BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER Ref No.: Order/VV/AS/2021-22/15787]

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:

Mr. Shubham Bansal,
(PAN: CBKPB3998R)
Z – 35, Dr. Abani Dutta Road,
Block – A, 6th Floor,
Howrah - 711106 (West Bengal)

In the matter of dealing in Illiquid Stock Options at BSE

1. Securities and Exchange Board of India ('SEBI') observed large scale reversal of trades in the Stock Options Segment of the BSE Limited (hereinafter be referred to as 'BSE') and, pursuant to this, it conducted investigation into the trading activities of certain entities in illiquid Stock Options at the BSE for the period April 01, 2014 to September 30, 2015 (hereinafter be referred to as 'Investigation Period'). Investigation revealed that during the Investigation Period, a total of 2,91,643 trades (comprising 81.38% of all the trades executed in the Stock Options Segment of BSE) involved reversal of buy and sell positions by the clients and counterparties in a contract.

2. The reversal trades are considered as non-genuine trades if it involves an entity reversing its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. In this regard, artificial volume is considered as the volume (no. of units) reversed in non-genuine trades, comprising both original volume and reversed volume while keeping out the volume which is not reversed. These alleged non genuine trades resulted into creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in Stock Options segment of BSE during the Investigation Period. It was further noted that said alleged non genuine trades were not restricted to any specific contract or between any specific set of entities. Mr. Shubham Bansal (hereinafter referred to as 'the Noticee') was one of the several entities which were indulged in execution of such alleged non-genuine trades.

3. It was observed from the trade log that the Noticee had executed a total of 8 such trades in 3 unique contracts which allegedly led to creation of artificial volume of total 7,92,000 units. It is

further observed that the Noticee, by executing non genuine trades during the relevant period, registered a positive close out difference of ₹9,86,200/- approx. The trades entered by the Noticee were reversed on the same day within a very short span of time 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. The summary of dealings of Noticee in such 3 Stock Options contracts is as follows:

Table 1 – Summary of dealings of the Noticee in contracts wherein he executed non-genuine trades

S. No.	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades 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	ALLD15MAR60.00PEW1	0.05	88000	2.75	88000	100%	16.67%	100%	33.85%
2	LNTF15MAR75.00CEW1	0.20	268000	2.58	268000	100%	4.05%	100%	5.28%
3	LNTF15MAR80.00CEW1	0.10	40000	2.79	40000	100%	8.33%	100%	2.32%

4. From the above table it was observed that: -
   a. The alleged non-genuine trades have contributed significantly when compared with the total number of trades from the market in the above contracts. The non-genuine trades of the Noticee: -

      i. ranged from 4.05% to 16.67% of the total trades that had happened in the aforementioned contract; and
      ii. was 100% of the total trades of the Noticee that had happened in the aforementioned contract.

   b. The whole volume of 7,92,000 generated by the Noticee in both the contracts due to her non-genuine trades were artificial volume, and further this artificial volume, generated by the Noticee, also contributed significantly to the extent of 2.32% to 33.85% of the total volume in said contracts in the market.

   c. These alleged non genuine trades, executed by Noticee in above contracts, had significant differential in buy rates and sell rates considering that the trades were reversed on same day within an hour.

d. The Noticee has allegedly engaged in the non-genuine transactions in the option segment of BSE for the purpose creating false appearance of trading.

5. Based on above findings of the investigation, the competent authority in SEBI *prima facie* felt satisfied that there are sufficient grounds to inquire and adjudicate the alleged violations of the provision of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations by the Noticee and appointed undersigned as Adjudicating Officer vide *communication order* dated July 27, 2021 to inquire and adjudge under Rule 5 of SEBI (Procedure for Holding Inquiry and imposing penalties) Rules, 1995 (hereinafter be referred to as "**Adjudication Rules**") and under section 15HA of the SEBI Act, the alleged violations by the Noticee. The text of these provisions of PFUTP Regulations are as under:

PFUTP Regulations

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

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

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

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

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

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely: —

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

6. After receipt of records, the notice to show cause no. EAD – 9/ADJ/SCN/VKV/AKS /2033/2021 dated January 17, 2022 (hereinafter be referred to as 'SCN') issued to the Noticee in terms of Rule 4(1) of the Adjudication Rules read with section 15I of the SEBI Act calling upon him to show cause as to why an inquiry should not be held against him in terms of Rule

4 of the Adjudication Rules and penalty be not imposed under Section 15HA of the SEBI Act for the aforesaid alleged violations. The SCN forwarded *via* Speed Post Acknowledgement Due ("SPAD") to the Noticee returned undelivered with remark "*left*". Thereafter, the SCN along with annexures was forwarded to the Noticee *via* digitally signed e-mail dated February 02, 2022 on e-mail id pawanban09@gmail.com (as available on record), in terms of Rule 7(1) of the Adjudication Rules. It may be noted that, 14 days' time from the date of receipt of the SCN has been provided to the Noticee for filing reply to the SCN.

