BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/MC/RM/2021-22/14590]

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 –

LATA GOEL FAMILY TRUST (PAN: AAATL3090K) having address at F 1 U-45, Pitam Pura, Delhi 110034

In the matter of Illiquid Stock Options at 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 Bombay Stock exchange (hereinafter referred to as "**BSE**") for the period between April 1, 2014 to September 30, 2015 (hereinafter referred to as, "**Investigation Period** after observing large scale reversal of trades in Stock Options segment of the BSE.

2. Pursuant to investigation, it was observed 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. The reversal trades involved squaring off transactions, but with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly led to generation of artificial volumes.

3. Lata Goel Family Trust ("**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, leading to allegations that the Noticee had violated Regulation 3(a),(b),(c),(d)and Regulation 4(1), 4(2)(a) 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

4. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer (hereinafter referred to as "**AO**") under section 15-I(1) 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 June 21, 2021 to inquire into and adjudge under Section 15HA 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 July 27, 2021.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. Show Cause Notice No. EAD5/MC/RM/17873/2021 dated August 03, 2021 (hereinafter be referred to as, the "**SCN**") was issued to the Noticee under Rule 4 of the Adjudication Rules read with section 15I of the SEBI Act, to show cause as to why an inquiry should not be held and penalty be not imposed against the Noticee under Section 15HA of the SEBI Act for the alleged violations of Regulations 3(a), (b), (c), (d) and 4(1), (2)(a) of the PFUTP Regulations.

6. The allegations levelled against the Noticees 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 5 such reversal trades in 2 unique contracts, which led to generation of artificial volume of 324000 units. These trades of the Noticee involved reversal with the same counterparty on the same day, but at different prices.

c) The trades entered by the Noticee were reversed on the same day with same counterparty 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 2 Stock Options contracts in which Noticee allegedly executed 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)	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	NHPC15JAN14.00PEW3	0.9	10000	0.1	10000	1350000	100	1.48
2	SAIL15JAN70.00PEW2	2.02	152000	0.1	152000	2184000	100	13.92

7. Noticee by indulging in execution of aforesaid non-genuine reversal trades, was alleged to have violated Regulation 3(a),(b),(c),(d), 4(1), 4(2)(a) of PFUTP Regulations, which are reproduced as follows:

*"**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"

8. A time period of 14 days from the date of receipt of the SCN was granted to the Noticee to present its reply to the SCN. Noticee submitted reply dated August 16, 2021 to the SCN.

9. In its reply dated August 16, 2021 the Noticee submitted the following: -

10. Noticee submitted that all the trades as stated in the show-cause notice were legal since they were in the normal course of business and as such bona fide in every respect. Since having traded in the diversified options which were classified as illiquid in nature, it is probably the reason that their trading could

contribute upto 82% of all the total traded volume of BSE Stock Options segment in one case and another has no significant volume.

11. Price fluctuation - above/ below, the intrinsic value are irrelevant and cannot be used to substantiate any allegation against the Noticee. The trading activity was, however, within the permitted price range of the BSE and if the BSE or the regulator were of the view that there was an aberration to the normal trading pattern, it was their (BSE or the Regulator) primarily/Core responsibility to issue the Noticee an alert. Whereas, BSE has not even prescribed any penalty and so much so, no advisory circular issued to this effect highlighting caution.

12. Noticee has not indulged in any reversal trades in any manner or created any artificial volumes as alleged in the show-cause notice under reference. Further, it would be worthwhile to state here that all the trading were genuine, bonafide and in the ordinary course of business.

13. Post execution of the trades, the same have been settled as per the norms of the exchange and the broker has issued contract note for the impugned trades. Therefore, the impugned trades executed by the Noticee cannot be held as non-genuine trades as alleged in the show-cause notice under reference.

14. All the trades in the stock options were settled in cash through the stock exchange mechanism. Unlike the Cash segment, there is no physical delivery of shares. Therefore, the alleged trading in the stock options under no stretch of imagination can be held to have created any false or misleading appearance of trading in stock options as alleged in the show-cause notice under reference.

15. In so far as allegations pertaining to reversal trades are concerned, it may be placed on record that at the given point of time, the Noticee was not even aware that its trades were in the nature of reversals as alleged. At no point of time, it was aware of any counterparty to its trades, or the trades of any other entities. All the trades were in the anonymous order matching system of the exchange,

whereby it is practically impossible to know the identity of the counterparties. The alleged matching with the counter parties is by coincidence and not by any intentional or mala-fide design.

16. Significantly, there is a huge time gap between buy and sell orders, clearly demonstrating that there was no intention to match/ reverse the trades. The orders were languishing in the system for quite a long time and anybody in the market could have picked them up.

