BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. MC/DPS/2019-20/3504]

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. **Hollyfield Traders Private Limited** (PAN: AAACH8293D) having address at – EN 28 Sector Vsalt Lake City, Kolkata, West Bengal – 700091

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. Hollyfield Traders Private Limited ("**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) of 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 Shri Biju S 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 April 03, 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. Shri Satya Ranjan Prasad was appointed as Adjudicating Officer vide order dated July 6, 2018, pursuant to transfer of Shri Biju S.

4. Consequent to the transfer of Shri Satya Ranjan Prasad, the undersigned was appointed as Adjudicating Officer in the instant matter vide order dated May 17, 2019.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. Show Cause Notice No. EAD-4/ADJ/SRP/HKS/OW/P/29093/1/2018 dated October 17, 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.

6. 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 32 such reversal trades in 9 unique contracts, which led to generation of alleged artificial volume of 13547000 units, between February 11, 2015 and February 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 Noticee in 9 Stock Options contracts in which Noticee allegedly executed non genuine reversal trades during the Investigation Period, provided in the SCN is reproduced below-

Sl. 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	ANBK15MAR90.00PEW2	4.40	376000	1.80	376000	100%	16%
2	DRRL15MAR3250.00CEW2	219.00	1000	119.00	1000	100%	14%
3	GMRI15FEB22.00PE	5.00	1188000	3.40	1188000	100%	100%
4	GMRI15MAR20.00CEW2	0.80	3654000	0.26	3654000	100%	64%
5	HDIL15MAR120.00CEW2	3.30	256000	0.20	256000	100%	10%
6	ICIC15MAR330.00PE	11.00	142500	4.00	142500	100%	14%
7	IFCI15MAR34.00CEW2	5.10	424000	3.00	424000	100%	21%
8	PFCL15MAR290.00PE	14.15	184000	6.00	184000	100%	8%
9	TATP15FEB85.00CEW2	1.98	548000	0.15	548000	100%	42%

7. 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"

8. The aforesaid SCN was issued through Speed Post Acknowledgement Due (SPAD) to the Noticee. Noticee vide letter dated November 01, 2018, requested for all documents relied upon by SEBI in the captioned matter while issuing the said SCN. In this regard, Noticee was informed vide letter dated June 04, 2019 that all information considered relevant for the purpose of the allegations levelled against the Noticee, including relevant extracts of the investigation report, trade and order log/data and other information collected during investigation which is relevant was provided to the Noticee in the SCN and Annexures thereto. No statements have been recorded in the matter. Therefore, Noticee was informed vide letter dated June 04, 2019 that all relevant information and *requisite documents on the basis of which charges*

have been framed against the Noticee have already been provided to the Noticee. Opportunity of hearing was provided to the Noticee on June 19, 2019.

9. Noticee vide letter dated June 13, 2019, submitted its reply. As per the request of Mr. Robin Shah, the Authorised Representative of the Noticee (AR), hearing was conducted on June 18, 2019. AR of the Noticee reiterated the submissions made in its reply dated June 13, 2019.

10. The submissions made by the Noticee are summarized below:-

    (a) Complete materials / documents in support of the allegations have not been made available to the Noticee, which is contrary to the settled principles of natural justice.
    (b) Noticee had traded in contracts of underlying scrips such as GMR, HDIL, ICICI, Tata Power, etc. and these underlying stocks of most of aforesaid contracts consist 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.
    (c) 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. The fact that 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 me in this regard.
    (d) 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 individual entity that it traded in illiquid option is unwarranted and unfair.
    (e) The impugned trades constituted only 0.01% of the total alleged artificial trades during investigation period thereby constituting only a miniscule percentage of overall trades.
    (f) In case of option segment there is no question of transfer of beneficial ownership in option segment since at end of settlement cycle only net loss/profit is adusted. Therefore, allegation of creation of artificial or reversal trade is of no consequence in option segment of exchange.
    (g) All its transactions have been carried out through the normal screen-based trading system of stock exchange. It is automated system, where the counterparty identity is not displayed. At no point of time, it was aware of the counterparty with whom its transactions got matched.
    (h) No connection or relation with any of counterparties to its trades is mentioned, it had no prior meeting of minds with broking entities as well as its clients. It also placed reliance on the observations of Hon'ble SAT in the matter of Jagruti Securities, SPJ Stock Brokers Pvt. Ltd., Sanjay

Agrawal vs. SEBI and Commissioner of Central Excise, Bangalore vs M/s Brindavan Beverages (P) Ltd, and Ors [Civil Appeal 3417 of 2002] decided on June 15, 2007.

