BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/JS/VC/2025-26/32261]

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

In respect of:

HKC Techind Pvt. Ltd.

(PAN: AAACH6407P)

In the matter of dealings in Illiquid Stocks Options on BSE

BACKGORUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**"), observed large scale reversal of trades in the Illiquid Stock Options (hereinafter referred to as "**ISO**") on BSE Ltd. (hereinafter referred to as "**BSE**") leading to creation of artificial volume. In view of the same, SEBI conducted an investigation into the trading activities of certain entities in ISO on BSE for the period from April 1, 2014 to September 30, 2015 (hereinafter referred to as **"IP**").

2. Investigation by SEBI revealed that during the IP, a total of 2,91,744 trades comprising 81.41% of all the trades executed in stock options segment of BSE were trades involving reversal of buy and sell positions by the clients and counterparties in a contract. In these trades, entities reversed their buy or sell position in a contract with subsequent sell or buy position with the same counterparty. These reversal trades were alleged to be non-genuine as they lacked basic trading rationale and allegedly lead to false or misleading appearance of trading leading to creation of artificial volume in those contracts. In view of the same, such reversal trades were alleged to be deceptive and manipulative in nature.

3. During the IP, 14,720 entities were found to have executed non-genuine trades in BSE's stock options segment. It was observed that HKC Techind Pvt. Ltd. (hereinafter referred to as the **"Noticee"**) was one of the entities who indulged in execution of reversal trades in stock options segment of BSE during the IP. Noticee's trades were alleged to be non-genuine in nature which created false or misleading appearance of trading in terms of artificial volumes in stock options. Therefore, its trades were alleged to be manipulative and deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for alleged violation of the provisions of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**").

APPOINTMENT OF ADJUDICATING OFFICER

4. Pursuant to transfer to the cases from erstwhile Adjudicating Officer (hereinafter referred to as "**AO**"), the undersigned was appointed as AO in the matter vide order dated April 03, 2025, under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the **"SEBI Act**") read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as **"Rules"**), to inquiry into and adjudge under the provisions of section 15HA of the SEBI Act for the alleged violations by the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. A Show Cause Notice dated August 04, 2022 (hereinafter referred to as "**SCN**") was served to the Noticee under rule 4(1) of Rules to show cause as to why an inquiry should not be held and penalty, if any, should not be imposed upon it for the alleged violations of the provisions of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations.

6. It was alleged in the SCN that Noticee was indulged in reversal trades, which allegedly created false and misleading appearance of trading, thereby generated artificial

volumes in the stock options segment of BSE during the IP. The trades entered in the unique contract were reversed on the same day with same counterparty, at a price difference which had no underlying basis and without an intention of performing it or there being a change of ownership/rights in the contract. These factors indicate that these trades were allegedly artificial and non-genuine in nature. The details of the non-genuine reversal trades including the trade dates, name of the counterparties, time, price and volume etc. were provided to the Noticee as Annexure to the SCN.

7. In Part B of the said SCN, it was stated that SEBI had introduced a Settlement Scheme, i.e., SEBI Settlement Scheme, 2022 (hereinafter referred to as "**Settlement Scheme 2022**") in terms of regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 (hereinafter referred to as "**Settlement Regulations**"). It further stated that the Settlement Scheme 2022 provided a one-time opportunity to the entities against whom proceedings were initiated and appeals against the said proceedings were pending, to settle the proceedings. The scheme commenced from August 22, 2022 and remained open for a period of three months. Later, the applicable period of the Settlement Scheme 2022 was extended to January 21, 2023 by SEBI.

8. The SCN was issued to the Noticee by Speed Post Acknowledgement Due (hereinafter referred to as **"SPAD"**) and email, however, SPAD returned undelivered with remark 'No such company' and email also bounced back and could not be delivered to the Noticee. Since the SCN could not be served to the Noticee, in terms of rule 7 of Rules, an attempt to serve the SCN to the Noticee by way of affixture at its last known address was made on November 23, 2022. However, Noticee could not be located at its last known address.

9. Subsequently, notice of hearing dated March 03, 2023 was issued to the Noticee by way of affixture and an opportunity of hearing on March 17, 2023 was granted to it by erstwhile AO. The said notice of hearing also could not be served to the Noticee as it was not located at its last known address. Thus, the notice regarding issuance of SCN

and notice of hearing providing another opportunity of hearing on May 15, 2023 was published in the Times of India (English) and Sanmarg (Hindi) in Kolkata editions on May 03, 2023. It was also published in the said newspapers that the SCN has been published / uploaded on www.sebi.gov.in under the section “Enforcement: Unserved Summons/ Notices”. However, the Noticee did not avail the said opportunity of hearing.

10. Further, vide notice of hearing dated May 09, 2023, Noticee was granted another opportunity of hearing on May 29, 2023. In response, the authorised representative of the Noticee, Mrs. Anjali Agrawal, Advocate vide e-mail dated May 20, 2023, stated that Noticee could not avail the Settlement Scheme 2022 due to its lack of knowledge about ongoing adjudication proceedings and Noticee desires to avail the settlement scheme, if SEBI introduces any settlement scheme. Further, it was requested to adjourn the personal hearing scheduled on May 29, 2023 and to keep the proceedings on abeyance till a decision regarding settlement scheme in the matter of ISO is made by SEBI.

11. Thereafter, vide letter dated June 27, 2023, Noticee submitted its response to the SCN, *inter alia*, as under:

(a) Noticee could not avail of the Settlement Scheme 2022 as the said SCN was not received earlier by it and thus it was not aware of any proceedings against it. The SCN was received by Noticee only in May 2023 on a request made to the office of the Adjudicating Officer. The subject matter of the SCN is more than 8 years old and it is not possible to remember every transaction carried out in 2015. Thus, an opportunity may be provided to Noticee to avail of a settlement scheme, and that Noticee be put on the same pedestal as those Noticees who were informed by SEBI about proceedings against them and availed the Settlement Scheme 2022. In the alternative, the present proceedings against Noticee should be dropped on the grounds of causing prejudice to Noticee set out as above.

Without prejudice to the above, the following is submitted by the Noticee:

(b) The alleged violation of regulations 3(a), (b), (c), (d) and 4(1) and 4(2)(a) of PFUTP Regulations and the observations and findings contained in various paragraphs of the SCN are denied by Noticee, as below.

