

Source: Trade log provided by BSE

11. The trading pattern exhibited by Noticee while executing trades in the abovementioned contracts, which resulted in creation of alleged artificial volumes might be understood through illustration of trades of the Noticee in the contract viz. "SAIL15JAN90.00CEW4" (*Serial.no. 3 of the Table-1)*, which is as follows:-

    (a) During the investigation period, in the said contract viz. "SAIL15JAN90.00CEW4", Noticee on 21/01/2015 executed 3 trades for a total volume of 4,00,000 units with counterparty, viz. Brajeshwar Dealers Pvt Ltd.

    (b) While dealing in the said contract on 21/01/2015, the Noticee at 11:24:37.000442 hrs executed two sell trades for a total of 200000 units at an average rate of Rs. 2.1 per unit with counterparty, Brajeshwar Dealers Private Limited. In 1:09:9.863185 hrs after the aforementioned sell trades, the Noticee reversed the trades by executing one buy trade at 12:33:46.863627 hrs for 200000 units at the rate of Rs. 0.1 per unit with the same counterparty.

(c) From the above, it is noted that while dealing in aforesaid contract (i.e SAIL15JAN90.00CEW4) during the investigation period, the Noticee executed a total of 3 trades (1 buy trade and 2 sell trades). This made up to 28.57% of the total market volume for this contract during the investigation period. Likewise, in the contracts shown at S.no.1 & 2 of Table.1 of para 6, the Noticee has executed 6 trades, which constituted to variable percentages of market volume as provided in the table above.

12. Based on the above, it was alleged that the Noticee indulged in execution of the aforesaid non-genuine reversal trades, resulting in violation of the provisions of Regulations 3(a), (b), (c), (d) and 4(1), 4(2)(a) of the PFUTP Regulations, text of which is reproduced below:

PFUTP Regulations

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

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

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

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

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

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

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

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

13. Vide letter dated January 11, 2022, the Noticee sought additional time of four weeks for submitting reply to the SCN. Vide Hearing Notice dated February 09, 2022, Noticee was *interalia* granted opportunity of personal hearing on February 24, 2022, and was also advised to submit reply to the SCN, if any, before the date of scheduled hearing. Vide letter dated February 22, 2022, Noticee *interalia* sought additional time for submitting reply to the SCN, and further, requested for adjournment of personal hearing scheduled in the matter. Vide said letter, Noticee also requested for a copy of the following:
    (i) Order appointing investigating authority
    (ii) Investigation Report
    (iii) Notice of Investigation being served to Noticee.

14. Vide second hearing notice dated March 07, 2022, the Noticee was granted another opportunity of personal hearing on March 23, 2022. Vide email dated March 23, 2022, Noticee relied upon the judgement of the Hon'ble Supreme Court in the matter of T. Takano vs SEBI dated February 22, 2022, and requested for the following:
    (i) Copy of investigation report in the matter
    (ii) Inspection of all documents relevant for present proceedings

(iii) Adjournment of personal hearing scheduled in the matter on March 23, 2022

15. Vide email dated March 23, 2022, the Noticee was provided copy of portions of investigation report, relevant to the instant allegations. Further, the Noticee was informed that all the documents relied upon in the SCN had already been furnished along with said SCN. Vide said email, the Noticee was also advised to avail of the opportunity of personal hearing on the same day viz. March 23, 2022 at 03:30 PM. Noticee did not submit any reply to the said email as per the record.

16. Thereafter, vide another email dated March 23, 2022, which was sent after the time of hearing as scheduled previously, the Noticee was granted final opportunity of personal hearing in the matter. The Noticee was also advised that in terms of Rule 4(7) of the SEBI Adjudication Rules, if the Noticee failed to avail of the said opportunity of hearing, it would be presumed that the Noticee has no submissions to make and matter would be proceeded on the basis of material available on record. However, no reply was received from the Noticee.

D. CONSIDERATION OF ISSUES

17. I have taken into consideration facts of the case, the material on record and the submissions made in the case. I now proceed to consider the issues that arise in this case. The issues that arise for consideration in the present case are:
    (a) Whether the Noticee has violated provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003?
    (b) Does the violation, if any, attract monetary penalty under Section 15HA of the SEBI Act, 1992?

