BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OFINDIA

ADJUDICATION ORDER NO. EAD-7/BJD/BKM/124-125/2018-19

UNDER SECTION15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES,1995

In respect of:

1. Chandarana Intermediaries Brokers Private Ltd, Shop No. 1, G Cinema Screen-3 Building, Somnath Junction, Village Dabhel, Nani Daman & Diu, India 396215	**2. Marwadi Shares & Finance Limited, Marwadi Financial Plaza, Nana Mava Main Road, Off. 150 Feet Ring Road, Rajkot 360001**

In the matter of Inventure Growth and Securities Limited

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI'), upon price movements in scrip of Inventure Growth & Securities Limited (hereinafter referred to as IGSL / company) conducted Investigation into the alleged irregularities in the scrip and the possible violation of the provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as SEBI Act) and various Rules and Regulations made there under during the period from August 04, 2011 to August 11, 2011 (hereinafter referred to as the 'IP'). The shares of IGSL were listed on Bombay Stock Exchange Ltd. (BSE) and National Stock Exchange (NSE).

2. During the course of investigation SEBI observed that M/s. Chandarana Intermediaries Brokers Private Ltd. (hereinafter referred to as 'Chandarana') entered into self-trades thereby created artificial volume in the scrip, leading to false and misleading appearance of trading of the scrip in the securities

market. It was, thus, alleged that Chandarana had contravened the provisions of Regulations 3(a), (b), (c), (d), 4(1), 4(2) (a),(b),(e) and (g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as 'PFUTP Regulations'). Marwadi Shares & Finance Limited (hereinafter referred to as 'Marwadi'). Marwadi acted as buy and sell broker for self-trades of Chandarana and, hence, failed to exercise due skill and care and thus, violated Clause A(2) of the Code of Conduct of Stock Brokers as specified under Schedule II read with Regulation 7 of the SEBI (Stock Brokers and Sub- Brokers) Regulation, 1992(hereinafter referred to as the 'Stock Brokers Regulations'). Collectively Chandarana and Marwadi are hereinafter referred to as Noticees.

3. SEBI has, therefore, initiated adjudication proceedings against Chandrana for violation of Regulations 3 (a),(b),(c) and (d), 4 (1), 4 (2) (a), (b), (e) and (g) of PFUTP Regulations and Marwadi for violation of Clause A(2) of the Code of Conduct for Stock Brokers as specified under Schedule II read with Regulation 7 of Stock Brokers and Sub Brokers Regulations in the matter of IGSL.

APPOINTMENT OF ADJUDICATING OFFICER

4. Shri Prasad Jagdale was appointed as the Adjudicating Officer (AO) vide order dated May 13, 2016 under Section 19 of the SEBI Act read with Section15-I (1) of SEBI Act 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as "**Adjudication Rules**") to inquire and adjudge under Sections 15 HA of the SEBI Act against Chandarana and under Section 15 HB of the SEBI Act against Marwadi for the alleged violations committed by them. Further, consequent to the inter-departmental transfer and postings, the undersigned has been appointed the AO, vide order dated September 18, 2017 to inquire and adjudge the said matter.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. A common Show Cause Notice (hereinafter referred to as "SCN") bearing ref. no. EAD/BJD/BKM/27622/16&18/2017 dated October 31, 2017 was issued to the Noticees under Rule 4 of SEBI Adjudication Rules to show cause as to why an inquiry be not held against it in terms of Rule 4 of the Adjudication Rules and penalty be not imposed under Section 15 HA of the SEBI Act against Chandrana and 15 HB of the SEBI Act against Marwadi for the violations alleged to have been committed by them. Chandrana vide letters dated November 28, 2017, February 19, 2018, May 23, 2018 and July 09, 2018 replied to the SCN. Marwadi vide letters dated November 28, 2017, February 09, 2018, February 09, 2018, May 23, 2018 and July 09, 2018 replies to the SCN.
6. In the interest of natural justice and in terms of Rule 4 (3) of the Adjudication Rules, vide notice dated May 22, 2018 the opportunity of personal hearing was fixed on May 29, 2018 which they failed to avail. Further additional opportunity of personal hearing was granted on July 24, 2018 which again they failed to attend.

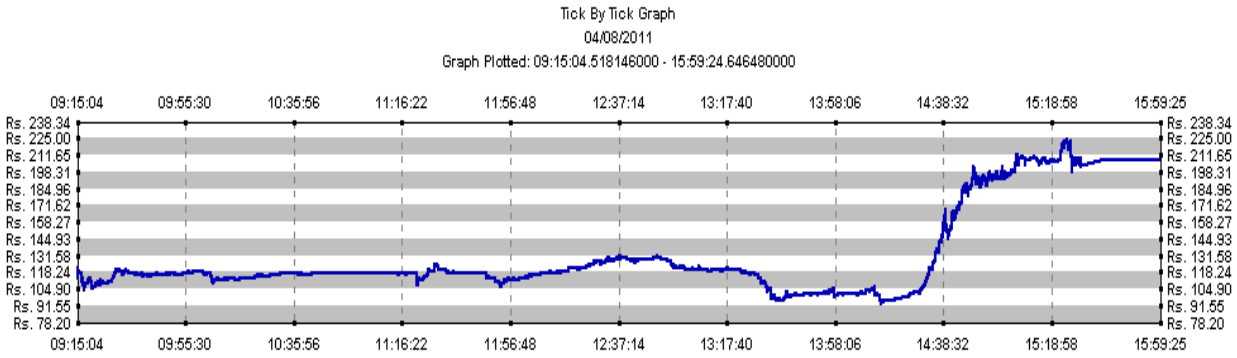
7. I note that the sufficient opportunity of personal hearing has been granted to the Noticees in the matter and now I am proceeding with the matter on the basis of material available on record and the written submission made by the Noticees.