SCN suffers from non-application of mind

(a) *The trades alleged to have been executed by Noticee are modified trades as per Annexure-3 provided along with the SCN. The table below extracted from Annexure-3, shows that:*

Column SN	*Old Client (AI)*	*Modified Client (AJ)*	*CP Old Client (AM)*	*CP Modified Client (AN)*
86539	*-*	*BF734*	*-*	*CP*
86540	*-*	*CP*	*-*	*BF734*
112037	*-*	*CP*	*-*	*BF734*
112039	*-*	*BF734*	*-*	*CP*

(b) *Illustratively, Noticee's unique client code BF734 is appearing in row 86539 in column AJ Modified Client. The column Al described as Old Client is blank in the Annexure. Similarly, its client code BF734 appears in row 86540 in column AN CP Modified Client to the Annexure and the column AM CP Old Client is blank here also. This implies that SEBI, both at the time of formation of opinion for initiating action against Noticee and also at the time of issue of SCN, was aware of the fact that the trades were originally executed by the trading member in some other client code, and its code was inserted later on by the trading member by way of modifications to the original client code. On the basis of these modified trades, it cannot be alleged that Noticee executed any non-genuine trades and this responsibility of explanation lies on the shoulders of the trading member as an already executed trade was modified by the trading member in Noticee's client code. It cannot be alleged that there was meeting of mind between Noticee and the counterparty as Noticee is not privy to this client code modification and the client code modification was carried out without its consent and knowledge. This client code modification has been discovered by Noticee only on receipt of the SCN and not on the days of the trade being March 12, 2015 and March 20, 2015. The said trades cannot now be questioned by Noticee at brokers end owing to the protection of limitation period of 3 years available to the trading member to entertain investor complaints, and this is also prejudicial to its interest. The SCN and the formation of opinion against Noticee is without application of mind and is thus rendered defective and invalid on this ground alone.*

(c) *It is further submitted that the scrip code 821510 and 841332 as mentioned in Column C of the Annexure do not appear on BSE website. The table for the same is as below:*

Row	*Column C Scrip Code*	*Column BA*
86539, 86540	*821510*	*HDFC15MAR1290.OOPE*
112037 , 112039	*841332*	*ADPW15MAR52.OOCE*

(d) *These scrip codes do not appear on BSE website. It is not comprehensible how an opinion has been formed, or a SCN has been issued, on the basis of a scrip code which does not exist on BSE website. This is a clear case of non-application of mind.*

(e) *It is further pointed out that a trade executed at a later point of time has an earlier trade ID. These trade ID's are system generated in chronological order and it is not possible that that a trade executed at a later point of time has an earlier trade ID. The following table shows this:*

Column (A)	*Trade ID (J)*	*Trade Time (M)*
86539	*14932*	*13:53:32.364728*
86540	*16413*	*13:53:26.664483*
112037	*16766*	*13:55:21.805466*
112039	*17056*	*13:59:14.143459*

(f) *It is abundantly clear from the above Table that a trade executed at 13:53:26.664483 in row 86540 had a trade ID 16143 but a trade executed later at 13:53:32.364728 in row 86539 had an earlier trade ID 14932. Clearly, as a trade executed later in time cannot have an earlier Trade ID, the entire data so given in Annexure to the SCN is defective and unreliable.*

(g) *These are glaring gaps in the SCN. The Hon'ble Securities Appellate Tribunal ("SAT") in Appeal No. 77 of 2009 dated January 20, 2010 in case of Subh Stock Broking Pvt. Ltd. v. SEBI, rejected the data under similar deficiencies:*

'Prima facie Noticee are not satisfied with this explanation and are of the view that, as at present advised, it may not be safe to rely upon the documents now placed before Noticee and the matter requires further scrutiny. Noticee may point out, by way of an instance, that order no.330 is shown to have been placed at 12:33:42 hours whereas order no.300 is shown to have been placed at 12:38:04 hours. There are a large number of discrepancies of this nature. While the order numbers are in sequence, the time at which they are shown to have been placed on the system does not appear to be correct. A later order is shown to have been placed earlier in point of time than an order placed earlier. This, in its view, should not happen.'

In view of the above, the data used for issuing SCN or for forming opinion against Noticee, cannot be relied upon and it vitiates the validity of the proceedings.

(h) *Attention is also drawn to Paragraph 6 of the Investigation Report pursuant to which the present proceedings have been initiated, wherein it is importantly noted that " …….certain entities had continuously made profits and certain entities had continuously made losses by reversing their trades....."*

Continuously making losses or profits is an important aspect of the finding in the Investigation Report and this characteristic is absent in its case as its profit/loss was not continuous, but was for 1 day only on March 13, 2015. Proper adherence to the contents of the report would exclude Noticee from regulatory action in absence of this foremost characteristic, and it is clear that the SCN has been issued without proper application of mind to the contents of the Investigation Report.

(i) *Noticee also drew attention to a conclusive statement made in para 7 of the said Investigation Report, which read as: "……. Hence, analyzing trading in each contract separately would not be feasible."*

This statement has huge implication as the Report itself admits that individual analysis of each contract has not been carried out but analysis has been carried out by 'grouping' into certain categories. This means, each alleged reversal trade has not been individually analyzed and penalty proceeding has commenced en masse without analyzing individual trade data. Moreover, as has been shown by it above, even the trade data received from BSE has not been analyzed as it suffers from serious flaws. Such a casual approach is fatal to legality of penalty proceedings and also fatal to quasi-judicial proceedings, which the current proceedings are.

(j) *The implication of the above is that there is no application of mind to the data that has been relied upon to form an opinion that Noticee executed trades which attracted provisions of PFUTP Regulations and such an opinion is formed in a biased manner without any attempt to process or understand the data. Thus, the issues pointed out as above, have vitiated the validity of the SCN. Moreover, based on above, it is also submitted that under rule 3 of Rules, the Board is required to form an opinion that there are grounds for adjudging under any of the provisions of Chapter VI A of SEBI Act, before appointment of an adjudicating officer can be made. However, as shown above, such an opinion has been formed mechanically and without application of mind to the facts and information required and is based on unreliable data. Thus, the appointment of the adjudicating officer and subsequent initiation of proceedings by way of SCN are invalid and bad in law and the SCN should be set aside.*

<u>Noticee's trades and factors considered in SCN to treat its trades as artificial and creating misleading appearance of trading</u>

(a) *Noticee traded in two options contracts on March 12, 2015 (HDFC15MAR1290.00PE) and March 20, 2015 (ADPW15MAR52.00CE) and had carried out four trades. These trades were executed by Noticee in the normal course of business and within the regulatory framework of the BSE, which had facilitated the trades.*

(b) *Noticee dealt with factors considered in various paragraphs of the SCN to treat its reversal trades 'artificial' and 'non-genuine' as below:*

(i) *There is no legal bar on reversing the trades on the same day with same counterparty. This is also explained in detail below. As to the considered factor of "at a price difference which had no underlying basis" as contained in Para 3 of the SCN. The reversal trades in options contracts were executed at a price which was available on the anonymous trading platform of the exchange and hence it was executed at market price, and it is a co-incidence that the trades matched with the same counter parties:*

(ii) *The profit or loss arising from these reversal trades was settled by all the parties to the trades to their respective brokers, who cleared the same through the clearing*

corporation of BSE, and same was collected/ paid to respective clients by BSE through respective brokers. BSE had collected transaction charges on these transactions, stamp duty was collected by State government through BSE, SEBI had collected turnover fees and the broker had collected his brokerage. This was done for both ends of the transaction. The volume so generated was recorded by BSE and is part of historical data. Thus, the trading was genuine and not created false or misleading appearance of trading or generating artificial volume as the trades were acted upon by all the entities involved including the regulatory bodies.

