BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OFINDIA

ADJUDICATION ORDER NO. EAD-7/BJD/NJMR/2018-19/2017

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

Phool Chand Jain
(PAN: AALPJ4773A)
RZ-218, Shiv Block
Raghu Nagar, Pankha Road
New Delhi – 110045.

In the matter of Illiquid Stock Options at BSE

BACKGROUND

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") leading to creation of artificial volume. Accordingly, SEBI conducted an investigation into the trading activities of certain entities in Illiquid Stock Options at BSE (hereinafter, referred to as "investigation") for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as "Investigation Period").

2. It was observed that during the investigation period, total 2,91,643 trades comprising substantial 81.38% of all the trades executed in Stock Options Segment of BSE were found to be non-genuine trades. The aforesaid non-genuine trades resulted into creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in Stock Options segment of BSE during the investigation period.

3. It was observed that the said non- genuine trades were not restricted to any specific contract or between any specific set of entities. It was observed that Phool Chand Jain (hereinafter referred to as "Noticee") was one of the various

entities which were indulged in execution of non-genuine trades in Stock Options Segment of BSE during the investigation period. The following points narrate the dealings of the Noticee during the investigation period and the allegations against it for execution of non-genuine trades.

4. As regards to all the dealings of the Noticee in the Stock Options segment of BSE during the investigation period, it was observed that the Noticee had traded in 26 unique contracts, from which it has allegedly executed non genuine trades in 26 contracts wherein it executed total 65 non-genuine trades, which resulted in artificial volume of total 2,01,19,368 units.

5. Summary of dealings of the Noticee in 26 Stock Options contracts in which the Noticee allegedly executed non genuine trades during the investigation period are as follows:

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non-genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non-Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non-Genuine trades of Entity in the contract to Total trades in the Contract	% 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	AMTK15AUG105.00CEW1	64.30	20000	34.30	20000	3	3	3	100%	100%	100%	100%
2	DISH15MAR85.00CE	2.50	444000	0.25	444000	2	2	76	100%	3%	100%	3%
3	DLFL15MAR150.00CEW2	4.60	352000	0.20	352000	2	2	2	100%	100%	100%	100%
4	GMRI15MAR20.00PE	4.75	990684	3.20	990684	4	4	26	100%	15%	100%	28%
5	HDIL15MAR120.00CEW3	4.20	268000	0.50	268000	2	2	47	100%	4%	100%	7%
6	HDIL15MAR120.00PE	9.80	544000	4.30	544000	2	2	13	100%	15%	100%	37%
7	IBRL15MAR75.00PEW3	2.05	768000	0.10	768000	2	2	2	100%	100%	100%	100%
8	IBRL15MAR80.00PEW3	3.40	544000	0.65	544000	2	2	2	100%	100%	100%	100%
9	IDBI15MAR75.00CEW2	2.45	432000	0.15	432000	2	2	10	100%	20%	100%	35%
10	IFCI15JUL18.00CEW3	8.40	136000	5.40	136000	2	2	6	100%	33%	100%	89%
11	INCM15MAR95.00PE	4.10	394000	0.30	394000	2	2	16	100%	13%	100%	51%
12	IOBL15MAR50.00PEW3	3.20	728000	0.90	728000	2	2	10	100%	20%	100%	36%
13	IOCL15JUL500.00PE	46.60	21000	26.59	21000	3	3	3	100%	100%	100%	100%

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non-genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non-Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non-Genuine trades of Entity in the contract to Total trades in the Contract	% 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
14	ITCL15JUL290.00CE	21.60	68000	13.05	68000	2	2	7	100%	29%	100%	63%
15	JAIA15MAR24.00CEW2	2.10	424000	0.70	424000	2	2	8	100%	25%	100%	19%
16	JISL15JUL75.00CE	3.20	200000	0.20	200000	5	5	14	100%	36%	100%	27%
17	JSWE15MAR115.00PE	5.25	220000	0.70	220000	2	2	28	100%	7%	100%	9%
18	JSWE15MAR120.00CE	3.70	500000	0.70	500000	2	2	26	100%	8%	100%	19%
19	KARB15MAR130.00PE	4.80	374000	0.80	374000	2	2	16	100%	13%	100%	19%
20	LNTF15JUL70.00CE	3.23	236000	0.25	236000	5	5	33	100%	15%	100%	16%
21	NHPC15JUL14.00CEW1	5.90	176000	3.70	176000	2	2	8	100%	25%	100%	76%
22	NHPC15MAR20.00CEW2	1.25	1250000	0.65	1250000	2	2	10	100%	20%	100%	30%
23	PFCL15MAR270.00PE	7.00	250000	1.00	250000	2	2	26	100%	8%	100%	20%
24	PFCL15MAR280.00PE	6.00	363000	0.50	363000	2	2	44	100%	5%	100%	11%
25	PTCI15AUG60.00CEW1	12.25	104000	5.51	104000	5	5	5	100%	100%	100%	100%
26	UNIT15JUL2.00CEW4	6.10	253000	3.70	253000	2	2	2	100%	100%	100%	100%

6. From the above table, the following is observed as regards to dealings of the Noticee:

   a) The Noticee had executed non-genuine trades in 26 contracts, wherein in respect of 7 contracts, all the trades were non genuine trades.

   b) The number of non-genuine trades of the Noticee had significantly contributed to the total number of trades from the market in the above contracts, as a substantial 3% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by the Noticee.

   c) A substantial 3% to 100% of volumes generated by the Noticee in each of the above contracts were artificial volume, and further artificial volume generated by it also contributed to significant contribution of the total volume from the market in the said contracts.