17. The trading platform of BSE provide facility to execute trade at the price range defined by the exchange, depends upon the circuit filters. If it was the synchronized/matched trades then the following vital points must also be looked into-
    a) The amount of loss caused to an investor or group of investors as a result of the trades
    b) Those such trades are illegal only when they manipulate the market in any manner and induce investors. The above trades never tantamount to manipulate the market.
    c) It is also noticeable that the trades being settled in cash through a stock exchange mechanism, are genuine and therefore cannot create a false or misleading appearance.
    d) Further, any trade to be objectionable must result in influencing the market one way or the other.

18. The Noticee has done trade in the Scrip Code mentioned in the Notice without any mala-fide intention The Noticee is investor in Cash/Derivatives segment and not indulged in the price rigging and volatility creation and matching.

19. Both the entities are different apart and have no direct /indirect relation in any manner. The matching might have happened due to low liquidity.

20. With regard to alleged reversal trades, kindly refer to the Order of the Hon'ble Securities Appellate Tribunal in the matter of- Saroj & Co. proprietor Sanjay Agrawal vs. Securities and Exchange Board of India (SAT Order dated 18.05.2012 Appeal No213 of 2011) wherein it was inter alia observed as follows:- *"............ nexus between the parties for establishing reversal trades has not been brought on record in the present case. The reference to mere matching of a few trades may not necessarily point to fraudulent intention of the appellant. Screen based trading functions on the basis of anonymity and sometimes orders may get matched when trades are executed keeping in mind price, time and volume. But it is important to establish the nexus between the parties, especially so in the case of a broker since he acts according to the directions of the client. Even though a detailed analysis of the trades is part of the adjudication order, the adjudicating officer has not been able to establish a pattern of wrong doing aimed at fraudulent practices in the market. The appellant has been able to analyse each trade which took place during the impugned period of 35 days and show that orders were placed in the normal course of business. The adjudicating officer has not established with sufficient supporting material that that the appellant was a party to a handful of matching trades which have taken place in the course of the trading as directed by the appellant. So, considering the detailed explanations, the order of the adjudicating officer was set aside."*

21. Noticee in view of the above submissions, prayed to be discharged and requested that no penalty be imposed on the Noticee.

22. Vide hearing notice dated September 02, 2021, the Noticee was granted an opportunity of hearing on September 15, 2021, however the Noticee did not avail the opportunity of hearing provided. Noticee vide letter dated September 17, 2021 requested for another opportunity of personal hearing citing ill health as reason for not attending the hearing granted. Accordingly another opportunity of personal Hearing was granted to the Noticee vide hearing Notice dated November 30, 2021 on December 07, 2021 through video conferencing. However, vide email dated December 06, 2021 Noticee requested for another

adjournment of personal hearing, citing similar health reasons without any supporting documents. The request for adjournment was not acceded to by the undersigned and Noticee was advised to avail the opportunity of personal hearing on December 07, 2021. The Noticee failed to appear before the undersigned for personal hearing through video conferencing. In view of the same the matter is decided upon on the basis of the reply of the Noticee and the evidence available on the records in terms of sub-rule (7) of rule (4) of the Adjudication Rules.

CONSIDERATION OF ISSUES AND FINDINGS

23. The issues arising for consideration in the instant proceedings are:-

    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?

    II. If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?

    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 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?

24. Noticee has contended that the trades were genuine and it has not engaged in reversal of trades. In this regard I note that the Noticee carried out 5 reversal trades in 2 unique contracts on January 02, 2015 as seen from the trade log records in Annexures 2 of the SCN. In Stock option “SAIL15JAN70.00PEW2” on January 02, 2015 Noticee at 13:44:45.53 hrs executed 2 buy trades for 152000 units at rate of Rs.2.05 per unit for 1,48,000 units and Rs.1.00 per unit for 4000 units with counterparty viz, Umang Nemani. At 14:26:33.70 hrs, after 00:41:48

hrs of the aforementioned buy trade, the Noticee executed a sell trade for 1,52,000 units at a rate of Rs. 0.10 per unit, with the same counterparty. The aforesaid 3 reversal trades (2 buy trade and 1 sell trade) were executed within 42 minutes of each other, generating artificial volumes to the extent of 3,04,000 units in the said contract. This made up 13.92% of the total market volume for this contract during the investigation period.

25. Similarly the Noticee also engaged in 2 reversal trades in NHPC15JAN14.00PEW3 contract at buy price of Rs. 0.9 and sell price of Rs. 0.1 for 20,000 units within 35 minutes of each other, generating artificial volumes to the extent of 20,000 units in the said contract. This made up 1.48% of the total market volume for this contract during the investigation period.