(iii) There is no bar notified by either BSE or SEBI on squaring off a trade on the same day and a trade does not become artificial or non-genuine merely because it is reversed on the same day. There are thousands of such intraday reversal trades being executed on stock exchanges every day and the same form a substantial percentage of daily volume recorded on stock exchanges all over the world and the same are within trading framework. As a matter of fact, the SAT in Ketan Parekh v. SEBI (Appeal No. 2 of 2004, dated July 17, 2006) has recognized such trading by observing that:

"It is possible to buy and sell within a settlement period many times which is what traders do. They settle only their net outstanding positions at the end of the cycle."

<u>Non-applicability of PFUTP Regulations</u>

(a) The provisions of regulations 3 and 4 of PFUTP Regulations are not attracted in its case at all.

(b) The individual clauses of the regulations 3 of PFUTP Regulations deal with:
(a) 'fraudulent manner';
(b) 'Manipulative or deceptive device';
(c) 'Scheme or artifice to defraud'; and
(d) 'fraud or deceit'.

None of the requirements set out in clauses (a) to (d) of regulation 3 as set out above have been satisfied in the SCN and the allegation of violation regulation 3 of PFUTP Regulations has been leveled in a general manner. Individually, none of the above clauses are attracted as there is absolutely no record of any scheme or artifice adopted by Noticee to defraud, as covered in regulation 3(c). There was no presence of manipulative or deceptive device in its trades, as required in regulation 3(b), regulation 3(a) and 3(d) deal with fraudulent manner and fraud or deceit which is not present or established in its case. It thus follows that regulation 3(a) to 3(d) have no applicability in this case.

(c) The allegation of violation of regulation 4(1) and 4(2)(a) made in the SCN is general. As is clear from a plain reading of this regulation and also from judicial interpretations, the essence of regulation 4(1) and (2) (a) is presence of 'fraud' or 'unfair trade practices.' Regulation 4(1) bars a fraudulent or unfair trade practice and regulation 4(2) defines

dealing as fraudulent or unfair if the same involves fraud. The first step in invoking this regulation is establishment of fraud, and then the second step is establishment of fraudulent and unfair trade practice. Once this is done, the inclusive definition of regulation 4(2)(a), which encompasses an act creating false or misleading appearance of trading applies. But all this can be done only if fraud is established at the threshold and as explained above, establishment of fraud is absent in its case, thus there is no applicability of regulations 4(1) and 4(2)(a) in this case.

(d) *'Unfair trade practice' is not defined in the PFUTP Regulations but the broad judicial interpretation given to this term by the Hon'ble Supreme Court in SEBI v. Kanaiyalal Baldevbhai Patel & Ors. (2017 15 SCC 1) that there has to be violation of ethical standards or absence of good faith between the parties to constitute unfair trade practices. This judicial interpretation continues to be followed by Courts. Both these essential ingredients to constitute unfair trade practices are absent in this case for the reasons, firstly, because the trading in reversal trade between Noticee and the counterparty took place anonymously at market rate driven price on electronic trading platform of BSE within its regulatory framework with no warning or action taken by BSE and thus, there was no scope for violation of ethical standards. Secondly, because Noticee is not connected to the counterparty and thus there could not be any bad faith between Noticee and the counterparty. The clinching evidence of presence of good faith is that none of the parties to the squaring off reversal trades is aggrieved by the trade executed at market price and no market manipulation has taken place in respect of these trades. Hence, there is no unfair trade practice involved in its trades.*

<u>Other Relevant Criteria in determining PFUTP Regulations violations</u>

(a) *Connection: Noticee stated that it is not connected or related to the counter parties to the trades or its stock brokers. No allegation that there was meeting of mind between Noticee and the counterparty has been levelled in the SCN. The name of counterparty to the trade and the counterparty stock broker appeared before Noticee for the first time by way of the SCN. No allegation or material has been brought on record to suggest or justify collusion. Artificial volume and misleading appearance of trading cannot be alleged unless connection with counterparty is established. No such evidence is available in its case in the SCN and Noticee cannot be held guilty of charge of non-genuine trade or false and misleading appearance of trading without establishment of 'meeting of mind' only on the basis of matching a trade with same counterparty on the same day.*

(b) *There was no persistence in trading by Noticee in this derivative contract or of a nature to attract provisions of PFUTP Regulations. Persistent trading or period of persistence means continuous questionable trading carried out by an entity over a number of days at a stretch. The Hon'ble Supreme Court in SEBI v. Kishore R Ajmera (2016 6 SCC 368) clearly observed that:*

"…. persistent trading would show a deliberate intention to play the market. The dividing line has to be drawn on the basis of the volume of the transactions and the period of time that the same were indulged in."

The synchronized and reversal trades in Kishore Ajmera's case and in Rakhi Trading case were carried on for very many days at a stretch and its case is distinguishable on this yardstick as the impugned trades were carried out on only on March 12, 2015 and March 20, 2015, and not repeated thereafter.