(c) If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in Section 15J of the SEBI Act, 1992?

18. I note that the allegation against the Noticee is that, while dealing in the stock option contracts at BSE during the IP, he had executed reversal trades which were allegedly non-genuine and the same had resulted in generation of artificial volume in stock option contracts at BSE. Reversal trades are considered to be those trades in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversal trades are alleged to be non-genuine trades as they are not executed in the normal course of trading, lack basic trading rationale, lead to false or misleading appearance of trading in terms of generation of artificial volumes and hence are deceptive and manipulative.

19. I note from the record that the Noticee had allegedly executed 9 non-genuine trades in 3 stock options contracts on BSE. I further note that the above mentioned trades of the Noticee had resulted in creation of artificial volume of 15,96,000 units in the said 3 contracts. Summary of non-genuine trades of the Noticee is as follows:

Table no: 2

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	Total Vol in the contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	ALLD15JAN70.00CEW4	0.1	400000	1.1	400000	4816000	100	16.61
2	GMRI15JAN14.00PEW4	0.1	198000	1.1	198000	3474000	100	11.4
3	SAIL15JAN90.00CEW4	0.1	200000	2.1	200000	1400000	100	28.57

20. It is noted that the Noticee had executed non-genuine trades in 3 contracts, wherein the artificial volume generated by the Noticee in the contracts amounted to the entire 100% of total volume generated by him in all the contracts. It is also noted that artificial volume generated by the Noticee contributed significantly viz. 11.40% to 28.57% of the total volume from the market in the said contracts. Non-genuine trades executed by the Noticee in the above contracts had significant difference in buy rates and sell rates considering that the trades were reversed on the same day.

21. I further note the details of alleged trades executed by the Noticee in the said 3 contracts viz. ALLD15JAN70.00CEW4, GMRI15JAN14.00PEW4 and SAIL15JAN90.00CEW4. I note that details of trades in the contract SAIL15JAN90.00CEW4 in Table no: 3 below:

Table No: 3 Summary of dealings of Noticee in contract SAIL15JAN90.00CEW4

S. No.	Date	Name of the client	Name of the counter party client	Trade Time (in hrs)	Order LM(Last traded) TIME	CP Order _LM TIME	Trade Rate (Rs.)	Order _LM rate	CP Order _LM rate	Trade quantity (qty) / Vol (no. of units)	Order _LM QTY	CP Order _LM OTY
1.	21/01/2015	Sanjay Godha (Buy)	Brajeshwar Dealers Pvt Ltd	11:24:37.000442	11:24:37.000442	11:23:54.106643	2.05	2.1	2.05	4000	200000	4000
2.	21/01/2015	Sanjay Godha (Buy)	Brajeshwar Dealers Pvt Ltd	11:24:37.000442	11:24:37.000442	11:24:35.983710	2.1	2.1	2.1	196000	200000	200000
3	21/01/2015	Brajeshwar Dealers Pvt Ltd	Sanjay Godha (Sell)	12:33:46.863627	12:33:46.863627	12:33:46.859546	0.1	0.1	0.1	200000	200000	200000

Source: Trade log provided by BSE

22. I note from Table no: 3 above, the following aspects of trading in the referred contract viz. SAIL15JAN90.00CEW4:

a) The Noticee and the counterparty placed their buy orders and sell orders exactly at the same time or within a difference of a few seconds that show synchronization of time even while placing orders.
b) The Noticee on 21/01/2015 executed two buy trades at 11:24:37.000442 hrs and reversed the trade by executing one sell trade at 12:33:46.863627 hrs with counterparty, Brajeshwar Dealers Pvt Ltd on the same day.
c) The Noticee executed the buy trade at the average rate of Rs. 2.099 and the sell trade at the rate of Rs. 0.1, reversing the trade with a difference in rate of Rs.1.999.
d) The Noticee and the counterparty had placed identical buy and sell order rates and quantities, except in one buy trade executed by Noticee.
e) The buy trade had been reversed upon execution of sell trade by Noticee for exact same quantity of 200000 units.
f) The Noticee by reversing the buy and sell trades had made loss to the extent of Rs. 3,99,800.
g) I observe that the counterparty has made an equivalent profit and that such profit incurred by the counterparty was due to the high sell order rate followed by a low buy order rate.
h) The reverse trades executed between the Noticee and counterparty show that it did not involve intention to have a genuine change of rights of 200000 units, as the Noticee bought and then sold the same quantum of units to the same counterparty viz. Brajeshwar Dealers Pvt Ltd. The attribute tagged with the orders of Noticee and counterparty under ‘order type’ and ‘CP_order Type’ column is “L”, as seen from columns 49 & 50 of Annexure 2 to SCN, which implies that Limit orders were placed by both the parties at a prefixed price.
i) Therefore, such trades are non-genuine trades executed by the Noticee in this contract that had led to the generation of artificial volume of 400000 units.

