BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/MC/HP/2021-2022/12845]

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

In respect of –

Jai Siyaram Commodity Private Limited (PAN: AABCJ6191P) having address at D-22, 3rd Floor, Defence Colony, New Delhi - 110024 **and**
2/3A, Aaravali View Rail Vihar, Sector-56, Gurgaon - 122002, Haryana

In the matter of dealing in Illiquid Stock Options on the BSE

BACKGROUND

1. Securities and Exchange Board of India (hereinafter be 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. Jai Siyaram Commodity Private Limited ("**the Noticee/You**") 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**").

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, 1992 (hereinafter referred to as, "**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 15HA of the SEBI Act, the alleged violations of the aforesaid provisions of the PFUTP Regulations, 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/28550/1/2018 dated October 11, 2018 (hereinafter referred to as, the "**SCN**") was served upon the Noticee under 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 under Section 15HA of SEBI Act for the aforesaid alleged violations of PFUTP Regulations.

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 403 such reversal trades in 158 unique contracts, which led to generation of alleged artificial volume of 1,68,50,000 units, between March 19, 2015 and March 27, 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 the Noticee in the158 Stock Options contracts in which the Noticee allegedly executed non-genuine reversal trades during the Investigation Period, provided in the SCN is reproduced below:

Table:

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	ADPW15MAR35.00CE	9.90	24000	12.90	24000	100%	100%
2	APLT15APR145.00CEW1	12.50	20000	22.50	20000	100%	42%
3	APLT15APR150.00CEW1	8.90	26000	17.50	26000	100%	11%
4	APLT15APR150.00CEW3	12.00	20000	15.50	20000	100%	36%
5	APLT15APR180.00PEW2	12.19	50000	21.92	50000	100%	71%

6	BHEL15APR230.00CEW1	22.60	40000	28.00	40000	100%	36%
7	BHEL15APR230.00PEW1	0.67	92000	2.68	92000	100%	100%
8	BHEL15APR240.00CEW1	13.97	118000	17.66	118000	100%	28%
9	BHEL15APR240.00PEW1	0.47	117000	2.46	117000	100%	72%
10	BHEL15APR250.00CEW1	6.35	112000	8.83	112000	100%	75%
11	BHEL15APR250.00PEW1	0.91	114000	2.75	114000	100%	100%
12	BHEL15APR260.00CEW1	2.14	172000	4.44	172000	100%	100%
13	BHEL15APR260.00PEW1	3.50	80000	5.95	80000	100%	67%
14	BHEL15APR270.00PEW1	16.55	45000	20.00	45000	100%	39%
15	BIOC15APR410.00CEW2	18.50	20000	29.50	20000	100%	100%
16	BIOC15APR450.00PEW3	9.50	20000	19.50	20000	100%	100%
17	BOBL15APR170.00CEW2	8.25	47500	14.05	47500	100%	100%
18	BOBL15APR170.00PEW2	0.15	48750	2.10	48750	100%	24%
19	BOBL15APR175.00CEW2	5.00	66250	8.25	66250	100%	100%
20	BOBL15APR175.00PEW2	0.40	58750	2.75	58750	100%	100%
21	BOBL15APR180.00CEW2	2.28	122500	5.23	122500	100%	100%
22	BOBL15APR180.00PEW2	1.78	116250	3.93	116250	100%	100%
23	BOBL15APR185.00CEW2	0.85	72500	3.25	72500	100%	74%
24	BOBL15APR185.00PEW2	4.10	63750	6.95	63750	100%	100%
25	BOBL15APR190.00CEW2	0.37	128750	2.68	128750	100%	79%
26	BOBL15APR190.00PEW2	7.09	112500	10.81	112500	100%	76%
27	BOBL15APR195.00CEW2	0.34	123750	1.75	123750	100%	61%
28	BOBL15APR195.00PEW2	9.69	116250	13.88	116250	100%	100%
29	BOBL15APR200.00CEW2	0.27	113750	1.77	113750	100%	100%
30	BOIL15APR205.00CEW2	8.05	46000	12.85	46000	100%	100%
31	BOIL15APR205.00PEW2	0.85	47000	2.95	47000	100%	100%
32	BOIL15APR210.00PEW2	1.03	90000	3.20	90000	100%	100%
33	BOIL15APR215.00CEW2	1.75	47000	5.25	47000	100%	100%
34	BOIL15APR215.00PEW2	1.05	47000	5.85	47000	100%	100%
35	BOIL15APR220.00PEW2	4.30	94000	7.85	94000	100%	100%
36	BOIL15APR225.00PEW2	9.10	93000	13.20	93000	100%	100%
37	BPCL15APR700.00PEW1	1.10	25000	4.70	25000	100%	100%
38	BPCL15APR720.00PEW1	1.00	25000	5.60	25000	100%	50%
39	BPCL15APR740.00CEW1	8.65	25000	12.90	25000	100%	3%
40	CANB15APR350.00CEW3	27.00	20000	33.00	20000	100%	50%
41	CANB15APR360.00CEW1	15.33	45000	26.61	45000	100%	64%
42	CANB15APR390.00PEW2	6.50	20000	13.50	20000	100%	45%
43	CANB15APR400.00PEW2	10.50	25000	20.55	25000	100%	100%
44	CARN15APR235.00PEW2	10.50	16000	17.50	16000	100%	100%
45	CARN15APR240.00PEW1	14.50	20000	24.50	20000	100%	42%

