BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO.: Order/AT/DG/2022-23/15805]

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:

BAJRANG LAL DALMIA HUF
(PAN: AABHB9898Q)
LALJI TOLA EASTERN SIDE
PATNA BIHAR 800001

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

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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 **Bajrang Lal Dalmia HUF** (PAN- AABHB9898Q) (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 under the provisions of section 15HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act, 1992**') 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. During the course of hearing in the case of R. S. Ispat Ltd Vs SEBI, the Hon'ble Securities Appellate Tribunal (SAT), vide its Order dated October 14, 2019, 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. In this regard, 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. Adjudication proceedings were initiated against those entities who had not availed of the opportunity of the settlement scheme.

6. In this regard, SEBI, after being satisfied that there are sufficient grounds to inquire into the affairs and adjudicate upon the alleged violations as mentioned above inter-alia in respect of the Noticee, had appointed the undersigned as Adjudicating Officer ('AO'), conveyed to the undersigned 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 against the Noticee for the alleged violation of the aforesaid provisions of PFUTP Regulations, 2003.

SHOW CAUSE NOTICE, REPLY AND HEARING

7. A Show Cause Notice bearing reference no. EAD/AP/DS/14749/1 /2021 dated July 09, 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.

8. 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 60,000 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:

Summary of dealings in contracts wherein the Noticee executed reversal trades

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.	ZEEL15APR320.00CEW2	10.95	30000	20.95	30000	100%	5.61%

Note: *"Unit" refers to lot size in contract multiplied by number of contracts traded.*

9. From the above table, the following is noted with regard to the dealings of the Noticee:
   a. The Noticee had executed two trades in one unique contract, wherein all the trades of Noticee in the said contract were reversed with the same counterparty on the same day with significant difference in the buy and sell rates.
   b. The entire volume (60,000 units) generated by the Noticee in the above contract was artificial volume, and further, the artificial volume generated by the Noticee also contributed to 5.61% of total market volume (10,70,000 units) in the market in the said contract during the Investigation period.

10. The SCN dated July 09, 2021 was served on the Noticee via Speed Post Acknowledgement Due ("SPAD"). Thereafter, the Noticee, vide letter dated August 02, 2021, submitted reply to SCN which is summarized as below:

   a. *The Noticee denied the allegations and/or contentions and/or observations made in the SCN.*

   b. *The Noticee submitted that all his trades in the scrip were bona-fide and in the ordinary course of business and denied any involvement in generating artificial volume by execution of reversal trades.*

   c. *The Noticee submitted that he had transacted in the scrip which is listed on BSE through a SEBI registered stock broker which is neither illegal/ prohibited. Further the Noticee also denied any relation/ connection with the counterparty to his trades as the said transactions were done through online terminal provided by BSE where knowing the counterparty of the transaction is impossible.*

   d. *The Noticee requested to drop the charges in SCN as the allegations in the SCN are not factually correct and cannot be legally sustained.*

11. In the interest of natural justice and in terms of the Adjudication Rules, the Noticee was provided an opportunity of personal hearing in the matter on August 13, 2021 through the online Webex platform. Mr. Nikunj Kanodia, appeared as the Authorised Representative ("AR") on behalf of the Noticee on the scheduled date of hearing. During the course of the hearing, the AR reiterated the submissions made by the Noticee in his reply dated August 02, 2021.

12. Vide email dated September 02, 2021, the undersigned was informed by Mr. Anirudh Dalmia, the grandson of the karta of the Noticee, that Mr. Bajrang Lal Dalmia, the karta of the Noticee, had passed away on August 17, 2021. A death certificate dated August 31, 2021 issued by the Department of Planning and Development, Municipal Corporation Patna, Government of Bihar was produced along with the said email.

13. Vide email dated September 08, 2021, details of the successor karta of the HUF was sought. In response to that same, Mr. Anirudh Dalmia vide email dated September 13, 2021 informed that since none of the family members were interested in carrying out the operations of the HUF (Hindu Undivided Family), the family has decided to dissolve the HUF and surrender the PAN to the Income Tax Department. In this regard, he requested to abate the proceedings in the matter.