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

7. In view of the foregoing, it was alleged that the Noticee, indulged in execution of reversal of trades in Stock Options with same entities on the same day. Such trades are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore alleged to be manipulative, deceptive in nature. Thus, it was alleged that the Noticee had violated the provisions of Regulation 3(a), (b), (c), (d), 4(1) and 4(2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003.

APPOINTMENT OF ADJUDICATING OFFICER

8. Pursuant to investigation, 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 April 3, 2018, under section 19 read with section 15I(1) of the SEBI Act, 1992 and Rule 3 of SEBI(Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter, referred to as "SEBI Adjudication Rules") to conduct adjudication proceedings in the manner specified under rule 4 of SEBI Adjudication Rules, 1995 read with section 15I (1) and (2) of SEBI Act, and if satisfied that penalty is liable, impose such penalty deemed fit in terms of Rule 5 of SEBI Adjudication Rules 1995 and Section 15HA of SEBI Act.

SHOW CAUSE NOTICE, REPLY AND HEARING

9. A Show Cause Notice (hereinafter referred to as "SCN") bearing ref. no. SEBI/HO/EAD-7/BJD/NJMR/23614/2018 dated August 23, 2018 was served upon the Noticee under Rule 4 of SEBI Adjudication Rules to show cause as to why an inquiry be not held against him in terms of Rule 4 of the Adjudication Rules and penalty be not imposed under Section 15HA of SEBI Act, 1992 for the violations alleged to have been committed by him.

10. The Noticee vide his letter dated September 5, 2018 had sought certain documents, which were relied upon in issuing the SCN. In reply, vide letter dated October 19, 2018, the Noticee was informed that all the documents which were related and relied upon in the present Adjudication proceedings were provided along with the SCN. Accordingly, the Noticee was given one more opportunity to file his reply, if any, to the charges alleged in the SCN, by November 9, 2018. Vide the aforesaid letter dated October 19, 2018, in the interest of natural justice and in terms of Rule 4 (3) of the SEBI Adjudication Rules, the Noticee was given an opportunity of personal hearing on November 13, 2018.

11. The Noticee vide letter dated October 31, 2018 had once again sought copies of certain documents, which were sought by him vide letter dated September 5, 2018. Vide communique dated December 3, 2018, it was reiterated to the Noticee that all the documents which are relevant and relied upon in the instant Adjudication proceedings have already been provided along with the SCN. Accordingly, vide the aforesaid letter, the Noticee was given final opportunity to file his reply to the charges alleged in the SCN by December 13, 2018.

12. On behalf of the Noticee, Mindspright Legal, vide letter dated December 12, 2018 submitted reply to the charges alleged in the SCN. The reply furnished by Mindspright Legal is summarized hereunder:

(a) That, the Noticee has not been provided with the complete documents / materials / data to substantiate the allegations levelled against it in the Notice. In view of the same, the Noticee requests the Ld., Adjudicating Officer not to conduct these quasi-judicial proceedings taking into consideration any material to which the Noticee is not privy.

(b) That, the Noticee vide its letter dated October 31, 2018 relied upon the Order of the Hon'ble Securities Appellate Tribunal (SAT) dated January 4, 2018 in the matter of Vishva Pradhan Commercial Pvt., Ltd., Vs SEBI, which corroborates the Noticee's stand for seeking documents.

(c) That, the trade and order log submitted to the Noticee is incomplete and interalia it does not mention the trades and corresponding order information regarding trades other than that of the Noticee during the

examination period. Further, on perusal of such incomplete trade and order log, it is submitted that none of the counterparties of the Noticee are alleged in the Notice and the scrips in whose options the Noticee has traded are liquid and highly traded and thus allegation of artificial volume creation cannot be levelled against the Noticee.

(d) That, the Noticee has no relation / connection with any person / entity alleged in the Notice and the Notice has also failed to bring out any connection between the Noticee and such other persons / entities. Therefore, by no stretch of imagination, it can be presumed that, the Noticee had any relationship / nexus / prior meeting of mind with any entities or groups mentioned in the said Notice.

(e) That, the SCN alleges the trades with counterparties in the nature of reversal of trades which essentially involves synchronization of trades. It is submitted that synchronization is ipso facto not illegal even under the SEBI Act and SEBI Regulations. SEBI itself recommends several kinds of transactions, which would be capable of synchronizing as valid and legitimate stock market transactions, for instance negotiated deals.

(f) That, the Noticee has failed to appreciate that the anonymous systems of the Exchange do not allow a transacting party to know the details of the counterparty and therefore the allegation of executing reversal trades cannot hold good. It is submitted that the Noticee never knew that the trades are in the nature of reverse trades before receiving the Notice and scrutinising the Annexures thereto.

(g) It is further submitted that, in order to establish charges of fraudulent trading or violation of SEBI (PFUTP) Regulations, it is a settled principle of law that the parties to these trades should collude amongst themselves. In this context, reliance is placed by the Noticee on Hon'ble SAT Orders in the matter of Jagruti Securities Ltd., Vs SEBI and Vintel Securities Pvt., Ltd., Vs SEBI.

(h) It is a humble submission of the Noticee that nothing of the sort, as is required in terms of principles for alleging the charge of collusion, has been established in the Notice.

(i) That, the Noticee had trades with distinct counterparties, out of which none of them are alleged in the Notice. There is no mention of the other persons / entities anywhere in the Notice.

(j) On perusal of the logs, it is observed that all the contracts belong to scrips which are highly traded scrips on Stock Exchanges and there is no reason to believe that the meagre trades of the Noticee could have, in anyway affected its volume so as to warrant the charge of artificial volume as alleged in the Notice.

