BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/SP/PB/2021-22/14890]

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:

Rajiv Changoiwala [PAN: ACIPC6045P]
Fe 110, Sector – 3, Bidhan Nagar, Saltlake City,
North 24 Parganas, Kolkata West Bengal -700106

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”), allegedly, leading to the creation of artificial volume in the stock option segment of BSE. In view of the same, SEBI conducted an investigation into the trading activity in illiquid stock options at BSE for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as "**Investigation Period**").

2. Pursuant to investigation, it was observed that during the investigation period, a total of 2,91,744 trades, comprising 81.40% of all the trades executed in BSE Stock Options Segment, were trades which involved reversal of buy and sell positions by the clients and their respective counterparties, in a contract.

3. It was observed that **Mr. Rajiv Changoiwala** [PAN: ACIPC6045P] (hereinafter referred to as the **“Noticee**”) was one of the various entities who indulged in

execution of reversal trades 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 illiquid stock options and therefore were alleged to be manipulative and 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, vide communiqué dated July 06, 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 as 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 (hereinafter referred to as “SCN”) bearing ref. no.: **SEBI/HO/ISD2/CD2/HB/SP/P/OW/2021/20150/1 dated August 18, 2021** 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 penalty, if any, be not 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 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. The Noticee is alleged to have engaged in reversal trades (altogether two trades, one on the buy side and one

on the sell side) in the contract 'HULL15APR940.00CEW4', which led to generation of alleged artificial volume of 1,00,000 units (buy side + sell side). These trades of the Noticee involved reversal with the same counterparty on the same day with significant difference in buy price and sell price.

7. Summary of the reversal trades of the Noticee in Stock Options segment of BSE during the investigation period are as follows:

Trade Date	Scrip Name	Strike Price	Expiry	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
25/03/2015	HULL15APR940. 00CEW4	94000.0	2015-04-23	RAJIV CHANGOIWALA	ASK BHOOMI DEVELOPERS PVT LTD	15:02:54.621805	15:02:54.607760	15:02:54.621805	7.0	7.0	7	50000	150000	50000
25/03/2015	HULL15APR940. 00CEW4	94000.0	2015-04-23	ASK BHOOMI DEVELOPERS PVT LTD	RAJIV CHANGOIWALA	15:02:58.407961	15:02:58.321981	15:02:58.407961	10.0	10.0	10	150000	50000	50000

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	HULL15APR940.00CEW4	7	50000	10	50000	100	25.64

* Note: *"Traded Quantity" or "unit" refers to lot size in contract multiplied by number of contracts traded.*

From the above tables, the following is noted with regard to the dealings of the Noticee:

7.1 While dealing in the said contract on March 25, 2015, the Noticee placed a buy order at 15:02:54.621805 hrs for 50,000 units @ Rs.7.00 per unit. The buy order of the Noticee got executed at 15:02:54.621805 hrs against sell order of one ‘Ask Bhoomi Developers Pvt Ltd’, placed at 15:02:54.607760 hrs at the same rate. At 15:02:58.321981, the Noticee placed a sell order for 50,000 units @ Rs.10 per unit, which got executed at 15:02:58.407961 hrs against the buy order from the same counterparty ‘Ask Bhoomi Developers Pvt Ltd’, placed at 15:02:58.407961 hrs at the same rate. This indicates that these trades are artificial and are non-genuine in nature.

7.2 Non-genuine trades executed by the Noticee in the above contract had significant difference in buy price and sell price considering that the trades were reversed on same day, within four seconds.

7.3 The entire volume generated by the Noticee in the above contract was artificial volume, and further, the artificial volume generated by the Noticee also contributed to 25.64% of the total volume in the market in said contract.

8. The SCN vide reference no. **SEBI/HO/ISD2/CD2/HB/SP/P/OW/2021/20150/1 dated August 18, 2021** was served on the Noticee via Registered Post Acknowledgement Due (RPAD). The same was received by Noticee on August 25, 2021. It is noted that no reply was received from the Noticee within the time stipulated in the SCN for submission of reply viz. 21 days from the receipt of the SCN. Since no reply was received, in the interest of natural justice, a reminder letter vide ref no. **SEBI/HO/OW/2021/25347/1 dated September 23, 2021** (hereinafter referred to as “**Reminder letter**”) was served on the Noticee via Registered Post Acknowledgement Due (RPAD). The same was received by Noticee on September 28, 2021. I note that even after sending the reminder letter, no reply was received from the Noticee within the time stipulated in the reminder letter for submission of reply viz. 15 days from the receipt of the reminder letter.