CONSIDERATION OF ISSUES AND FINDINGS

14. I have taken into consideration the facts and circumstances of the case, the material/documents available on record and the submissions of the Noticee. The issues that arise for consideration in the instant 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?*

15. Before proceeding with the matter on merits, I will first deal with the request of Mr. Anirudh Dalmia to abate the current proceedings against the Noticee, as the karta of the Noticee, Mr. Bajrang Lal Dalmia, had passed away on August 17, 2021 and that surviving members of the HUF were planning to dissolve the HUF. In this regard, I note that HUF is a legal entity separate from the karta of the HUF and continues to exist even after the death of karta. It has its own identity and can sue and be sued as a person. The current proceedings are against Bajrang Lal Dalmia HUF and not against Late Mr. Bajrang Lal Dalmia and therefore the proceedings cannot be abated due to the death of the Karta of HUF. In this regard, attention may be drawn to Sub Rule 2 of Rule 4 of Order 30 of Code of Civil Procedure,1908 which states as under:

" 4: Rights of suit on death of partner

(2) nothing in sub-rule shall limit or otherwise affect any right which the legal representative of the deceased may have –

(a) to apply to be made a party to the suit ,or

(b) to enforce any claim against the survivor or survivors."

16. I note that the SCN in the proceedings was issued and delivered to the Noticee even prior to the demise of the Karta of the Noticee, viz., Late Mr. Bajrang Lal Dalmia. In this regard, I would like to rely on the order of Hon'ble High Court of Bombay in the matter of Nergish Minoo Rustomji Parvi & Anr. Vs. Pramod Kishanchand Gupta vide order dated September 07, 2009 has observed that:

"7…..In case of a HUF, if Karta dies during pendency of a suit/ appeal, the successor Karta will have to come forward, as contemplated by sub-rule (2) of Rule 4, and apply for bringing him on record.

8….It needs to be noted that a HUF cannot appear as a HUF, and the manager/Karta should, therefore, appear in his own name, though all subsequent proceedings could *be continued in the name of HUF. A HUF need to be represented by its Karta/ manager in a suit/appeal and in the event of his death, a successor Karta/ manager will have to represent the HUF and continue the proceedings. But, after disposal of a suit and at the time of filing an appeal if Karta/ manager, who was representing the HUF in the suit dies, the successor Karta will have to file the appeal. The appeal, in such eventuality cannot be filed in the name of HUF, showing the deceased Karta/ manager as its Karta/ manager. Such appeal would be a nullity."*

17. In view of the above, the current adjudication proceeding is continued since the proceedings were initiated against Bajrang Lal Dalmia (HUF) before the death of Mr. Bajrang Lal Dalmia (Karta of HUF).

18. Further, with regard to the dissolution of HUF, Mr. Anirudh Dalmia, the grandson of the Karta of the Noticee vide email dated September 13, 2021 informed that the surviving members of the HUF has decided to dissolve the HUF and surrender the PAN to the Income Tax Department. In this regard, many opportunities were provided to the Noticee vide emails dated September 14, 2021, September 15, 2021, September 17, 2021, February 28, 2022 and finally on March 07, 2022 to submit the documentary evidence. However, no documents have been provided till date. Vide email dated March 02, 2022, Mr. Anirudh Dalmia submitted that he is neither able to trace any documents with regard to the HUF nor able to get the details of the members of the HUF and hence, he is unable to provide any documents other than the death certificate of Late Shri Bajrang Lal Dalmia (the Karta of the Noticee) and the surrender letter of the PAN of the HUF to Income Tax Department. In this regard, I note that there is no 'Partition Deed' or any other documentary evidence that has been submitted by the surviving members of the Noticee for Dissolution of the HUF. Therefore, I conclude that

there is no merit in the plea of Mr. Anirudh Dalmia to abate the proceedings in this matter.

19. With respect to the alleged violations in the instant matter, it is pertinent to refer to the relevant provisions of the PFUTP Regulations, 2003, which are reproduced as follows:

"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."

20. 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 within 8 minutes 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.

21. I note from the trade log of the Noticee that he had executed two non-genuine trades in one unique contract in the stock options segment of BSE during the Investigation Period which resulted in the creation of artificial volume of a total of 60,000 units in the said contract. A summary of the non-genuine trades of the Noticee executed on March 30, 2015 in the said contract is as follows:

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
BAJRANG LAL DALMIA HUF	ADARSH CREDIT CO OP SOCIETY LIMITED	15:01:10.373368	15:01:16.579808	15:01:16.579808	10.95	10.95	10.95	30000	509000	30000
ADARSH CREDIT CO OP SOCIETY LIMITED	BAJRANG LAL DALMIA HUF	15:08:09.454756	15:08:09.104960	15:08:09.454756	20.95	20.95	20.95	30000	30000	30000

22. I note from the trade log that the orders by the Noticee and the counter-party were placed within a gap of less than 7 seconds for the buy leg of the transaction and within a gap of less than 1 second for the sell leg of the transaction. Further, the trades executed by the Noticee in the contract was squared up within a short span of 8 minutes with the same counter-party. To illustrate, the Noticee, at 15:01:16.58 hours on March 30, 2015, entered into a buy trade with the counterparty, viz., Adarsh Credit Co Op Society Limited, for 30,000 units at Rs. 10.95 per unit, which was reversed by a sell trade at 15:08:09.45 hours, i.e. within 8 minutes, with the same counterparty for 30,000 units at Rs. 20.95 per unit. Thus, while dealing in the said contract during the Investigation Period, the Noticee executed the reversal trade with same counterparty on the same day within a span of few minutes with noticeable price difference in buy and sell price which indicates that these trades were non-genuine in nature.