46	COAL15APR350.00CEW1	13.50	20000	23.50	20000	100%	19%
47	COAL15APR350.00PEW1	0.25	80000	2.90	80000	100%	100%
48	COAL15APR370.00PEW1	8.97	460000	20.27	460000	100%	100%
49	COAL15APR380.00PEW1	11.00	80000	16.00	80000	100%	80%
50	CRGL15APR150.00CEW1	9.90	20000	20.10	20000	100%	9%
51	CRGL15APR185.00PEW2	12.90	20000	22.85	20000	100%	100%
52	DABU15APR280.00PEW1	15.03	118000	23.55	118000	100%	86%
53	FEDB15APR120.00CEW1	10.87	46000	21.99	46000	100%	9%
54	FEDB15APR125.00CEW3	14.50	24000	24.90	24000	100%	55%
55	FEDB15APR150.00PEW1	9.90	414000	19.60	414000	100%	67%
56	FEDB15APR150.00PEW3	9.50	20000	19.00	20000	100%	50%
57	FEDB15APR155.00PEW2	12.80	48000	23.25	48000	100%	100%
58	GAIL15APR360.00CEW1	20.50	30000	26.00	30000	100%	3%
59	GAIL15APR360.00CEW3	23.50	20000	33.50	20000	100%	100%
60	GAIL15APR360.00PEW1	0.25	38000	2.40	38000	100%	100%
61	GAIL15APR370.00CEW1	12.14	60000	18.08	60000	100%	12%
62	GAIL15APR390.00CEW1	1.95	38000	4.75	38000	100%	11%
63	GAIL15APR400.00CEW1	0.55	67000	2.98	67000	100%	100%
64	GAIL15APR400.00PEW1	11.05	30000	16.00	30000	100%	17%
65	GAIL15APR410.00PEW2	20.00	25000	33.50	25000	100%	100%
66	HDIL15APR120.00PEW3	15.50	20000	25.00	20000	100%	36%
67	HDIL15APR80.00CEW1	12.50	24000	22.50	24000	100%	13%
68	HDIL15APR85.00CEW2	11.50	20000	21.50	20000	100%	29%
69	HNDL15APR115.00CEW3	15.50	28000	24.50	28000	100%	30%
70	HNDL15APR120.00CEW1	10.50	20000	17.50	20000	100%	5%
71	HNDL15APR150.00PEW2	10.50	24000	18.50	24000	100%	35%
72	HNZL15APR150.00CEW1	10.50	20000	15.50	20000	100%	5%
73	HNZL15APR155.00CEW1	13.90	26000	23.50	26000	100%	41%
74	HNZL15APR180.00PEW2	9.50	20000	17.00	20000	100%	100%
75	HNZL15APR180.00PEW3	12.50	20000	22.00	20000	100%	42%
76	IBRL15APR55.00CEW2	7.50	36000	14.90	36000	100%	100%
77	IBRL15APR80.00PEW1	9.90	32000	18.85	32000	100%	62%
78	IDFC15APR155.00CEW1	12.50	20000	17.45	20000	100%	1%
79	IDFC15APR180.00PEW2	7.90	26000	17.00	26000	100%	57%
80	IDFC15APR185.00PEW3	11.50	26000	21.60	26000	100%	35%
81	IOCL15APR320.00CEW1	21.20	100000	26.80	100000	100%	21%
82	IOCL15APR330.00CEW1	13.35	40000	17.90	40000	100%	42%
83	IOCL15APR330.00PEW1	0.55	25000	3.00	25000	100%	100%
84	IOCL15APR340.00CEW1	7.05	35000	14.00	35000	100%	47%
85	IOCL15APR350.00CEW1	2.00	25000	5.50	25000	100%	10%