FACTS OF THE CASE

8. It was observed that Chandarana created artificial volume by repeatedly entering into self-trades during the Investigation period. It executed self-trades through its stock broker Marwadi and therefore they indulged in manipulative trades by misleading appearance of trading of the scrip in the securities market.

Trading analysis:

9. The scrip of IGSL opened at Rs 117.00 on NSE and at Rs 119.00 on BSE on the listing day. The price of the scrip touched its intraday high of Rs 225.00 at 15:24:32 hrs on BSE and closed at Rs 206.75 on NSE and Rs 207.95 on BSE. The total traded volume on the day of listing was 5,87,67,922 shares and 4,70,66,110 shares at NSE and BSE respectively. Tick by tick graph for price movements on BSE on the listing day is provided below:



10. The trading analysis for the listing days has been carried out in two patches i.e., for the listing day i.e. August 04, 2011 and the rest of the investigation period (August 05, 2011 to August 11, 2011 - 'investigation period post listing day'). The market price of the share as on March 08, 2016 is Rs 12.50 (adjusted price for bonus issue on May 22, 2012 in the ratio 3:1 is Rs 50.00).

Brokers and Clients Concentration :

11. Details of Top 10 buy and sell broker and clients on NSE and BSE on the listing day and the investigation period post listing day is tabulated as below:

Brokers Concentration (NSE) – Listing Day :

Buy Broker Name	Total	%age of Trd Vol	Sell Broker Name	Total	%age of Trd Vol
Crosseas	57,79,513	9.83	Crosseas	57,79,513	9.83
Marwadi Shares And Finance Ltd	51,87,362	8.83	Marwadi Shares And Finance Ltd	53,17,334	9.05
Arcadia Share & Stock Brokers Pvt Ltd	23,64,063	4.02	Arcadia Share & Stock Brokers Pvt Ltd	22,59,519	3.85
Ans Pvt. Ltd.	18,22,458	3.10	ANS Pvt. Ltd.	19,81,759	3.37
Vijeta Broking India Pvt Ltd	18,08,475	3.08	Vijeta Broking India Pvt Ltd	18,08,475	3.08
Fair Intermediate Investments Pvt. Ltd.	16,90,189	2.88	Fair Intermediate Investments Pvt. Ltd.	16,89,989	2.88
Gkn Securities	14,90,754	2.54	GKN Securities	14,90,754	2.54
Genuine Stock Brokers Pvt Ltd	12,84,659	2.19	Genuine Stock Brokers Pvt Ltd	12,84,659	2.19

Indira Securities Pvt Ltd	10,01,831	1.71	Indira Securities Pvt Ltd	9,97,333	1.70
Sharekhan Ltd.	9,21,261	1.57	Angel Broking Pvt Ltd	9,27,849	1.58
Top 10 Buy Brokers	2,33,50,565	39.73	Top 10 Sell Brokers	2,35,37,184	40.05
Remaining Brokers	3,54,17,357	60.27	Remaining Brokers	3,52,30,738	59.95
Total Traded Volume	5,87,67,922	100.00	Total Traded Volume	5,87,67,922	100.00

Brokers Concentration (BSE) – Listing Day :

Buy Broker Name	Total	%age of Trd Vol	Sell Broker Name	Total	%age of Trd Vol
Crosseas	57,56,799	12.23	Crosseas	57,56,799	12.23
Marwadi Shares & Finance Ltd.	47,14,840	10.02	Marwadi Shares & Finance Ltd.	47,83,263	10.16
Adroit Financial Services Pvt.Ltd.	42,02,787	8.93	Adroit Financial Services Pvt.Ltd.	42,02,787	8.93
OPG Securities Pvt.Ltd.	14,72,593	3.13	OPG Securities Pvt.Ltd.	14,72,593	3.13
Arcadia Share & Stock Brokers Pvt.Ltd.	13,88,558	2.95	Angel Broking Ltd.	13,09,325	2.78
Angel Broking Ltd.	12,37,727	2.63	Arcadia Share & Stock Brokers Pvt.Ltd.	12,84,623	2.73
ASE Capital Markets Ltd	9,82,323	2.09	ASE Capital Markets Ltd.	12,52,862	2.66
Magnum Equity Broking Ltd.	9,19,134	1.95	ANS Pvt.Ltd.	7,79,695	1.66
IGSL	7,86,602	1.67	R.M.Shares Trading Pvt.Ltd.	6,84,665	1.46
R.M.Shares Trading Pvt.Ltd.	6,84,665	1.46	Magnum Equity Broking Ltd.	6,69,133	1.42
Top 10 Buy Brokers	2,21,46,028	47.05	Top 10 Sell Brokers	2,21,95,745	47.16
Remaining Brokers	2,49,20,082	52.95	Remaining Brokers	2,48,70,365	52.84
Total Traded Volume	4,70,66,110	100.00	Total Traded Volume	4,70,66,110	100.00

12. It was observed from above table that trading member Marwadi had the substantial contribution in both gross buy and gross sell on the listing day of 10.02% and 10.16 % respectively on BSE and 8.83% gross buy and 9.05% gross sell on NSE.

Brokers Concentration (BSE) – Investigation period post listing day:

Buy Broker Name	Total	%age of Trd Vol	Sell Broker Name	Total	%age of Trd Vol
Marwadi Shares & Finance Ltd.	29,12,431	9.41	Marwadi Shares & Finance Ltd.	29,08,056	9.40
Crosseas	23,27,007	7.52	Crosseas	23,27,007	7.52
Adroit Financial Services Pvt.Ltd.	20,93,793	6.77	Adroit Financial Services Pvt.Ltd.	20,93,843	6.77
ANS Pvt.Ltd.	17,15,725	5.55	ANS Pvt.Ltd.	17,43,108	5.63
Arcadia Share & Stock Brokers Pvt.Ltd.	16,84,849	5.45	Arcadia Share & Stock Brokers Pvt.Ltd.	14,75,745	4.77
R.M.Shares Trading Pvt.Ltd.	10,71,192	3.46	R.M.Shares Trading Pvt.Ltd.	10,71,192	3.46