23. I note from the above that, during the Investigation Period, the Noticee, through his dealing in the contract, executed non-genuine trades which constitute 5.61% of the total trades (10,70,000 units) in the said contract during the Investigation Period, and thereby, the Noticee generated an artificial volume of 60,000 units in the said contract.

24. The fact that the transactions executed by the Noticee are not genuine is evident from the trade log of the Noticee which reveals that within a short span of time of around 8 minutes, the Noticee reversed the position with the counterparty with a noticeable price difference. Such a short span of time taken for reversing the trades in an illiquid stock option contract and the wide variation in prices of the said contract makes it evident that these trades executed by the Noticee were not genuine and indicates a prior

meeting of minds with a *mala fide* intent to execute the reversal trades at a pre-determined price.

25. Further, I observe that it cannot be only a coincidence that the Noticee could match its trade with the same counterparty with whom the Noticee had undertaken the first leg of the respective trade. Further there was a short time difference between placing of the orders by the Noticee and counterparty. This indicates prior meeting of minds and a deliberate attempt to deal in such a fashion. In this context, I would like to rely on the judgment of the Hon'ble Supreme Court of India in **SEBI vs. Kishore R Ajmera** (AIR 2016 SC 1079), wherein it was held that "…*in the absence of direct proof of meeting of minds elsewhere in synchronized transactions, the test should be one of preponderance of probabilities as far as adjudication of civil liability arising out of the violation of the Act or provision of the Regulations is concerned. The conclusion has to be gathered from various circumstances like that volume of the trade effected; the period of persistence in trading in the particular scrip; the particulars of the buy and sell orders, namely, the volume thereof; the proximity of time between the two and such other relevant factors. The illustrations are not exhaustive*..."

26. In the instant matter I also 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 - "*Considering the reversal transactions, quantity, price and time and sale, parties being persistent in number of such trade transactions with huge price variations, it will be too naive to hold that the transactions are through screen-based trading and hence anonymous. Such conclusion would be over-looking the prior*

meeting of minds involving synchronization of buy and sell order and not negotiated deals as per the board's circular. The impugned transactions are manipulative/ deceptive device to create a desired loss and/or profit. Such synchronized trading is violative of transparent norms of trading in securities…."

27. Additionally, the Hon'ble SAT, 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."*

28. I note that while direct evidence may not be forthcoming in the present matter as regards to meeting of minds or collusion of the Noticee with other entity, there is guidance from the aforesaid order of the Hon'ble Supreme Court where it lays emphasis on the 'preponderance of probabilities' in each case to arrive at a decision considering the following:
    - the isolated trade and reversal in the same option contract,
    - the same counter party being involved in both the trades,
    - the gap between placing of orders by the Noticee and counterparty being just a few seconds (less than 7 seconds for the buy trade and less than 1 second for the sell trade)

- the gap between the trade and the reversal being just a few minutes (less than 8 minutes) and
- the substantial difference in the buy and sell rate within short span of time.

I cannot but conclude that the trades have been executed with an ulterior motive to create artificial volume and are not genuine.

29. 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.

30. Accordingly, I am convinced 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."*

31. 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;

(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."

32. 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.

33. 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

34. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in section 15 J of the SEBI Act, 1992 and in exercise of power 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
Bajrang Lal Dalmia HUF **(PAN:** AABHB9898Q**)**	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.

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 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.

36. The Noticee shall forward the aforesaid DD / payment confirmation details to the Division Chief, Enforcement Department -I (EFD), Division of Regulatory Action -I [EFD1-DRA-6] SEBI Bhavan, Plot No.C4-A,‘ G’ Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai –400051 and also send an email to tad@sebi.gov.in with the following detail:

1	Case Name	
2	Name of the ‘Payer / Noticee’ along with PAN of Noticee	
3	Date of Payment	
4	Amount Paid	
5	Transaction No.	
6	Bank Name and Account No.	
7	Purpose of payment (like penalties/ disgorgement/ recovery/ settlement amount and legal charges, along with order details)	

37. 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.

38. 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.

APARNA THYAGARAJAN

Digitally signed by APARNA THYAGARAJAN
Date: 2022.04.04 16:28:52 +05'30'

Date: April 04, 2022 **APARNA THYAGARAJAN**

Place: Mumbai **ADJUDICATING OFFICER**