j) The trades of the Noticee in the contract had contributed to 28.57% of the market volume of the contract.

23. I further note the details of trades in the contract ALLD15JAN70.00CEW4 in Table no: 4 below:

Table No: 4 ***Summary of dealings of Noticee in contract ALLD15JAN70.00CEW4***

S. No .	Date	Name of the client	Name of the counter party client	Trade Time (in hrs)	Order LM(Last traded) TIME	CP Order _LM TIME	Trade Rate (Rs.)	Order _LM rate	CP Order _LM rate	Trade quantity (qty) / Vol (no. of units)	Order _LM QTY	CP Order _LM OTY
1.	20/01/2015	SHRI SARVASARAI BALAJI STEELS LIMITED	SANJAY GODHA (SELL)	11:33:06.599060	11:33:06.599060	11:31:39.435551	1.05	1.1	1.05	8000	400000	8000
2.	20/01/2015	SHRI SARVASARAI BALAJI STEELS LIMITED	SANJAY GODHA (SELL)	11:33:06.599060	11:33:06.599060	11:33:04.714742	1.1	1.1	1.1	392000	400000	400000
3	20/01/2015	SANJAY GODHA (BUY)	SHRI SARVASARAI BALAJI STEELS LIMITED	12:02:35.899653	12:02:35.625434	12:02:35.899653	0.1	0.1	0.1	400000	400000	400000

Source: Trade log provided by BSE

24. I note from Table no: 4 above, the following aspects of trading in the referred contract viz. ALLD15JAN70.00CEW4:

a) The Noticee and the counterparty placed their buy orders and sell orders exactly at the same time or within a difference of a few seconds that show synchronization of time even while placing the orders.

b) The Noticee on 20/01/2015 executed two sell trades at 11:33:06.599060 hrs and reversed the trade by executing one buy trade at 12:02:35.899653 hrs with counterparty, Shri Sarvasarai Balaji Steels Ltd on the same day.

c) The Noticee executed the sell trades at the rates of Rs. 1.05 and Rs. 1.1, and the buy trade at the rate of Rs. 0.1, reversing the said trades with differences in rates of Rs. 0.95 and Rs. 1 respectively.

d) The Noticee and the counterparty had placed identical buy and sell order rates and quantities, except in 1 sell trade executed by Noticee.

e) The sell trades had been reversed upon execution of buy trade by Noticee for exact same quantity of 4,00,000 units.

f) The Noticee by reversing the buy and sell trades, had made profit to the extent of Rs. 3,99,660/-.

g) I observe that the counterparty has made an equivalent loss and that such loss incurred by the counterparty was due to the high buy order rate followed by a low sell order rate.

h) The reverse trades executed between the Noticee and counterparty show that it did not involve intention to have a genuine change of rights of the said 400000 units, as the Noticee sold and then bought the same quantum of units to the same counterparty viz. Shri Sarvasarai Balaji Steels Ltd. The attribute tagged with the orders of Noticee and counterparty under 'order type' and 'CP_order Type' column is "L" , as seen from columns 49 & 50 of Annexure 2 to SCN, which implies that Limit orders were placed by both the parties at a prefixed price.

i) Therefore, such trades are non-genuine trades executed by the Noticee in this contract that had led to the generation of artificial volume of 8,00,000 units.

j) The trades of the Noticee in the contract had contributed to 16.61% of the market volume of the contract.

