BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO.: Order/AT/NT/2021-22/15290]

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:

BAL CHAND SINGHI [PAN: ASJPS2127B]
F 35, PLOT NO. 37, HI LIFE MALL, PM ROAD
SANTACRUZ WEST, MUMBAI,
MAHARASHTRA-400054

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

---

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") observed large scale reversal of trades in stock options segment of Bombay Stock Exchange (hereinafter referred to as "BSE"). SEBI observed that such large scale reversal of trades in stock options lead to creation of artificial volume at BSE. In view of the same, SEBI conducted an investigation into the trading activities of certain entities in illiquid stock options at BSE for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as "**Investigation Period**").

2. Pursuant to investigation, it was observed that a total of 2,91,744 trades comprising a substantial 81.40% of all the trades executed in stock options segment of BSE during the Investigation Period were non-genuine trades. It was observed that **Bal Chand**

Singhi (hereinafter, referred to as "**Noticee**"), bearing PAN – ASJPS2127B was one among the various entities who indulged in execution of reversal trades in stock options segment of BSE during the Investigation Period.

3. Such trades were observed to be non-genuine in nature and created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore were alleged to be manipulative, deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for violation of the provisions of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations, 2003**").

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer in the matter, conveyed vide communique dated June 28, 2021, under section 19 read with section 15 I(1) of the Securities and Exchange Board of India 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 bearing reference no. IID/AT/VJ/14440/2021 dated July 6, 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 an inquiry should not be initiated against the Noticee and why penalty should not be imposed on the Noticee under section 15HA of the SEBI Act, 1992 for the violations alleged to have been committed by the Noticee.

6. It was, *inter-alia*, alleged in the SCN that the Noticee had executed two non-genuine trades in one stock option contract which resulted in artificial volume of total 1,60,000 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:

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.	TATP15APR80.00CEW1	2.5	80,000	0.25	88,000	95%	1%

7. From the above table, the following is noted as regard to the dealings of the Noticee:
   a. The Noticee had executed two non-genuine trades in one unique contract, reversing the trade with the same counterparty on the same day.
   b. The non-genuine trades executed by the Noticee in the above contract had noticeable difference in the buy and sell rates considering that the trades were

reversed on same day within 17 minutes, which indicates that these trades were non-genuine in nature.

c. A substantial 95% of the volume (viz. 1,60,000 units) generated by the Noticee in the above contract was artificial volume.

8. The SCN vide reference no. IID/AT/VJ/14440/2021 dated July 06, 2021 was served on the Noticee via Speed Post Acknowledgement Due (SPAD). The same was received by the Noticee on July 08, 2021. The Authorized Representative ("**AR**") of the Noticee, Dr. S.K. Jain, vide emails dated July 24, 2021 and August 05, 2021, requested for inspection of documents relied upon by the Adjudicating Officer in the SCN. In this regard, vide emails dated August 03, 2021 and August 05, 2021, it was communicated to the AR that all the information relied upon and documents to substantiate the allegations made in the SCN have already been provided to him along with the SCN.

9. In terms of adjudication rules, the Noticee was provided an opportunity of personal hearing, scheduled on September 02, 2021, through the online Cisco Webex platform. Vide email dated August 07, 2021, the AR of the Noticee confirmed his appearance in the aforesaid hearing. Subsequently, vide email dated August 30, 2021, the AR submitted the reply of the Noticee to the SCN.

10. On the stipulated date of hearing, i.e., September 02, 2021, the AR of the Noticee appeared before the Adjudicating Officer. During the hearing, the AR reiterated the written submissions made by the Noticee vide email dated August 30, 2021.