(c) *The other relevant surrounding factor to be considered is that there was neither mechanism to deter nor a note of caution by BSE about matching trades with the same counterparty on the same day, or about trading in these derivative contract. In Kishore Ajmera's case, the Hon'ble Supreme Court had noted the presence of such warnings by exchanges as a factor in determining the non-genuineness in trades executed against such warnings. Noticee's trades were executed within the price range determined for the day by BSE and SEBI. There was, thus, no infringement of any bye law or regulation by it in this regard. As a matter of fact, it is only in the month of March 2016, BSE put in a mechanism to prevent a reversal trade with the same counterparty on the same day, implying that such trades were permissible till then.*

(d) *Thus, on a totality of the combined inference of the judicial factors mentioned above, nothing adverse about its reversal trades can be inferred and it is submitted that these trades are genuine trades and need not be considered violative of PFUTP Regulations.*

<u>Inordinate delay in initiating proceedings</u>

(a) *The impugned SCN was served upon the Noticee after an inordinate delay from the occurrence of the event. The SCN under rule 4(1) of Rules has been issued on a stale matter, which took place 8 years ago in March 2015, and it has not been issued within a reasonable time period, thus causing serious prejudice to the Noticee.*

(b) *In the matter of Mahendra Lal Das v. State of Bihar and Ors. (Cr A 1038 of 2001 dated October 12, 2001), the Hon'ble Supreme Court dealt with the issue of prejudice owing to inordinate delay in the following words:*

"It is true that interference by the Court at the investigation stage is not called for. However, it is equally true that the investigating agency cannot be given the latitude of protracting the conclusion of investigation without any limit of time. This Court in Abdul Rehman Antulay & Ors v. R. S. Nayak & Anr (1992 1 SCC 225) while interpreting the scope of Article 21 of the Constitution held that every citizen has a right of speedy trial of the case pending against him. The speedy trial was considered in public interest as it serves the social interest also. It is in the interest of all concerned that guilt or innocence of the accused is determined as quickly as possible in the circumstances. The right to speedy trial encompasses all the stages, namely, stage of investigation, enquiry, trial, appeal, revision and re-trial. While determining the alleged delay, the Court has to decide each case on its facts having regard to all attending circumstances including nature of

offence, number of accused and witnesses, the work load of the court concerned, prevailing local conditions etc. Every delay may not be taken as causing prejudice to the accused but the alleged delay has to be considered in the totality of the circumstances and the general conspectus of the case. Inordinate long delay can be taken as presenting proof of prejudice."

It is clear from the facts that the time taken to initiate proceeding after a delay of eight years is solely attributable to SEBI without any reason and applying the ratio of the above judgment, serious prejudice has been caused to the Noticee because of this delay.

(c) *Noticee also referred to para 1 of its reply wherein it had set out in detail as to how it could not avail the Settlement Scheme 2022. It is not possible for Noticee to remember trades which took place eight years ago. Thus, the SCN deserves to be withdrawn as issued beyond a reasonable period causing prejudice to Noticee on account of the reasons explained above.*

<u>No specific charge levied under section 15HA of the SEBI Act</u>

(a) *The impugned unnumbered SCN is invalid as the SCN seeks to levy penalty under section 15HA without charging in SCN that the Noticee has indulged in fraudulent and unfair trade practice. The language of section 15HA is unambiguous and it reads as below:*

"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."

(b) *Section 15HA applies 'if any person indulges in fraudulent and unfair trade practices' However, the SCN does not allege either of the violations but makes a general reference to section 15HA of the SEBI Act. The allegations contained in paragraph 7 of the SCN are reproduced below:*

'The aforesaid alleged violations, if established, make the Noticee liable for monetary penalty under section 15HA of the SEBI Act 1992.'

(c) *This is again a general reference to section 15HA specifying the charge. A specific allegation of both fraudulent and unfair trade practices allegedly committed by Noticee is required to be made in the SCN. There is no such direct allegation in the SCN and no inference about the presence of such allegations can be drawn either by the Noticee or by SEBI. Current adjudication and penalty proceedings under the SEBI Act are civil and quasi-judicial proceedings like under the Income Tax Act. It has been held by Karnataka High Court in CIT v. SSA's Emerald Meadows (2016 73 taxman.com 241) that the penalty SCN issued without specifying the charge is bad in law. The Hon'ble Supreme Court dismissed the special leave petition of the Revenue Department in this case (2016 73*

taxman.com 248). The present civil proceedings under SEBI Act being similar to penalty proceedings under the Income Tax Act, ratio of the said decision applies mutatis mutandis to the present proceedings under the SEBI Act.

Prayers

(a) *Considering the above, and considering the fact that no proper timely service of SCN has been made to Noticee, inquiry in terms of Rule 4 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules 1995 for the purpose of imposition of penalty under section 15HA, is neither validly initiated nor called for, and it should not be held. As such, the proceedings initiated vide SCN be dropped and quashed.*

(b) *In the alternative, Noticee sought an opportunity to avail of a settlement scheme, as the Settlement Scheme 2022 could not be availed of by it earlier owing to not having any knowledge about any proceedings pending against it.*

12. On March 06, 2024, a post SCN Intimation (hereinafter referred to as **"PSI"**) was issued to the Noticee, wherein it was stated that SEBI had offered another Settlement Scheme, i.e., SEBI Settlement Scheme, 2024 (hereinafter referred to as "**Settlement Scheme 2024**") in terms of regulation 26 of Settlement Regulations. The applicable period of the scheme was March 11, 2024 to May 10, 2024. Later, the Settlement Scheme 2024 was extended till June 10, 2024 by SEBI vide Public Notice dated May 08, 2024. The PSI issued through SPAD returned undelivered to SEBI with remark 'No such company in this address', however, the PSI issued through e-mail was delivered to the Noticee.

13. It was observed that Noticee did not avail the Settlement Scheme 2024, therefore, the adjudication proceedings against it were resumed. Accordingly, vide notice of hearing dated January 01, 2025 by erstwhile AO, Noticee was granted an opportunity of hearing on January 15, 2025, which it did not avail.

14. Pursuant to appointment of the undersigned as AO, vide notice of hearing dated July 24, 2025, Noticee was granted a fresh opportunity of hearing on August 07, 2025. The said notice of hearing was duly served to the Noticee through SPAD. However, Noticee did not avail the said opportunity also.

15. Noticee in its reply dated June 27, 2023 had, *inter alia*, submitted that a trade executed at 13:53:26.664483 had a trade ID- 16143, however, a trade executed later at 13:53:32.364728 had an earlier trade ID, i.e., 14932, hence, the entire data so given in Annexure to the SCN was defective and unreliable, as a trade executed later in time cannot have an earlier trade ID. In view of the same, the matter was taken up with BSE, wherein BSE stated that the trade IDs for said trades in contract, viz., HDFC15MAR1290.00PE, were incorrect due to an error during data extraction process and it provided the correct data. Therefore, vide e-mail dated March 20, 2026, Noticee was informed of the same and the correct data provided by BSE was shared with it. An additional time of five days for making further submissions, if any, in this matter was also granted to the Noticee. However, Noticee did not make any additional submissions.

CONSIDERATION OF ISSUES AND EVIDENCE

16. I have perused the allegations levelled against the Noticee in the SCN, its replies, submissions made during personal hearing and the material available on record. In the instant matter, the following issues arise for consideration and determination:
    I. Whether the Noticee violated the provisions of regulations 3(a), (b), (c), (d) and 4(1) and 4(2)(a) of PFUTP Regulations?
    II. Do the violations, if any, on part of the Noticee attract monetary penalty under section 15HA of SEBI Act?
    III. If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?