(k) *It is submitted by the Noticee that the said trades were carried out by it in the normal course of business devoid of any fraudulent intentions and the Noticee is in no way part of the alleged scheme which is carved out by your goodselves in the Notice.*

(l) *That, it is submitted that entering into the said reversal of trades in Options cannot be termed as fraudulent. Since the trading done by the Noticee in derivatives was not capable of influencing the underlying, SEBI cannot allege that the Noticee has entered into manipulative transactions. Further, it is the case of SEBI that these options were illiquid and hence it can be said that no investor was defrauded or affected by our trading.*

(m) *In terms of Clauses 1.2 and 1.3 of Risk Disclosure Document (RDD), which deals with Risk of low liquidity and Risk of wider, it can be construed that SEBI is well aware of the possible losses due to lower liquidity and wider spreads. The SCN also records that the contracts in which we dealt were illiquid. It is not disputed that liquidity in the contracts recorded in the SCN was low and spreads were bound to be wide so we were constrained to square off our trades at a price difference, which is also appreciated by the RDD issued by SEBI.*

(n) *The Noticee places reliance on the Hon'ble SAT judgement in the matter of Ketan Parekh Vs SEBI with regard to the issue of synchronized deals.*

(o) *The Noticee would like to draw the attention to the charts furnished by it for each option contract where the volume and price of the cash segment is unfazed by the alleged trades executed.*

(p) *That, there was no loss caused to any investor or any other person / entity as a result of the Noticee's said trading.*

(q) *That, the rationale for the transactions entered by the Noticee are genuine and legitimate as the behaviour exhibited by the Noticee follows logic and basic economic sense.*

(r) *The Noticee in its defence, would like to place reliance on the judgment of Hon'ble Supreme Court in the matter of SEBI Vs Rakhi Trading Private Ltd., which had certain ingredients to prove that the transactions carried out by it were genuine.*

(s) *The Noticee draws reference to the Hon'ble Supreme Court judgements in the matter of Nandakishore Prasad Vs Stae of Bihar (1978) 3 SCC 366 and Union of India Vs H C Goel (AIR 1964 SC 363) with regard to compliance of principles of natural justice and punishment, respectively.*

(t) *Further, the Noticee would like to place reliance on the Hon'ble SAT judgments in the matter of KSL & Industries Ltd., Vs SEBI and R K Global Vs SEBI, in its defence.*

(u) That, the allegations and charges against the Noticee are based on surmises and conjectures and on the wild allegation of having carried out collusive trading.

(v) That owing to the aforesaid submissions, the Noticee submits that it did not indulge in any fraudulent and unfair trade practice and the trades executed by it were genuine.

(w) Thus, in view of the facts stated, arguments advanced and authorities cited, it is humbly submitted that the current proceedings are illegal and is contrary to principles of natural justice. The Noticee submits that the allegation levied in the Notice does not corroborate with the corresponding evidence provided in the instant matter and needs to be quashed.

13. In the interest of natural justice and in terms of Rule 4 (3) of SEBI Adjudication Rules, the Noticee was given an opportunity of personal hearing on December 28, 2018, which was communicated to the Noticee vide email dated December 17, 2018, which was subsequently adjourned to December 31, 2018 due to administrative exigency. The Noticee vide email dated December 27, 2018 expresses his inability to appear for the hearing on December 31, 2018 due to non-availability of legal counsel. Accordingly, as desired by the Noticee, the personal hearing was rescheduled to January 14, 2019. The Noticee vide letter dated December 28, 2018 had authorized Mr. Pulkit Sharma and Mr. Jitendra Sharda, Advocates *(hereinafter referred to Authorized Representatives / ARs)* to appear for the hearing, which was taken on record. On the scheduled date of hearing i.e., January 14, 2019, the AR appeared on behalf of the Noticee and reiterated the submissions made by the Noticee vide letter dated December 12, 2018. Further, the ARs undertake to make additional submissions, which were received on January 18, 2019. The additional submissions made by the Noticee are furnished hereunder:

*(a) As per the provisions of PFUTP Regulations, the terms fraudulently is to be construed from the term **"Fraud"** as mentioned in the provisions of Regulation 2(1) (c) of the PFUTP Regulations. In the term "fraud", it can be seen for an act, expression, omission or concealment committed to be termed as fraud, the said act, expression, omission or concealment should have induced another person to deal in the securities market.*

(b) However, the present case your goodselves has not provide us with any material/documents to show that the alleged fraudulent trading

done by the Noticee in the Illiquid Stock Option has led to any person being induces to trade in the said Options.

(c) Even from the perusal of the incomplete Trade and Order Log provided to the Noticee, it can be seen that in as many as 7 contracts in which the Noticee has traded, the trades of the Noticee has resulted in the 100% of the total traded quantity in those contracts.

(d) Further with regards to the other contracts, it is submitted that the trades executed by the Noticee were resulted in the trades after looking at the existing trades executed in the said contracts.

(e) Accordingly, from the aforesaid explanation, it can be seen that the trading of the Noticee in the impugned options had not induced in any one trading in the scrip of the said options.

(f) *In this regard, the Noticee reiterates its submissions and submits that he has not violated the provisions of Regulation 3 and 4 of SEBI (PFUTP) Regulations.*

(g) It is further submitted that the trading of the Noticee has not in any way induced any person to trade in the said Options as can be seen from the fact that the options has remained illiquid after his trades. It is further submitted that the trading in the Options has also not induced any person from abstaining from trading in the Options as the option was illiquid prior to the trading of the Noticee and at has also not impacted the trades subsequently. The Noticee reiterates that trades executed by him were executed in the ordinary course of business and had no intention what so ever to dealing in the Options which would lead to violations of the provisions of PFUTP Regulations.