25. I further note the details of trades in the contract GMRI15JAN14.00PEW4 in Table no: 5 below:

Table No: 5 Summary of dealings of Noticee in contract GMRI15JAN14.00PEW4

S. No.	Date	Name of the client	Name of the counter party client	Trade Time (in hrs)	Order LM(Last traded) TIME	CP Order _LM TIME	Trade Rate (Rs.)	Order _LM rate	CP Order _LM rate	Trade quantity (qty) / Vol (no. of units)	Order _LM QTY	CP Order _LM OTY
1.	20/01/2015	PREM KUMAR PODDAR & OTHERS (HUF)	SANJAY GODHA (SELL)	14:44:21.029091	14:44:21.029091	14:44:01.164459	1.05	1.1	1.05	9000	198000	9000
2.	20/01/2015	PREM KUMAR PODDAR & OTHERS (HUF)	SANJAY GODHA (SELL)	14:44:21.029091	14:44:21.029091	14:44:19.328349	1.1	1.1	1.1	189000	198000	198000
3	20/01/2015	SANJAY GODHA (BUY)	PREM KUMAR PODDAR & OTHERS (HUF)	15:08:47.390714	15:08:47.385284	15:08:47.390714	0.1	0.1	0.1	198000	198000	198000

Source: Trade log provided by BSE

26. I note from Table no: 5 above, the following aspects of trading in the referred contract viz. GMRI15JAN14.00PEW4:
    a) The Noticee and the counterparty placed their buy orders and sell orders exactly at the same time or within a difference of a few seconds that show synchronization of time even while placing the orders.
    b) The Noticee on 20/01/2015 executed two sell trades at 14:44:21.029091 hrs and reversed the trade by executing one buy trade at 15:08:47.390714 hrs with counterparty, Prem Kumar Poddar & Others (HUF) on the same day.
    c) The Noticee executed the sell trades at the rates of Rs. 1.05 and Rs. 1.1, and the buy trade at the rate of Rs. 0.1, reversing the said trades with differences in rates of Rs. 0.95 and Rs. 1 respectively.
    d) The Noticee and the counterparty had placed identical buy and sell order rates and quantities, except in 1 sell trade executed by Noticee.

e) The sell trades had been reversed upon execution of buy trade by Noticee for exact same quantity of 1,98,000 units.

f) The Noticee by reversing the buy and sell trades, had made profit to the extent of Rs. 1,97,550/-.

g) I observe that the counterparty has made an equivalent loss and that such loss incurred by the counterparty was due to the high buy order rate followed by a low sell order rate.

h) The reverse trades executed between the Noticee and counterparty show that it did not involve intention to have a genuine change of rights of the said 1,98,000 units, as the Noticee sold and then bought the same quantum of units to the same counterparty viz. Prem Kumar Poddar & Others (HUF). The attribute tagged with the orders of Noticee and counterparty under 'order type' and 'CP_order Type' column is "L" , as seen from columns 49 & 50 of Annexure 2 to SCN, which implies that Limit orders were placed by both the parties at a prefixed price.

i) Therefore, such trades are non-genuine trades executed by the Noticee in this contract that had led to the generation of artificial volume of 3,96,000 units.

j) The trades of the Noticee in the contract had contributed to 11.4% of the market volume of the contract.

27. I observe a pattern of similarities in the reversal trades executed in all the 3 contracts by the Noticee, such as; synchronized reversal of trades; trades in the matter of dealings in Illiquid Stock Options at BSE placed with identical rate and quantity between the Noticee and counterparty, lack of intention or possibility of change of rights of the units traded as the counterparty to the sell and buy trades were the same in all the 3 contracts and the absence of rationale to justify the variation in the sell and buy price within a short span of time, go to show that these are non-genuine artificial trades. The nature of all the 9 trades are almost

similar and synchronized that the matching of orders and the reversal of trades in these 3 contracts cannot be a mere market coincidence but is evidently due to a pre-mediated arrangement.

