BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/AK/RA/2021-22/15701]

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

In respect of

ARPIT KHANDELWAL

(PAN: BPRPK0692F)

In the matter of Dealings in Illiquid Stock Options at BSE

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") observed large scale reversal of trades in stock options segment of Bombay Stock Exchange (hereinafter referred to as "**BSE**"). SEBI observed that such large scale reversal of trades in stock options lead to creation of artificial volume at BSE. In view of the same, SEBI conducted an investigation into the trading activities of certain entities in illiquid stock options at BSE for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period / IP").

2. Pursuant to the investigation, it was observed that total 2,91,643 trades comprising 81.38% of all trades executed in stock options segment of BSE during the Investigation Period were non-genuine trades. These non-genuine trades resulted in creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in stock options segment of BSE during the Investigation Period. Such trades were observed to be non-genuine in nature and created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore alleged to be manipulative and deceptive in nature. It was observed that Arpit Khandelwal (hereinafter referred to as the "Noticee") was one of the various entities which indulged in execution of reversal trades in stock options segment of BSE during the Investigation

Period. In view of the same, SEBI initiated adjudication proceedings against the Noticee for 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 relating to Securities Market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**").

APPOINTMENT OF ADJUDICATING OFFICER

3. The undersigned has been appointed as the Adjudicating Officer under section 15I read with 15HA of the SEBI Act, 1992 (hereinafter referred to as "**SEBI Act**") and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as "**Adjudication Rules**"), vide order dated July 02, 2021, to conduct adjudication proceedings in the manner specified under Rule 4 of Adjudication Rules read with section 15I of SEBI Act, and if satisfied that penalty is liable, impose such penalty as deemed fit in terms of Rule 5 of Adjudication Rules and Section 15HA of SEBI Act.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice bearing reference no. SEBI/HO/MRD/DSA/OW/AK/RVA/2021/15231/1 dated July 14, 2021 (hereinafter referred to as '**SCN**') was issued to the Noticee under Rule 4(1) of the Adjudication Rules to show-cause as to why an inquiry should not be initiated against the Noticee and why penalty should not be imposed upon the Noticee as per Section 15HA of the SEBI Act for the violations alleged to have been committed by the Noticee.

5. It was, inter alia, alleged in the SCN that the Noticee, through his trades, had indulged in creation of artificial volume of 44,000 units through 2 non-genuine trades in one stock option contract during IP.

6. The SCN dated July 14, 2021 issued to the Noticee was sent via Speed Post Acknowledgement Due ('SPAD') and via email dated July 14, 2021 at arpit.khandelwal08@gmail.com - the email provided by the Noticee in his KYC application. The Noticee acknowledged the receipt of SCN vide email dated August 02, 2021 and sought a period of one month to respond to SCN.

Accordingly, the noticee was requested to file reply not later than September 02 2021. The Noticee responded to the SCN vide letter dated August 23, 2021, denying all the allegations and seeking one-month further extension due to personal reasons to make a detailed submission. Vide letter dated September 20, 2021, the Noticee denied all the allegations on the following main contentions:

- Subjecting the Noticee to adjudication proceedings at a belated stage of approx. 6 years is unfair and unreasonable. Even though limitation act does not specify time limit in such case, still as per judicial pronouncements by the SAT and SC, a reasonable period has to be complied with.
- The trades were executed on the online trading platform of the exchange with due compliance with all the rules and regulations of the exchange. All the receipts and payments for the trades were made through SEBI registered stock broker and banking channels with appropriate audit trails.
- No relation with the counterparty.
- For the transaction to be termed fraudulent, as per the definition of "fraud", there has to be an "inducement" which has not been alleged by SEBI.
- Noticee's alleged trading in option segment constitutes a miniscule of market volume of total non-genuine trades. The total number of alleged non-genuine trades were only 2 which is only 0.000685% of market volume of the overall 2,91,643 trades in market.
- The trades did not influence the price/ volume of underlying shares in cash segment.
- BSE introduced measures for prevention of reversal trades only in 2016.

7. Further, vide aforementioned letter, the Noticee sought opportunity for personal hearing. The same was granted to the Noticee on October 29, 2021. The Noticee availed the opportunity and reiterated his submission made in his reply to SCN and also submitted additional response vide email dated November 02, 2021.

CONSIDERATION OF ISSUES AND FINDINGS

8. I have carefully perused the charges levelled against the Noticee and the documents / material available on record. The issues that arise for consideration in the present case are:
   (a) Whether the Noticee has violated regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations?
   (b) Does the violation, if any, attract monetary penalty under Section 15HA of the SEBI Act?
   (c) If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?

9. Before proceeding further, I would like to refer to the relevant provisions of the PFUTP Regulations as below:

PFUTP Regulations

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

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

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

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

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

4. *Prohibition of manipulative, fraudulent and unfair trade practices*

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

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely: (a) indulging in an act which creates false or misleading appearance of trading in the securities market.

10. I note that the allegation against the Noticee is that, while dealing in the stock option contracts at BSE during the Investigation period, the Noticee had executed reversal trades which were allegedly non-genuine trades and the same have resulted in the 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 normal course of trading, lack basic trading rationale, lead to false or misleading appearance of trading in terms of generation of artificial volumes, and hence are deceptive & manipulative.