9. Subsequently, vide letter no. **SEBI/HO/OW/2021/31799/1 dated November 09, 2021**, in the interest of natural justice, an opportunity of personal hearing was also provided to the Noticee in the matter. However, the Noticee has neither responded to the hearing Notice nor attended hearing proceeding on the scheduled date. Since the Noticee has neither responded to the SCN nor

the hearing notice, I am constrained to proceed, ex-parte, on the basis of material available on record.

CONSIDERATION OF ISSUES AND FINDINGS

8. I have 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:

   8.1 ***Whether the Noticee has violated provisions of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003?***

   8.2 ***Does the violation, if any, attract monetary penalty under section 15HA of the SEBI Act, 1992?***

   8.3 ***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?***

FINDINGS

9. On perusal of the material available on record and giving regard to the facts and circumstances of the case and submissions of the Noticee, I record my findings hereunder:

10. ***ISSUE I: Whether the Noticee has violated the provisions of Regulations 3 (a), 3(b), 3(c), 3(d), 4(1) and 4(2)(a) of PFUTP Regulations?***

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

"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;***”**

10.2 It has been alleged that the Noticee had indulged in execution of reversal of trades in Stock Options with same entity on the same day. Such trades are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volume in stock options and therefore alleged to be manipulative, deceptive in nature.

10.3 I note that reversal trades have been considered as 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 non-genuine trades as they are not executed in normal course of trading, lacks basic trading rationale, and lead to false or misleading appearance of trading in terms of generation of artificial volume, 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.

10.4 I shall now proceed to deal with the transactions executed by the Noticee in the alleged non-genuine trades:

(i) I note from the tables at para 7 above that while dealing in the contract of 'HULL15APR940.00CEW4' on March 25, 2015, the Noticee engaged in reversal trades (altogether two trades, one on the buy side and another on the sell side), which led to generation of alleged artificial volume of 1,00,000 units (buy side + sell side).

(ii) The Noticee placed a buy order at 15:02:54.621805 hrs for 50,000 units @ Rs.7.00 per unit. The buy order of the Noticee got executed at 15:02:54.621805 hrs against sell order placed by one 'Ask Bhoomi Developers Pvt Ltd' at 15:02:54.607760 hrs at the same rate. At 15:02:58.321981, the Noticee placed a sell order for 50,000 units @ Rs.10 per unit, which got executed at 15:02:58.407961 hrs against the buy order from the same counterparty 'Ask Bhoomi Developers Pvt Ltd', placed at 15:02:58.407961 hrs at the same rate.

(iii) Non-genuine trades executed by the Noticee in the above contract had significant difference in buy price and sell price considering that the trades were reversed within a short time-span, within four seconds.

(iv) The entire volume generated by the Noticee in the above contract was artificial volume, and further, the artificial volume generated by the Noticee also contributed to 25.64% of the total volume in the market in the said contract.

10.5 The buying of illiquid stock options by the Noticee and subsequent reversal of trade with the same counterparty for the same quantity, within a short span of time with a significant difference in buy and sell rate of stock options, where order time and order price were matched by both the parties for both legs of the reversal trade, in itself, exhibits abnormal market behaviour and defies economic rationality. I note from the above trading pattern, that the Noticee has deliberately made blatant misuse of trading platform for creating artificial volume in the illiquid stock options.

10.6 Further, I observe that it cannot only be a coincidence that the Noticee could match its trades with the same counterparty with whom it had undertaken the first leg of the respective trade. This is but an outcome of a meeting of minds and a deliberate attempt to deal in such a fashion. Since these trades were done in illiquid option contract, there was very little trading in the said contract (the Noticee contributed to 25.64% of the total trading volume in the contract) and, hence, there was no price discovery in the strictest terms. The wide variation in prices of the said contracts, within a short span of time, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades.

10.7 In this context, I deem it appropriate to refer to the Hon'ble SAT order dated July 14, 2006, in the case of **Ketan Parekh vs. SEBI (Appeal no. 2/2004),** wherein the Hon'ble SAT has held that - *"The nature of transactions 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."

10.8 Further, with respect to the reversal of trades carried out by the Noticee, I note that the Hon'ble Supreme Court in the matter of ***SEBI vs Rakhi Trading Private Ltd.***, in Civil appeals no., 1969 of 2011 decided on February 8, 2018 held that the price discovery system itself was affected by synchronization and rapid reverse trade, which also had the impact of excluding other investors from participating in the market. The Supreme Court, therefore found that the traders 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 the PFUTP Regulations. The Apex Court also held that:

"…*considering the reversal transactions, quantity, price and time and sale, parties being persistent in the number of such trade transactions with huge price variations, it will be too naïve 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."*

10.9 Additionally, the Hon'ble SAT in its judgment dated September 14, 2020 in the matter of ***Global Earth Properties and Developers Pvt. Ltd. vs SEBI*** (Appeal No. 212 of 2020) relied upon the aforesaid judgment of the 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."