28. I note that the non-genuineness of these transactions executed by the Noticee is evident from the fact that there was no commercial basis as to why, within a short span of time, the Noticee reversed the position with his counterparties with significant price differences. I note that the short span of time taken by Noticee for reversing the trades in illiquid stock options contracts suggests the non-genuineness of these trades executed by the Noticee. The fact that the transactions in a particular contract were reversed with the same 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 stock options contracts, there was no trading in the said contract and hence, there was no price discovery in the strictest terms. There was wide variation in prices of the said contract, within a short span of time, without substantial variation in the price of the underlying scrip to justify the aforesaid variation. It is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. Thus, it is observed that the Noticee had indulged in reversal trades with its counterparties in the stock options segment of BSE and the same were non-genuine trades.

29. Therefore, on observing the facts of the case and the pattern of trading by the Noticee, I am convinced that the trades were a consequence of pre-meditated decision of both parties and hence are unfair trades for the purpose of PFUTP Regulations. The trades of the Noticee, fall in the category of non-genuine trades, as the trades cannot result in change of rights in a contract as the reversal of trades were with the same counterparty. The non-genuine trades executed by the Noticee, therefore is a manipulative act contributing to generation of artificial

volume in the stock options segment of BSE and leading to violation of provisions of PFUTP Regulations.

30. In this context, it is relevant to quote the judgment of the Hon'ble Supreme Court in the matter of Rakhi Trading (SEBI Vs. Rakhi Trading- CA No.1969/2011, Order dated February 8, 2018)

"1. Fairness, integrity and transparency are the hallmarks of the stock market in India".

"35. … Nobody intentionally trades for loss. An intentional trading for loss per se, is not a genuine dealing in securities. The platform of the stock exchange has been used for a non-genuine trade. Trading is always with the aim to make profits. But if one party consistently make loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice."

"37. ... *even in the derivative segment there is a change of rights in a contract. In the instant case, through reverse trades, there was no genuine change of rights in the contract...*."

Their Lordships have considered similar transactions in the same segment,

"38. ….The repeated reversals and predetermined arrangement to book profits and losses respectively, made it clear that the parties were not trading in the normal sense and ordinary course. Resultantly, there has clearly been a restriction on the free and fair operation of market forces in the instant case."

"41 …. 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." (*Paragraph Nos. 1,35,37,38 and 41 of the part of the judgement authored by His Lordship Mr.Justice Kurian Joseph*).*

*"38. The smooth operation of the securities market and its healthy growth and development depends upon large extent on the quality and integrity of the market. Unfair trade practices affect the integrity and efficiency of the securities market and the confidence of the investors. Prevention of market abuse and preservation of market integrity are the hallmark of securities law…" (*Paragraph No.38 of the part of the judgment authored by Her Ladyship Ms. Justice R. Bhanumathi). *For this, the Hon'ble Judge also relied on the apex court observations in N.Narayanan Vs. Adjudicating Officer, Securities and Exchange Board of India(2013) 12 SCC 152 wherein it was inter alia observed: "Market abuse" impairs economic growth and erodes investor's confidence."*

*"42. Where certain unscrupulous elements are trying to manipulate the market to serve their own interest, it becomes imperative on the part of SEBI to intervene and to curb further mischief and to take necessary action to maintain public confidence in the integrity of the securities market…" (*Paragraph No.42 of the part of the judgment authored by Her Ladyship Ms. Justice R. Bhanumathi).

30. Finally, to answer the question as to whether these trades fall within the ambit of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations, I would like to rely on the following extract of the judgment of the Hon'ble Supreme Court in the matter of Rakhi Trading vs SEBI (supra):

"39. *Regulation 2(1)(c) defines fraud. Under Regulation 2(1)(c)(2) a suggestion as to a fact which is not true while he does not believe it to be true is fraud.*

Under Regulation 2(1)(c)(7), a deceptive behavior of one depriving another of informed consent or full participation is fraud. And under Regulation 2(1)(c)(8), a false statement without any reasonable ground for believing it to be true is also fraud. In synchronized and reverse dealing in securities, with predetermined arrangement to book loss or gain between pre-arranged parties, all these vices are attracted.

40. Regulation 3(a)expressly prohibits buying, selling or otherwise dealing in securities in a fraudulent manner. Under Regulation 4(2) dealing in securities shall be deemed to be fraudulent if the trader indulges in an act which creates a false or misleading appearance of trading in the securities market. It is a deeming provision. Such trading also involves an act amounting to manipulation of the price of the security in the sense that the price has been artificially and apparently prefixed. The price does not at all reflect the value of the underlying asset. It is also a transaction in securities entered into without any intention of performing it and without any intention of effecting a change of ownership of such securities, ownership being understood in the limited sense of the rights of the contract." (per His Lordship Mr.Justice Kurian Joseph's findings in paragraph Nos. 39&40).

