BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/PB/2021-22/14749]

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:

Ms. Neha Sethi [PAN: ADGPJ0141E]
577 M.G. Road,
Anand Bhawan, Indore,
Madhya Pradesh – 452 001

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"). 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 01, 2014 to September 30, 2015.

2. Pursuant to investigation, it was observed during the investigation period, certain entities were involved in reversal trades in BSE's Stock Options Segment. A total of 2,91,643 trades comprising 81.38% of all the trades executed in BSE Stock Options Segment reversal trades, which involved squaring off transactions (i.e. buy and sell positions) by the same set of counterparties in a contract, but with significant difference in the sell value and

buy value of the transactions. The aforesaid reversal trades allegedly resulted into generation of artificial volumes in otherwise illiquid option contracts.

3. It was observed that **Neha Sethi [PAN: ADGPJ0141E]** (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, 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. SEBI, after being satisfied that there are sufficient grounds to inquire into the affairs and adjudicate upon the alleged violations as mentioned above, inter-alia, in respect of the Noticee, had appointed the undersigned as the Adjudicating Officer vide order dated July 02, 2021 [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 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/OIA/PB/16636/2021 dated July 28, 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 her and why penalty should not be imposed under Section 15HA of the SEBI Act, 1992 for the violations alleged to have been committed by Noticee.

6. It was inter alia alleged in the SCN that 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 'AMTK15MAR160.00PE', which led to generation of alleged artificial volume of 36,000 units (buy side + sell side). These trades of the Noticee involved reversal with the same counterparty on the same day, but at significantly different price.

7. Summary of the reversal trades of 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
17/03/2015	AMTK15MAR160.00PE	160	2015-03-26	Jayesh Kala	Neha Sethi	10:45:46.647861	10:43:38.857241	10:45:46.647861	15.0	15.0	15.0	36000	18000	18000
17/03/2015	AMTK15MAR160.00PE	160	2015-03-26	Neha Sethi	Jayesh Kala	11:42:37.402231	11:43:39.222475	11:43:39.222475	6.8	6.8	6.8	18000	36000	18000

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

(a) While dealing in the said contract on March 17, 2015, the Noticee placed a sell order at 10:43:38.857241 hrs for 18,000 units @ Rs.15.00 per unit. The sell order of the Noticee got executed against a buy order placed by one 'Jayesh Kala' at 10:45:46.647861 hrs at the same rate for 36,000 units. Thereafter, at 11:42:37.402231 hrs, the Noticee reversed her position by placing a buy order for 18,000 units @ Rs.6.80 per unit, which got executed against the sell order from the same counterparty 'Jayesh

Kala' placed at 11:43:39.222475 hrs at the same rate and for 36,000 units. This indicates that these trades are artificial and are non-genuine in nature.

(b) Non-genuine trades executed by the Noticee in above contracts had significant difference in buy rates and sell rates considering that the trades were reversed on same day.

(c) The Noticee's trades generated artificial volume of 36,000 units, (buy side + sell side) which made up 9.00% of total market volume in the said contract on that day and overall traded volume in the said contract.

SUBMISSION BY THE NOTICEE

8. The SCN dated July 28, 2021 was served on the Noticee. The Noticee, vide e-mail dated August 16, 2021, acknowledged the receipt of SCN and sought additional time to submit her response. Accordingly, vide letter no. SEBI/OIA/AO/PB/2021/20494/1 dated August 23, 2021, the Noticee was granted extension of time till September 07, 2021 to submit response. The Noticee, vide e-mail dated August 26, 2021, acknowledged the receipt of SCN and sought additional time to submit her response. Thereafter, the Noticee, vide e-mail dated October 08, 2021 forwarded her response *inter alia* submitted the following:

i. It appears there is certain data, documents and information available with SEBI in connection with the matter, but which has not been provided with the SCN. In order for Noticee to properly understand the basis of the allegations against Noticee in the SCN, Noticee would need access to all the relevant documents in the possession of SEBI in connection with the matter, based on which the present proceedings have been initiated and the allegations have been made.