17. In this regard, it is pertinent to refer to the relevant provisions of PFUTP Regulations which are alleged to have been violated by the Noticee, as under:

Relevant provisions of PFUTP Regulations:

"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 recognised 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 recognised 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 recognised stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder."

"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;"

Issue No. 1: Whether the Noticee violated the provisions of regulations 3(a), (b), (c), (d) and Regulation 4(1) and 4(2)(a) of PFUTP Regulations?

18. Before proceeding to the merits of the case, it is appropriate to deal with the preliminary issue raised by the Noticee. Noticee submitted that the SCN was issued on a stale matter, which took place eight years ago in March 2015 and it was not issued within a reasonable time period, thus caused serious prejudice to Noticee. The SCN was served upon Noticee after an inordinate delay from the occurrence of the event. Noticee further submitted that a delay of eight years' time to initiate the proceeding is attributable to SEBI and it is not possible for Noticee to remember trades which took place eight years ago.

19. In this regard, it is noted that pursuant to a preliminary examination conducted in the ISO matter, an Interim Order was passed by SEBI on August 20, 2015 which was confirmed vide Orders dated July 30, 2016 and August 22, 2016. Meanwhile, SEBI initiated a detailed investigation relating to stock options segment of BSE which was completed in the year 2018. The investigation revealed that 14,720 entities were

involved in executing non-genuine trades in BSE's stock options segment during the IP. The proceedings initiated vide the aforementioned Interim Order were disposed of vide Final Order dated April 05, 2018 also considering that appropriate action was initiated against the said 14,720 entities in a phased manner. During the course of hearing in the case of *R. S. Ispat Ltd v. SEBI*, the Hon'ble SAT, vide its Order dated October 14, 2019, *inter alia*, observed that *"SEBI may consider holding a Lok Adalat or adopting any other alternative dispute resolution process with regard to the Illiquid Stock Options".*

20. Accordingly, a Settlement Scheme was framed under the Settlement Regulations, which provided one-time opportunity for settlement of the proceedings in the ISO matter. The said scheme was kept open from August 01, 2020 till December 31, 2020. Adjudication proceedings were initiated against those entities who had not availed of the opportunity of settlement in the said scheme. Further, another settlement scheme, i.e., Settlement Scheme 2022 was introduced from August 22, 2022 to January 21, 2023. Finally, a third settlement scheme, i.e., Settlement Scheme 2024 was introduced from March 11, 2024 to June 10, 2024.

21. It is further noted that there are no timelines prescribed in the SEBI Act for the purpose of identifying trades as non-genuine. In this regard, it is pertinent to note that, in the matter of *SEBI v. Bhavesh Pabari* (2019) SCC Online SC 294, the Hon'ble Supreme Court, *inter alia*, held that:

> *"There are judgments which hold that when the period of limitation is not prescribed, such power must be exercised within a reasonable time. What would be reasonable time, would depend upon the facts and circumstances of the case, nature of the default/statute, prejudice caused, whether the third-party rights had been created etc."*

22. Pursuant to appointment of AO, SCN dated August 04, 2022 was issued to the Noticee. Vide Part B of the SCN, Noticee was also informed regarding Settlement Scheme 2022, however, Noticee did not avail the said settlement scheme. Thus, opportunities of hearing were provided to the Noticee. Subsequently, the Noticee was

informed regarding the Settlement Scheme 2024, vide PSI dated March 06, 2024. Since the Noticee failed to avail the third settlement scheme, it was provided a personal hearing on January 15, 2025 by erstwhile AO, which it did not avail. Further, pursuant to appointment of the undersigned as AO, vide notice of hearing dated July 24, 2025, Noticee was granted a fresh opportunity of hearing on August 07, 2025, which was not availed. Hence, considering the narration of facts in the foregoing paragraphs, I note that there has been no inordinate delay in initiation of the proceedings as contended by the Noticee.

23. Further, in respect of the contention of the delay, I note that delay itself may not be a ground that would vitiate the instant proceedings. Therefore, it is required to examine whether delay has caused any prejudice to the Noticee. In this connection, I note that Noticee has merely contended that the SCN was issued after eight years and it is not possible to remember every transaction carried out in 2015. However, all the relevant and relied upon documents related to the allegations in the SCN, including investigation report, trade log and trade reversal summary, were provided to the Noticee. Hence, in my view, Noticee had sufficient material to defend its case. In fact, Noticee was able to put forth its defense in detail, as apparent from its submissions. Thus, I find that no prejudice has been caused to it. In view of the aforesaid, the contention that inordinate delay in issuance of the SCN caused prejudice to the Noticee is untenable.

24. Therefore, the preliminary issue raised by the Noticee is not tenable. I shall now proceed to address the key issues that arise for consideration.

25. I note that it was alleged in the SCN that the Noticee, while dealing in the stock options contract on BSE during the IP, had executed reversal trades which were allegedly non-genuine trades and the same had resulted in generation of artificial volume in stock options contract on BSE. The said reversal trades were alleged to be non-genuine trades as they were not executed in the normal course of trading, lack basic

trading rationale, lead to false or misleading appearance of trading in terms of generation of artificial volumes and hence, were deceptive and manipulative.

26. From the documents on record, it is noted that the Noticee was one of the entities who had indulged in creating artificial volume of 2,63,500 units through four non-genuine reversal trades in two stock options contracts during the IP. The summary of trades is given below:

Table No. 1

Contract name	Avg. buy rate (₹)	Total buy volume (no. of units)	Avg. sell rate (₹)	Total sell volume (no. of units)	% of Artificial volume generated by the Noticee in the contract to Noticee's Total volume in the contract	% of Artificial volume generated by the Noticee in the contract to Total volume in the contract
A	B	C	D	E	F	G
HDFC15MAR1290.00PE	15.00	35,750	1.00	35,750	100%	0.91%
ADPW15MAR52.00CE	0.90	96,000	0.05	96,000	100%	13.55%

27. Details of reversal trades of Noticee in aforesaid contracts is illustrated below:

(a) On March 12, 2015, at 13:53:26 hours, Noticee entered into a sell trade in a contract, viz., 'HDFC15MAR1290.00PE' with counterparty 'Rabia Tabassum' for 35,750 units at Rs. 1.00/- per unit. On the same day, at 13:53:32 hours, Noticee entered into a buy trade of the same contract with the same counterparty for 35,750 units at Rs. 15/- per unit. It is noted that the Noticee while dealing in the said contract during the IP, executed a total two trades (1 buy trade and 1 sell trade) with same counterparty, viz., Rabia Tabassum on the same day and with significant price difference of Rs. 14/- per unit in buy and sell rates. It is observed that the Noticee's two trades while dealing in the said contract generated an artificial volume of 71,500 units, which made up 0.91% of total market volume in the said contract during the IP.