Fair Intermediate Investment Pvt.Ltd.	8,34,766	2.70	OPG Securities Pvt.Ltd.	8,13,995	2.63
OPG Securities Pvt.Ltd.	8,13,995	2.63	Fair Intermediate Investment Pvt.Ltd.	8,11,234	2.62
Angel Broking Ltd.	7,73,417	2.50	Angel Broking Ltd.	7,67,404	2.48
BMA Wealth Creators Ltd.	6,24,182	2.02	BMA Wealth Creators Ltd.	6,24,288	2.02
Top 10 Buy Brokers	1,48,51,357	48.00	Top 10 Sell Brokers	1,46,35,872	47.31
Remaining Brokers	1,60,87,836	52.00	Remaining Brokers	1,63,03,321	52.69
Total Traded Volume	3,09,39,193	100.00	Total Traded Volume	3,09,39,193	100.00

13. From above table it was observed that trading member Marwadi had the contribution of 9.41% in gross buy and 9.40% gross sell on BSE during the investigation period post listing day.

Client Concentration (BSE) – Listing Day :

Buy Client Name	Total	%age of Trd Vol	Sell Client Name	Total	%age of Trd Vol
Crosseas	57,56,599	12.23	Crosseas	57,56,599	12.23
Chandarana	39,42,907	8.38	Chandarana	39,42,907	8.38
AKG	39,04,924	8.30	AKG	39,04,924	8.30
Gkn Securities	14,72,593	3.13	Gkn Securities	14,72,593	3.13
Nitin Babaji Palande	9,46,628	2.01	Nitin Babaji Palande	8,63,380	1.83
R M Shares Trading Pvt Ltd	6,84,665	1.46	R M Shares Trading Pvt Ltd	6,84,665	1.46
Genuine Stock Brokers Pvt. Ltd.	5,68,499	1.21	Genuine Stock Brokers Pvt. Ltd.	5,68,499	1.21
Vardhman Investment	5,54,203	1.18	Naveen Taparia	4,09,117	0.87
Naveen Taparia	4,09,117	0.87	Eureka Stock & Share Broking Services Ltd	3,85,137	0.82
Saakshi Shares Pvt Ltd	3,91,765	0.83	Vardhman Investment	3,27,107	0.70
Top 10 Buy Clients	1,86,31,900	39.59	Top 10 Sell clients	1,83,14,928	38.91
Remaining clients	2,84,34,210	60.41	Remaining clients	2,87,51,182	61.09
Total Traded Volume	4,70,66,110	100.00	Total Traded Volume	4,70,66,110	100.00

14. From the above table it was observed that Chandrana had the contribution in both gross buy and gross sell % on the listing day of 8.38% on BSE.

Client Concentration (BSE) – Investigation period post listing day:

Buy Client Name	Total	%age of	Sell Client Name	Total	%age of

		Trd Vol			Trd Vol
Crosseas	23,27,007	7.52	Crosseas	23,27,007	7.52
Chandarana	20,64,556	6.67	Chandarana	20,64,556	6.67
AKG	18,75,408	6.06	AKG	18,75,408	6.06
Nitin Babaji Palande	13,77,993	4.45	Nitin Babaji Palande	11,76,815	3.80
R M Shares Trading Pvt Ltd	10,71,192	3.46	R M Shares Trading Pvt. Ltd.	10,71,192	3.46
Gkn Securities	8,13,995	2.63	Gkn Securities	8,13,995	2.63
Alfa Fiscal Services Pvt Ltd	6,41,441	2.07	Alfa Fiscal Services Pvt Ltd	6,41,441	2.07
Touchstone Finvest Services Pvt Ltd	5,68,729	1.84	Marwadi Shares And Finance Ltd.	5,23,153	1.69
Marwadi Shares And Finance Ltd	5,23,153	1.69	Jayneel Securities Pvt. Ltd.	5,06,270	1.64
Jayneel Securities Pvt Ltd	5,06,270	1.64	Touchstone Finvest Services Pvt. Ltd.	4,68,229	1.51
Top 10 Buy Clients	1,17,69,744	38.04	Top 10 Sell clients	1,14,68,066	37.07
Remaining clients	1,91,69,449	61.96	Remaining clients	1,94,71,127	62.93
Total Traded Volume	3,09,39,193	100.00	Total Traded Volume	3,09,39,193	100.00

15. From the above table it was observed that client Chandrana had the substantial contribution in both gross buy and gross sell % during the investigation period post listing day of 6.67% on BSE.

16. During the investigation, it was observed that some entities have top contribution in volumes have also executed repetitive self-trades. Self-trades are those trades in which both the buyer and the seller is the same entity and such trades are entered without the intention of change of ownership of securities. Such trades result in artificial/fictitious volume in the market and give a false and misleading appearance of trading in the scrip at the exchange. Entities that executed self-trades for more than 100,000 shares during the investigation period on NSE or BSE had been shortlisted. A summary of self-trades executed during the investigation period by the shortlisted entities is given below:

Entity Name	Sum of Self Trade Qty.	No. of Self Trades	% of Self Traded Qty.	
			To Clients Buy Vol.	to Clients Sell Vol.
NSE				
Crosseas	7,69,238	19,676	9.49%	9.49%
Chandarana	3,85,244	5,017	6.34%	6.34%
AKG	962	734	0.33%	0.33%
BSE				
Crosseas	8,48,053	22,745	10.49%	10.49%
Chandarana	5,54,109	6,140	9.22%	9.22%
AKG	1,98,163	724	3.43%	3.43%

17. From the table above, it was observed that Chandrana repeatedly indulged in self-trades. Further, the brokers on buy side and sell side for self-trades of the above mentioned clients were same. A summary of such self-trades was tabulated below:

Broker Name	Client	Self Trade Qty	No. of Self Trades
Crosseas	Crosseas	16,17,291	42,421
Marwadi Shares And Finance Ltd	Chandarana	9,39,353	11,157
Adroit Financial Services Pvt Ltd	AKG	1,99,125	1,458
Total		**27,55,769**	**55,036**

18. Further, it was also observed that the trades of Chandrana has contributed 14.35% on listing day and 9.62% post listing day positive LTP to Market positive LTP.