ii. Noticee has done 2 trades on the BSE in which she earned some profit by trading 36000 quantities under contract viz. AMTK15MAR160.00PE of stock option which were purchased and sold on the same day as she got the opportunity to square off the trade in profit. By no standards this can be termed as non-genuine trade. The client had earned a minuscule profit of 1 lakh rupees and it was a one-off transaction. The trade done by Noticee was a regular way of how transactions are done, i.e., she purchased and got an opportunity to sell at a profit.

iii. The trade reversal done with the counterparty was executed after almost an hour of the first trade. If it is alleged that Noticee did initiate reversal trade then it ought to have been done within time gap of less than 5 minutes to have been put into definition of intentional trade reversal, but time gap of 1 hour explains that trade done was absolutely genuine.

iv. That, while trading in an illiquid option there are more chances of getting the trade squared off with the same party. Noticee as an investor asked her broker to buy or sell which he did on her behalf on the Exchange platform. She was not in a position to see the screen nor can the broker identify with whom the deal got punched as the details are not shared on the screen by the Exchange. Since, the trading system is anonymous, it will be very naive to draw conclusions that the parties knew each other.

v. The allegation that Noticee had indulged in trade which resulted in creating artificial volume and were non-genuine are strictly refuted, because these allegations are baseless.

vi. During such investigation, SEBI came to a finding that these were large scale reversal trades executed in stock options by 14,720 entities who have allegedly been involved in generation of artificial volumes by executing non genuine / reversal trades. Noticee had no knowledge pertaining with whom the trades got transacted. SEBI/BSE does not allow anyone to know with whom the transaction gets closed.

vii. There is a six-year delay in issuance of SCN. Even though there is no period of limitation prescribed in the (SEBI) Act and Regulations in the issuance of an SCN or for completion of the adjudication proceedings, the authority is required to exercise its powers within a reasonable period as held recently in ***Adjudicating Officer, Securities and Exchange Board of India vs Bhavesh Pabari*** (2019) 5 SCC 90. In the instant case, because the power to adjudicate has not been exercised within a reasonable period therefore, no penalty could be imposed.

viii. In the case of Govindji Gupta and others (MC/DS/2019-20/6209-62I4), the Learned Adjudicating Officer had considered a time difference upto 5 minutes between two trades and also difference in order prices, to be significant and recorded the following-

"It has been further contended that there was huge order price gap between the both legs orders. There was huge order time gap between the both legs of orders placed by the Noticee and his counterparties. In most of the instances (more than 90% of orders) there were time gap of 10 second to 5 minutes. Thus, the structured trades could not have been said to be intentional. In this regard, while 10 seconds is a very small-time difference between orders, I find the argument on difference in order prices acceptable, as a trade cannot be intended to match in a structured manner with difference in order prices."

Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT") has put a stamp of approval on the above on grounds of consistency by accepting the findings of the AO and observing as follows in ***Almondz Entertainment Pvt. Ltd. vs SEBI*** (Appeal no. 198 of 2020 dated 21.01.2021) *"…same charge were exonerated. In our opinion, if the six entities were exonerated, the appellants are entitled for the same relief*. "

ix. Thus, it has been recognized by SEBI, and also Hon'ble SAT that a trade involving a time gap of seconds to 5 (five) minutes could not have been a structured trade. Reversal trade has been recognized as a structured trade. SEBI as a Regulator and Adjudicator cannot abandon its own yardstick adopted in one case and adopt a different yardstick in Noticee's Case.

x. Trading in 36,000 units cannot by any means be considered as creating of artificial volume. Because as SEBI contended that 81% of trades were completed then it means that the contract was highly liquid and not illiquid and consecutively Noticee cannot be penalized for generating artificial trade volume.

xi. The Hon'ble Supreme Court's judgment in the case of ***SEBI vs Rakhi Trading Pvt. Ltd***., that SEBI has to adhere to, is to ensure stringent enforcement and efficacy of cleanliness of the market place, otherwise SEBI will be failing in its duty to promote orderly and healthy growth of the securities market. Inferior supervision might distort the path of securities market development. Thus, SEBI as a regulator have not done your duty and are now blaming investors by trying to impose a penalty for no fault of theirs.

xii. The trades were executed very much within the limits provided by the exchange and within the price that was appearing of the underlying asset, otherwise it could not have been executed. As mentioned in the notice, a trader while trading in illiquid options does not know who he/she is trading with, even if it is a broker. The implication that about 14000 people within galaxy of brokers kept trading, know each other seems a little farfetched imagination.