(b) On March 20, 2015, at 13:55:21 hours, Noticee entered into a sell trade in a contract, viz., 'ADPW15MAR52.00CE' with counterparty 'Raj Kumar Lohiya' for 96,500 units at Rs. 0.05/- per unit. On the same day, at 13:59:14 hours, Noticee entered into a buy trade of the same contract with the same counterparty for 96,500 units at Rs. 0.90/- per unit. It is noted that the Noticee while dealing in the said contract during the IP, executed a total two trades (1 buy trade and 1 sell trade) with same counterparty, viz., Raj Kumar Lohiya on the same day and with significant price difference of Rs. 0.85/- per unit in buy rate (Rs. 0.90/-) and sell rate (Rs. 0.05/-). It is observed that the Noticee's two trades while dealing in the said contract generated artificial volume of 1,92,000 units, which made up 13.55% of total market volume in the said contract during the IP.

28. In response to above allegations, Noticee submitted that the trades alleged to have been executed by Noticee are modified trades as per Annexure-3 to the SCN. This implies that the trades were originally executed by the trading member in some other client code, and its code was inserted later on by the trading member by way of modifications to the original client code. Noticee contended that on the basis of these modified trades, it cannot be alleged that it executed any non-genuine trades and responsibility of such trades lies with the trading member as an already executed trade was modified by the trading member in Noticee's client code. In this regard, it is noted that a stock broker cannot unilaterally shift trades to a client's account without the consent or authorization of the client. In this case, I note that Noticee has not furnished anything on record to indicate that it ever disputed, objected to, or took any legal action against the stock broker regarding these modifications, which indicates that Noticee gave its consent to the said trades. Thus, by allowing these trades to reside in its account and admittedly fulfilling the resulting settlement obligations, Noticee effectively ratified the transactions. Furthermore, it is noted that Noticee has explicitly admitted in its reply that these trades were executed by it in the normal course of business and within the regulatory framework of the BSE. Noticee also accepted that the profit or loss arising from said reversal trades was settled by the

parties to the trades to their respective stock brokers and the same was collected/ paid to respective clients through respective stock brokers. Thus, Noticee now cannot shift responsibility of its own trades on the stock broker. Hence, the above contentions of the Noticee are untenable.

29. Noticee further contended that scrip code 821510 and 841332 as mentioned in the Annexure-3 to the SCN are not appearing on BSE website and questioned as to how a SCN could be issued on the basis of a scrip code which did not exist on BSE website. In this regard, it is noted that the impugned trades were executed in stock options contracts on BSE, which have a fixed expiry date typically follows a three-month cycle. Once a derivative contract expires, it is normally removed from the active list of securities and the public search engine of the BSE website. Thus, it may not appear on BSE website after expiry, however, such removal does not imply that the contracts never existed. In the instant matter, the SCN was issued based on trading data provided by the stock exchange and Noticee has admitted to executing the alleged trades in said stock options contracts. Therefore, the said contention of the Noticee is devoid of any merit.

30. Further, Noticee submitted that the trade IDs are system generated in chronological order and it is not possible that that a trade executed at a later point of time has an earlier trade ID. Noticee contended that trading data provided in the Annexure to the SCN is defective and unreliable, as a trade executed earlier in one stock options contract was assigned a higher trade ID, whereas a trade executed later was assigned a lower trade ID. In this regard, the matter was taken up with BSE, wherein BSE stated that the trade IDs for impugned trades of Noticee in contract, viz., HDFC15MAR1290.00PE were incorrect due to an error during data extraction process. Consequently, BSE regenerated the correct trade data in respect of said trades of the Noticee and provided it to SEBI, wherein the change in regenerated trade data was with respect to the trade ID only. It is noted that no other change was observed in the regenerated trade data and underlying fact relating to trade reversal

in the said contract by the Noticee remains unchanged. Vide e-mail dated March 20, 2026, Noticee was informed about the regenerated trade data and it was granted an additional time of five days for making further submissions, if any. However, Noticee did not make any additional submissions, therefore, the said contentions of the Noticee do not merit further consideration.

31. Noticee further submitted that Investigation Report noted that *"……. certain entities had continuously made profits and certain entities had continuously made losses by reversing their trades....."*, *however,* this characteristic is absent in its case as its profit/loss was not continuous and was for one day only. In this regard, it is noted that said pattern of making continuous profits/losses by the entities was a broader trend observed in ISO matters. In the present case, Noticee executed reversal trades in two unique options contracts with the same counterparty as detailed above. In the first contract, the buy rate (Rs. 15/-) was 15 times of the sell rate (Rs. 1/-) and in the second contract, the buy rate (Rs. 0.90/-) was 18 times of the sell rate (Rs. 0.05/-). The trades entered in two unique contracts were reversed on the same day with same counterparties, at significant price differences which lacked economic rationale or a genuine intent to transfer ownership. These factors indicated that these trades were artificial and non-genuine in nature. Therefore, the contentions of the Noticee are untenable.

32. Noticee further contended that statement made in Para 7 of the Investigation Report noted that *"……. hence, analyzing trading in each contract separately would not be feasible",* which admitted that individual analysis of each contract was not carried out but analysis was carried out by 'grouping' into certain categories. Noticee argued that such a casual approach is fatal to legality of penalty proceedings and also fatal to quasi-judicial proceedings. In this regard, it is pertinent to refer to the said para of the Investigation Report as under:

> ***"7. Contract wise analysis of trade data during the I.P.-*** *Total number of unique contracts that were traded during the I.P. in were 23885 contracts. It may be noted that trading in one contract may or may not impact trading in another contract since contracts*

are unique in terms of underlying stock, strike price, expiry date etc. Further, out of 23,885 contracts, there would be certain contracts in which the number of trades would be minimal (as the total trades across all contracts during I.P. were 3,58,372). Hence, analysing trading in each contract separately would not be feasible. Therefore, the contracts are first classified based on the number of trades executed in each contract and then the analysis of separate categories of contracts is done. The contracts are categorised based on the number of trades in each contract as shown below:

……

***Group A Contracts** - Includes all such contracts in which number of trades was more than 100 trades during the I.P. (i.e. contracts shown at S. No. 1 to 3 in above table). Since the number of trades in each of these contracts is more and consequently the number of entities trading in each of such contracts was also more. Hence, trades happened in these contracts were analysed in detail to identify any manipulative pattern.*

