BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. MC/DPS/2018-19/2223]

UNDER SECTION 15-I (2) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES, 1995.

In respect of –

1. **Julie Agrawal** (PAN: AFJPA0366H) having address at – 71 Old Agrawal Nagar, Indore, Madhya Pradesh, India, 452001 and 306 Gold Petals South Tukoganj, Indore, Madhya Pradesh, India, 452001.

In the matter of Dealing in Illiquid options on the BSE.

BACKGROUND

1. The Securities and Exchange Board of India (hereinafter referred to as "**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 the "**Investigation Period**") after observing large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange Ltd. (hereinafter referred to as "**BSE**").

2. Investigation revealed that during the Investigation Period, a total of 2,91,643 trades comprising 81.38% of all the trades executed in BSE Stock Options Segment were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract. Julie Agrawal ("**the Noticee**") was one such client whose reversal trades involved squaring off transactions with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly resulted into generation of artificial volumes by the aforesaid clients and counterparties, leading to allegations that the

Noticee had violated Regulation 3(a),(b),(c),(d) and Regulation 4(1), 4(2)(a) SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter, referred to as "**PFUTP Regulations, 2003**").

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer (hereinafter referred to as "**AO**") under section 15-I of the SEBI Act read with rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter be referred to as the "**Adjudication Rules**") vide order dated May 31, 2018, to inquire into, and adjudge under section 15 HA of the SEBI Act, the alleged violations of the aforesaid provisions of the PFUTP Regulations, 2003, by the Noticee. The appointment of the AO was communicated vide order dated June 4, 2018.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice No. EAD5/MC/DPS/33733/1/2018 dated December 10, 2018 (hereinafter referred to as "**SCN**"), was issued to the Noticee in terms of Rule 4 (1) of the Adjudication Rules, to show cause as to why an inquiry should not be held and penalty not be imposed against the Noticee in terms of section 15 HA of the SEBI Act, for alleged violation of Regulation 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

5. The allegations levelled against the Noticee in the SCN are summarized as below:
    a) The Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in the Stock Options Segment of BSE during the Investigation Period.

b) The Noticee is alleged to have engaged in 42 such reversal trades in 11 unique contracts, which led to generation of alleged artificial volume of 1428500 units, between March 9, 2015 and March 26, 2015.

c) The trades entered by the Noticee were reversed on the same day with same counterparties at a substantial price difference without any basis for significant change in the contract price which indicates that these trades are artificial and are non-genuine in nature.

d) A summary of dealings of Noticee in 11 Stock Options contracts in which Noticee allegedly executed non genuine reversal trades during the Investigation Period, provided in the SCN is reproduced below-

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	AMTK15MAR160.00PE	15.00	132000	6.70	132000	100%	66%
2	CENT15MAR560.00CE	50.72	34000	23.55	34000	100%	4%
3	CENT15MAR580.00PE	51.00	36000	24.30	36000	100%	7%
4	HAIL15MAR290.00PE	18.70	41000	6.55	41000	100%	33%
5	HDFC15MAR1260.00CE	79.69	32750	26.02	32750	100%	89%
6	HXTL15MAR260.00CE	24.15	82000	11.90	82000	100%	53%
7	IDEA15MAR180.00PE	7.60	14000	1.10	14000	100%	9%
8	JSPL15MAR170.00CE	23.70	31000	10.10	31000	100%	29%
9	NTPC15MAR160.00PE	13.96	224000	5.13	224000	100%	69%
10	STAC15MAR1050.00PE	58.13	66000	23.67	66000	100%	100%
11	YESB15MAR860.00PE	54.10	21500	20.00	21500	100%	8%

6. By indulging in execution of aforesaid non-genuine reversal trades, the Noticee was alleged to have violated regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003, text of which has been reproduced 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"

7. The aforesaid SCN was issued through Speed Post Acknowledgement Due (SPAD) to the Noticee on December 17, 2018 and also served to the Noticee vide email on December 10, 2018 at email IDs: manojcorse@yahoo.co.in; manojcorsl@yahoo.co.in and manojco@touchtelindia.net. Noticee vide letter dated December 21, 2018, submitted that she had traded at the prevailing market price of the underlying; and in case of movement of price in the adverse direction the same was being squared off. Noticee also submitted that the matter is related to financial transactions of very old period and requested for extension of time for filing reply and also requested for opportunity of being heard.

