BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO: Order/VV/PSS/2023-24/28781]

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

GIRRAJ SINGH

(PAN: ADBPS6310F)

In the matter of Trading 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"). SEBI observed that such large scale reversal of trades in stock options led to creation of artificial volume at BSE. In view of the same, SEBI, conducted an investigation into the trading activity in Illiquid Stock Options at BSE for the period between April 1, 2014 to September 30, 2015 (hereinafter referred to as, "**Investigation Period"**) after observing large scale reversal of trades in Stock Options segment of the BSE

2. Pursuant to a preliminary examination conducted in the Illiquid Stock Options matter, an Interim order was passed by SEBI on August 20, 2015 against 59 entities which were confirmed vide Orders dated July 30, 2016 and August 22, 2016. Meanwhile, SEBI initiated a detailed investigation relating to trading in stock options segment of BSE which was completed

5. Accordingly, a Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided a one-time opportunity for settlement of proceedings in the Illiquid Stock Options matter. The said scheme remained open from August 01, 2020 till December 31, 2020. Finally, adjudication proceedings were initiated against those entities who did not avail the opportunity of settlement.

6. It was observed that 13,186 entities did not avail the opportunity of settlement and, therefore, Adjudication proceedings were initiated against the entities in a phased manner. In order to duly expedite the Adjudication proceedings against the entities, SEBI had appointed additional Adjudicating officers to adjudicate against the said entities. However, owing to the huge number of alleged entities, the adjudication proceedings were being conducted in a phased manner that required adequate time to complete the proceedings against all entities. The Adjudicating officers had passed Orders with respect to certain entities in a phased manner.

7. It was observed, that some of the entities against whom Orders were passed in the adjudication proceedings appealed before the SAT. During the course of the hearing in a group of appeals, SAT, vide its Order dated May 13, 2022, inter alia observed that :

   "SEBI should reconsider and seriously give a thought in coming out with a fresh Scheme under Clause 26 of the Settlement Regulations, 2018. Such scheme can be a onetime scheme for this class of person. The terms of settlement should be attractive so that it could attract the noticees/entities to come forward and settle the matter which will ameliorate the harassment of penalty proceedings to the noticees and at the same time would help to clear the backlog of these pending matters before various AOs".

8. Accordingly, SEBI introduced a Settlement Scheme i.e. SEBI Settlement Scheme, 2022 (hereinafter referred to as "**Scheme 2022**") in terms of

PFUTP Regulations, 2003, by Noticee. The appointment of the AO was communicated vide communique dated September 30, 2021.

SHOW CAUSE NOTICE, REPLY AND HEARING

12. Show Cause Notice dated August 4, 2022 (hereinafter be referred to as, the "**SCN**") was issued to Noticee under Rule 4 of the Adjudication Rules read with section 15-I of the SEBI Act, to show cause as to why an inquiry should not be held and penalty be not imposed against Noticee under Section 15HA of the SEBI Act for the alleged violations of Regulations 3(a), (b), (c), (d), 4(1), and 4(2)(a) of the PFUTP Regulations. The said SCN was successfully served on the Noticee on August 11, 2022 via digitally signed email on the email id available in record in terms of Rule 7 of the Adjudication Rules. The said SCN was also successfully served on the Noticee via Speed Post AD (SPAD) on December 16, 2022.

13. In the aforesaid SCN, it was alleged that Noticee, by indulging in execution of aforesaid non-genuine reversal trades, had violated Regulation 3(a), (b), (c), (d), 4(1), 4(2)(a) of PFUTP Regulations, which are reproduced as follows:

*"**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*

to the SCN and appear for the personal hearing. Considering the fact that the Noticee has neither filed any reply nor has availed the opportunity of personal hearing despite service of notices upon it, I am of the view that Noticee has nothing to submit and in terms of Rule 4(7) of the Adjudication Rules the matter is being proceeded ex-parte in its regard on the basis of material available on record. As the Noticee did not file any reply to the SCN, it can be presumed that Noticee has admitted the charges levelled against her.