10.10 I note that while direct evidence may not be forthcoming in the present matter, regarding meeting of minds or collusion of the Noticee with other entity, there is guidance from the aforesaid judgements of the Hon'ble Supreme Court and Hon'ble SAT, where it lays emphasis on the 'preponderance of probabilities' in each case to arrive at a decision. Thus, considering the following:

(i) the isolated trade and reversal in the same option contract,

(ii) the same counter party being involved in both the trades,

(iii) the gap between the trade and the reversal being just four seconds,

(iv) the substantial difference in the buy and sell rate within same day and

(v) the high volume of trade in turn creating an artificial volume of 1,00,000 units,

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

10.11 In this regard, I would also like to rely on the judgement of Hon'ble Supreme Court in the matter of ***SEBI vs Rakhi Trading Private Ltd.*** (*supra)*, wherein the Apex Court held that:

"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."

10.12 My conclusion, hence, is that considering the aforesaid factors, the trading behaviour of the Noticee has resulted in creation of artificial trading volumes 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.

11. ***ISSUE - II: If yes, whether the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act?***

11.1 Pursuant to detailed analysis as brought out above, it is established that reversal trades are not normal transactions and it clearly demonstrates beyond reasonable doubt that the Noticee had intentionally executed these trades and manipulated the volume by fraudulently trading in the contract 'HULL15APR940.00CEW4'.

11.2 While dealing with the present issue, I would like to be guided by the Judgement of The Hon'ble Supreme Court of India in the matter of ***SEBI vs Shri Ram Mutual Fund*** [2006] 68 SCL 216(SC), which held that:-

"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant…"

11.3 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".

12. ***ISSUE – III: If so, what quantum of monetary penalty should be imposed on the Noticee?***

12.1 While determining the quantum of monetary penalty under Section 15HA of the SEBI Act, I have considered the factors stipulated in Section 15-J of the SEBI Act, which reads as under:

"Factors to be taken into account by the Adjudicating Officer

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."*

12.2 I observe that the material / documents made 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, Noticee has entered into 2 non-genuine trades in 1 stock option contract during the investigation period.

12.3 Therefore, I note that the Noticee indulged in execution of reversal trades in stock options on BSE in the Investigation Period which were non-genuine and created false and misleading appearance of trading in terms of artificial volumes in stock options, leading to violation of regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFTUP Regulations, 2003.

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

13. After taking into consideration the nature and gravity of the violations established in the preceding paragraphs and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act, 1992 read with Rule 5 of the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, I hereby impose following penalty under section 15HA of the SEBI Act, 1992 on the Noticee, for violation of the provisions of Regulations 3(a), 3(b), 3(c), 3(d), 4(1), and 4(2)(a) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 relating to securities market:

Name of the Noticee	**Violation provisions**	**Penalty**
Rajiv Changoiwala [PAN: ACIPC6045P]	Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003	**Rs.5,00,000/-** (Rupees Five Lakh only)

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

15. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of:

15.1 Demand Draft (DD) in favour of “SEBI - Penalties Remittable to Government of India”, payable at Mumbai, and the said DD should be forwarded to the Division Chief, Enforcement Department – 1 (EFD 1), Division of Regulatory Action – 4 (DRA 4), SEBI Bhavan, Plot No. C4-A, ‘G’ Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai – 400051. The Noticee shall provide the following details while forwarding DD/ payment information:

Sl. No.	Particulars	Details
1	Name of the Case / Matter	
2	Name and PAN of the Payee	
3	Date of Payment	
4	Amount Paid	
5	Transaction Number	
6	Bank Name and Account Number	
7	Purpose of Payment	Payment of penalty under AO proceedings

OR

15.2 Payment can also be made online by following the below path at SEBI website ***www.sebi.gov.in*** on the following path, by clicking on the payment link:

ENFORCEMENT → Orders → Orders of AO →PAY NOW

16. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated 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.

17. In terms of the provisions of Rule 6 of the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, a copy of this order is being sent to the Noticee namely, **Rajiv Changoiwala [PAN: ACIPC6045P]** and also to the Securities and Exchange Board of India, Mumbai.

Date: February 01, 2022 **SIVA GOVINDO PATRA**

Place: Mumbai **ADJUDICATING OFFICER**