(h) In this regard, the Noticee would like to refer the in the matter of Securities and Exchange Board of India vs Kanaiyala Baldevbhai Patel, the Hon'ble Supreme Court of India observed that:

> *"A person can be said to have induced another person to act in a particular way or not to act in a particular way if on the basis of facts and statements made by the first person the second person commits an act or omits to perform any particular act. The test to determine whether the second person had been induced to act in the manner he did or not to act in the manner that he proposed, is whether but for the representation of the facts made by the first person, the latter would not have acted in the manner he did. This is also how the word inducement is understood in criminal law. The difference between inducement in criminal law and the wider meaning thereof as in the present case, is that to make inducement an offence the intention behind the representation or misrepresentation of facts must be dishonest whereas in*

the latter category of cases like the present the element of dishonesty need not be present or proved and established to be present. In the latter category of cases, a mere inference, rather than proof, that the person induced would not have acted in the manner that he did but for the inducement is sufficient. No element of dishonesty or bad faith in the making of the inducement would be required."

(i) In the light of the aforesaid observation of the Judgment, The Noticee would like to submits that he has not made any suggestion as to a fact which is not true or which it does not believe it to be true which would have induces any entity to trades in the BSE Stock Option. The Noticee has neither concealed any facts after having knowledge or belief of the fact which would have induced any entity to trades in the BSE Stock Option.

(j) In light of the aforesaid the Noticee cannot be alleged to have been indulged in the fraudulent trade practices. Hence the charge of the violations of the provision of PFUTP Regulation does not stand against the Noticee.

CONSIDERATION OF ISSUES AND FINDINGS

14. After perusal of the material available on record, I have the following issues for consideration viz.,

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 SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003?

II. Whether the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act?

III. If so, what quantum of monetary penalty should be imposed on the Noticee?

FINDINGS

15. 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.

ISSUE I: Whether the Noticees have violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003?

16. Before moving forward, it is pertinent to refer to the relevant provisions of SEBI (PFUTP Regulations), 2003 which reads as under:

Regulation 3 of SEBI (PFUTP) Regulations: - Prohibition of certain dealings in securities

3. 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 thereunder;
(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 thereunder.

Regulation 4 of SEBI (PFUTP) Regulations: - 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;

17. It has been alleged that the Noticee had indulged in execution of reversal of trades in Stock Options with same entities 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.

18. I note that reversal trades have been considered as those trades in which an entity reverse its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversals 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 were 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.

19. I note that the Noticee had executed 65 non-genuine trades in 26 unique contracts on 14 trading days in the months of February, March, June, July and August, 2015. The details of non-genuine trades executed by the Noticee are furnished hereunder.

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non-genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non-Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non-Genuine trades of Entity in the contract to Total trades in the Contract	% 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	AMTK15AUG105.00CEW1	64.30	20000	34.30	20000	3	3	3	100%	100%	100%	100%
2	DISH15MAR85.00CE	2.50	444000	0.25	444000	2	2	76	100%	3%	100%	3%
3	DLFL15MAR150.00CEW2	4.60	352000	0.20	352000	2	2	2	100%	100%	100%	100%
4	GMRI15MAR20.00PE	4.75	990684	3.20	990684	4	4	26	100%	15%	100%	28%
5	HDIL15MAR120.00CEW3	4.20	268000	0.50	268000	2	2	47	100%	4%	100%	7%
6	HDIL15MAR120.00PE	9.80	544000	4.30	544000	2	2	13	100%	15%	100%	37%
7	IBRL15MAR75.00PEW3	2.05	768000	0.10	768000	2	2	2	100%	100%	100%	100%
8	IBRL15MAR80.00PEW3	3.40	544000	0.65	544000	2	2	2	100%	100%	100%	100%
9	IDBI15MAR75.00CEW2	2.45	432000	0.15	432000	2	2	10	100%	20%	100%	35%
10	IFCI15JUL18.00CEW3	8.40	136000	5.40	136000	2	2	6	100%	33%	100%	89%
11	INCM15MAR95.00PE	4.10	394000	0.30	394000	2	2	16	100%	13%	100%	51%
12	IOBL15MAR50.00PEW3	3.20	728000	0.90	728000	2	2	10	100%	20%	100%	36%
13	IOCL15JUL500.00PE	46.60	21000	26.59	21000	3	3	3	100%	100%	100%	100%

Sl. No	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	Number of non-genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	% of Non-Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non-Genuine trades of Entity in the contract to Total trades in the Contract	% 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
14	ITCL15JUL290.00CE	21.60	68000	13.05	68000	2	2	7	100%	29%	100%	63%
15	JAIA15MAR24.00CEW2	2.10	424000	0.70	424000	2	2	8	100%	25%	100%	19%
16	JISL15JUL75.00CE	3.20	200000	0.20	200000	5	5	14	100%	36%	100%	27%
17	JSWE15MAR115.00PE	5.25	220000	0.70	220000	2	2	28	100%	7%	100%	9%
18	JSWE15MAR120.00CE	3.70	500000	0.70	500000	2	2	26	100%	8%	100%	19%
19	KARB15MAR130.00PE	4.80	374000	0.80	374000	2	2	16	100%	13%	100%	19%
20	LNTF15JUL70.00CE	3.23	236000	0.25	236000	5	5	33	100%	15%	100%	16%
21	NHPC15JUL14.00CEW1	5.90	176000	3.70	176000	2	2	8	100%	25%	100%	76%
22	NHPC15MAR20.00CEW2	1.25	1250000	0.65	1250000	2	2	10	100%	20%	100%	30%
23	PFCL15MAR270.00PE	7.00	250000	1.00	250000	2	2	26	100%	8%	100%	20%
24	PFCL15MAR280.00PE	6.00	363000	0.50	363000	2	2	44	100%	5%	100%	11%
25	PTCI15AUG60.00CEW1	12.25	104000	5.51	104000	5	5	5	100%	100%	100%	100%
26	UNIT15JUL2.00CEW4	6.10	253000	3.70	253000	2	2	2	100%	100%	100%	100%