11. The main contentions of the Noticee, as submitted by him in his written submissions and during the personal hearing, are as follows:

a. *The Noticee submitted that his stock broker, M/s. Maverick Share Brokers Private Limited ("**Stock broker**"), executed the said reversal trades in the stock options segment of BSE without his consent, knowledge and/ or concurrence.*

b. *Upon receipt of SEBI letter dated July 27, 2020, regarding SEBI Settlement Scheme, 2020 in the matter of trade reversals in the stock options segment of BSE during the period April 1, 2014 to September 30, 2015, the Noticee contacted the Stock broker and received bills pertaining to various trades in the stock options segment of BSE, including the said reversal trades executed on 27/03/2015.*

c. *The Noticee came to know that the Stock broker had repeatedly debited and credited the amount of Rs. 12,080.58 (net loss from the trades executed in the stock options segment of BSE) in its books in the Noticee's account on various dates, viz. 31/12/2015, 31/03/2016, 31/03/2018 and 09/08/2018. After issuing and cancelling the cheques ample number of times, the Stock broker finally remitted Rs. 12,080.58 to the Noticee on 10/05/2019 through NEFT, thereby squaring off his account. Since the Noticee could not make out the remittance of the same, he kept the said amount in suspense account.*

d. *After receipt of the aforementioned SEBI letter dated July 27, 2020, the Noticee could make out that the said amount of Rs. 12,080.58 remitted by the Stock broker in his account was towards the trades purportedly executed by the Stock* *broker in the stock options segment of BSE. Hence, the Noticee returned the said amount to the Broker's bank account through net banking on November 7, 2020 and informed the same to the Stock broker through a letter on the same day.*

e. *The Noticee received an email dated September 01, 2020 from SEBI regarding SEBI Settlement Scheme, 2020, enclosing the details of the Noticee's trades in the matter of illiquid stock options at BSE. The Noticee, vide letter dated January 05, 2021, replied to the said email of SEBI, mentioning that he had not executed any reversal of trades in BSE stock options segment during the period 01/04/2014 to 30/09/2015 and requested SEBI to drop the proceedings initiated against him and call for explanation from the Stock broker regarding the purported trades executed by them in the Noticee's account.*

f. *The Stock broker again sent the amount of Rs. 12,080.58 to the Noticee's account on 18/05/2021, which was transferred back to the Stock broker's bank account by the Noticee on 24/06/2021. The Noticee also sent an email dated 30/06/2021 to the Stock broker reiterating that he had not done any transactions in the said scrips and that the Stock broker had incorrectly and fraudulently sent him the amount of Rs. 12,080.58 on 10/05/2019, which has been again returned by the Noticee on 24/06/2021. The Stock broker has not remitted the said amount to the Noticee after that.*

g. *The Noticee further submitted that he has not shown any gain of Rs. 12,080.58 in his Income Tax Returns for the financial year 2014-15, since the same is on* *account of fraudulent transactions executed by the Stock broker in his account without his knowledge, consent and concurrence. In case the Noticee had been aware about the said transactions, then the same would have been duly disclosed in his Income Tax Returns.*

CONSIDERATION OF ISSUES AND FINDINGS

12. 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:

    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?*

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

    "PFUTP Regulations, 2003.

    3. Prohibition of certain dealings in securities

    No person shall directly or indirectly—

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

    (b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any

manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

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

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

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

(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) Knowingly indulging in an act which creates false or misleading appearance of trading in the securities market;"

14. I note that the allegation against the Noticee is that, while dealing in the stock option contracts at BSE during the Investigation Period, he had executed reversal trades on the same day within 17 minutes with the same counterparty, which were allegedly non-genuine trades and the same had resulted 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

counter-party 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.

15. I note from the trade log of the Noticee that he had executed two alleged 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 1,60,000 units in the said contract. A summary of the alleged non-genuine trades of the Noticee executed on March 27, 2015 in the said contract is as follows:

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1.	TATP15APR80.00CEW1	2.5	80,000	0.25	88,000	95%	1%

16. I note from the trade log that the orders by the Noticee and the counter-party were placed within a gap of six minutes for the buy trade and one minute for the sell trade. Further, the trade executed by the Noticee in the contract was squared up within a short span of time, i.e. 17 minutes. Out of these trades, almost 91%, i.e., 80,000 units out of a total quantity of 88,000 units, were with the same counter-party. To illustrate, the Noticee, at 14:55:06.10 hours on March 27, 2015, entered into a buy trade with the counterparty, viz. STIC Tradecomm Private Limited, for 80,000 units at Rs. 2.5 per unit,

which was reversed by a sell trade at 15:12:05.88 hours, within 17 minutes, with the same counterparty at Re. 0.25 per unit.