***Group B Contracts** - Includes all such contracts in which number of trades was equal to or less than 100 trades during the I.P. (i.e. contracts shown at S. No. 4 to 9 in above table). In Group B Contracts, the number of trades happened was very less and consequently the entities trading in each of such contract was also less. In such a scenario, there is high possibility that the buy / sell orders placed by one entity get matched with the same entity or with a few entities only who had traded in such contracts. Hence, the percentage of artificial volume through reversal / non-genuine trades to total trading volume would be very high. However, this may not be called as manipulation as the number of entities trading in each of such contracts would be very few and the reversal trades are bound to happen in such scenario. Further, in Group B contracts, the chances of repetition of any manipulative pattern (in terms of reversal / circular trades) by any particular entity in a particular contract are also limited as the total number of trades happened in each contract is less (less than 100 trades)."*

(underline supplied)

33. It is noted from above narration that the said para pertains to contract wise analysis of overall trade data of ISO contracts where suspected entities traded during the IP rather than a direct assessment of the Noticee's specific trades. Further, the said para clarifies that ISO contracts were first classified based on the number of trades executed in each contract and then the analysis of separate categories of contracts was done. Specifically, trades in Group A contracts were analysed in detail to identify any manipulative pattern. Following this categorisation, manipulative trades were identified and analysed. Further, considering the reversal trades carried out by Noticee in the ISO contracts, adjudication proceedings were approved and SCN was

issued to the Noticee. Here, it is also noted that group-wise analysis of trades of various entities facilitated the investigation process, which did not prejudice the Noticee. It does not alter the fact that the Noticee executed reversal trades in aforesaid contracts with the same counterparties lacking any economic rationale, which were non-genuine, deceptive and manipulative in nature. Hence, the said contentions of the Noticee are devoid of any merit.

34. Further, Noticee submitted that the profit or loss arising from these reversal trades were settled by all the parties to the trades to their respective stock and brokers the clearing corporation. These transactions were processed, with transaction charges, stamp duties, SEBI turnover fees, and brokerage collected from both sides, consequently, the resulting trading volume was recorded by the BSE as part of its historical data. In this regard, it is noted that in the present proceedings, genuineness of the reversal trades executed by the Noticee is in question and not that how the trades were placed or whether the trades were settled as per the norms of the stock exchange or whether statutory due were paid or not. Further, SCN neither alleged that the trades were not duly settled nor dues were not paid by the parties to the trade, hence, the said submission of Noticee is irrelevant. The manner in which impugned trades were executed by the Noticee indicates that there was pre-determination of the prices and timings of trades between the counterparties while executing the trades and the trades were reversed with same counterparty within an hour with significant price difference. Hence, this submission of the Noticee is not tenable.

35. Noticee submitted that there was neither mechanism to deter nor a note of caution by BSE about matching trades with the same counterparty on the same day. In this regard, it is noted that the responsibility of ensuring the genuineness of trades rests with the Noticee. The Noticee is expected to act with due diligence and cannot shift responsibility for his own trading decisions on BSE. Further, I note that Noticee admittedly traded in the aforesaid stock options contracts. Thus, Noticee was well

aware of the said trades and gave its consent for the same, hence, it is responsible for the impugned trades. Thus, the contentions of the Noticee are untenable.

36. Noticee further contended that the trades in two options contracts were executed by it in the normal course of business within the regulatory framework of the BSE and there is no bar notified by either BSE or SEBI on squaring off a trade on the same day and a trade does not become artificial or non-genuine merely because it is reversed on the same day. In this regard, I note that the non-genuineness of the transactions executed by the Noticee is evident from the fact that there was no commercial basis as to why, within an hour, the Noticee reversed the position with the same counterparty with significant price difference on the same day. It is noted that in the HDFC15MAR1290.00PE contract, Noticee's order placement time for both buy and sell trades exactly matched with the counterparty's corresponding sell and buy orders. A similar pattern is observed in other contract, viz., ADPW15MAR52.00CE, where the time difference between the Noticee's and the counterparty's order placements for both legs of trade was a narrow window of approximately one to two minutes. Further, the fact that the transaction in the particular contract was reversed with the same counterparty indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. Since these trades were done in illiquid options contracts, there was negligible trading in the said contracts and hence, there was no price discovery in the strictest terms. The wide variation in price of the said contracts, within a short span of time, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. Thus, it is observed that Noticee had indulged in reversal trades with its counterparty in the stock options segment of BSE and the same were non-genuine trades.

37. In this regard, I would like to refer to the judgment of Hon'ble Supreme Court in the matter of *SEBI v. Rakhi Trading Private Limited*, Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011, decided on February 8, 2018, wherein it was held that:

> *"……...Orchestrated trades are a misuse of the market mechanism. It is playing the market and it affects the market integrity.*

……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."

Therefore, it is noted that the synchronization and reversal trades affects the price discovery system and have an adverse impact on the fairness, integrity and transparency of the stock market. Hence, the submission of the Noticee in this regard is devoid of merit.

38. Noticee further contended that the reversal trades in options contracts were executed at a price which was available on the anonymous trading platform of the exchange and hence it was executed at market price, Noticee is not connected or related to the counterparties to the trades or their stock brokers and it is a coincidence that the trades matched with the same counterparties. In this regard, I note that orders by the Noticee and its counterparties were placed at limit price and the limit prices were exactly same for both legs of the trades in both contracts. Further, it is not mere coincidence that the Noticee could match its trades with the same counterparty with whom it had undertaken first leg of the respective trades. The fact that the orders were placed by Noticee and its counterparties at the same time or within few minutes' time gap and the transactions in a particular contract were reversed with the same counterparty for the same quantity of units within few minutes, indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. It is further noted that direct evidence is not forthcoming in the present matter as regards to meeting of minds or collusion with other entities, *inter alia*, the counterparties or agents/fronts. However, trading behaviour as noted above make it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level.