20. Before I proceed further, it is necessary to understand what an Option Contracts is and various factors which influence the price of the Options. Options are financial derivative sold by an option writer to an option buyer. The contract offers the buyer the right, but not the obligation, to buy (call option) or sell (put option) the underlying asset at an agreed-upon price during a certain period of time or on a specific date. The factors which influence the Options prices are underlying price, strike price, time until expiration, volatility, interest rates and dividends. There are various market based models (Black and Scholes Model) which throw an indicative price of the Option after inputting the various parameters mentioned above. I note that the seller of option contract will be the writer of the contract where the risk involved would be unlimited, as theoretically writer of options is obliged to honor the contract should the buyer exercise such option. Similarly, buyer of Option will have limited risk to the extent of premium paid. Therefore, both

buyer and seller of options should ideally deal in options contracts considering various market parameters as mentioned above.

21. With above background in mind, I shall now proceed to deal with the transactions executed by Noticee in some of the instances of alleged non-genuine trades.

I. Scrip Name: DLFL15MAR150.00CEW2, Trade Date: 25/02/2015

CLIENTNAME	CP_CLIENTNAME	TRADE_TIME	TRADE_RATE	TRADED_QTY
RAJLAXMI PLAZA PVT LTD	PHOOL CHAND JAIN	15:12:13.920676	0.2	352000
PHOOL CHAND JAIN	RAJLAXMI PLAZA PVT LTD	15:25:47.093889	4.6	352000

(a) I note from the above table that during the investigation period, total 2 trades for 7,04,000 units were executed in the "**DLFL15MAR150.00CEW2**" contract on 25/02/2015 wherein the Noticee was party to all of the said trades. While dealing in the said contract on 25/02/2015, the Noticee at 15:12:13 hrs entered into 1 sell trade with counterparty viz., Rajlaxmi Plaza Pvt., Ltd., for 3,52,000 units at the rate of ₹ 0.2 per unit. Thereafter, on the same day, within 13 minutes from the above trade, the Noticee at 15:25:47 hrs entered into 1 buy trade with the same counterparty for total 3,52,000 units each at ₹ 4.6 per unit.

(b) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed total 2 reversal trades (1 sell trade + 1 buy trade) with the same counterparty viz., Rajlaxmi Plaza Pvt., Ltd., on the same day for the same quantity.

(c) Thus, the Noticee, through its dealing in the contract viz, "**DLFL15MAR150.00CEW2**" during the investigation period, executed 2 non genuine trades which is 100% of the total trades from the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 7,04,000 units which is 100% of the volume traded in the said contract from the market during the investigation period.

II. Scrip Name: PTCI15AUG60.00CEW1, Trade Date: 03/08/2015

CLIENTNAME	CP_CLIENTNAME	TRADE_TIME	TRADE_RATE	TRADED_QTY
SANTOSH MITTAL	PHOOL CHAND JAIN	12:31:56.053651	5.5	28000
KARUNA MITTAL	PHOOL CHAND JAIN	12:31:56.053651	5.5	64000
KARUNA MITTAL	PHOOL CHAND JAIN	12:31:56.053651	5.55	12000
PHOOL CHAND JAIN	KARUNA MITTAL	12:56:27.264794	12.1	76000
PHOOL CHAND JAIN	SANTOSH MITTAL	13:10:17.800711	12.65	28000

(a) I note from the above table that during the investigation period, a total number of 5trades were executed in the "**PTCI15AUG60.00CEW1**" contract, out of which the Noticee had executed 5 trades for 2,08,000 units on 03/08/2015. While dealing in the said contract on 03/08/2015 the Noticee at 12:31:56 hrs entered into 1 sell trade with counterparty viz., Santosh Mittal for 28,000 units at the rate of ₹ 5.5 per unit. Thereafter, on the same day, within 40 minutes from the above trade, the Noticee at 13:10:17 hrs entered into 1 buy trade with the same counterparty for total 28,000 units each at ₹ 12.65 per unit.

(b) Similarly, the Noticee at 12:31:56 hrs entered into 2 sell trades with counterparty viz., Karuna Mittal for 76,000 units at an average rate of ₹ 5.51 per unit, which was reversed within 25 minutes at 12:56:27 hrs for the same quantity and with the same counterparty at ₹ 12.1 per unit.

(c) From the above, it is noted that while dealing in the said contract during the investigation period, the Noticee executed total 5 reversal trades (3 sell trade + 2 buy trades) with the same counterparties viz., Santosh Mittal and Karuna Mittal on the same day for the same quantity.

(d) Thus, the Noticee, through its dealing in the contract viz, "**PTCI15AUG60.00CEW1**" during the investigation period, executed 5 non genuine trades which is 100% of the total trades from the market in the said contract during the investigation period, and thereby, the Noticee generated artificial volume of 2,08,000 units which is 100% of the volume traded in the said contract from the market during the investigation period.

22. From the above pattern of trades, I note that the Noticee had bought and sold option contracts with the same counter parties and also reversed its trades

within seconds from its earlier buy / sell trades, at substantial price difference. Similar modus operandi as mentioned above was observed in respect of the trades executed by the Noticee in the remaining contracts, which were non-genuine. Such pattern of dealings suggests beyond doubt that they were not driven by market factors as none of the parameters (underlying stock price, volatility, etc.,) for Option pricing, as mentioned above paragraphs, have undergone any change during the currency of trades. I note that the underlying stock price did not change to substantiate corresponding changes in the option price in a span of less than one minute. I also note that similar modus operandi as mentioned above was observed in respect of the remaining 24 contracts. Therefore, I conclude that aforesaid trades of Noticee were non genuine and have created false or misleading appearance of trading in terms of artificial volume in stock options and therefore manipulative, deceptive in nature.