8. As per request, Noticee was given further time to file reply on or before January 31, 2019 and given an opportunity of personal hearing on February 12, 2019 *vide* Notice of Hearing dated January 11, 2019 which was delivered by way of SPAD on January 19, 2019. The Hearing notice was also communicated / served to Noticee through email dated January 11, 2019 to its email Id - email IDs: manojcorse@yahoo.co.in; manojcorsl@yahoo.co.in and manojco@touchtelindia.net, which was duly digitally signed by the undersigned. It was also communicated in the Hearing Notice that if no appearance is made or no reply is furnished by the Noticee, the matter would be decided on the basis of evidence available on record in terms of Rule 4(7) of the Adjudication Rules. However, no reply was received from the Noticee and no one appeared on behalf of the Noticee on the given date i.e. February 12, 2019.

9. I note that the SCN and the Notice of Inquiry have been duly served to the Noticee through SPAD / digitally signed email. I am of the view that sufficient time has been provided to the Noticee to submit reply, which the Noticee has failed to make and also failed to appear for hearing. At this juncture, I find it relevant to refer to the observation of the Hon'ble SAT in the matter of ***Dave Harihar Kiritbhai*** v. ***Securities and Exchange Board of India*** (Appeal No. 181 of 2014 dated December 19, 2014), wherein, it observed, "…*further, it is being increasingly observed by the Tribunal that many persons/entities do not appear before SEBI (Respondent) to submit reply to SCN or, even worse, do not accept notices/letters of Respondent and when orders are passed ex-parte by Respondent, appear before Tribunal in appeal and claim non-receipt of notice and do not appear and/or submit reply to SCN but claim violation of principles of natural justice due to not being provided opportunity to reply to SCN or not provided personal hearing. This leads to unnecessary and avoidable loss of time and resources on part of all concerned and should be eschewed, to say the least. Hence, this case is being decided on basis of material before this Tribunal…*". Keeping the aforesaid in mind, the

adjudication proceedings against the Noticee are undertaken *ex-parte* on the basis of material available on record.

CONSIDERATION OF ISSUES AND FINDINGS

10. The issues that arise for consideration in the instant matter are:

Issue No. I Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?

Issue No. II If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?

Issue No. III If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?

Issue No. I **Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?**

11. The allegation that the Noticee carried out reversal trades is directly supported by evidence from the trade log records in Annexures B and C of the SCN. Between March 9, 2015 and March 26, 2015, the Noticee is seen to have indulged in 42 reversal trades in 11 contracts.

12. To illustrate, on March 9, 2015, Noticee at 13:50:46.71 hrs executed 1 sell trade for 41000 units at rate of Rs. 6.55 per unit with counterparty viz, Manoj Kumar Sethia of the contract named “HAIL15MAR290.00PE”. Thereafter, on the same day, after 52 minutes of the above trade, Noticee executed reverse buy trade for 41000 units at Rs. 18.7 per unit with same counterparty - Manoj Kumar

Sethia at a price difference of Rs. 12.15. The orders for the sell leg and buy leg were entered in synchronized manner.

13. A similar modus operandi is seen to have been adopted by the Noticee with respect to trades on March 10, 11, 12, 16, 17 and 26, 2015. It is also noted that out of 42 reversal trades, in 40 reversal trades the time difference between sell order and buy order was less than one second indicating the buy and sell orders were synchronized for most of the trades.

14. I also note that Noticee in her letter dated December 21, 2018 for extension of time to file reply has not disputed the execution of trades and has submitted that she had traded at the prevailing market price of the underlying and in case of movement of price in the adverse direction the same was squared off.

15. As noted above, in 40 reversal trades out of 42 trades, the time difference between sell order and buy order was less than one second indicating the buy and sell orders were in synchronized manner. While synchronised trades may occur by accident in a liquid stock, execution of synchronised trades in an illiquid market with anonymous trading indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. The counterparty with respect to the reverse leg of the trades entered into by the Noticee was the same as the first leg. The nature of trading as brought out above clearly indicates an element of prior meeting of minds and hence collusion to carry out trades at pre-determined prices. The trades generated volumes without any change of beneficial ownership. Therefore, the trading volumes generated by the aforesaid trades are non-genuine and artificial.