17. Thus, the Noticee, through his dealing in the said contract, viz. “TATP15APR80.00CEW1”, executed non-genuine trades in the said contract during the Investigation Period, and thereby generated an artificial volume of 1,60,000 units, which made up 1% of total market volume in the said contract during this period.

18. The fact that the transactions executed by the Noticee are not genuine is evident from the trade log of the Noticee which reveals that the trades executed by the Noticee in the above contract had a noticeable difference in the buy rate and sell rate considering that the trades were reversed with the same counterparty in a matter of just 17 minutes. 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 malafide intent to execute the reversal trades at a pre-determined price.

19. Further, I observe that it cannot only be a mere coincidence that the time gap between the orders of the Noticee and the counter-party was just six minutes for the buy trade and just one minute for the sell trade, and that the Noticee could also match a significant quantity of his sell trade (approximately 91%) with the same counterparty with whom he had undertaken the respective buy trade. This is but an outcome of a meeting of minds and a deliberate attempt to deal in such a fashion.

20. In this context, I place reliance on the judgment of Hon'ble Supreme Court in the matter in respect of **SEBI vs. Rakhi Trading Private Limited** (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018), in which the Hon'ble Supreme Court held that - "*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….."*

21. Further, 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*."

22. 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 the trade and the reversal being just a few minutes,
- the noticeable difference in the buy and sell rate within same day and
- the high volume of trade, in turn, creating an artificial volume of 1,60,000 units.

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

23. The Noticee, in his submissions vide email dated August 30, 2021, has contended that the impugned trades in the stock options segment of BSE were executed by the stock broker without the Noticee's consent, knowledge and/ or concurrence. In this regard, I note that the Noticee was the owner of the trading account through which the impugned trades were carried out. Therefore, the obligation to ensure genuineness of the trades lay with the Noticee, and, hence, the aforesaid contention of the Noticee is without merit.

24. The Noticee has submitted that he had taken up the matter of unauthorised trades with the Stock broker. However, it is seen from the documents submitted by him that

although the impugned trades were executed in March 2015, the Noticee has taken up with the stock broker, his claim of the trades being unauthorised only in November 07, 2020. This is after receipt of SEBI's letter dated July 27, 2020 and email dated September 01, 2020, regarding the SEBI Settlement Scheme, 2020 in the matter of trade reversals in the stock options segment of BSE.

25. Further, it is seen from the documents submitted by the Noticee that he has informed SEBI regarding his claims that the impugned trades were unauthorised only vide his letter dated January 5, 2021, after an elapse of almost 6 months since receipt of SEBI's first communication regarding the impugned trades, vide letter dated July 27, 2020. Therefore, the Noticee's contention regarding the impugned trades having been executed by the Stock broker without the consent, knowledge and concurrence of the Noticee appears to be an afterthought and, therefore, untenable.

26. 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.

27. In view of the same, 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.”*

28. 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.”

29. 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, thereby leading to violation of regulation 3(a),(b),(c),(d) and 4(1),(2)(a) of the PFUTP Regulations, 2003.

ORDER

30. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in section 15J 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
Bal Chand Singhi **(PAN – ASJPS2127B)**	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.

31. 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.

32. The Noticee shall forward the aforesaid Demand Draft / payment confirmation details to the Division Chief, Enforcement Department (EFD), Division of Regulatory Action - VI (EFD-DRA-VI) SEBI Bhavan-II, Plot No.C7-A,‘ G’ Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai – 400 051 and also send an email to tad@sebi.gov.in with the following details:

1. Case Name:	
2. Name of Payee/ 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)	

33. 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.

34. 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: 2022.03.02 15:09:15 +05'30'

Date: March 02, 2022 **APARNA THYAGARAJAN**

Place: Mumbai **ADJUDICATING OFFICER**