7. Vide e-mail dated February 14, 2022, the Noticee has forwarded a letter dated February 12, 2022, wherein, he has requested for a month time for filing reply to the SCN, as the documents pertains to period 2014-15 and he has to arrange papers from his broker. Considering the request of the Noticee, vide e-mail dated February 14, 2022, he was allowed 20 days' time i.e. upto March 05, 2022 for filing written reply in the matter. Further, on considering the material available on record, the Noticee has been granted an opportunity of personal hearing on March 09, 2022 in terms of Rule 4(3) of the Adjudication Rules *via* online WEBEX platform. The Noticee has filed no reply to the SCN by given date March 20, 2022. Subsequently, on March 08, 2022, a webex link for scheduled hearing was forwarded to the Noticee. However, instead of filing reply to the SCN, the Noticee vide its e-mail dated March 08, 2022 (*forwarded at 10:21 PM*) has sought copy of investigation report and relevant extracts related to his trade. He further stated that he was only provided with "*trade log*" of his impugned trades, which is insufficient as per him to file a suitable reply. Thereafter, vide e-mail dated March 09, 2022, he was informed that the "*trade log*" is the relied upon documents and all the relied upon documents has been provided to him along with SCN in the form of Annexure 2 and 3 of the SCN. Further, relevant extract / details w.r.t. the Noticee trade in the investigation report has been brought out in the SCN. Accordingly, the Noticee was advised to appear for scheduled hearing before me on scheduled date i.e. March 09, 2022 at 03:30 PM. It was also informed to him that in case he fails to avail the scheduled hearing, it shall be presumed that he has nothing to submit and the matter shall be proceeded on the basis of the material available on record in terms of sub-rule (7) of Rule (4) of the Adjudication Rules. However, the Noticee has failed to appear before me for hearing on March 09, 2022 and accordingly, hearing in the matter get concluded. Vide hearing minutes forwarded to the Noticee on March 11, 2022, it was informed to him that hearing has been concluded in the matter and adjudication order will be passed on the basis of material available on record.

8. I note that, the Noticee have been served SCN *via* digitally signed e-mail on February 02, 2022. Further, he was granted additional time to file his reply to the SCN. Despite not filing the reply to the SCN, on considering the material available on record and in terms of principle of natural justice, he had been granted the opportunity of personal hearing so that he can make proper representation and rebut the charges made against him in the SCN. However, instead of filing reply to the SCN within due time, after seeking extension of time, the Noticee has asked for non-relied upon document, a night before the hearing. On the day of hearing, it was specifically informed to him that his request has not been considered and therefore, he was directed to appear for hearing, however, the Noticee failed to appear for the hearing. I further note that, till date the Noticees has not filed any reply on the merit of the case in the instant proceedings. Therefore, in my view ample opportunity of making representation during these proceedings has been extended to the Noticee, however, he failed to avail the same. In these facts and circumstances, I am of the view that the matter can be proceeded *ex-parte* on the basis of material available on record in terms of Rule 4(7) of the Adjudication Rules which reads as under: -

> ***4(7)*** *If any person fails, neglects or refuses to appear as required by sub-rule (3) before the Board or the adjudicating officer, the Board or the adjudicating officer may proceed with the inquiry in the absence of such person after recording the reasons for doing so."*

9. I note that the Noticee has failed to file any response and has shown lackadaisical attitude towards instant proceedings. In the fact and circumstances of the case, I am of the view that the Noticee have defied the regulatory provisions and I, therefore, deem it fit to draw an adverse inference against the Noticee. Further, in absence of any response from the Noticee, it is presumed that it has admitted the charge of violations of provisions as alleged in the case. In this regard, it is pertinent to note that the Hon'ble SAT in the matter of *Classic Credit Ltd. vs. SEBI (Appeal No. 68 of 2003 decided on December 08, 2006)* has, *inter-alia*, observed that, "*........... the appellants did not file any reply to the second show-cause notice. This being so, it has to be presumed that the charges alleged against them in the show cause notice were admitted by them".* It is also pertinent to note that the Hon'ble SAT in the matter of *Sanjay Kumar Tayal & Others vs SEBI (Appeal No. 68 of 2013 decided on February 11, 2014)*, has also, *inter alia*, observed that: *"........... appellants have neither filed reply to show cause notices issued to them nor availed opportunity of personal hearing offered to them in the adjudication proceedings and, therefore, appellants are presumed to have admitted charges leveled against them in the show cause notices...".* Therefore, it can reasonably be presumed that the allegations/charges have been admitted by the Noticee in this case. The material on record do not indicate anything to *ex facie* hold otherwise.