86	IOCL15APR350.00PEW1	5.25	30000	9.00	30000	100%	52%
87	ITCL15APR310.00CEW2	17.58	71000	24.08	71000	100%	54%
88	ITCL15APR310.00PEW2	0.10	42000	2.55	42000	100%	100%
89	ITCL15APR320.00CEW2	10.55	42000	14.95	42000	100%	100%
90	ITCL15APR320.00PEW2	0.05	45000	1.80	45000	100%	100%
91	ITCL15APR340.00CEW2	3.25	45000	6.25	45000	100%	100%
92	ITCL15APR340.00PEW1	7.10	28000	16.90	28000	100%	100%
93	ITCL15APR340.00PEW2	6.55	45000	10.25	45000	100%	58%
94	ITCL15APR350.00CEW1	0.62	150000	2.93	150000	100%	100%
95	ITCL15APR350.00CEW2	0.10	35000	1.95	35000	100%	100%
96	ITCL15APR350.00PEW2	12.50	80000	17.28	80000	100%	82%
97	ITCL15APR350.00PEW3	15.90	26000	29.50	26000	100%	48%
98	MCRS15APR205.00CEW1	31.50	25000	41.50	25000	100%	100%
99	MCRS15APR230.00CEW1	4.50	25000	10.20	25000	100%	50%
100	MCRS15APR260.00PEW2	15.39	45000	23.17	45000	100%	50%
101	NMDC15APR105.00CEW1	17.50	20000	27.50	20000	100%	6%
102	NMDC15APR150.00PEW3	18.50	20000	28.50	20000	100%	42%
103	NTPC15APR130.00CEW1	14.90	20000	21.85	20000	100%	31%
104	OBNK15APR210.00CEW1	14.90	25000	25.10	25000	100%	56%
105	OBNK15APR235.00PEW2	6.05	25000	16.05	25000	100%	100%
106	OBNK15APR240.00PEW1	12.50	20000	22.50	20000	100%	44%
107	ONGC15APR280.00CEW1	25.00	45000	32.00	45000	100%	100%
108	ONGC15APR280.00CEW2	22.38	101000	26.14	101000	100%	100%
109	ONGC15APR280.00PEW1	0.70	40500	2.00	40500	100%	100%
110	ONGC15APR280.00PEW2	0.38	73000	2.59	73000	100%	100%
111	ONGC15APR290.00CEW2	14.55	30000	18.90	30000	100%	60%
112	ONGC15APR290.00PEW1	0.25	43000	1.00	43000	100%	100%
113	ONGC15APR290.00PEW2	0.38	80000	2.35	80000	100%	100%
114	ONGC15APR300.00PEW2	0.25	50000	2.90	50000	100%	100%
115	ONGC15APR310.00CEW2	2.75	40000	6.95	40000	100%	100%
116	ONGC15APR310.00PEW2	3.45	40000	7.30	40000	100%	100%
117	ONGC15APR320.00CEW2	0.65	35000	3.25	35000	100%	100%
118	ONGC15APR320.00PEW1	9.00	45000	14.00	45000	100%	100%
119	ONGC15APR320.00PEW2	10.10	32000	14.30	32000	100%	52%
120	ONGC15APR330.00CEW1	0.20	45500	2.00	45500	100%	100%
121	PNBK15APR150.00CEW2	8.00	47500	12.90	47500	100%	54%
122	PNBK15APR150.00PEW1	0.15	47500	1.75	47500	100%	100%
123	PNBK15APR150.00PEW2	0.25	43750	1.80	43750	100%	100%
124	PNBK15APR155.00CEW2	4.50	46250	8.00	46250	100%	100%
125	PNBK15APR155.00PEW1	0.20	43750	1.85	43750	100%	51%