23. It is summarized from the above findings that the Noticee had executed non-genuine trades in 26 contracts, wherein in respect of 7 contracts, all the trades were non genuine trades and contributed to 100% artificial volumes. The number of non-genuine trades of the Noticee had contributed to the total number of trades from the market in the above contracts, which was in the range of 3% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by the Noticee. The volumes generated by the Noticee in each of the above 26 contracts were artificial volume, and have contributed in the range of 3% to 100% of the total volume from the market in said contracts. Non genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

24. I note that derivative contracts by its very nature derives its value from various factors including underlying price. The transactions of the Noticee as mentioned in above paras clearly demonstrates that option contracts bought / sold were immediately reversed within span of few minutes at substantially different price, though there was no corresponding price changes in the underlying stock price. Further analysis of such trades also indicates that price differentials have been deliberately structured for manipulative purpose as one

party to the contract had deliberately foregone profitable proposition at the time of executing trade. Further analysis of such trades also indicates that price differentials have been deliberately structured for manipulative purpose as one party to the contract had deliberately foregone profitable proposition at the time of executing trade. For example, the Noticee on March 12, 2015 bought 9,90,684 units of Put Option (Right to Sell) in the contract of "GMRI15MAR20.00PE" with a strike price of ₹ 20 at a premium of ₹ 4.75. This means the Noticee will incur profit (IN THE MONEY) if the underlying price of the scrip is less than ₹ 15.25 {Strike Price (₹ 20) - Premium (₹ 4.75)}. I note that the weighted average price of GMR Infrastructure Ltd., (GMR) on equity segment on March 12, 2015 was ₹ 16.77 Thus, it is apparent that the Noticee was out of the money by ₹ 1.52 (difference of Spot Price – Strike Price after deducting option premium) at the time of buying the contract.

25. I am of the view that any rational investor who deals in derivatives market would compare the market price of the option contract with theoretical price of the options which accounts for relevant factors like underlying price, volatility, time to expiry etc. Therefore, no rational investor would buy a out of the money option contract and would incur loss of premium paid i.e., ₹ 4.75 each on 9,90,684 units. I note that the Noticee immediately reversed the contract by selling the options within 6 seconds to the same counterparties at a price of ₹ 3.2 without any change in market conditions. Such a pattern of trading clearly demonstrates that Noticee at the time of buying options contract did not take market parameters into consideration but had malafied intent as the price of buying and selling options were completely away from fair market prices. Had market been liquid with large number of investors, the manipulative scheme would not have been possible as the Noticee would not be able to square off its position as there would be no buyers for such contracts. The fact the counterparties are same corroborates that the trades were not genuine and executed for manipulative purpose. I also note that loss made by the Noticee was exactly same of the profit made by the counterparty which ratifies the manipulative scheme of operations.

26. I note that the thumb rule of trading in stock market is to buy shares at low price and sell shares at higher price. However, in the instant case, the Noticee had bought the units of Contracts at high price, which he had sold back at reasonably low price, for same quantity. Considering the fact that all these reversal transactions were carried out through a screen based trading platform on a segment with hundreds of different contracts, the placement of orders repeatedly within a time span of few seconds / minutes and a significantly high percentage of matching of these orders, appear to be practically impossible unless there is a prior understanding or a pre-meditated plan between the two entities executing them. The repeated sell/buy of illiquid stock options by the Noticee and subsequent reversal trades with the same set of entities for the same quantity, within a short span of time with a significant difference in buy and sell value of stock options, in itself, exhibits abnormal market behaviour and defies economic rationality. I note from the above trading pattern of the Noticee that it was deliberately making repeated loss through its reversal trades in stock options which does not make any economic sense and it is a blatant misuse of trading platform for creating artificial volume in the illiquid stock options. I note that the rationale for such transactions entered by the Noticee is not genuine and legitimate as the behaviour exhibited by the Noticee defies the logic and basic economic sense. I note that no reasonable and rational investor will keep making repeated losses and still continue its trading endeavours.

27. I am of the considered view that the scheme, plan, device and artifice employed by the Noticee in this case of executing reversal trades in illiquid stock options contracts at irrational, unrealistic and unreasonable prices, tantamount to fraud on the securities market in as much as it involves non-genuine/ manipulative transactions in securities and misuse of the securities market.

28. The Noticee in his submissions stated that the trading of the Noticee in the impugned options had not induced in any one in trading in the scrip of the said options and therefore the same cannot be termed as *"fraud".* However, from the facts of the case, I note that the Noticee had dealt in illiquid stock options

at such prices which were far away from the market price and structured in way, which had induced the counterparty to indulge into manipulative and artificial trades, which were non-genuine. I am of the view that in illiquid stock options, the inducement to a larger population may not be present, however, the magnitude of inducement has to be seen in the context of surrounding circumstances of the case. I note from the trading pattern of the Noticee in illiquid stock options that, in respect of 7 contracts, the trades executed by Noticee were manipulative and artificial in nature and have created 100% artificial volume on that day. I am also of the opinion that the element of inducement can also be seen in the context of the potentiality of trading pattern which could induce others. Therefore, the element of inducement is present in this case which can be seen in the context of reversal of trades executed by the Noticee with the same counterparties, which were non-genuine and structured in a way to create false or misleading appearance of trading in terms of artificial volume (*even though it is an anonymous trading platform*). Thus, I find no merit in the submissions made by the Noticee.