31. Further, the Hon'ble SAT in its judgement dated September 14, 2020 in the matter of Global Earth Properties and Developers Pvt Ltd vs SEBI has *interalia* summarized the circumstances identified by the Apex court in the matter of Rakhi Trading vs SEBI (supra) and *interalia* held that:

"14…

b. The prices at which the trades are undertaken is such that one party is making profit and other making loss.

c. The orders are placed at unattractive prices which does not reflect the value of the underlying asset.

d. An intentional trading for loss per se, is not a genuine dealing in securities. Trading is always with the aim to make profits. But if one party consistently makes loss and that too in preplanned and rapid reverse trades, it is not genuine and the same is an unfair trade practice. e. In case of trade in a scrip in cash segment, there is a physical delivery of the asset. In the derivative segment there is a change of rights in a contract. In synchronized and reverse trades, there is no genuine change of rights in the contract.

e. In synchronized and reverse trades, there is no genuine change of rights in the contract."

……….

……….

"20. From the aforesaid cumulative analysis of the reversed transactions with the counter party, quantity, time and significant variation of the price clearly indicates that the trades were non-genuine and had only misleading appearance of trading in the securities market without intending to transfer the beneficial ownership. One finds it to be naïve to presume that the perception of the two counter parties to a trade changed within few seconds/minutes and positions were interchanged and the contracts were changed where one party made profit and the other party ended up making losses every time without prior meeting of mind. It is not a mere coincidence that the Appellants could match the trades with the counter party with whom he had undertaken the first leg of respective trade. In our opinion, the trades were non-genuine trades and even though direct evidence is not available in the instant case but in the peculiar facts and circumstances of the present case there is an irresistible inference that can be drawn that there

was meeting of minds between the Appellants and the counter parties, and collusion with a view to trade at a predetermined price.”

32. From the above position in law and facts, it follows that the Noticee’s transactions in question falls within the mischief of unfair and fraudulent or manipulative trade practice, as contemplated in the PFUTP Regulations. Hence, I am inclined to impose monetary penalty on the Noticee.

33. From the facts of the matter and the legal position laid down by the Hon’ble Supreme Court, I find that the subject trades are non-genuine and artificial. On being convinced of the generation of artificial volumes in the market by the Noticee, I am of the view that a penalty ought to be imposed on the Noticee which is commensurate to the violation. I find that a penalty of Rs. 5,00,000/- (Rupees Five Lakh only), being the statutory minimum penalty prescribed for PFUTP under Section 15A, is appropriate in the instant case.

E. ORDER

34. Therefore, in exercise of powers conferred upon me under Section 15-I (2) of the SEBI Act read with rule 5 of the Adjudication Rules, I hereby impose a penalty of Rs 5,00,000/- (Rupees Five Lakhs only) upon the Noticee *i.e.,* Sanjay Godha (PAN: AEPPG8280F) under Section 15HA of the SEBI Act, for violation of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations.

35. 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 favor of “SEBI - Penalties Remittable to Government of India”, payable at Mumbai, or through online payment facility available on the SEBI website **www.sebi.gov.in** on the following path by clicking on the payment link.

ENFORCEMENT → ORDERS → ORDERS OF AO → PAY NOW

In case further assistance would be required in payment of penalties, the Noticee may contact the support at *portalhelp@sebi.gov.in*.

36. The Noticee shall forward the said demand draft or the details / confirmation of penalty so paid through e-payment to the Division Chief, Enforcement Department-I, DRA-I, SEBI, in the format given in table below:

Case name	
Name of payee	
Date of payment	
Amount paid	
Transaction no	
Bank details in which payment is made	
Payment is made for	Penalty

37. In terms of Rule 6 of the SEBI Adjudication Rules, copies of this order are being sent to the Noticee and also to SEBI.

Date: March 31, 2022 **GEETHA G**

Place: Mumbai **ADJUDICATING OFFICER**