17. In this regard, it is pertinent to note that the Hon'ble Securities Appellate Tribunal (SAT) in the matter of Classic Credit Ltd. vs. SEBI (Appeal No. 68 of 2003 decided on December 08, 2006) has, inter alia, held 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"*.

18. Further, 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, held 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..."

19. Additionally, the same position reiterated by the Hon'ble Securities Appellate Tribunal (SAT) in the matter of **Dave Harihar Kirtibhai vs SEBI** (Appeal No. 181 of 214 dated December 19, 2014), wherein it has been stated that:

    "...further, it is being increasingly observed by the Tribunal that many persons/entities do not appear before SEBI (Respondent) to

ISSUE- I: Whether Noticee has violated the provisions of regulations 3(a), (b), (c), (d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?

22. It has been alleged in the SCN that Noticee had executed reversal trades which involved squaring off transactions with significant difference in the sell value and buy value in the Illiquid Stock Options segment at Bombay Stock exchange. It has been alleged that the aforesaid reversal trades resulted into generation of artificial volumes in the illiquid stock options contracts traded by Noticee.

23. In this regard, I note that the allegation that Noticee carried out reversal trades is directly supported by evidence from the BSE trade log records which were provided to Noticee along with the SCN. I note from the BSE trade logs that, Noticee is seen to have indulged in 4 reversal trades in 2 unique contract as illustrated below:

S. No.	TRADE_DATE	clnt_name	cp_name	TRADE_TIME	TRADE_RATE	TRADED_QTY	SCRIP NAME
1	25/03/2015	Ashlar Commodities Private Limited	Girraj Singh	14:13:12	22	25000	MCRS15APR225.00CEW3
2	25/03/2015	Girraj Singh	Ashlar Commodities Private Limited	14:13:07	12.5	25000	MCRS15APR225.00CEW3
3	25/03/2015	Ashlar Commodities Private Limited	Girraj Singh	14:14:23	23.5	20000	MCRS15APR265.00PEW3
4	25/03/2015	Girraj Singh	Ashlar Commodities Private Limited	14:14:13	15.5	20000	MCRS15APR265.00PEW3

Summary of dealings of the Noticee in the said Stock Options contract, in which it executed non-genuine trades during the investigation period, are as follows:

trades and trading volume in the aforesaid stock option contracts that these contracts were illiquid in nature.

27. I note that the price of a particular option contract is known as the option premium. In the instant matter, there was a wide variation in the buy/sell price for without any corresponding change in the price of the scrip in the cash segment. Therefore, for a given strike price, the option premium could not have varied widely within such a short period of time in the absence of significant movement in the price of the underlying scrip. Due to the fact that there was no commercial basis as to why, within a short span of time from each other, Noticee reversed the position with its counterparties with significant price difference, in the absence of significant movement in the price of the underlying scrip, I am of the view that the transactions executed by Noticee in the aforesaid contracts were non-genuine. Since these trades were done in illiquid option contracts, there was minimal trading in the stock options contracts traded by Noticee and hence, there was no price discovery w.r.t. the said contracts in the strictest terms. I note that the impugned reversal trades, which were carried out with prior meeting of minds as inferred from the case facts, affected the price discovery and execution of trades as per market mechanism on the stock options segment of BSE. Furthermore, the exactness of the quantity that got reversed between the two parties on a single day, the proximity in the time of the reversal of trades and above all the absence of rationale to justify the variation in the sell and buy price, certainly shows that these are non-genuine trades.

28. In this context, it is relevant to quote the judgment of the Hon'ble Supreme Court in the matter of ***Rakhi Trading (SEBI Vs. Rakhi Trading-CANo.1969/2011, Order dated February 8, 2018)***

"Fairness, integrity and transparency are the hallmarks of the stock market in India………"

trades, and being non-genuine, Noticee's trades created misleading appearance of trading by generating artificial trading volumes in respective contracts.

