BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO.: Order/SG/AK/2021-22/15784]

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:

Padma Singhal
(PAN: AXYPS2974G)

HIG-8, Priyadarshini Nagar
Itarsi, Madhya Pradesh -461111

In the matter of dealings in Illiquid Stock Options at the Bombay Stock Exchange

---

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**").

2. Pursuant to investigation, it was observed that a total of 2,91,744 trades, comprising 81.41% of all the trades executed in stock options segment of BSE, during the Investigation Period were non-genuine trades. It was observed that **Padma Singhal** (PAN- AXYPS2974G) (hereinafter referred to as the "**Noticee**") was one among the various entities who had indulged in execution of reversal trades in stock options segment of BSE during the Investigation Period.

3. 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, were alleged to be manipulative, deceptive in nature. 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) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations, 2003**").

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer in the matter, conveyed vide communique dated June 28, 2021, under Section 19 read with Section 15 I(1) of the SEBI Act, 1992 (hereinafter referred to as "**SEBI Act, 1992**") and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "**Adjudication Rules**") to conduct adjudication proceedings in the manner specified under Rule 4 of Adjudication Rules read with Section 15 I(1) and (2) of SEBI Act, 1992, and if satisfied that penalty is liable, impose such penalty deemed fit in terms of Rule 5 of Adjudication Rules and section 15HA of SEBI Act, 1992.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. A Show Cause Notice bearing reference no. SRO/SG/SP/15593/1/2021 dated July 16, 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 inquiry should not be initiated against the Noticee and penalty be imposed under section 15HA of the SEBI Act, 1992 for the violations alleged to have been committed by the Noticee.

6. It was, *inter-alia,* alleged in the SCN that the Noticee had executed two non-genuine trades in one stock option contract which resulted in artificial volume of a total of 46,000 units. The summary of dealings of the Noticee in the stock option contract, in which the Noticee allegedly executed trades that were not genuine, during the Investigation Period, is as follows:

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**
JSPL15MAR210.00PEW1	15.1	23000	34.75	23000	100%	28.4%

7. From the above table, the following is noted with regard to the dealings of the Noticee:
    a. The Noticee had executed two non-genuine trades in one unique contract, wherein all the trades of Noticee in the said contract were non-genuine trades.
    b. The non-genuine trades executed by the Noticee in the above contract had significant difference in the buy and sell rates considering that the trades were reversed on the same day, being the first and second trades in the contract for the trade day.

c. The entire volume (46,000 units) generated by the Noticee in the above contract was artificial volume, and further, the artificial volume generated by the Noticee contributed to 28.4% of the total volume (1,62,000 units) in the market in the said contract during the Investigation period.

8. The SCN vide reference no. SRO/SG/SP/15593/1/2021 dated July 16, 2021 was served on the Noticee via Speed Post Acknowledgement Due (SPAD) and via email dated July 22, 2021. The Noticee, vide email dated August 15, 2021 and vide Letter dated August 14, 2021 which was received on August 23, 2021, submitted her reply to the SCN. The contentions made by the Noticee in the aforesaid reply are *inter-alia* as follows:

   a. The Noticee has not denied the trades executed in the options segment of BSE however, has denied the assertions that trades are non-genuine. Further, Noticee has submitted that the trades were automatically matched and she had not known the counterparty of the trade.

   b. The Noticee denied the allegation regarding violation of SEBI (PFUTP) Regulations and reiterated her trades were carried out in good faith in the normal course of business.

9. In terms of adjudication rules, the Noticee was provided with an opportunity of personal hearing in the matter on October 1, 2021, through the online Cisco webex platform. Ms. Shailashri Bhaskar appeared as the Authorized Representative ("**AR**") on behalf of the Noticee on the stipulated date of hearing. During the course of the hearing, the AR reiterated the submissions made by the Noticee vide email dated August 15, 2021.

The AR, vide email dated October 5, 2021, informed that there are no further submissions, apart from those already made vide letter dated August 14, 2021 and during the personal hearing on October 1, 2021. Further, copy of IT Return of the Noticee was submitted by AR stating that the gains have been treated as a Business Income and income tax has been paid accordingly. The personal hearing in the matter was completed and hearing minutes were on record.