16. I note that as stated in the SCN, the Noticee generated a total trading volume of 1428500 units through such reversal between March 9, 2015 and March 26, 2015 in 11 separate contracts as per the table reproduced below:-

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
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4	HAIL15MAR290.00PE	18.70	41000	6.55	41000	100%	33%
5	HDFC15MAR1260.00CE	79.69	32750	26.02	32750	100%	89%
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7	IDEA15MAR180.00PE	7.60	14000	1.10	14000	100%	9%
8	JSPL15MAR170.00CE	23.70	31000	10.10	31000	100%	29%
9	NTPC15MAR160.00PE	13.96	224000	5.13	224000	100%	69%
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11	YESB15MAR860.00PE	54.10	21500	20.00	21500	100%	8%

17. From the table above, I note that the Noticee on average contributed 42% of the volume in the 11 contracts traded. In 7 of the 11 contracts, Noticee's average volume concentration was 63% which indicates lack of public participation in the contracts.

18. Considering the manner of placing buy and sell orders in a synchronised manner within seconds of each other, reversal of the trades within a short time on the same day, and wide variation in prices of the trades in the same contract in a short time without any basis for such wide variation, all indicate that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contracts. By engaging in such trades, the Noticee violated provisions of Regulation 4(2)(a) of PFUTP Regulations, 2003 which states that dealing in securities will be deemed to be a fraudulent and unfair trade practice if it involves "*indulging in an act which creates false or misleading appearance of trading in the securities market*".

19. The Noticee, by engaging in non-genuine transactions which created a misleading impression of trading in respective contracts, dealt in the stock options contracts in a fraudulent manner in violation of Regulation 3(a) and 4(1) of the PFUTP Regulations, 2003.

20. I find it relevant to note here that in the matter of ***Securities and Exchange Board of India*** v. ***Rakhi Trading Private Limited*** (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 08, 2018), which was a similar case involving execution of reversal trades in index options, the Hon'ble Supreme Court observed that "…*the traders thus having 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…"*

Issue No. II **If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?**

&

Issue No. III **If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?**

21. As it has been established that the Noticee violated provisions of Regulations 3(a), 4(1) and 4(2) (a) of the PFUTP Regulations, 2003; hence the Noticee is liable for imposition of monetary penalty under Section 15 HA of the SEBI Act.

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

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

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

(c) the repetitive nature of the default.

23. As established above, the trades by the Noticee were non genuine in nature and created a misleading appearance of trading. I note that the trading was in illiquid stock option contracts where there was negligible participation by the public. Investigation has shown amount of profit / loss of the counterparties to the trades as a result of the non-genuine trades. However, considering that the violation by the Noticee is creation of artificial trading volumes by trading between two counterparties and wider market is not involved in the trades, the trades are such that one of the counterparty books a profit while the other counterparty books a loss. Hence, it would be appropriate to consider the impact of these transactions between the two counterparties in totality. When the impact of artificial volumes created by the two counterparties is seen as a whole, it is not possible from material available on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counterparties or the consequent loss caused to investors as a result of the default. I further note that the Noticee contributed around 0.01% of the artificial reversal trades in the market during the Investigation Period.

24. The Noticee has contributed to artificial volumes in 11 contracts through 42 trades on 7 days during the Investigation Period. Therefore, taking into account the facts and circumstances of this matter, and the proportion of trading by the Noticee as compared to the total volume of reversal trades in the market during the Investigation Period, I am of the view that a penalty of ₹5,00,000/- will be commensurate with the violations committed by the Noticee.

ORDER

25. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15I (2) of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of

₹5,00,000/- (Rupees Five Lakh only) upon the Noticee, i.e. Julie Agrawal, under Section 15HA of the SEBI Act, for violation of regulations 3(a), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

26. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through e-payment facility into Bank Account the details of which are given below:

Account No. for remittance of penalties levied by Adjudication Officer	
Bank Name	State Bank of India
Branch	Bandra-Kurla Complex
RTGS Code	SBIN0004380
Beneficiary Name	SEBI – Penalties Remittable To Government of India
Beneficiary A/c No.	31465271959

27. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to the Enforcement Department – Division of Regulatory Action – I of SEBI. The Noticee shall provide the following details while forwarding DD/ payment information:
    a) Name and PAN of the entity (Noticee)
    b) Name of the case / matter
    c) Purpose of Payment – Payment of penalty under AO proceedings
    d) Bank Name and Account Number
    e) Transaction Number

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

DATE: FEBRUARY 25, 2019 **MANINDER CHEEMA**

PLACE: MUMBAI **ADJUDICATING OFFICER**