xiii. Reliance has been made on the judgement of the Hon'ble Supreme Court in the matter of ***SEBI vs Kishore Ajmera*** [(2016) 6 SCC 368] wherein, the Apex Court held in para 26 of the judgment 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 naive to rest the conclusions on the said basis which overlooks a meeting of minds elsewhere*". Thus, meeting of minds and knowledge of who the other party is very important which is apparently missing in Noticee's case.

xiv. The brokers/ trading members have to be qualified before they are permitted to do stock/ derivatives trading on behalf of the clients/investors. Therefore, in normal course of business an investor who trades in stocks/ derivatives, is not aware of the alleged trades to be non-genuine or reversal. SEBI is blaming all the investors for the wrongdoings, mistakes or fault of their own officials and it failed to perform its own work of being a watchdog to exchange.

xv. An investor cannot file any complaint against any broker after the lapse of three years then how come SEBI, without initiating any proceeding against the broker or the exchange concerned, tried to charge penalty against an investor after the lapse of more than five years. The alleged trades are of the year 2015; for which Noticee got a notice in the year 2021. Such proceedings are ex-facie vitiated in law, and is a complete abuse of process. Such a long delay in initiation of the proceedings by itself poses grave difficulties and extreme hardship for Noticee's defence, highly prejudiced by such inordinate delay on the part of SEBI and may not be in a position to locate or lay hands on relevant material / information. In this regard, reference has been made to the judgment of Hon'ble SAT in the matter of ***Libord Finance Limited vs SEBI*** [Appeal No. 37/2008, SAT order dated 31.03.2008], wherein Hon'ble SAT has made the following observation - "*Before concluding, we cannot resist observing that there has been an inordinate delay in initiating action against the appellant. It is alleged to have committed the irregularities in the earlier part of the year 1996 and the show-cause notice was admittedly issued in June 2004. How could anyone file a proper reply after a lapse of more than eight years. This long delay itself causes grave injustice to the delinquent and results in the violation of the principles of natural justice. Such delays defeat the very purpose of the proceedings*."

Attention has also been drawn to the judgment of Hon'ble Supreme Court of India in ***Government of India vs Citedal Fine Pharmaceuticals, Madras & others*** [AIR (1989) SC 1771], wherein it was held that in the absence of any period of limitation, the authority is requested to exercise its powers within reasonable period.

xvi. BSE Officials must be and should be held responsible as they did not raise any objections at the relevant period of the transactions. The alleged trades were carried out on the platform of BSE. If the alleged trades were not allowed, then BSE should have prevented / cancelled the alleged trades at the relevant time itself. Therefore, it seems absolutely clear that BSE believed that such alleged trades were permitted.

xvii. SEBI has allowed and wanted to increase the trade volume in that duration as there was hardly any trading done and to increase the volume during that time, the Liquidity Enhancement Scheme for illiquid securities in F&O segment was introduced. There is every possibility in the thinly traded contracts to get reversed with the same party and there was no ban in doing that.

xviii. That, it is deduced that penalty provisions under Section 15HA are not to be construed strictly but should only be applied in extreme situations. Noticee's trades do not fit into the definition of fraud since SEBI failed to provide for any factual evidence to prove that Noticee's trade led to artificial increase in trade volume, or manner adopted was fraudulent, hence, such allegations are refuted.

xix. Noticee also requested for a personal hearing to defend her case and raise such necessary arguments to prove that she did not indulge in any unfair or fraudulent trade practices as has been alleged in the SCN.

9. Vide hearing notice no. SEBI/OIA/AO/PB/2021/26367/1 dated September 29, 2021, an opportunity of hearing was granted to the Noticee on October 20, 2021 (option was given to attend the hearing either virtually or physically). The hearing notice was sent to the Noticee through Speed Post with Acknowledgement Due (SPAD) as well as sent via e-mail to the available e-mail addresses of the Noticee.

10. The hearing notice was served on the Noticee through SPAD as well as sent via e-mail to the available e-mail addresses of the Noticee. Adv. Rahul A. Sethi, Authorized Representatives (AR) of the Noticee, attended the hearing on the scheduled date and reiterated the submissions made vide reply dated September 02, 2021. Further, the AR submitted that they would make post hearing submission by October 27, 2021.