11. I note from the trade log that the Noticee had executed 2 trades in one contract. I further note that the above-mentioned trades of the Noticee had resulted in the creation of volume of a total of 44,000 units in the said one contract. Summary of trades of Noticee is as follows:

Stock Option Contract	Buy Quantity	Sell Quantity	No. of alleged non-genuine trades executed by Noticee in the Contract	Total no. of trades executed by the Noticee in the contract	Total no. of trades executed in the contract	Alleged artificial volume generated by Noticee in the Contract	Total volume generated by Noticee in the contract	Total Volume in the contract	% of alleged non-genuine trades of Noticee in the contract to Noticee's total trades in the Contract =(D/E)	% of alleged non-Genuine trades of Noticee in the contract to Total trades in the Contract = (D/F)	% of alleged artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract = (G/H)	% of alleged Artificial Volume generated by Noticee in the contract to Total Volume in the Contract = (G/I)
A	B	C	D	E	F	G	H	I	J	K	L	M
COAL15APR 340.00CEW1	**22,000**	**22,000**	**2**	**2**	**37**	**44,000**	**44,000**	**12,82,000**	**100%**	**5.41%**	**100%**	**3.43%**

Trade Date	Scrip Name	Strike Price	Buy client name	Sell client name	Buy Order Time	Sell Order Time	Trade Time	Buy order rate	Sell Order Rate	Trade Rate	Buy Order Qty	Sell Order Qty	Traded Qty
20/03/2015	COAL15APR340.00CEW1	34000	Arpit Khandelwal	Loknath Saraf Securities Pvt. Ltd.	12:06:47.09	12:08:55.51	12:08:55.51	15.85	15.85	15.85	22000	321000	22000
20/03/2015	COAL15APR340.00CEW1	34000	Loknath Saraf Securities Pvt. Ltd.	Arpit Khandelwal	12:46:20.56	12:46:19.92	12:46:20.56	27.20	27.20	27.20	22000	22000	22000

12. I note that while dealing in the said contract during the IP, the Noticee executed two reversal trades (1 buy trade + 1 sell trade) with same counterparty viz. Loknath Saraf Securities Pvt. Ltd. on the same day and with significant price differential in buy and sell rate. The Noticee on March 20, 2015 at 12:06:47.09 hrs placed a buy order with counter party viz. Loknath Saraf Securities Pvt. Ltd. for 22,000 units at rate of Rs. 15.85 per unit in the contract "COAL15APR340.00CEW1". The counterparty of the Noticee on the same day i.e. March 20, 2015, at 12:08:55.51 hrs placed a sell order for 3,21,000 units of the said contract at Rs. 15.85 per unit. Accordingly, a trade for 22,000 units was executed between the Noticee and the counterparty at Rs. 15.85 per unit at 12:08:55.51 hrs.

    Thereafter, on the same day, the Noticee, at 12:46:19.92 hrs, placed a sell order for 22,000 units of the said contract at the rate of Rs. 27.20 per unit and the same counterparty placed a buy order for 22,000 units of the said contract at the rate of Rs. 27.20 per unit at 12:46:20.56 hrs. Accordingly, a trade for 22, 000 units was executed between the Noticee and the counterparty at Rs. 27.20 per unit at 12:46:20.56 hrs. Thus, the Noticee, through his dealing in the contract viz. "COAL15APR340.00CEW1" during the IP, executed two trades which is 5.41% of the total trades in the market in the said contract during the IP, and thereby, Noticee generated volume of 44,000 units which is 3.43% of the volume traded in the said contract from the market during the Investigation Period.

13. I note that the quantities ordered by the noticee and by his counterparty in case of first trade were not the same. The noticee had ordered buy quantity of 22,000 units whereas the counterparty wanted to sell 3,21,000 units of the same contract. I also note from the trade log of the Noticee that there was a difference of more than two minutes in time for placement of buy order and sell order. I further note that time taken by the Noticee for reversing his non-genuine trades is around thirty-eight minutes. The fact that the transactions in a particular contract were reversed with the same counterparty does indicate prior meeting of mind with a view to execute the reversal trades. However, based on the fact that in the first trade the order quantity was different and there was a substantial time gap between the buy order time and the sell order time, it cannot be conclusively proved that the Noticee had indulged in reversal trades with his counterparty in the stock options segment of BSE with prior meeting of mind and that the trades were non-genuine trades. Even if it is proved that the trades were non-genuine, the quantum of artificial volume generated as a result of the same is miniscule.

14. I note from the impugned SCN that the allegations against the Noticee that he had indulged in execution of non-genuine reversal of trades in illiquid stock option with same entity, created false and misleading appearance of trading in stock options and therefore violated Regulation 3(a), (b), (c) & (d) and 4(1) & 4(2)(a) of PFUTP Regulations, 2003 are solely based on the aforesaid transactions.

15. With regard to the several contentions of the Noticee against the SCN, mentioned at para 6 above, it is important to note that the circumstances surrounding the trade is relevant. What is relevant for the purpose of this proceedings is whether the Noticee indulged in an act which created false or misleading appearance of trading in the securities market. I note that even if the Noticee’s trades generated artificial volume of 44,000 units, (buy side + sell side), the overall contribution of the Noticee’s trade to total trades during the investigation period is small at 5.91% and in terms of volume it is smaller at

3.43% and hence I feel that the said trades did not create misleading appearance of trading in the securities market.

16. Accordingly, I find that the Noticee has not violated the provisions of Regulation 3(a), (b), (c) & (d) and 4(1) & 4(2)(a) of PFUTP Regulations, 2003 and there is no case for imposition of penalty.

ORDER

17. In view of the findings, I hereby dispose of the Adjudication Proceedings initiated against the Noticee, Arpit Khandelwal **[**PAN**:** BPRPK0692F**],** vide the SCN bearing ref. no.: SEBI/HO/MRD/DSA/OW/AK/RVA/2021/15231/1 dated July 14, 2021, in the matter of dealings in Illiquid Stock Options at BSE.

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

Date: March 30, 2022
Place: Mumbai

AMIT KAPOOR
ADJUDICATING OFFICER