New High Price (NHP) Analysis

19. On the listing day, the scrip opened on BSE at Rs 119 and on NSE at Rs 117. On both the exchanges, the scrip price reached a high of Rs 225 on the listing day.

20. It was observed that Chandarana was the top NHP contributor at both BSE and NSE, who contributed to new high price discovery for a total of Rs 38.40 (36.23% of total market NHP) in 441 trades for 21,912 shares at BSE and Rs 8.40 (7.78% of total market NHP) in 89 trades for 2,883 shares. Through the trades that resulted in NHP of Rs 38.40 and Rs 8.40 on BSE and NSE respectively, Chandarana contributed overall a sum of Rs 49.15 and Rs 14.45 respectively to net LTP.

21. Chandrana and Marwadi vide the aforesaid letters as mentioned in para 5 above denied the allegations levelled against them. Since the detail reply/reply on merit by the Noticees have not been filed in the adjudication proceedings, I am taking the statement submitted on behalf of Chandarana during the investigation. Chandarana vide its submission dated January 18,

2016 has explained its trading strategy with the help of an example and the same is reproduced below:

22. Arbitrage strategy with example: We are selling in market where price is high and buying in market where price is low. Example is provided below:

    If BSE price is Rs 100 and NSE price is Rs 102, Shares are bought on BSE and sold on NSE resulting into a profit of Rs 2.

23. Subsequently, since the positions have been built on two different exchanges, the same is required to be squared-off to avoid having a deliverable position. Therefore, the first leg of transaction is reversed by selling shares on BSE and buying shares on NSE at the same price say Rs 105 (Example quoted by Chandarana). This transaction results in a profit of Rs 5 on BSE and a loss of Rs 3 on NSE. Overall spread is profit i.e., Rs 2 (i.e., amount of difference in transaction rate in first leg).

24. It was observed that Chandarana would buy shares at a price which is lower than that on the other exchange (in the first leg) or at the same price (in the second leg). Therefore, Chandarana would not buy at a price higher than that at the other exchange. Further, Chandarana would also not buy at a NHP at one exchange which is higher than the NHP at the other exchanges.

25. Further, Chandarana submitted that there were 86 dealers who were engaging into arbitrage whereby shares are bought by the dealers on the exchange where the scrip of the price is lower and the sold on the exchange where the price is higher.

26. I note from the submission by Chandarana vide its letter dated January 18, 2016 that NHP had already been established on one exchange before Chandarana established it on the other exchange. In support of this claim of Chandarana, it also submitted a list of 105 trades of Chandarana on BSE with

BSE trade Ids and the price at NSE at the corresponding time depicting that there was large price difference between the price at BSE and that at NSE.

CONSIDERATION OF ISSUES

27. The issues that arise for consideration are as under:

(a) Whether Chandarana has violated Regulations 3 (a),(b),(c) and (d), 4 (1), 4 (2) (a), (b), (e) and (g) of PFUTP Regulations, 2003?

(b) Whether Marwadi has violated Clause A(2) of the Code of Conduct for Stock Brokers as specified under Schedule II read with Regulation 7 of Stock Broker Regulations?

(c) Does the violation, if any, by Chandarana & Marwadi attract monetary penalty under Section 15HA against Chandarana & Section HB of the SEBI Act against Marwadi?

(d) If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act?

28. I note that the allegation against the Chandarana is Self-trades by which it has allegedly impacted the volume of the trade and fraudulently manipulated the price of the share of IGSL by contributing to NHP. Self-trades are executed on the stock market in which the same entity is both the buyer and the seller. As such these trades do not represent a real change in beneficial ownership of the security.

29. When seen in context of the prohibitions laid under regulation 3 and 4 of the PFUTP Regulations, the expression 'artificial volume' has to be understood in the sense of a term having legal signification (as opposed to its ordinary English or non-legal technical sense) which is of market manipulation by conduct of the kind envisaged in regulation 3 which is pari materia provisions of section 12A of the SEBI Act and as specified in regulation 4 PFUTP Regulations. The conducts as typified by market conceptions such as

"synchronized trades, circular trades, self- trades/wash trades, reversal trades etc." have to meet the essential ingredients of regulations 3 and 4 in order to cover those conducts within the prohibitions envisaged/specified therein.

30. Regulation 3(a) prohibits transacting in securities in a fraudulent manner. The genesis of fraudulent conduct can be found in the definition of the term 'fraud' under regulation 2(c). When seen in context of prohibitions under regulations 3 and 4 read with definition of the term 'fraud', it is deducible that regulation 3(a) also demands the satisfaction of test of market manipulation such as creation of artificial volumes and/or price and /or misleading appearance of trading Regulations 3(b), (c) and (d) presuppose employment of a 'manipulative or deceptive device or contrivance', 'any device, scheme or artifice to defraud' and engaging in an act 'which operates or would operate as fraud or deceit upon any person'. The words 'device', 'scheme' or 'artifice' have not been defined either in the SEBI Act or in the PFUTP Regulations. According to the Black's Law Dictionary, the term-

(a) "device" means

(i) an invention or contrivance; any result of design;

(ii) a scheme to trick or deceive; a stratagem or artifice, relating to fraud.

(b) "scheme" means

(i) a systemic plan; a connected or orderly arrangement, especially of related concepts;

(ii) an artful plot or plan, usually to deceive others ; a scheme to defraud creditors

(c) "artifice" means a clever plan or idea, especially one intended to deceive.