11. Subsequently, from the communication received on October 28, 2021, it is observed that the Noticee has made additional submission regarding prevalent market price (day's Open, High, Low, Close, Avg. Price, etc.) and volume data of the underlying scrip in the Cash Market segment.

CONSIDERATION OF ISSUES AND FINDINGS

12. I have carefully perused the charges levelled against the Noticee, her replies and the documents/ material available on record. Before dealing with the issues on merit, I would deal with the procedural lapse/ issue in the SCN, as has been raised by the Noticee.

12.1 The Noticee has argued that there has been inordinate delay of more than 5 years in issuing SCN which has caused prejudice to the Noticee as she may not be in a position to locate or lay hands on relevant material / information. Such proceedings are ex-facie vitiated in law, and is a complete abuse of process.

12.2 I note that in the instant matter, SEBI has investigated large scale reversal of trades in stock options which were entered into by large number of entities. Pursuant to a preliminary examination conducted in the Illiquid Stock Options matter, Interim order was passed by SEBI on August 20, 2015 which was confirmed vide Orders dated July 30, 2016 and August 22, 2016. Meanwhile, SEBI initiated a detailed investigation relating to stock options segment of BSE which was completed in the year 2018. The investigation revealed that 14,720 entities were involved in executing non-genuine trades in BSE's stock option segment during the investigation period. The proceedings initiated vide the aforementioned Interim Order were disposed of vide Final Order dated April 05, 2018 also considering that appropriate action was initiated against the said 14,720 entities in a phased manner.

12.3 During the course of hearing in the case of ***R. S. Ispat Ltd Vs SEBI***, the Hon'ble SAT, vide its Order dated October 14, 2019, *inter alia* observed that "*SEBI may consider holding a Lok Adalat or adopting any other alternative dispute resolution process with regard to the Illiquid Stock Options".*

12.4 A Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided one-time opportunity for settlement of proceedings in the Illiquid Stock Options matter. The said scheme was kept open from August 01, 2020 till December 31, 2020. Adjudication proceedings were initiated against those entities who had not availed of the opportunity of settlement.

12.5 As can be seen from the narration of facts in the foregoing paragraphs, pursuant to appointment of AO on July 02, 2021, SCN was issued on July 28, 2021. In compliance with principles of natural justice, after receipt of reply, an opportunity of personal hearing was scheduled on October 20, 2021 and upon conclusion of hearing, additional written submissions were received from the Noticee on October 28, 2021.

12.6 On this aspect, reliance is also placed on the judgement of the Hon'ble SAT in the matter of ***Pooja Vinay Jain vs SEBI*** [Appeal No. 152 of 2019 dated March 17, 2020], wherein the Hon'ble Tribunal has *inter alia* made the following observations–

"*12. The decision would show that the power to initiate the proceedings must be exercised by the authorities within a reasonable time. This would depend upon the facts and circumstances of the case, nature of the default / statute and prejudice caused to the noticee.*

13. In the present case, the appellant neither put a plea of prejudice before the AO nor before us. It was simply stated that since the proceedings were launched by respondent SEBI after a period seven years, the same should be quashed on the ground of delay. The record would show that all the documents concerning the defense of the appellant were filed by her before the AO. Therefore, for want of any prejudice the proceedings cannot be quashed simply on the ground of delay in launching the same. Further, as explained by the learned counsel for the respondent as recorded in paragraph No. 6.4 above, large numbers of entities and transactions were analyzed by SEBI which took some time. In the result, the following order:-

ORDER

14. The appeal is hereby dismissed without any order as to costs."

12.7 Further, I note that in **Ravi Mohan & Ors. vs. SEBI and other connected appeals** decided on August 08, 2013, Hon'ble SAT while referring to its own decision in HB Stockholdings Ltd. vs. SEBI (Appeal no. 114 of 2012) decided on August 27, 2013 and decision of Hon'ble Supreme Court in Collector of Central Excise, New Delhi vs. Bhagsons Paint Industry (India) reported in 2003 (158) ELT 129 (S.C.), held as under:

"....Based on decision of this Tribunal in case of HB Stockholdings Ltd. vs. SEBI (Appeal no. 114 of 2012 decided on 27.08.2013), it is contended on behalf of the appellants that in view of the delay of more than 8 years in issuing the show cause notice, the impugned order is liable to be quashed and set aside. There is no merit in this contention, because, this Tribunal while setting aside the decision of SEBI on merits has clearly held in para 20 of the order, that delay itself may not be fatal in each and every case. Moreover, the Apex Court in case of Collector of Central Excise, New Delhi vs. Bhagsons Paint Industry (India) reported in 2003 (158) ELT 129 (S.C) has held that if there is no statutory bar for adjudicating the matter beyond a particular date, the Tribunal cannot set aside the adjudication order merely on the ground that the

adjudication order is passed after a lapse of several years from the date of issuing notice...."

The decision of Hon'ble SAT in the aforesaid case, were reiterated by it, in a subsequent order in the matter of ***Kunal Pradip Savla & Ors. vs. SEBI*** (Appeal no. 231 of 2017) decided on April 13, 2018. Therefore, I conclude that there is no merit in the contentions of the Noticee regarding the delay in concluding the instant proceedings.

12.8 I find that the aforementioned decision of the Hon'ble Tribunal is squarely applicable to the instant case. Accordingly, I don't find any merit in the plea of the Noticee that delay in initiation of proceedings against the Noticee is unreasonable and has caused serious prejudice to the Noticee.

12.9 Noticee has also submitted that certain data, documents and information available with SEBI in connection with the matter, has not been provided with the SCN, in order for Noticee to properly understand the basis of the allegations against Noticee in the SCN. In this regard, I note that the Noticee was provided with all relied upon documents along with the SCN and the Noticee was also provided enough time to file its detailed reply and submissions. Therefore, I don't find any merit in the plea of the Noticee on this ground too.

13 Now I would deal with the issues that arise for consideration in the present case are:

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

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

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, 1992?

FINDINGS

14 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:

15 ***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?***

15.1 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;***"**

15.2 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.

15.3 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.

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

(i) I note from the table at para 7 above that while dealing in the contract of 'AMTK15MAR160.00PE' on March 17, 2015, the Noticee engaged in reversal trades (altogether two trades, one on the buy side and one on the sell side) in the contract, which led to generation of alleged artificial volume of 36,000 units (buy side + sell side). These trades of the Noticee involved reversal with the same counterparty on the same day, but at significantly different price.

(ii) At 10:43:38.857241 hrs, the Noticee placed a sell order for 18,000 units @ Rs.15.00 per unit. The sell order of the Noticee got executed against a buy order placed by one 'Jayesh Kala' at 10:45:46.647861 hrs at the same rate for 36,000 units. Thereafter, at 11:42:37.402231 hrs, the Noticee reversed her position by placing a buy order for 18,000 units @ Rs.6.80 per unit, which got executed against the sell order from the same counterparty 'Jayesh Kala' placed at 11:43:39.222475 hrs at the same rate and for 36,000 units. This indicates that these trades are artificial and are non-genuine in nature.

(iii) Trades executed by the Noticee in above contracts had significant difference in buy rates and sell rates considering that the trade/ position was reversed within a short time-span.

(iv) The Noticee's trades generated artificial volume of 36,000 units, (buy side + sell side) which made up 9.00% of total market volume in the said contract on that day.

(v) Overall, the Noticee's trades contributed to 9.00% of volume in the said contract.

15.5 I note from the impugned SCN that the allegations against the Noticee that she indulged in execution of non-genuine reversal of trades in illiquid stock option with same entity, created false and misleading appearance of trading in stock options and therefore violated Regulation 3(a), (b), (c) & (d) and 4(1) & 4(2)(a) of PFUTP Regulations, 2003 are solely based on the aforesaid transactions.

15.6 I note the Noticee in this regard has *inter alia* submitted that:

(i) Noticee has done 2 trades on the BSE in which she earned some profit by trading 36,000 quantities in the contract viz. AMTK15MAR160.00PE of stock option which were purchased and sold on the same day as she got the opportunity to square off the trade in profit. By no standards this can be termed as non-genuine trade. The client had earned a minuscule profit of 1 lakh rupees and it was a one-off transaction. The trade done by Noticee was a regular way of how transactions are done, i.e., she purchased and got an opportunity to sell at a profit.