29. The non-genuine and deceptive transactions of these entities are, prima-facie, covered under the definition of 'fraud' and the dealings of the Noticee as discussed herein above were “fraudulent”, as defined under regulation 2(1)(c) of the SEBI (PFUTP) Regulations, 2003 and prohibited under the provisions of Regulations 3(a), (b), (c) and (d) and 4(1) and 4(2)(a) SEBI (PFUTP) Regulations, thereof.

30. Further, with respect to the reversal of trades carried out by the Noticee, I note that the Hon’ble Supreme Court in the matter of SEBI vs. Rakhi Trading Private Ltd., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018 had observed that *“the price discovery system itself was affected by synchronization and rapid reverse trade, which also had the impact of excluding other investors from participating in the market. The Supreme Court, therefore found that the traders 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". The Apex Court also observed that "*considering the reversal transactions, quantity, price and time and sale, parties being persistent in the number of such trade transactions with huge price variations, it will be too naïve to hold that the transactions are through screen-based trading and hence anonymous. Such conclusion would be over-looking the prior meeting of minds involving synchronization of buy and sell order and not negotiated deals as per the Board's circular. The impugned transactions are manipulative/deceptive device to create a desired loss and/or profit. Such synchronized trading is violative of transparent norms of trading in securities."*

31. Keeping in mind the dicta of the Hon'ble Supreme Court as reproduced above; I see no reason to take a different view in the present case. In view of the foregoing, I hold that the Noticee had indulged in execution of reversal trades in Stock Options with same entities on the same day, which are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes.

32. The Noticee vide its letters dated September 5, 2018 and October 31, 2018 had sought certain documents relating to the present Adjudication proceedings. In this connection, I would like to emphasize that all the documents which were relevant and relied upon in the SCN were provided to the Noticee, which are detailed hereunder:

    a) *Copy of communication of Order dated May 29, 2018 regarding appointment of Adjudication Order;*
    b) *Integrated trade log of all trades of Noticee in Stock Option segment of BSE during the investigation period;*
    c) *Integrated trade log of all non-genuine trades of Noticee in Stock Option segment of BSE during the investigation period;*

33. In this connection, I would like to refer to the observations of the Hon'ble SAT in the matter of Mayrose Capfin Private Limited Vs SEBI (decided on 30.03.2012) wherein SAT observed that:*".....the principles of natural justice require that the inquiry officer should make available such document*

and material to the delinquent on which reliance is being placed in the inquiry. It is not necessary for the inquiry officer to make available all the material that might have been collected during the course of investigation but has not been relied upon for proving charge against the delinquent. No prejudice can, therefore, be said to have been caused to the appellant on this count...."

34. The Hon'ble Supreme Court in the matter of Chandrama Tewari Vs. Union of India, Through General Manager, Eastern Railways, (1988) 1 SCR 1102, held that *"it is not necessary that each and every document must be supplied to the delinquent facing charges. Only material and relevant documents are necessary to be supplied to him. If a document, even though mentioned in the Memo of charges, is not relevant to the charges, or if it is not referred to or relied upon by the enquiry officer or the punishing authority in holding the charges, no exception can be taken to the validity of the proceedings or the order passed on the ground of non- supply of the copy of the order"*.

35. In view of the above, since all the documents which were relevant and relied upon in the instant proceedings have been provided to the Noticee along with the SCN, I am of the opinion that principles of natural justice have been duly complied with in the instant proceedings and no prejudice has been caused to the Noticee.

36. The Noticee submitted that Stock Exchanges have provided in its *Risk Disclosure Document (RDD)* that there could be risks of low illiquidity and risk of wider price spread while dealing in derivatives segment. The Noticee also submitted that *"since stock exchange have recognised that there could be lesser liquidity and wider spreads in options contracts the trades executed by them at wider price difference and less liquidity cannot be said to be non-genuine and manipulative".* I am not inclined to accept the submission of Noticee as RDD is a document in the nature of general advisory to investors dealing in derivatives markets considering that derivatives products are complex, risky and high leverage products. Such a document in any case does not either implicitly or explicitly permit deliberate structuring of manipulative trades which lack economic rationale and run contrary to the dynamics of price

discovery in option trading. Therefore, the contention of the Noticee devoid of any merit.

37. Further, the Noticee contended that the SCN does not provide an iota of evidence as to how we are related to the counter parties. In this context, I note that in the screen based trading, the manipulative or fraudulent intent can be inferred from various factors such as conduct of the party, pattern of transactions, etc., In this context, I deem it appropriate to refer to the Hon'ble SAT order dated July 14, 2006, in the case of Ketan Parekh vs. SEBI (Appeal no. 2/2004), wherein, Hon'ble SAT has observed that:

"The nature of transactions executed, the frequency with which such transactions are undertaken, the value of the transactions, the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is from the cumulative effect of these that an inference will have to be drawn."

38. Further, I would like to rely on the judgement of Hon'ble Supreme Court in the matter of SEBI vs. Rakhi Trading Private Ltd., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018, wherein the Apex Court upheld that "*the entities were engaged in a fraudulent and unfair trade practice while dealing in Options and hence were liable for violation of SEBI (PFUTP) Regulations".* The Hon'ble Apex Court has also observed that in the absence of direct proof of meeting of minds, the test should be one of preponderance of probability and also stated that the conclusion has to be gathered various circumstances like volume of trade, period of persistence of trading, particulars of buy and sell orders, proximity of time between the two and such other relevant factors.

39. In line with the aforesaid judgements of Hon'ble SAT and Hon'ble Supreme Court, I note from the foregoing findings that the trading pattern of the Noticee in terms of volume of reversal trades, proximity of buy/sell and subsequent reversal evidences the indulgence of the Noticee beyond a reasonable doubt

of the manipulative intent in creation of artificial volume. Further, consistent pattern of dealings by Noticee only in such options contracts which are illiquid clearly demonstrates that the manipulative intent to use stock exchange platform to carry out non-genuine trades with the aim to execute such trades for various manipulative purposes.