26. Out of the aforesaid 5 trades carried out by Noticee, 3 trades involving 3,10,000 units by the Noticee and the trade orders of the counterparty were synchronized to within a second of each other and another 10,000 units were synchronized to within 21 seconds. For the remaining 4,000 units both the trade orders of the Noticee and the counterparty were within 1 minute and 24 seconds of each other.

27. Noticee has contended that the price fluctuation above/below the intrinsic value is irrelevant, In this regard I note that there is wide variation in the prices of 2 legs of the reversal trades for both the contracts i.e in case of SAIL15JAN70.00PEW2 contract Noticee bought at average rate of Rs.2.02 at 13:44:45.53 hrs and then sold at average rate of Rs.0.10 at 14:26:33.70 hrs in less than 42 minutes. Similarly in case of NHPC15JAN14.00PEW3 Noticee bought at average rate of Rs.0.90 at 14:29:55.11 hrs and then sold at average rate of Rs.0.10 at 15:04:04.31 hrs in less than 35 minutes. These sudden wide variation in prices of buy and sell were without any justification.

28. Noticee has contended, that there was huge time gap between the buy and sell orders; there was no intention to match/reverse the trades; and the Noticee and the counterparty are not related any manned. In this regard, I note that the time

difference between the buy and sell trades in the 2 unique contracts 'SAIL15JAN70.00PEW2' and 'NHPC15JAN14.00PEW3' were less than 42 minutes and 35 minutes respectively. The quantity of the respective sell/buy orders of the Noticee exactly matched that of single counter party "Umang Nemani". For 95.6% of the traded units in the aforesaid contracts the placement time of the trades by Noticee and the counterparty were within a second of each other. In this regard I note that while synchronized trades may occur by accident in a liquid stock, execution of such synchronized trades in an illiquid market with anonymous trading can only happen if there is prior meeting of minds with a view to execute trades.

29. The submissions by the Noticee that the trades were anonymously matched, and cash settled through the stock exchange mechanism, does not establish genuineness of trades or preclude execution of artificial and non-genuine trades.

30. Hence, the manner of placing buy and sell trades in the trades carried by Noticee were in a synchronized manner, executed within 42 minutes of each other, resulting into reversal of the trades within a short time on the same day, with wide variation in prices of the trades in the same contract in a short time without any basis for such wide variation, all indicate 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.

31. By engaging in such trades, the Noticee violated provisions of Regulation 4(2)(a) of PFUTP Regulations 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".

32. I find it relevant to note here 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 held 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*..."

33. In view of the above, I find that 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) and 4(2)(a) of the PFUTP Regulations, 2003.

Issue II If yes, whether the failure, on the part of the Noticees would attract monetary penalty under Section 15HA of the SEBI Act?

and

Issue 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?

34. Since the violation of Regulation 3(a), 4(1) and 4(2)(a)of PFUTP Regulations has been established against the Noticee, as brought out in the foregoing paragraphs, the Noticee is liable for monetary penalty under Section 15HA of SEBI Act which is reproduced as follows:

SEBI Act: 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.*

35. While determining the quantum of penalty under Section 15HA of 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.

36. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading. Investigation has not shown the 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.

37. The Noticee has contributed to artificial volumes in 2 contracts on 1 day during the Investigation Period. I also note that the violation was not repetitive in nature. In regard to the discretion exercisable by the AO for determining penalty depending on facts and circumstances of the case, I note that the discretion by AO can be exercised subject to the minimum penalty prescribed by statute.

38. 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 Rs.5,00,000 (Rupees Five Lakh only) under Section 15HA of the SEBI Act will be commensurate with the violations committed by the Noticee.

ORDER

39. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15-I of SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of Rs.5,00,000/- (Rupees Five Lakh only) on Noticee i.e. Lata Goel Family Trust under Section 15HA of the SEBI Act for violation of Regulation 3 (a), 4(1) and 4(2)(a) of PFUTP Regulations.

40. 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 SEBI website www.sebi.gov.in on the following path, by clicking on the payment link-

ENFORCEMENT ⟶ Orders ⟶ Orders of AO ⟶ PAY NOW

41. 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.

42. 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

43. Copy of this Adjudication Order is being sent to the Noticee and also to SEBI in terms of Rule 6 of the Adjudication Rules.

MANINDER CHEEMA Digitally signed by MANINDER CHEEMA Date: 2021.12.28 12:42:09 +05'30'

DATE: December 28, 2021 **MANINDER CHEEMA**

PLACE: MUMBAI **ADJUDICATING OFFICER**