CONSIDERATION OF ISSUES AND FINDINGS

10. I have perused the charges levelled against the Noticee, the documents/ material available on record and the reply submitted by the Noticee. 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?*

11. Before proceeding further, I would like to refer to the relevant provisions of the PFUTP Regulations, 2003 as below:

"PFUTP Regulations,2003

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 manipulative, fraudulent or an unfair trade practice in securities markets.

[Explanation.– For the removal of doubts, it is clarified that any act of diversion, mis-utilisation or siphoning off of assets or earnings of a company whose securities are listed or any concealment of such act or any device, scheme or artifice to manipulate the books of accounts or financial statement of such a company that would directly or indirectly manipulate the price of securities of that company shall be and shall always be deemed to have been considered as manipulative, fraudulent and an unfair trade practice in the securities market.]

(2) Dealing in securities shall be deemed to be a manipulative, fraudulent or an unfair trade practice if it involves any of the following:—

(a) knowingly indulging in an act which creates false or misleading appearance of trading in the securities market."

12. 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 on the

same day with the same counter-party, which were allegedly non-genuine trades, resulting in generation of artificial volume in stock option contracts at BSE. Reversal trades are those trades in which an entity places its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. These reversal trades are alleged to be non-genuine trades as they are not executed in the normal course of trading, lack basic trading rationale and lead to false or misleading appearance of trading in terms of generation of artificial volumes and, hence, are deceptive and manipulative. Artificial volume is considered to be the volume (no. of units) reversed in both legs of said reversal trades while keeping out the volume, if any, which is not reversed.

13. I note from the trade log of the Noticee that she had traded in one unique contract in the stock options segment of BSE during the Investigation Period. The Noticee had executed two non-genuine trades in this one contract. I further note that the above mentioned trades of the Noticee had resulted in the creation of artificial volume of a total of 46,000 units in the said contract. A summary of the non-genuine trades of the Noticee is as follows:

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	JSPL15MAR210.00PEW1	15.1	23000	34.75	23000	100%	28.4%

14. I note from the above that, during the Investigation Period, the Noticee had executed non-genuine trades in one contract, wherein the percentage of such non-genuine trades in the stock options contract to total trades in the said contract was 28.4%. Non-genuine trades executed by the Noticee in the above contract had a significant difference in the buy rate and sell rate considering that the trades were reversed on the same day, with the same counterparty.

15. I note from the trade log that the trade executed by the Noticee in the contract was squared up within a short span of time with the same counter-party. To illustrate, the Noticee, at 14:45:36.57 hours on February 27, 2015, entered into a sell trade with the counter-party, viz. Subash Chand Mehta, for 23,000 units at the rate of Rs.34.75 per unit in the contract JSPL15MAR210.00PEW1. Thereafter, on the same day, the Noticee, at 15:03:18.93 hours entered into a buy trade with the same counterparty for 23,000 units at the rate of Rs. 15.10 per unit in the same contract. Thus, while dealing in the said contract during the Investigation Period, the Noticee executed the reversal trade with same counterparty, viz., Subash Chand Mehta, on the same day and with a significant price difference in buy and sell rate. Thus, the Noticee, through his dealing in the contract, viz. "JSPL15MAR210.00PEW1", during the Investigation Period, executed non-genuine trades which constitute 28.4% of the total trades in the market in the said contract during the Investigation Period, and thereby, the Noticee generated an artificial volume of 46,000 units in the said contract. I also note that there is wide variation in the prices of the two trades executed by noticee (i.e. sell and buy) in the said contract, i.e. Rs.34.75 at 14:45:36.57 hours and then Rs.15.10 at 15:03:18.93 hours, without there being any justification for the wide variation in prices.

16. I observe that it cannot be only a coincidence that the Noticee could match her trade with the same counterparty with whom the Noticee had undertaken the first leg of the respective trade. I note that though direct evidence is not available in the present matter as regards to meeting of minds or collusion of the Noticee with other entities the genuineness of trading has to be determined based upon circumstantial evidence involving multiple factors such as trading pattern, liquidity and volatility in the scrip / contract, etc. In this context, the Hon'ble SAT vide its order dated July 14, 2006, in the case of Ketan Parekh vs. SEBI (Appeal no. 2/2004) observed that ... "*The nature of the transaction executed, the frequency with which such transactions are undertaken, the value of the transactions" "the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is from the cumulative effect of these that an inference will have to be drawn."*

17. In this context, I place reliance on the judgment of Hon'ble Supreme Court in the matter in respect of **SEBI vs. Rakhi Trading Private Limited** (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018), in which the Hon'ble Supreme Court held that - "The platform of the stock exchange has been used for a non-genuine trade. Trading is always with the aim to make profits. But if one party consistently makes loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice". "*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."