(i) No alert / warning / caution etc, of any sort was issued by the brokers / BSE /SEBI at the time of carrying out such trades. Had it been alerted, it would have taken prompt and immediate corrective measures.

(j) Only recently that BSE, vide Notice No. 20160308-33 dated March 08, 2016, announced that it has introduced measure for prevention of reversal trades in Equity Derivative Segment *w.e.f* from March 14, 2016. Thus, in case of potential reversal trade, second leg (latest leg) of a reversal trade shall automatically be cancelled by exchange in an on-line real time basis on trading system. Merely because on-line preventive measure and check & balance did not exist at relevant point of time to avoid inadvertent reversal trades, no adverse inference be drawn against Noticee in this regard.

CONSIDERATION OF ISSUES AND FINDINGS

11. 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?**

12. Before considering the issues which are to be examined in the instant adjudication proceedings, it is pertinent to address the submissions of the

Noticee that relevant documents and records have not been provided restraining Noticee from making a more meaningful rebuttal in the matter. In this regard, I observe that the SCN issued to the Noticee (along with Annexures thereto) contains trade and order details relevant to the alleged non-genuine reversal trades executed by the Noticee. The facts culled from the findings of investigation undertaken by SEBI which have led to crystallization of charges under PFUTP Regulations against the Noticee, form a part of SCN and Annexures. On perusal of the material available on record, it does not appear that the charge under the PFUTP Regulations – based on reversal of trades with significant difference in buy and sell prices, leading to generation of artificial volumes – derives from any facts extraneous to those contained in the SCN and its Annexures. Since all relevant and requisite facts on the basis of which charges have been crystalized against the Noticee are contained in the SCN and Annexures thereto, and no reliance was placed on any fact extraneous to the SCN while levying charges against the Noticee, I find that the Noticee was not crippled to represent itself at any point in time during instant adjudication proceedings.

13. 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 February 11, 2015 and February 27, 2015, the Noticee is seen to have indulged in 32 reversal trades in 9 contracts.

14. To illustrate, on February 11, 2015, in the contract named "TATP15FEB85.00CEW2", Noticee executed 5 buy trades at 11:16:51 hrs and 3 sell trades during the period 12:32:32 hrs and 12:33:31 hrs, the details of which are explained below:-

    a) At 11:16:51 hrs, Noticee executed 3 buy trades for 4000 units (i.e. total 12000) each at Rs. 1.9, Rs. 1 and Rs. 0.95 per unit with the counterparty viz, Vishal Aditya Sahoo. Thereafter, on the same day, after 1 hour 16 minutes 39 seconds, Noticee reversed the buy trade by executing one

sell trade with same counterparty for 12000 units of the same contract at rate of Rs. 0.15 per unit.

b) At 11:16:51 hrs, Noticee executed 1 buy trade for 264000 units at Rs.2 with the counter party viz Samkit Golchha Benefit Trust and another 1 buy trade for 272000 units with Devansh Golchha Benefit Trust. Thereafter, on the same day, during 12:32:32 hrs to 12:33:04 hrs, Noticee reversed the buy trade by executing two sell trades with the same counter parties viz 264000 units at Rs.0.15 with Samkit Golchha Benefit Trust and 272000 units at Rs. 0.15 with Devansh Golchha Benefit Trust.

c) Hence, Noticee executed five buy trade with three counterparties for 548000 units at average buy rate of Rs. 1.98 per unit and sold 548000 units at average sell rate of Rs 0.15. There was a substantial price difference of Rs.1.83 between the two legs of the trades. These 8 trades (5 buy trade and 3 sell trade) made upto 42% of the total market volume for this contract thereby generating volume of 1096000 units.