40. In this regard, I would like to rely on the judgement of Hon'ble Supreme Court in the matter of SEBI vs. Rakhi Trading Private Ltd., in Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011 decided on February 8, 2018, where Apex Court stated at Para 35 and Para 41 of that said Order that *"The platform of the stock exchange has been used for a non-genuine trade. Trading is always with the aim to make profits. But if one party consistently makes loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice". "The stock market is not a platform for any fraudulent or unfair trade practice. The field is open to all the investors. By synchronization and rapid reverse trade, as has been carried out by the traders in the instant case, the price discovery system itself is affected. Except the parties who have pre-fixed the price nobody is in the position to participate in the trade. It also has an adverse impact on the fairness, integrity and transparency of the stock market."*

41. From the foregoing, it is established that the Noticee by indulging in reversal trades on the stock exchange platform which are manipulative / unfair / fraudulent / non-genuine, in nature, had created artificial volumes in the contracts. In view of above, I conclude that the Noticee had violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1) and 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003.

ISSUE -2: Does the violation, if any, attract monetary penalty under Section 15HA of SEBI Act.?

42. Pursuant to detailed analysis as brought out above, it is established that reversal trades are not normal transactions and it clearly demonstrates beyond reasonable doubt that the Noticee had intentionally executed these

trades and manipulated the volume by artificial trading pattern in 26 contracts. Out of the 26 contracts, in respect of 7 contracts, all the trades were non genuine trades, which contributed to 100% artificial volume.

43. I am of the view that the misuse of stock options as shown above not only displays an unreal picture of market activity to other investors but also defeats the basic premise of screen based electronic trading system and price discovery mechanism by repeated execution of pre decided reversal trades at irrational / arbitrary prices. Moreover, the impact of such trading on the traded volume and the price of stock options contracts is huge. Such activity deliberately or otherwise damages market integrity apart from presenting wrong picture of liquidity to gullible investors which could affect their trading/investment decisions. Options as financial instruments, ordinarily, provide hedging avenues to investors. The trading pattern of the Noticee in the instant matter was abnormal and was designed to create artificial volumes in the illiquid stock options, fail to justify any of the normal strategies of hedging / speculation / arbitrage. In my view, the abuse of such financial instruments, which are made available to the investors for the purpose of protection of their investment portfolios from the risks of adverse price movement, cannot be tolerated and needs to be dealt with strictly.

44. I find that the Noticee by indulging in execution of reversal trades in Stock Options with same entities on the same day, had created artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE and therefore violated the provisions of Regulations 3 (a), 3(b), 3(c), 3 (d), 4 (1), and 4 (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003. Accordingly, the Noticee is liable for monetary penalty under Section 15HA of SEBI Act, the provisions of which are furnished hereunder.

Section 15HA of SEBI Act - Penalty for fraudulent and unfair trade practices

"If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty five crore rupees or three times the amount of profits made out of such practices, whichever is higher".

ISSUE – 3: If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act?

45. While determining the quantum of monetary penalty under Section 15HA of SEBI Act, I have considered the factors stipulated in Section 15-J of SEBI Act, which reads as under:

Section 15J - Factors to be taken into account by the Adjudicating Officer

While adjudging quantum of penalty under section 15 - I, the Adjudicating Officer shall have due regard to the following factors, namely:

(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.

46. I note from the facts of the case that the trades of the Noticee were reversed within few minutes of such trades, with the same counter party, at such option prices which no rational investor would undertake, as explained in above paras. Consequent to such manipulative trades, both the parties of the trades could structure and generate profits / loss in their accounts wherein profit / loss made by one entity was exactly equal to the loss / profit made by the counterparty.

47. Considering the above, I am of the view that it will be appropriate to take into account the payoff of transactions between the two parties together, rather than viewing it independently. Therefore, in respect of the non-genuine trades

carried out by the Noticee which resulted in creation of artificial volume in Illiquid Stock Options, it is not possible to quantify the amount of disproportionate gain or unfair advantage made by the Noticee. Further, there is also no material on record to assess the amount of loss caused to investors as a result of the Noticee's default. The persistent trading pattern of the Noticee, which was fraudulent and deceptive, affects the normal price discovery mechanism in the securities market. People who indulge in manipulative, fraudulent and deceptive transaction, or abet the carrying out of such transaction which are fraudulent and deceptive should be suitably penalized for such acts of omissions and commissions.

ORDER

48. After taking into consideration the nature and gravity of the violations established in the preceding paragraphs and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act, 1992 read with Rule 5 of the SEBI Adjudication Rules, 1995, I hereby impose a penalty of ₹ 7,00,000 (Rupees Seven Lakhs Only) on the Noticee i.e., Phool Chand Jain under Section 15HA of the SEBI Act, 1992, for indulging in execution of reversal trades in Stock Options with same entities on the same day, thereby creating artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE

49. The said penalty imposed on the Noticee, as mentioned above, shall commensurate with the violation committed and acts as a deterrent factor for the Noticee and others in protecting the interest of investors.

50. 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

51. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid through e-payment to the General Manager, Enforcement Department-1, DRA-I, SEBI, in the format as given in table below:

Case Name	
Name of Payee	
Date of payment	
Amount Paid	
Transaction No	
Bank Details in which payment is made	
Payment is made for	Penalty

52. In terms of rule 6 of the Adjudication Rules, copies of this order are sent to the Noticee i.e., Phool Chand Jain and also to SEBI.

Date: 30 January 2019 **B J DILIP**
Place: Mumbai **Adjudicating Officer**