10. On the basis of material available on record, I note that the Noticee has been involved in execution of reversal of 8 trades in 3 Stock Options contracts, wherein, trades were reversed with same entities on the same day, which were non-genuine in nature, has created false or misleading appearance of trading in the aforementioned contracts traded in the option segment of BSE. The abovementioned trades of the Noticee had resulted into creation of artificial volume of total 7,92,000 units in the given 3 contracts and a positive close out difference of Rs. 9,86,000. I note that reversal trades are considered non-genuine if they involve an entity reversing its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. In this regard, artificial volume is considered as the volume (no. of units) reversed in non-genuine trades, comprising both original volume and reversed volume while keeping out the volume which is not reversed. I further note that reversal of trades as found in this case have taken place in quick succession with substantial price difference and therefore, it indicates towards employing of a manipulative device in connection with the Noticee dealing in impugned illiquid Stock Options contracts.

11. I am of the view that the transactions in a particular contract were reversed with the same counterparties indicates a prior meeting of mind with a view to execute the reversal trades at a pre-determined price. Since these trades were done in illiquid option contracts, there was no trading in the said 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. Thus, it is observed that Noticee had indulged in reversal trades with it counter parties in the stock options segment of BSE and the same were non-genuine trades. I further note that the impugned reversal trades were carried out by the Noticee in an illiquid Stock Options Contracts where there was no participation of public. Reversal trades were undertaken by the Noticee with its counterparty with a predetermined arrangement to book profit or losses respectively, and, therefore, the parties to the trades were not trading in the normal sense and ordinary course of business. Such transactions in illiquid Stock Options cannot be taken as genuine one. Such trading was apparently without any economic rationale.

12. Further, with regard to the reversal 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 with Civil Appeal Nos., 31743177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018 had observed 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 PFUTP Regulations".

13. With regard to reversal transactions, Hon'ble Supreme Court in the matter of *SEBI v Rakhi Trading Private Limited (Supra)*, further 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…..*" In the same matter, Hon'ble Supreme Court further held that- *"….quantity, time and significant variation of prices, without major variation in the underlying price of the securities clearly indicate that Respondent's trades are not genuine and had only misleading appearance of trading in the securities market*". In view of said Hon'ble Supreme Court judgment, I see no reason to take a different view in the present case. In view of the foregoing, I hold that the Noticee had indulged in execution of reversal trades in Stock Options with same counterparty (ies) on the same day, which are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes.

14. In totality of the circumstances as observed above it is not acceptable that the Noticee has not employed any manipulative and deceptive device in contravention of the SEBI Act or the rules and the regulations made there under. Further, the non-genuine and deceptive trades as found in this case are covered under the definition of '*fraud*' and dealing of Noticee were '*fraudulent*' as defined under Regulation 2(1)(c) of the PFUTP Regulations.

15. In view of the aforesaid facts and circumstances, it cannot be ignored that synchronization of trades in pre-determined manner as found in this case had an adverse impact on the fairness, integrity and transparency in the securities market. 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 by the Noticee stands established. Thus, I hold that the Noticee liable for penalty under Section 15HA of the SEBI Act which reads as under: -

    "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."

16. While determining the quantum of penalty, it is important to consider the factors stipulated in Section 15J of the SEBI Act which reads as follows: -

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;*

17. Having regard to the factors listed in section 15J, it is noted that it is not possible to determine the consequent loss caused to investors as a result of the default as found in this case. It is worth considering that generally, there is NIL or negligible participation of the public in the trading in such illiquid Stock Option contracts. When the impact of artificial volume created by the two counterparties is seen as a whole, it is not possible from the material on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counter parties or the consequent loss caused to investors as a result of the default. However, considering the fact that the trades of the Noticee in 3 Stock Option contracts which resulted into artificial volume in range of 2.32% to 33.85%, generated out of the 8 non-genuine trades of the Noticee, I am of the view that such trades had created a misleading appearance of trading in the scrip. In these circumstance, I am of the view that for the market abuse and fraudulent practices by the Noticee monetary penalty needs to be imposed under section 15HA of the SEBI Act.

18. Taking into consideration all the facts and circumstances of the case including the aforesaid 15J factors and exercising the powers conferred upon me under section 15I of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose, a monetary penalty of **₹5,00,000/- (Rupees Five Lakh only)** upon **Mr. Shubham Bansal** under section 15HA of the SEBI Act. In my view, the said penalty is commensurate with the violation committed by the Noticee in this case.

19. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order in either of the way of demand draft in favour of "*SEBI - Penalties Remittable to Government of*

India", payable at Mumbai, or by following the path at SEBI website www.sebi.gov.in, ENFORCEMENT > Orders > Orders of AO > PAY NOW; OR by using the web link https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html. In case of any difficulties in payment of penalties, the Noticees may contact the support at portalhelp@sebi.gov.in

20. The Demand Draft or details and confirmation of e-payment made in the format as given in table below shall be sent to *"The Division Chief, EFD-DRA-I, 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 e-mail 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 in which payment is made	
7	Payment is made for (like penalties/disgorgement / recovery/ settlement amount and legal charges along with order details)	

21. 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.

22. In terms of rule 6 of the Adjudication Rules, copies of this order are sent to the Noticee and also to SEBI.

Date: March 31, 2022
Place: Mumbai

Vijayant Kumar Verma
Adjudicating Officer