18. In view of the fact that these options contracts were illiquid in nature, having very small volume in trading, the notice created artificial volumes in Stock Options which was manipulative and deceptive in nature. Once the Noticee has been found to have indulged in such reversal transactions in illiquid stock options it is liable for its acts and omissions.

19. Further, the Hon'ble Securities Appellate Tribunal, in its judgement dated September 14, 2020 in the matter of **Global Earth Properties and Developers Pvt. Ltd.** relied upon the aforesaid judgement of Hon'ble Supreme Court and held that, *"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."*

20. AR has submitted that Noticee had filed Income Tax return showing the gains as Business Income and income tax has been paid accordingly. I note from above that the said trades are not in question but genuineness of trades is in question. Thus, payment of taxes by the Noticee does not make these trades as genuine trades.

21. Considering the aforesaid factors, I conclude that the trading behaviour of the Noticee has resulted in creating an appearance of artificial trading volume in the contract. In view of the above, I find that the allegation of violation of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003 by the Noticee stands established.

22. Accordingly, I am of the view that it is a fit case for imposition of monetary penalty on the Noticee under the provisions of section 15HA of the SEBI Act, 1992 which read 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."*

23. While determining the quantum of penalty under Section 15HA of the SEBI Act, it is important to consider the relevant factors as stipulated in Section 15J of the SEBI Act which reads as under:

"Factors to be taken into account by the adjudicating officer.

15J. *While adjudging quantum of penalty under section 15-I, 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;

SB

Securities and Exchange Board of India
भारतीय प्रतिभूति और विनिमय बोर्ड

(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.

Explanation.—For the removal of doubts, it is clarified that the power of an adjudicating officer to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section."

24. I observe that the material available on record does not quantify any disproportionate gains or unfair advantage, if any, made by the Noticee and the losses, if any, suffered by the investors due to such violations on part of the said Noticee. However, the Noticee had entered into non-genuine trades, which created a false and misleading appearance of trading volumes in the respective contract at pre-meditated prices.

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.

26. Considering the facts of the matter, as discussed earlier, I am of the view that imposition of minimum penalty as prescribed under Section 15HA of the SEBI Act would be commensurate for the present matter.

ORDER

27. After taking into consideration all the facts and circumstances of the case, the material available on records, the factors mentioned in section 15 J of the SEBI Act, 1992 and

in exercise of powers conferred upon me under section 15-I of the SEBI Act, 1992 read with Rule 5 of the Adjudication Rules, 1995, I hereby impose following penalty under section 15HA of the SEBI Act, 1992 on the Noticee:

Name of the Noticee	Provisions violated	Penalty
Padma Singhal (PAN: AXYPS2974G)	Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003	Rs. 5,00,000/- (Rupees Five Lakh only)

I am of the view that the said penalty is commensurate with the lapse/ omission on the part of the Noticee.

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 online payment facility available on the website of SEBI, i.e., www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT → Orders → Orders of AO → PAY NOW.

29. The Demand Draft or the details/ confirmation of online payment, in the format as given in the table below, shall be sent to "Securities and Exchange Board of India, SEBI Bhavan, Plot No. C – 4 A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051" and also to email ID: tad@sebi.gov.in:-

1.	Case Name	
2.	Name of the 'Payer/ Noticee'	

3.	Date of payment	
4.	Amount paid	
5.	Transaction No.	
6.	Bank details from which payment is made	
7.	Payment is made for: (like penalties/ disgorgement/ recovery/ settlement amount and legal charges, along with order details)	

30. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

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

S. Gomathi

Date: March 31, 2022 **S. GOMATHI**

Place: Chennai **ADJUDICATING OFFICER**

भारतीय प्रतिभूति और विनिमय बोर्ड, चेन्नई
Securities and Exchange Board of India
SEBI