30. I further note that it is not mere coincidence that, Noticee could match its trades with the same counterparty with whom Noticee had undertaken first leg of the respective trades. The fact that the transactions in a particular contract were reversed with the same counterparty for the same quantity of units, indicates a prior meeting of minds with a view to execute the reversal trades at a pre- determined price. This is the outcome of meeting of minds elsewhere and it was a deliberate attempt to deal in such a manner. I note in matters dealing with violation of PFUTP Regulations, 2003, the reason as regards execution of non- genuine trades might not be immediately forthcoming. However, the correct test instead, is one of preponderance of probabilities. 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-

> *"...According to us, knowledge of who the 2nd party / client or the broker is, is not relevant at all. While the screen based trading system keeps the identity of the parties anonymous it will be too naïve to rest the final conclusions on the said basis which overlooks a meeting of minds elsewhere. Direct proof of such meeting of minds elsewhere would rarely be forthcoming...in the absence of direct proof of meeting of minds elsewhere in synchronized transactions, the test should be one of preponderance of probabilities as far as adjudication of civil liability arising out of the violation of the Act or provision of the Regulations is concerned. The conclusion has to be gathered from various circumstances like that volume of the trade effected; the period of persistence in trading in the particular scrip; the particulars of the buy and sell orders, namely, the volume thereof; the proximity of time between the two and such other relevant factors. The illustrations are not exhaustive..."*.

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

above, SAT has missed the crucial factors affecting the market integrity, which may be direct or indirect. 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."

34. Finally, to answer the question as to whether these trades fall within the ambit of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations, I would like to rely on the following extract of the judgment of the Hon'ble Supreme Court in the matter of Rakhi Trading:

    "39. Regulation 2(1)(c) defines fraud. Under Regulation 2(1)(c)(2) a suggestion as to a fact which is not true while he does not believe it to be true is fraud. Under Regulation 2(1)(c)(7), a deceptive behavior of one depriving another of informed consent or full participation is fraud. And under Regulation 2(1)(c)(8), a false statement without any reasonable ground for believing it to be true is also fraud. In synchronized and reverse dealing in securities, with predetermined arrangement to book loss or gain between prearranged parties, all these vices are attracted.

    40. Regulation 3(a) expressly prohibits buying, selling or otherwise dealing in securities in a fraudulent manner. Under Regulation 4(2) dealing in securities shall be deemed to be fraudulent if the trader indulges in an act which creates a false or misleading appearance of trading in the securities market. It is a deeming provision. Such trading also involves an act amounting to manipulation of the price of the security in the sense that the price has been artificially and apparently prefixed. The price does not at all reflect the value of the underlying asset. It is also a transaction in securities entered into without any intention of performing it and without any intention of effecting a change of ownership of such securities, ownership being understood in the limited sense of the rights of the contract."

35. The Hon'ble Appellate Tribunal has summarized the circumstances identified by the Apex court in **Rakhi Trading** Judgment in the case of

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..."

38. In view of the foregoing and placing reliance upon the aforesaid judgements, I am, therefore, of the view 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, were fraudulent/ manipulative, as contemplated in the PFUTP Regulations. 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 Noticee stands established.

Issue II: If yes, whether the failure, on the part of Noticees would attract monetary penalty under Section 15HA of the SEBI Act?

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Issue III: If yes, what would be the monetary penalty that can be imposed upon Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?

39. Since the violation of Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations has been established against Noticee, as brought out in the foregoing paragraphs, Noticee is liable for monetary penalty under Section 15HA of SEBI Act which is reproduced as follows:

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*

ORDER

43. 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 a penalty of **Rs. 5,00,000/- (Rupees Five Lakhs only)** on Noticee *i.e.* **Girraj Singh** under Section 15HA of the SEBI Act for violation of Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations.

44. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order 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

45. 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.

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

Date: August 21, 2023 | **Vijayant Kumar Verma**
Place: Mumbai | **Adjudicating Officer**