126	PNBK15APR155.00PEW2	0.55	47500	2.25	47500	100%	100%
127	PNBK15APR160.00CEW1	7.05	43750	9.65	43750	100%	27%
128	PNBK15APR160.00CEW2	1.80	45000	4.80	45000	100%	100%
129	PNBK15APR165.00PEW2	3.00	45000	6.55	45000	100%	100%
130	PNBK15APR170.00CEW2	0.45	45000	2.45	45000	100%	53%
131	PNBK15APR170.00PEW2	7.50	47500	11.25	47500	100%	54%
132	SBIL15APR270.00CEW3	8.40	130000	12.83	130000	100%	100%
133	SBIL15APR270.00PEW3	0.42	101250	1.83	101250	100%	100%
134	SBIL15APR280.00CEW3	3.15	93750	6.47	93750	100%	100%
135	SBIL15APR280.00PEW3	3.00	42500	6.10	42500	100%	47%
136	SBIL15APR290.00CEW3	0.75	46250	3.00	46250	100%	100%
137	SBIL15APR290.00PEW3	8.05	90000	12.20	90000	100%	100%
138	SBIL15APR300.00CEW3	0.25	38750	2.25	38750	100%	100%
139	SBIL15APR300.00PEW3	18.10	48750	22.00	48750	100%	100%
140	SESA15APR180.00CEW1	10.00	45000	13.85	45000	100%	8%
141	SESA15APR180.00PEW1	0.15	45000	2.00	45000	100%	50%
142	SESA15APR185.00CEW1	6.00	45000	5.00	45000	100%	50%
143	SESA15APR185.00PEW1	0.25	42000	2.25	42000	100%	100%
144	SESA15APR190.00CEW1	4.00	40000	2.65	40000	100%	50%
145	SESA15APR190.00PEW1	2.55	45000	5.55	45000	100%	100%
146	TATP15APR100.00PEW2	14.90	28000	24.50	28000	100%	100%
147	TATP15APR65.00CEW1	9.50	28000	18.50	28000	100%	14%
148	TGBL15APR125.00CEW2	21.00	20000	28.00	20000	100%	100%
149	TGBL15APR130.00CEW1	12.50	24000	22.00	24000	100%	7%
150	TGBL15APR135.00CEW1	11.10	24000	21.50	24000	100%	100%
151	TGBL15APR160.00PEW1	9.50	16000	17.00	16000	100%	100%
152	TGBL15APR160.00PEW3	5.50	32000	13.10	32000	100%	100%
153	TGBL15APR165.00PEW2	10.50	28000	19.70	28000	100%	52%
154	TGBL15APR170.00PEW3	17.50	20000	28.00	20000	100%	100%
155	TGBL15MAR130.00CE	19.50	20000	22.00	20000	100%	100%
156	UBIL15APR150.00CEW1	10.90	25000	22.50	25000	100%	100%
157	VOLT15APR260.00CEW2	11.90	25000	22.50	25000	100%	7%
158	VOLT15APR290.00PEW1	9.10	24000	19.50	24000	100%	100%

6. By indulging in execution of the 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, the 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. Vide letter dated October 20, 2018 the Noticee intimated that it had filed an application for Settlement under the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014. Subsequently, the undersigned was informed on March 22, 2021 that the settlement application of the Noticee had been rejected by the competent authority under Regulation 6 of the SEBI (Settlement Proceedings) Regulations, 2018.

8. Noticee filed its reply to the SCN on June 16, 2021.

9. The key submissions of the Noticee are reproduced as below:

a) Noticee submitted that SEBI has not provided any evidence or proof to show that its trades were fraudulent. The trades were executed on the floor of the exchange with due compliance to all the rules and regulations of the exchanges.

b) At no point of time was there any warning or any observation about the scrips / stocks which were executed by it.

c) The observations regarding the stocks being illiquid is incorrect. Even assuming the stocks were illiquid, then any small quantity or volumes would look significant as there are no active traders in the stock.

d) For the transaction to be termed fraudulent, as per the definition of fraud, there has to be an inducement and SEBI has not even alleged inducement. There is no nexus, directly or indirectly with the counterparty brokers or the clients in the present matter and SEBI has not even alleged this.

e) The trades in question were in the normal course of business and there is nothing amiss in the trades executed by it.

f) None of the trades are deceptive in nature or have any impact on the investors or their investment decision which is a *sine qua non* of fraud.

g) With respect to observation that Noticee dealt in stock options contracts which are illiquid in nature, Noticee submitted that the underlying scrips in which it traded are highly liquid in nature and frequently traded in market. Noticee traded in contracts of underlying scrips such as Apollo Tyres Ltd, Bharat Heavy Electricals Ltd, Biocon Ltd, Bank of Baroda, Bharat Petroleum, Canara Bank, Coal India Ltd, Dabur India, Federal Bank Ltd, Gail India, Hindalco Industries Ltd, Indian Oil Corporation etc. Underlying stock of most of aforesaid contracts consists of companies which make up index of the Bombay Stock Exchange. Thus, to allege that Noticee deliberately traded in only those options which were illiquid in nature is unfair.

