

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO.: ORDER/PS/NS/2022-23/15812**

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:

Shri Krishna Anish Shah

PAN: BLFPS4813J

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

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") observed large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange (hereinafter referred to as "BSE") leading to the alleged creation of artificial volume in the stock options segment. In this regard, SEBI conducted an investigation into the trading activity in the illiquid Stock Options segment at the BSE for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period").
2. It was observed during the course of investigation that a total of 2, 91, 744 trades comprising 81.40 % of all the trades executed in the Stock Options Segment at the BSE during the investigation period were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract on the same day. It was observed that Shri Krishna Anish Shah (hereinafter referred to as "Noticee") was one such client whose reversal trades involved squaring off open positions with a significant difference without any basis for such change in the contract price. The said reversal trades allegedly resulted into generation of artificial volumes, leading to allegations that the Noticee had violated the provisions of Regulations 3 (a), (b), (c) & (d) and Regulations 4 (1) & 4 (2) (a) of the SEBI (Prohibition of

Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter referred to as "PFUTP Regulations, 2003").

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "SEBI Act") read with Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "SEBI Rules") vide order dated April 30, 2021 to inquire into and adjudge under section 15HA of the SEBI Act against the Noticee for the alleged violation of the aforesaid provisions of PFUTP Regulations, 2003.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A Show Cause Notice bearing reference no. AO/PS/NS/15983/1/2021 dated July 26, 2021 (hereinafter referred to as "SCN") was served upon the Noticee under Rule 4 (1) of the SEBI Rules to show cause as to why an inquiry should not be initiated against the Noticee and why penalty should not be imposed upon the Noticee under Section 15HA of the SEBI Act for alleged violations of regulations 3 (a), (b), (c), (d), 4 (1) and 4(2)(a) of the PFUTP Regulations .
5. The allegations levelled against the Noticee in the SCN are summarized as below:
 - a) The Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in the Stock Options Segment of BSE during the investigation period.
 - b) The Noticee is alleged to have engaged in 2 such reversal trades in 1 unique contract, which led to generation of artificial volume of 872000 units. These trades of the Noticee involved reversal with the one counterparty Paks

Trade Centre Private Limited in one day on 20/02/2015, at different prices. Details of all the reversal trades of the Noticee in Stock Option Segment of BSE during investigation period are given in Annexure B to the SCN.

- c) The trades entered into by the Noticee were reversed on the same day with same counterparty at a noticeable price difference without any basis for significant change in the contract price which indicates that these trades are artificial and are non-genuine in nature.
- d) A summary of dealings of Noticee in 1 Stock Options contract in which Noticee allegedly executed reversal trades during the investigation period, provided in the SCN is reproduced below:

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% 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.	IOBL15MAR55.00CEW2	0.15	436000	0.95	436000	100%	5.96%

- e) The Noticee had entered into 2 reversal trades on 20/02/2015 through one contract with one counterparty Paks Trade Centre Private Limited. The 2 reversal trades each entered into by the Noticee were reversed on the same day with the same counterparty at a noticeable price difference without any basis for significant change in the contract price which indicates that these trades were artificial and are non-genuine in nature.
6. Noticee by indulging in execution of aforesaid non-genuine reversal trades, was alleged to have violated Regulation 3 (a), (b), (c), (d), 4 (1) and 4(2)(a) of the PFUTP Regulations, which are reproduced as follows:

“3. Prohibition of certain dealings in securities

- (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 “*

7. A time period of 14 days from the date of receipt was granted to the Noticee to present its reply to the SCN.

8. Subsequently, vide letter dated 12/08/2021 the Noticee made the following written submissions:-

- a) Noticee is a regular investor of share market and purchase/sale of shares in the market.
- b) The transaction was handled by the share broker and it could be matter of

co-incident. As regards the same particular transaction was done in good faith.

9. In the interest of natural justice and in terms of the Adjudication Rules, vide hearing notice dated 16/09/2021 the Noticee was provided with an opportunity of personal hearing in the matter on 05/10/2021. Authorized Representative ('AR') appeared on behalf of the Noticee on the stipulated date of hearing. During the course of hearing, the AR reiterated the submissions made by the Noticee in his reply dated 12/08/2021 and did not sought any request for further hearing or any post hearing submissions.