31. Regulation 4 (1), prohibits indulgence in "fraudulent and unfair trade practices" in securities. Regulations 4(2) deems dealing in securities in certain specified manner to be fraudulent or unfair trade practice 'if it involves fraud' and includes transactions which create false or misleading appearance of trading and those transactions that are entered into without intention of change of ownership of security. It is relevant to mention that the definition of 'fraud' under regulation 2(c) of the PFUTP Regulation is a civil fraud as

against criminal fraud under the Indian Penal Code and the prohibitions under regulation 3 and 4 and consequent enforcement actions under Chapter VIA of the SEBI Act are also civil in nature. Thus, the aforesaid prohibitions presuppose deployment of a fraudulent or manipulative 'device', 'scheme', 'artifice' or 'contrivance' with a design or purpose or plan or, motive or scinter to 'defraud', to 'deceive', to 'manipulate', to 'induce', etc. in connection with dealing in securities. In the matter of ***Ketan Parekh vs. Securities and Exchange Board of India*** (Appeal No. 2 of 2004 decided on July 14, 2006), Hon'ble Securities Appellate Tribunal (hereinafter referred to as 'SAT') had held that even a legal transaction will be illegal or violative of the Regulations 'if it is executed with a view to manipulate the market or is dubious in nature and is executed with a view to avoid regulatory detection or does not involve change of beneficial ownership or is executed to create false volumes resulting in upsetting the market equilibrium'. Hon'ble SAT further held that *"….. Any transaction executed with the intention to defeat the market mechanism whether negotiated or not would be illegal. Whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism will depend upon the intention of the parties….."*

32. Self-trades are the trades that match with each other with no resultant change of ownership of securities traded. As stipulated in 4(2) (g) of the PFUTP Regulations those 'self- trades' which are entered into without intention of change of ownership of securities traded are prohibited. Further, in view of the above provisions of regulations 3 and 4 and principles laid down by Hon'ble SAT, the 'self- trades' that are fraudulent or manipulative in nature or part of any device or scheme or artifice or contrivance to artificially create volumes in the scrip to portray a false picture of liquidity or to bench mark a new artificial price. Such 'self- trades' are considered fraudulent, manipulative and unfair as no change in ownership takes place and they are entered to under a device, plan or artifice or contrivance to create artificial volume or price. Considering the fact that market conditions of scrip, use of technology in anonymous screen based trading system, etc., it becomes

important to draw distinction between unintentional self-match trades and intentional, manipulative/fraudulent/unfair self-trades/ wash trades. In a scenario wherein multiple dealers in a broking house or representatives of a client independently place buy and sell orders in same scrip and those orders get matched. However, intentional self-trades that are entered into with design to manipulate the markets by giving the impression of legitimate trading interest or activity at a certain price, time, and size in an otherwise illiquid scrip would be certainly illegal and punishable.

33. Hon'ble SAT in its several orders, from time to time, held manipulative 'self-trades' punishable under SEBI Act and that one or few instances of self-trades per- se would not be objectionable. For instance, Hon'ble SAT in the matter of ***N.M. Lohia vs. SEBI*** (Appeal no. 108 of 2009 decided on January 13, 2010), observed that :

"…We have heard the learned counsel for the parties who have taken us through the record and the impugned order. A show cause notice dated October 20, 2008 had been issued to the appellant making the aforesaid allegations against him. Details of the trades executed by the appellant were also furnished along with the show cause notice which were annexures attached thereto. A mere look at the trades executed by the appellant would show that they are on the face of it fictitious in as much as he executed trades as a broker in which he himself is the buyer and also the seller. It is not that he executed a solitary trade or only few of them. He executed a large number of trades for over a year in this fashion…"

34. Further, in the case of **Smt. Krupa Sanjay Soni v. SEBI** vide its order dated Jan 09, 2014, Hon'ble SAT held that *"a few instances of self-trades in themselves would not, ipso facto, amount to an objectionable trades".*

35. In view of the above provisions of regulations 3 and 4 and principles laid down by Hon'ble SAT, the intentional self-trades that are entered into with design to manipulate the markets by giving the impression of legitimate trading interest or activity to artificially create volumes in the scrip to portray

a false picture of liquidity or to bench mark a new artificial price in an otherwise illiquid scrip would be punishable. However, the 'self-trade' that occurred in a highly liquid scrip due to other technical reasons and where no connection is established between the traders to execute a fraudulent or manipulative device or scheme or artifice, the prohibition under regulation 4 of PFUTP Regulations will not be attracted.

36. Therefore, a distinction needs to be made between 'wilful/intentional self-trades' which are entered into with a fraudulent manipulative and unfair motive or design to induce others to trade in the concerned scrip stock and 'unintentional/incidental self-trades' which could be in the nature of jobbing and/or may have occurred due to technicalities of the anonymous trading system or liquidity in the scrip. It is also relevant to mention that burden of proof for charging violation of regulations 3 and 4 of the PFUTP Regulation require higher degree of probability as opposed to any other civil liabilities. Showing fool proof evidence to establish intent or plan or design or purpose in such cases would not be possible as the intention of the parties concerned would be within their special knowledge. It is pertinent to mention that there is no scale to measure fraudulent, deceptive and manipulative device, plan and artifice or its impact and the findings in that regard always depend on inferences drawn from a mass of factual details. In the screen based trading, the manipulative or fraudulent intent can be inferred from various factors and attending circumstances such as conduct of the party, frequency and pattern of transactions, etc. Findings in this regard can also be gleaned from prevailing market conditions such as volatility and liquidity in the particular scrip, etc.