h) In the SCN it is held that Noticee transacted in illiquid option, on the basis that its trades were in far-off strike prices and therefore very few entities were trading in such strike rates. However, in that case, it may also be concluded that said trades could have had no effect on other investors or market at large and that such illiquidity would be reason for volatility and alleged 'reversal' transactions since variations in option price would be dramatic if the chosen strike price is thinly traded.

i) Noticee submitted that BSE and SEBI have themselves allowed and permitted trading in Options for 'far months' with a strike price which are at large variance to current market price. Such parameters are laid down is clearly indicative of fact that options will always be 'in the money' and 'out of money' and since regulators have themselves permitted trading in same, no adverse inference be drawn against it in this regard.

j) Stock exchanges regularly come out with list of illiquid scrips in cash segment. However, no such list is issued by exchanges or regulator for dealing in stock options contracts. Thus, to fasten the responsibility or allege a single entity that it traded in illiquid option is unwarranted and unfair.

k) Derivative market is zero sum game and thus in each and every case one party inevitably make profit and counterparty will make loss. In derivative trading, traders often make profit or loss over a period of time since the market does not always behave as per their prediction or expectation. Thus, profit and loss is concomitant to trading in derivative segment. The mere fact that Noticee traded in options segment cannot be a ground to rope it into present proceedings.

l) Noticee traded in the stock market in ordinary course consequent to its bonafide trading in option segment. Thus, it is erroneous to allege that its trades created artificial volume on BSE. If these were illiquid stock options, then any trade and transaction would look significant. In fact, the impugned trades constituted a miniscule percentage of overall trades.

m) There was no major movement in price of underlying scrip which itself proves that its trades had no impact on market. Thus, its transactions neither

distorted the equilibrium in market nor caused any loss or prejudice to investors.

n) Any kind of alleged fictitious/ manipulative trade in cash segment may create distorted impression in minds of investors that price of scrip is rising/falling who may invest/divest from said scrip. However, in case of option segment there is no such effect since each contract expires at end of contract period and for every party who makes profit there is counterparty who makes a loss. There is no question of transfer of beneficial ownership in option segment since at end of settlement cycle only net loss/profit is adjusted. Therefore, allegation of creation of artificial or reversal trade is of no consequence in option segment of exchange.

o) Noticee did not act in concert or in collusion with anyone and nor part of any group or connected with anyone for the purpose of influencing price or for any manipulative activity. It is an admitted position that there is no connection whatsoever between it and counter parties to the impugned trades. Noticee submitted details of counterparties to its trades. Further, the counterparties were dealing with different broking entities.

p) Noticee did not have prior meeting of minds with broking entities as well as their clients nor any contemporaneous knowledge about any alleged wrongdoing. Noticee relied upon judgment of SAT in the matter of Jagrutii Securities (2008 SCC online SAT 134) and S.P.J Stockbroker Pvt Ltd (2013 SCC Online SAT 67) wherein it was held that such alleged trades cannot, be treated as illegal per se unless there is some cogent connection between the counterparties or there is "mischievous meeting of minds amongst certain parties". Such element is completely absent in the present case.

q) Further, Noticee relied upon Order 18.05.2012 passed by the Hon’ble SAT in the matter of Sanjay Agrawal vs. SEBI wherein it was held that in order to establish an allegation of reversal trade between parties a cogent evidence or connection between the parties needs to be established.

r) In 2016, BSE vide Notice dated 08.03.2016, announced that it has introduced measures for prevention of reversal trades in Equity Derivative

Segment w.e.f. 14.03.2016. Thus, in case of potential reversal trade, second leg of reversal trade shall automatically be cancelled by exchange in an online real time basis on trading system. Merely because online preventive measures and check & balance did not exist at relevant point of time to avoid inadvertent reversal trades no adverse inference be drawn against it in this regard.

s) There is no reason for any allegation that Noticee has violated the provisions of PFUTP Regulations or the SEBI Act. Besides recording common generic allegations, not a single instance or observation on its specific role in alleged reversal is delineated in the SCN. In this regard. Noticee relied upon judgment of Hon'ble Supreme Court in case of Commissioner of Central Excise, Bangalore vs. M/s Brindavan Beverages (P) Ltd. and Ors [Civil Appeal 3417 of 2002] decided on 15.06.2007.