CONSIDERATION OF ISSUES AND FINDINGS

10. I have carefully perused the charges levelled against the Noticee in the SCN, his reply and the documents/material available on record. The issues that arise for consideration in the instant matter are:

- a) **Issue No.I:** Whether the Noticee has violated provisions of regulations 3 (a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations;
- b) **Issue No.II:** Does the violation, if any, attract monetary penalty under section 15HA of the SEBI Act? ; and
- c) **Issue No. III:** 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?

11. I note that 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 which were allegedly non-genuine and the same had resulted in generation of artificial volume in stock option contracts at BSE. Reversal trades are considered to be 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 alleged to be non-genuine trades as they are not executed in the normal course of trading, lack basic

trading rationale, lead to false or misleading appearance of trading in terms of generation of artificial volumes and hence are deceptive and manipulative.

12. The allegation that the Noticee carried out reversal trades is directly supported by evidence from the trade log records in Annexure B of the SCN. On 20/02/2015 the Noticee was seen to have indulged in 2 reversal trades in one unique contract. To illustrate, in Stock option "IOBL15MAR55.00CEW2", on the said date, the Noticee at 12:56:29.50 hrs the Noticee entered into a sell trade with counterparty Paks Trade Centre Private Limited for 436000 units at Rs. 0.95 per unit. At 12:56:35.50 hrs the Noticee entered into a buy trade with the same counterparty, for 436000 units at Rs. 0.15 per unit.
13. Now I will address the submission of the Noticee that the transaction was handled by the share broker and it could be a matter of co-incident. While I take note of the fact that Noticee has carried out synchronised trades in only one contract on one day, the fact that 2 such trades were carried out and then reversed within a few seconds with the same counterparty and at noticeable variation in the prices of the 1 leg of the reversal trades, without any justification for the variation in prices, render the submissions by the Noticee that the trades could be a mere coincidence, unacceptable. Further, the fact that the exchange could not detect any problem with the trades at the relevant time or that trades in illiquid options will necessarily see variation in prices, cannot serve to absolve the Noticee for the almost immediate placement of orders at prices unrelated with the price movement of the underlying scrip, and is not sufficient to discharge the Noticee from the liability of having entered into synchronised reversal trades. The price of a particular option contract is the premium price, and for a given strike price, the premium cannot vary widely within minutes without significant movement in the underlying price or in other factors which determine option price. Entering of orders synchronized in terms of rate, quantity and time at unusual prices which had little to do with market movement of the underlying scrip strongly indicate that the orders were entered into consequent to a prior meeting of minds with the counterparty, as

ordinary and unrelated counterparties would not have entered orders at such rates. Further, there was no reasonable justification given for the price variation in the option price. Therefore, I do not find any merit in the contentions of the Noticee in this regard.

14. The volume contributed by the Noticee through the 2 synchronised and reversal trades in the abovementioned contract made up 5.96 % of the total market volume for this contract during the investigation period. I note that while synchronized trades may occur by accident in a liquid stock, execution of such synchronized trades in an illiquid market with anonymous trading can only happen if there is prior meeting of minds with a view to execute trades.

15. Further, analysis of such trades also indicates that price differentials have been deliberately structured for manipulative purposes as one party to the contract had deliberately foregone profitable position at the time of executing trade. The aforesaid pattern cannot be said to be falling with the economic rationale of a reasonable investor to buy at lesser price and sell at higher price. Any rational / reasonable investor would never engage in financial transactions to book loss on purpose. Had the counterparties for trades of the Noticee been different, intraday squaring of positions would not have been possible as no genuine counter party investor would ever forego profits. The fact that the counterparties are same, corroborates that the trades were not genuine and executed for manipulative purposes. Thus, I am of the opinion that this contention of the Noticee holds no merit and is therefore rejected.