15. A similar modus operandi is seen to have been adopted by the Noticee with respect to trades on February 18, 19, 23, and 27, 2015. It is also noted that out of 32 reversal trades, in 24 reversal trades, the buy and sell orders were synchronized. Thus, 24 reversal trades of the Noticee emanated from synchronized orders which were entered simultaneously by the counterparties at matching prices and volume. The counterparty client to the two legs of the reversal trades were the same.

16. Noticee has made various contentions regarding the underlying stock of options contracts being liquid, BSE permitting far month options at strike prices at variance from the market price and that BSE not including these option contracts in its list of illiquid scips. These submissions have no bearing on the charges as the stock options contracts being illliquid is a fact, and a characteristic of the market.

17. The Noticee has made submissions relating to transfer of beneficial ownership in stock options and impact on investors of reversal trades which have been dealt with by the Supreme Court Order in *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 option, and thus these contentions are not acceptable.

18. The Noticee has made further contentions on there being no major movement in price of underlying scrip, no 'connection' or 'relation' with any of counterparties to his trade, execution of trades through the anonymous screen-based trading system, no prior meeting of minds with broking entities as well as their clients, etc. In this regard, I note that around 75% of the reversal trades carried out by the Noticee were synchronized between the counterparties at matching prices and volume. While such 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. There is also no justification for the wide variation in prices of the same contract within seconds, except for an element of pre-determination in the prices by both counterparties when reversing the trade. Thus, 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. Hence, the aforesaid contentions of the Noticee are unacceptable.

19. In view of the facts relating to the impugned trades, and reversal with same counterparties as brought out above, the reliance by the Noticee on judgements of Jagruti Securities, SPJ Stock Brokers Pvt. Ltd., Sanjay Agrawal vs. SEBI and Commissioner of Central Excise, Bangalore vs M/s Brindavan Beverages (P) Ltd, and Ors [Civil Appeal 3417 of 2002] decided on June 15, 2007, is not helpful to the Noticee.

20. The contentions of the Noticee that there has been no cautionary warning, advisory, communication or alarm raised by Stock Broker / BSE at any point of time or no grievance by any investor, broker, stock exchange or any other agency concerned with respect to dealing in the option segment of BSE, does not absolve the Noticee from responsibility for carrying out reversal trades which generated artificial volume without change of beneficial ownership.The trading volumes generated by the aforesaid trades of the Noticee were non-genuine and artificial. I note that the law in this regard is well-settled through the decision of the Hon'ble Supreme Court in *Securities and Exchange Board of India v. Rakhi Trading Private Limited*. The Supreme Court observed - "*The non-genuineness of these transactions is evident from the fact that there was no commercial basis to suddenly, within a matter of minutes, reverse a transaction when the value of the underlying had not undergone any significant change*."

21. I note that as stated in the SCN, the Noticee generated a total trading volume of 13547000 units through such reversal between February 11, 2015 and February 27, 2015 in 9 separate contracts as per the table reproduced below:-

Sl. 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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7	IFCI15MAR34.00CEW2	5.10	424000	3.00	424000	100%	21%
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9	TATP15FEB85.00CEW2	1.98	548000	0.15	548000	100%	42%

22. From the table above, I note that the Noticee on average contributed 32% of the volume in the 9 contracts traded, and 49% volume in 5 of the 9 contracts, which indicates a low public participation in the contracts.

23. 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, I find 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*".

24. 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.

25. I find it relevant to note that in the matter of *Securities and Exchange Board of India* v. *Rakhi Trading Private Limited*, 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?

26. 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.

27. 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.

28. 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.

29. The Noticee has contributed to artificial volumes in 9 contracts through 32 trades 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 ₹5,00,000/- will be commensurate with the violations committed by the Noticee.

ORDER

30. 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. Hollyfield Traders Private Limited, under Section 15HA of the SEBI Act, for violation of regulations 3(a), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

31. 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

32. 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

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

DATE: JUNE 26, 2019 **MANINDER CHEEMA**

PLACE: MUMBAI **ADJUDICATING OFFICER**