(ii) Noticee has provided details the broad price movement in the underlying scrip on the concerned day as well as a day before and after. A synopsis of the same is provided below:

Date	Open	High	Low	Close	Total Traded Quantity
16.3.2015	148.15	152	146.1	148.85	556335
17.3.2015	160	161.7	152	152.7	2832761
18.3.2015	153.5	153.7	148.35	150.65	1074427

(iii) That, while trading in an illiquid option there are more chances of getting the trade squared off with the same party. Noticee as an investor asked her broker to buy or sell which he did on her behalf on the Exchange platform. She was not in a position to see the screen nor can the broker identify with whom the deal got punched as the details are not shared on the screen by the Exchange. Since, the trading system is anonymous, it will be very naive to draw conclusions that the parties knew each other.

15.7 From the above table it is observed that on March 17, 2015 (the day when Noticee's alleged trades took place), the underlying scrip opened at a higher value and closed at a considerably lower value. On that particular day, the underlying scrip had observed very high trading volume. Although, from the same, no one-to-one mapping of the price movement in the underlying scrip with the price movement in the derivative contract is possible, it does show a general trend in the price movement, which was declining.

15.8 I also note that no allegation that buyer and seller were related or connected to each other has been made in the SCN nor has any other evidence, direct or otherwise, been brought on record to suggest collusion between them.

15.9 I also note that given the existing exchange trading platform at that point in time it was possible that the counterparty to trades could be the same entity.

15.10 Based on the evidences on record and submissions made by the Noticee, I observe that:

(i) On March 17, 2015 (the day when Noticee's alleged trades took place), the underlying scrip opened at a higher value and closed at a considerably lower value. In Noticee's case too, she had first traded (sold) at higher rate and subsequently, after about an hour, squared off at a lower rate (with a profit);

(ii) Noticee's orders were only part of the counterparty orders/ market orders. In the given instance, part of the counterparty's orders got matched with the orders placed by the Noticee;

(iii) Noticee's orders were not placed in exact sync with the counterparty orders. Therefore, leaving opportunity for other market participants to participate against the pending orders;

(iv) On both the occasions, Noticee's orders were placed first and after some time gap the counterparty orders were placed;

(v) It was possible in existing exchange trading platform at that point in time that the counterparty to trades could be the same entity without the knowledge of the concerned entities;

(vi) The SCN does not infer any relation or connection between the buyer and seller, nor has any other evidence, direct or otherwise, been brought on record to suggest collusion between them;

(vii) The Noticee's trades generated artificial volume of 36,000 units, (buy side + sell side) which made up 9.00% of total market volume in the said contract on that day as well as overall trading volume in the contract.

15.11 Considering the aforesaid facts and circumstances in totality, I am of the view that no definitive conclusion can be made that the impugned trades were pre-meditated.

15.12 In view of the aforesaid, I find that there is insufficient material to conclude that the Noticee created false and misleading appearance of trading or generated artificial volume by means of reversal trades.

15.13 Accordingly, I find that it is not established that the Noticee is in violation of the provisions of Regulation 3(a), (b), (c) & (d) and 4(1) & 4(2)(a) of PFUTP Regulations, 2003. Hence I find that this is not a fit case for imposition of penalty.

15.14 In view of the above, issues II and III do not merit consideration.

ORDER

16 In view of the findings noted in the preceding paragraphs, and the factors mentioned in the provisions of Section 15-I of the SEBI Act, 1992 read with Rule 5 of Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995, I hereby dispose of the Adjudication Proceedings initiated against the Noticee, **Neha Sethi [PAN: ADGPJ0141E],** vide the SCN bearing ref. no.:

SEBI/OIA/PB/16636/2021 dated July 28, 2021, in the matter of dealings in Illiquid Stock Options at BSE.

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 and also to the Securities and Exchange Board of India, Mumbai.

PRADIP BHOWMICK Digitally signed by PRADIP BHOWMICK Date: 2022.01.20 16:16:28 +05'30'

Date: January 20, 2022 **PRADIP BHOWMICK**

Place: Mumbai **ADJUDICATING OFFICER**