10. Opportunity of hearing was provided to the Noticee through video conferencing and Authorized Representative (AR) attended the hearing on behalf of Noticee. Mr. Meit Shah appeared for the hearing on July 08, 2021 as AR of the Noticee. AR of the Noticee reiterated the submissions made in its reply dated June 16, 2021.

CONSIDERATION OF ISSUES AND FINDINGS

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

Issue No. I Whether the Noticee is in violation of Regulation 3(a),(b),(c),(d) and Regulation 4(1) and 4(2)(a) of PFUTP Regulations?

Issue No. II If yes, whether the failure, on the part of the Noticees would attract monetary penalty under Section 15HA of the SEBI Act?

Issue No. III If yes, what would be the monetary penalty that can be imposed upon the Noticees 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 the Noticee is in violation of Regulation 3(a), (b), (c), (d) and Regulation 4(1) and 4(2)(a) of PFUTP Regulations as alleged in the SCN?**

12. The allegation that the Noticee carried out reversal trades is directly supported by evidence from the trade log records in Annexures of the SCN. Between March 19, 2015 and March 27, 2015, the Noticee is seen to have indulged in 403 such reversal trades in 158 unique contracts, and allegedly generated artificial volume of 1,68,50,000.

13. To illustrate, on March 23, 2015, the Noticee bought 24,000 units of the contract named “ADPW15MAR35.00CE” from Stratagem Portfolio Private Limited at Rs. 9.9 per unit. Within 5 minutes, the Noticee had sold the said 24,000 units of the contract to the same counterparty at Rs. 12.90 per unit. The said reversal trades were executed within 5 minutes of each other, generating artificial volumes to the extent of 48,000 units in the aforesaid contract.

14. A similar modus operandi is seen to have been adopted by the Noticee with respect to all of the 403 reversal trades, wherein the Noticee is seen to have bought high and sold low. Further, all of the Noticee’s orders were placed within a few seconds of the counterparty’s order.

15. In each instance of reversal trade, the counterparty with respect to the reverse leg of the trades entered into by the Noticee was the same as the first leg. I find that trades were reversed by executing opposite trades on the same day with the same counterparty. I also note that the trades entered into by the Noticee were reversed at a substantial price difference from the first leg without any basis for the significant change in the contract price within such a short period.

16. I further note that all of the Noticee's orders were synchronized with those of the counterparties. While synchronized trades may occur by accident in a liquid stock, execution of such synchronized trades in an illiquid market with anonymous trading can only happen if there is prior meeting of minds with a view to execute trades.

17. I note that as stated in the SCN, the Noticee is seen to have indulged in 403 such reversal trades in 158 unique contracts between March 19, 2015 and March 27, 2015, as per the table reproduced below:-

18. From the table above, I note that the Noticee on average contributed 70% of the volume in the contracts traded, which establishes the lack of public participation in the contracts.

19. The manner of placing buy and sell orders in a synchronized 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 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"*.

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 held 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…"

21. In view of the above, I find that 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) and 4(2)(a) of the PFUTP Regulations, 2003.

Issue No. II **If yes, whether the failure, on the part of the Noticees would attract monetary penalty under Section 15HA of the SEBI Act. And**

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?**

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

SEBI Act:

Penalty for fraudulent and unfair trade practices.

15HA. *If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.*

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

Factors to be taken into account by the adjudicating officer

15J.*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.

24. 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 nil or negligible participation by the public. Investigation has not shown the 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.

25. The Noticee has contributed to artificial volumes in 158 contracts on 5 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 Rs.25,00,000 (Rupees Twenty Five Lakh only) under Section 15HA of the SEBI Act will be commensurate with the violations committed by the Noticee.

ORDER

26. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15-I of SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of Rs.25,00,000/- (Rupees Twenty Five Lakh only) on Noticee i.e. Jai Siyaram Commodity Private Limited under Section 15HA of the SEBI Act for violation of Regulation 3 (a), 4(1) and 4(2)(a) of PFUTP Regulations.

27. 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 online payment facility available on the SEBI website www.sebi.gov.in on the following path, by clicking on the payment link

ENFORCEMENT → Orders → Orders of AO → PAY NOW

28. 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

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

DATE: July 30, 2021 **MANINDER CHEEMA**

PLACE: MUMBAI **ADJUDICATING OFFICER**