16. The manner of placing buy and sell orders in the trades carried out by Noticee were in a synchronized manner, executed within seconds of each other, resulting into reversal of the trades within a short time on the same day, with a noticeable variation in prices of the trades in the same contract in a short time without any basis for such noticeable variation, all indicate that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance

of artificial trading volumes in respective contracts.

17. Here I would like to rely on the judgment of Hon'ble Supreme Court in SEBI v Kishore R Ajmera (AIR 2016 SC 1079) decided on February 23, 2016, 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 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...”

18. The Hon'ble Supreme Court further held in the same matter that –

“It is a fundamental principle of law that proof of an allegation levelled against a person may be in the form of direct substantive evidence or, as in many cases, such proof may have to be inferred by a logical process of reasoning from the totality of the attending facts and circumstances surrounding the allegations/charges made and levelled. While direct evidence is a more certain basis to come to a conclusion, yet, in the absence thereof the Courts cannot be helpless. It is the judicial duty to take note of the immediate and proximate facts and circumstances surrounding the events on which the charges/allegations are founded and to reach what would appear to the Court to be a reasonable conclusion therefrom. The test would always be that what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion.”

19. Further, in the matter of SEBI v Rakhi Trading Private Limited (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018), in which the

Hon'ble SC 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.....”

20. Therefore, the trading behaviour of the Noticee confirms that such trades were not normal and noticeable variation in prices of the trades in the same contract in a short time without any basis for such noticeable variation, all indicate that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contracts. 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. The Hon'ble Supreme Court of India in the matter of SEBI Vs. Shri Ram Mutual Fund [2006] 68 SCL 216(SC) decided on May 23, 2006 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...”

21. 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:

SEBI Act: Penalty for fraudulent and unfair trade practices.

15HA. *If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh*

rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

22. While determining the quantum of penalty under Section 15HA of SEBI Act, the following factors stipulated in Section 15J of the SEBI Act have to be given due regard:

a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

23. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading. Investigation has not shown the amount of profit/loss of the counterparties to the trades as a result of the non-genuine trades. However, considering that the violation by the Noticee is creation of artificial trading volumes by trading between two counterparties and wider market is not involved in the trades, the trades are such that one of the counterparty books a profit while the other counterparty books a loss. Hence, it would be appropriate to consider the impact of these transactions between the two counterparties in totality. When the impact of artificial volumes created by the two counterparties is seen as a whole, it is not possible from material available on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counterparties or the consequent loss caused to investors as a result of the default.

24. The Noticee has contributed to artificial volumes in 1 contracts on 1 day during the Investigation Period. I note that while the violation was not repetitive in nature, the AO can exercise discretion for determining penalty depending on facts and circumstances of the case, subject to the minimum penalty prescribed by statute.

25. Therefore, taking into account the facts and circumstances of this matter, and the proportion of trading by the Noticee as compared to the total volume of reversal trades in the market during the Investigation Period, I am of the view that a penalty of Rs. 5, 00,000 (Rupees Five Lakhs only) under Section 15HA of the SEBI Act will be commensurate with the violations committed by the Noticee.

ORDER

26. 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	Violation Provisions	Penalty
Shri Krishna Anish Shah PAN: BLFPS4813J	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.

27. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of “SEBI -Penalties Remittable to Government of India”, payable at Mumbai, OR through online payment facility available on the SEBI website www.sebi.gov.in on the following path, by clicking on the payment link:

[ENFORCEMENT](#) —> [Orders](#) —> [Orders of AO](#) —> [PAY NOW](#)

28. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to the Enforcement Department –Division of Regulatory Action – I of SEBI.

29. The Noticee shall provide the following details while forwarding DD/ payment information:

- a) Name and PAN of the entity (Noticee)
- b) Name of the case / matter
- c) Purpose of Payment –Payment of penalty under AO proceedings
- d) Bank Name and Account Number
- e) Transaction Number

30. 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 SEBI Act, 1992 for realization of the said amount of penalty along with the interest thereon, inter alia, by attachment and sale of movable and immovable properties.

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

PLACE: MUMBAI

DATE: April 06, 2022

PRAMILA SRIDHAR

ADJUDICATING OFFICER