37. In this connection, I would like to refer to the judgments of Hon'ble SAT pertaining to self-trades.

    a. *Hon'ble Securities Appellate Tribunal (SAT) in the matter of Balwinder Singh v. SEBI (2013), observed that that self-trades (or wash-trades) are per se not allowed under SEBI Act and regulations made thereunder.*

b. *In Chirag Tanna v. The Adjudicating Officer (2013), Hon'ble SAT held that self - trades are, admittedly, fictitious and create artificial volumes in the traded scrip.*

c. *In Triumph International Finance Ltd v. SEBI (2007), Hon'ble SAT observed that self-trades were fictitious because the buyer and the seller were the same.*

d. *Further, in Systematix Shares & Stocks India Limited v. SEBI (2012), Hon'ble SAT observed that trades, "where beneficial ownership is not transferred, are admittedly manipulative in nature."*

e. *In HJ Securities Pvt Ltd v. SEBI (2012), Hon'ble SAT even made the observation that simply because the number of such self-trades is not large by itself cannot justify execution of self-trades*

38. Considering the observations of Hon'ble SAT in various matters, though self-trades by the face of it implies no transfer of beneficial ownership, it is necessary to look into the attending circumstances of the case.

39. The Hon'be SAT in case of ***Ketan Parekh v. SEBI*** (Appeal No. 2 of 2004) decided on July 14, 2006, had categorically held that in order to find out whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism, will depend upon the intention of the parties which could be inferred from the attending circumstances of the cases, because direct evidence in such cases may not be available.

40. Considering that the attending circumstances have to be looked into for the purpose of determining the intention of Chandarana, I have examined the trading pattern of the self-trades on the basis of the following parameters / yardsticks:

i. *Whether self-trades have resulted in creation of artificial volumes in terms of higher contribution to either total volumes or substantial volume for the days the alleged trades took place?*

ii. *Whether the buy and sell Orders for the alleged self-trades have been placed from same terminal or different terminal?*

iii. Whether the buy and sell Orders for the alleged self-trades were also structured in terms of time, Order quantity and Price when self-trades were executed?

iv.Whether the alleged self-trades have resulted in New High Price(NHP) and thereby contributed to price manipulation?

41. I note that Noticee 1, in the capacity of client of Noticee 2, used arbitrage strategy while dealing in the scrip of IGSL, which was listed on August 4, 2011 (trading day). They also submitted that the price of the scrip on the trading day was volatile and there was intraday price differences on both BSE and NSE. I find there is merit in the submission as I note that there was indeed intraday price movements in the scrip on both BSE and NSE. The price of scrip opened at Rs 117 on NSE and at Rs 119 on BSE on the listing day and price of the scrip touched its intra-day high of Rs 225 on BSE and NSE and closed at Rs 206.75 on NSE and Rs 207.95 on BSE. The Volume Weighted Average Price (VWAP) on BSE was Rs 131.46 and NSE was Rs 134.19.

42. I note that arbitration is a strategy where simultaneous buying and selling of securities, currency, or commodities in different markets or in derivative forms in order to take advantage of differing prices for the same asset. I am of the view that there are four legs of transactions for an arbitration strategy, in case it is closed out within the day. First two transactions would be simultaneous buy / sell or sell / buy orders on BSE / NSE when there is price difference on both the exchanges at any point in time i.e buy on the exchange where price is less and sell on exchange where price is more. Other two legs of transactions would be close out the open positions in the first leg of transactions. Thus, I am of the view that any dealer who deploys arbitrate strategy, will have to simultaneously place buy / sell Orders whenever price difference is spotted between exchanges. I have examined on sample basis, few buy and sell orders emanating from a terminals of the Noticee for a specific time and noted that there was indeed price difference at specific time between exchange and accordingly simultaneous buy order was placed on the exchange where price

was low and sell orders placed at exchange where price was higher. For example, prior to 14:39:08.496599 hours, price at NSE was Rs 167.70 and at BSE was Rs 167.65. Between 14:39:08.496599 and 14:39:08.497062 hours, Chandarana placed buy Orders at BSE which contributed to increase in price by Rs 0.35 to on BSE. Total of 140 shares resulted in the price of the scrip on BSE reaching Rs 168.00. Therefore, I find merit in the submission of Chandarana vide its letter dated January 18, 2016.

43. In view of above, I conclude that trades of Noticee were not manipulative but were in consequent to arbitrage strategy which by design allows market players to exploit the price difference between exchanges for the same scrip till price equilibrium is achieved. Any increase in price, consequent to arbitrate strategy which exploits the price difference across exchanges, cannot be faulted unless there are other factors viz a viz connections with other entities, consistent pattern of placing Large Buy Orders to sweep the Order Book, synchronised trades, circular / reversal of trades. In the instant case, there are no records to suggest any such pattern except that self-trades contributed to NHP.

44. I also noted that there are around 86 terminal deployed by Noticee on August 04, 2011 on BSE. Given that number of dealers operate simultaneously, there is a possibility, by design, that buy Orders of one terminal may match with Sell Orders from other terminal as buy Order of one terminal could be first leg transactions while sell Orders of another terminal could be second leg of transactions as explained above. Further, the timing, market limits and other parameters could be different among dealers as each would be dealing in various other scrip's simultaneously.

45. For the purpose of examining the above parameters, I have considered the submissions made by Noticees and analysed the trade / order log which was provided to Noticees in the adjudication proceedings with respect to alleged self-trades and following are my observations:

i. Volume of Self Trades

a. During the period of investigation, total traded quantity in the scrip of IGSL was 5,87,67,922 shares at NSE and 4,70,66,110 shares at BSE on the listing day i.e. August 04, 2018. Similarly on post listing days i.e. August 05, 2018 to August 11, 2018. total traded quantity was 4, 15,88,757 shares at NSE and 3,09,39,193 at BSE as under:

Price and Volume Data at NSE & BSE

Date	Open Price	High Price	Low Price	Close Price	VWAP	Total Traded Quantity	No. of Trades
NSE							
04-Aug-11	117.00	225.00	91.20	206.75	131.46	5,87,67,922	6,95,185
05-Aug-11	204.00	223.05	167.00	171.00	189.89	1,12,33,740	1,88,860
08-Aug-11	173.00	205.20	165.00	205.05	188.93	83,44,389	1,17,755
09-Aug-11	206.00	228.50	186.25	219.15	216.81	69,16,085	1,31,022
10-Aug-11	221.00	238.50	219.00	227.10	227.55	71,74,837	1,12,755
11-Aug-11	227.85	247.45	205.65	222.70	229.02	79,19,706	1,30,488
BSE							
04-Aug-11	119.00	225.00	91.55	207.95	134.19	4,70,66,110	5,32,049
05-Aug-11	199.65	224.40	169.00	170.90	188.88	79,60,014	1,22,234
08-Aug-11	163.00	205.05	161.10	204.75	188.03	65,70,891	87,755
09-Aug-11	199.00	228.00	185.55	219.95	217.43	55,87,406	99,214
10-Aug-11	225.00	238.90	219.00	227.45	227.90	55,18,730	89,552
11-Aug-11	225.00	247.20	206.00	223.60	227.95	53,02,152	97,082

b. Details of Day wise self -trades by Chandrana during the investigation period and total traded volume on respective trading days are as under:

Trading Days	Total No. of Shares in Self Trades at BSE (A)	Total No. of Shares in Self Trades at NSE (B)	Total shares traded at BSE (C)	Total shares traded at NSE (D)	Percentage (A/C*100) BSE	Percentage (B/D*100) NSE
04-Aug-11	388472	281449	47066110	58767922	0.82	0.47
05-Aug-11	39616	23193	7960014	11233740	0.49	0.20
08-Aug-11	13466	14153	6570891	8344389	0.20	0.17
09-Aug-11	22266	13363	5587406	6916085	0.39	0.19
10-Aug-11	34479	19630	5518730	7174837	1.81	0.27
11-Aug-11	55810	33456	5302152	7919706	1.05	0.42
IP	**554109**	**385244**	**78005303**	**100356679**	**0.71**	**0.38**

c. Taking the note of day wise volume as detailed in trade log supplied to Chandarana during the proceedings, I note that on BSE, on August 04, 2011, the percentage of self-trade against the market trade was 0.82%, 0.49% on August 05, 2011, 0.20% on August 08, 2011, 0.39% on August 09, 2011, 1.81% on August 10, 2011 and 0.05% as on August 11, 2011 while on NSE the percentage of self-trade against the market trade was 0.47% on August 04, 2011, 0.20% on August 05, 2011, 0.17% on August 08, 2011, 0.19% on August 09, 2011, 0.27% on August 10, 2011 and 0.42% as on August 11, 2011. The total volume of self-trade by Chandrana on BSE is 5,54,109 which is just 0.38% of the total market volume i.e. 7,80,05,303. Similarly the total volume of self-trade at NSE by Chandrana is 3,85,244 which is just 0.38% of the total market volume i.e. 1, 00,3,56,679.

ii. Terminal

a. Pursuant to analysis of Trade / Order Log along with SCN, provided to Chandarana, I note that there were self-trades on different terminals on listing day and post listing days. The details are as under:

Dates	Nos. of Terminal for self-trades	Same Terminal Trade	Stock Exchange
04/08/2011	86	Once (Terminal No. 833 just for 200 shares)	BSE
05/08/2011 to 11/08/2011	65	Once (Terminal No. 739 just for 50 shares)	BSE

b. From the above table, I note that on BSE out of 86 terminals on August 04, 2011 there is just one terminal on which self-trade was done and the quantity is just 200 shares traded and similarly for the post listing period i.e. August 05-August 11, 2011, out of total 65 terminals I found there is only one terminal on which self-trade by Chandarana happened and the quantity for the trade is just 50

which is very miniscule in comparison with the total traded quantity during the investigation period.

c. Further I note that on NSE, as taken on random basis, the trade quantities from the same terminals were minimal as under:

TRADE_DATE	**TRADED_QTY**	**TERMINAL**	**CP TERMINAL**	**Dealer's name**
04/08/2011	4743	18,707	18,707	ANKIT MANSUKHBHAI VARSANI
04/08/2011	1089	37,387	37,387	ANKIT MANSUKHBHAI VARSANI

iii. **Structured Self Trades**

a. Further I note that that the following buy and sell orders of Chandarana which were placed through same terminals at BSE, however, when I examine self-trades in terms of order quantity, price and time, I note that their Buy order quantities are not matching with Sell order quantities and Buy order rates also are not matching to Sell order rates as given below:

TRADE_DATE	ORDER_TIME	CP_ORDER_TIME	BUY ORDER	SELL ORDER	BUY PRICE/ORDER RATE	SELL PRICE/CP ORDER RATE	TRADED_QTY	TERMINAL
04/08/2011	14:40:23.170166	14:39:59.022313	500	200	0	151.9	200	733
09/08/2011	10:12:33.101087	10:10:38.725416	50	70	0	208.4	50	739

b. Considering the self-trades subsequent to unmatched buy order-sell order and different buy-sell price through different terminals

(taken on random basis), I conclude that they are not structured trade and manipulative in nature.

TRADE_DATE	ORDER_TIME	CP_ORDER_TIME	BUY ORDER	SELL ORDER	BUY PRICE/ORDER RATE	SELL PRICE/ CP ORDER RATE	TRADED_QTY	TERMINAL
04/08/2011	09:15:13.961146	09:15:13.750321	37	200	0	118.65	37	746
04/08/2011	09:15:13.984797	09:15:13.750321	126	200	0	118.65	126	746
04/08/2011	09:15:27.513075	09:15:19.818393	169	100	0	120.05	8	743
04/08/2011	09:15:34.842313	09:16:54.177444	200	500	116.85	0	99	758
04/08/2011	09:15:34.842313	09:16:54.179958	200	200	116.85	0	101	758
04/08/2011	09:15:11.784575	09:16:54.203265	100	200	116.25	0	100	744
04/08/2011	09:15:10.783931	09:16:54.203265	250	200	116.3	0	26	746
04/08/2011	09:15:10.783931	09:16:54.203275	250	500	116.3	0	224	746
04/08/2011	09:17:01.779455	09:16:04.909841	100	100	0	118	100	805
04/08/2011	09:17:01.799726	09:15:18.789841	150	200	0	120.5	150	755

iv.NHP

a. I note from day wise self-trades by Chandarana that the contribution of LTP rate and LTP percentage appears not substantial as under:

BSE

TRADE_DATE	LTP	Positive LTP Rate	Total Market Positive LTP	% to total Positive LTP in market	No of trades	No. of Total Market Trade	% to total no of trades in market	Buy Order Quantity	Total Buy Order quantity	Whether same terminal or not
04/08/2011	14.25	167.5	16505	1.01	388472	47066110	4.52	936123	2070491588	No
05/08/2011	38.25	44.65	4392.5	1.01	7601	1404152	0.54	17390	13233317	No
08/08/2011	16.1	20.5	2295.15	0.89	3168	1243639	0.25	6306	30294044	No
09/08/2011	6.8	11.3	2903.6	0.38	4282	1083282	0.39	9795	12833947	No
10/08/2011	12.25	17.25	2069.85	0.04	6483	941741	0.68	10792	12087234	No
11/08/2011	28.95	40.9	2863.45	1.42	12965	933694	1.07	27453	12562297	No

NSE

TRADE_DATE	LTP	Positive LTP Rate	Total Market Positive LTP	% to total Positive LTP in market	No of trades	No. of Total Market Trade	% to total no of trades in market	Buy Order Quantity	Total Buy Order quantity	Whether same terminal or not
04/08/2011	18.45	155.35	18789.8	0.82	54823	8082165	0.67	108918	190118272	No
05/08/2011	27.3	97.3	16393.65	0.59	25084	6799669	0.36	51998	109578817	No
08/08/2011	4.6	9.15	2699.6	0.33	1884	1268898	0.14	4936	24317568	No
09/08/2011	6.65	11.75	3205.65	0.36	4168	1213266	0.05	7774	14002592	No
10/08/2011	1.3	9.15	2337.45	0.39	4759	1091507	0.43	10607	20499287	No
11/08/2011	14.75	29.65	3063.85	0.96	8029	1402215	0.08	18364	22583288	No

Since self-trades percentage is miniscule and also that buy / sell orders are electronically matched on exchange platform on the basis of price time priority, no party to trade can choose their counter party especially in highly liquid stock like in the instant case.

46. Considering that all the above parameters are negative, I conclude that self-trades of Chandarana were not manipulative in nature. Further, I note from the record that no adverse inference have been drawn on the Chandarana with respect to any synchronized trades and Circular/reversal of trades or price manipulation on account of its self -trades. Admittedly, there are infrequent, random and incidental instances of self-trades from amongst the large number of trades of Chandarana in the scrip when it was highly liquid and volatile at the relevant time. Considering the facts and circumstance of this case, I find that the instances of self-trades alleged in this case were merely an occurrence on account of genuine trading strategies in the liquid and volatile scrip at the relevant time. The 'self-trade' in question were, thus, purely accidental/incidental in the ordinary course of business. In addition, it is noted that the contribution of Chandarana's self-trades vis-à-vis the total market volume is miniscule. No mala-fide intention behind self-trades

executed by Chandarana has been brought out in the material available on record.

47. In the instant proceedings, considering the volume of self-trades executed by Chandarana vis-à-vis the market volume & its trading volume on the date of self-trades, I note that the contribution of self-trades to market traded volumes is minuscule and therefore cannot be said to have created artificial volume.

48. The facts and circumstances as brought out hereinabove do not indicate any manipulative or fraudulent intent on the part of Chandarana while entering into the alleged self-trades. There is no material to indicate employment of any device or scheme or artifice by Chandarana to defraud or induce any person to trade in the scrip or to indulge in market manipulation. The allegations are also not supported on the basis of legitimately expected preponderance of probability. In this regard, it is settled position that there must be convincing preponderance of probability to support the allegation of fraud and fraudulent practices. Having regard to the gravity of the wrong doing higher must be the preponderance of probabilities in establishing such charges. In this regard, I note that in the matter of **Mousam Singha Roy v. State of West Bengal (2003) 12 SCC 377**, the Hon'ble Supreme Court held that- "*It is also a settled principle of criminal jurisprudence that the more serious the offence, the stricter the degree of proof, since a higher degree of assurance is required to convict the accused. This principle applies to civil cases as well where the charge is to be established not beyond reasonable doubt but on the preponderance of probabilities. The measure of proof in civil or criminal cases is not an absolute standard and within each standard there are degrees of probability.*"

49. Therefore, taking into account the aforesaid orders of Hon'ble SAT and Hon'ble Supreme Court as referred hereinabove on self-trades and the

orders passed by SEBI, I am inclined to conclude that the allegation of violation of the provisions of PFUTP Regulations by Chandarana do not stand established.

50. The allegation against Marwadi in the SCN, the extract of which is the basis of the SCN, is that since Marwadi acted as broker and counter party broker for self-trades of Chandarana and hence failed to exercise due skill and care and had, thus, violated Clause A(2) of the Code of Conduct of Stock Brokers as specified under Schedule II read with Regulation 7 of the Stock Brokers Regulations. Since it is not established that Marwadi entered into intentional self- trades with device to manipulate the market, there is no case to draw adverse inference on Marwadi with regard to its role as a stock broker that it had failed to abide by the code of conduct.

51. In view of the above, as the violations as alleged do not stand established, the case does not warrant imposition of any monetary penalty on Chandarana under Section 15HA and under Section 15HB of the SEBI Act on Marwadi. The SCN is disposed of accordingly.

52. In terms of Rule 6 of the Adjudication Rules, copies of this order is sent to the Noticees and also to SEBI.

Date: August 30, 2018 **B J DILIP**

Place: Mumbai **ADJUDICATING OFFICER**