39. In this regard, reliance is placed on the judgement of Hon'ble Supreme Court in the matter of *SEBI v. Kishore R Ajmera* (AIR 2016 SC 1079), wherein it was held that:

> *"...According to us, knowledge of who the 2nd party / client or the broker is, is not relevant at all. While the screen based trading system keeps the identity of the parties anonymous it will be too naïve to rest the final conclusions on the said basis which overlooks a meeting of minds elsewhere. Direct proof of such meeting of minds elsewhere would rarely be forthcoming...in the absence of direct proof of meeting of minds elsewhere in synchronized transactions, the test should be one of preponderance of probabilities as far as adjudication of civil liability arising out of the violation of the Act or provision of the Regulations is concerned. The conclusion has to be gathered from various circumstances like that volume of the trade effected; the period of persistence in trading in the particular scrip; the particulars of the buy and sell orders, namely, the volume thereof; the proximity of time between the two and such other relevant factors.*
>
> *It is a fundamental principle of law that proof of an allegation levelled against a person may be in the form of direct substantive evidence or, as in many cases, such proof may have to be inferred by a logical process of reasoning from the totality of the attending facts and circumstances surrounding the allegations/charges made and levelled. While direct evidence is a more certain basis to come to a conclusion, yet, in the absence thereof the Courts cannot be helpless. It is the judicial duty to take note of the immediate and proximate facts and circumstances surrounding the events on which the charges/allegations are founded and to reach what would appear to the Court to be a reasonable conclusion therefrom. The test would always be that what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion."*

40. Therefore, applying the ratio of the above judgment, it is observed that the execution of trades by the Noticee in the illiquid options segment with such precision in terms of order placement, time, price, etc., and also the fact that the transactions were reversed with the same counterparty clearly indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. The only reason for the wide variation in price of the same contract, within short span of time was a clear indication that there was pre-determination in the prices by the counterparties. Thus, the nature of trading, as brought out above, clearly indicates an element of prior meeting of minds and therefore, a collusion of the Noticee with its counterparty to

carry out the trades at pre-determined prices. Hence, Noticee's trades were non-genuine, manipulative and deceptive in nature, which created false or misleading appearance of trading in terms of artificial volumes in said stock options contract. Therefore, Noticee's contention that the provisions of regulations 3 and 4 of PFUTP Regulations are not attracted in its case is untenable.

41. In this regard, it is relevant to refer to judgement of the Hon'ble Securities Appellate Tribunal in the matter of *Ketan Parekh v. SEBI* (in Appeal No. 2 of 2004; date of decision July 14, 2006), wherein it was held as follows:

> *"In other words, if the factum of manipulation is established it will necessarily follow that the investors in the market had been induced to buy or sell and that no further proof in this regard is required. The market, as already observed, is so wide spread that it may not be humanly possible for the Board to track the persons who were actually induced to buy or sell securities as a result of manipulation and law can never impose on the Board a burden which is impossible to be discharged. This, in our view, clearly flows from the plain language of Regulation 4 (a) of the Regulations."*

42. In this context, further reliance is placed on judgment of Hon'ble Supreme Court in the matter of *SEBI v. Rakhi Trading Private Limited***,** decided on February 8, 2018 on similar factual circumstances, which, *inter alia,* stated as under:

> *"Considering the reversal transactions, quantity, price and time and sale, parties being persistent in number of such trade transactions with huge price variations, it will be too naive 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….."*

43. Therefore, the trading behaviour of the Noticee confirms that such trades were not normal, indicating that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contract. In view of the above, I find that the allegation of violation of

regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of PFUTP Regulations by the Noticee stands established.

Issue No. 2: Do the violations, if any, on part of the Noticee attract monetary penalty under section 15HA of SEBI Act?

44. In the findings made in foregoing paragraphs, it has been established that the Noticee executed non-genuine reversal trades, which created false and misleading appearance of trading, thereby generated artificial volumes in the stock options segment of BSE during the IP, therefore, Noticee violated the provisions of regulations 3(a), (b), (c) and (d) and regulation 4(1) and 4(2)(a) of the PFUTP Regulations.

45. Noticee argued that no specific charge was levied under section 15HA of the SEBI Act and the SCN is invalid because it seeks to impose penalty under section 15HA of the SEBI Act without charging the Noticee with fraudulent and unfair trade practices. In this regard, it is noted that the SCN explicitly charged the Noticee for executing non-genuine and manipulative trades in ISO contracts, which created false or misleading appearance of trading and generated artificial volumes, in violations of the regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations. Further, it is noted that section 15HA of the SEBI Act is a penalty provision for fraudulent and unfair trade practices and such practices by the Noticee in ISO contracts led to violation of the provisions of PFUTP Regulations as established above in this case. Therefore, the said contention of the Noticee is misplaced and Noticee is liable for monetary penalty under section 15HA of the SEBI Act.

46. Therefore, considering the above findings and the judgement of Hon'ble Supreme Court in the matter of *SEBI v. Shriram Mutual Fund* [2006] 68 SCL 216 (SC) decided on May 23, 2006, wherein it was held that "*In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant. A breach of civil obligation which*

attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must made by the defaulter with guilty intention or not.", I am convinced that it is a fit case for imposition of monetary penalty under the provisions of section 15HA of SEBI Act, which reads as under:

"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."

Issue No. 3: If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?

47. While determining the quantum of penalty under section 15HA of the SEBI Act, the following factors as stipulated in section 15J of the SEBI Act are taken into account-

"Factors to be taken into account while adjudging quantum of penalty.
15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or 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."

48. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading in the aforesaid contract. I note that when the impact of artificial volume created by the two counterparties is seen as a whole, it is not possible, from the material on record, to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counter parties or the consequent loss caused to investors as a result of the default. Further, the material available on record does not demonstrate any repetitive default on the part of the Noticee. However, considering that the four non-genuine trades entered by the Noticee in two options contracts led to creation of artificial trading volumes which had

the effect of distorting the market mechanism in the stock options segment of BSE, I find that the aforesaid violations were detrimental to the integrity of securities market and therefore, it should be dealt with suitable penalty.

ORDER

49. Taking into account the facts and circumstances of the case, material available on record, submissions of the Noticee, findings hereinabove and factors mentioned in section 15J of the SEBI Act, in exercise of the powers conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Rules, I hereby impose monetary penalty of ₹ 5,00,000/- (Rupees Five Lakh only) on the Noticee (HKC Techind Pvt. Ltd.) under section 15HA of SEBI Act for the violation of regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of PFUTP Regulations. I am of the view that the said penalty is commensurate with the violations committed by Noticee.

50. The Noticee shall remit/pay the said amount of penalty within 45 days of receipt of this order by following the below given path at SEBI website www.sebi.gov.in:

ENFORCEMENT >Orders >Orders of AO> PAYNOW;

51. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act for realization of the said amount of penalty along with interest thereon*, inter alia*, by attachment and sale of movable and immovable properties of Noticee.

52. In terms of the provisions of rule 6 of the Rules, a copy of this order is being sent to the Noticee and to SEBI.

JAI SEBASTIAN

Digitally signed by JAI SEBASTIAN
Date: 2026.03.27 11:38:00 +05'30'

Place: Mumbai
Date: March 27, 2026

JAI SEBASTIAN
ADJUDICATING OFFICER