



**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/JS/DP/2025-26/32294]**

**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:
Pawan Kumar Agarwal HUF
(PAN: AAJHP1925N)**

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 also 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 starting 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 portrayed 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 Pawan Kumar Agarwal HUF (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. Its 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 of the case from erstwhile Adjudicating Officer (hereinafter referred to as “**AO**”), the undersigned was appointed as AO in the matter vide order dated April 04, 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 inquire 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 30, 2021 (hereinafter referred to as “**SCN**”) was issued 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. Alongwith the SCN, Noticee was provided summary of trades and trade log of its trades.
6. It was alleged in the SCN that the Noticee had executed one trade reversal through two non-genuine trades in one unique options contract creating artificial volume of 1,60,000 units. Summary of the dealings of the Noticee in said options contract, in which it allegedly executed reversal trade during the IP, is as follows:



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
ADPW15APR36.00CE	4.3	80000	6.85	80000	100%	47.61%

7. The aforesaid reversal trade is illustrated through the dealings of the Noticee in one contract, viz., 'ADPW15APR36.00CE' during the IP as follows:
- (a) While dealing in the said contract on April 29, 2015, at 15:09:09:160132 hours, Noticee entered into a buy trade with counterparty 'Open Futures and Derivatives Private Limited' for 80,000 units at ₹4.30/- per unit. At 15:10:06.681718 hours, Noticee entered into a sell trade with the same counterparty for 80,000 units at ₹6.85/- per unit;
- (b) The Noticee's two trades while dealing in the abovementioned contract during the IP generated artificial volume of 1,60,000 units, which made up 11.11% of total market volume in the said contract during this period and 47.61% of total market volume in the said contract on April 29, 2015.
8. The SCN was issued to the Noticee by Speed Post Acknowledgement Due (hereinafter referred to as "**SPAD**") and the same was served upon the Noticee. Vide letter dated December 16, 2021, Noticee replied to the SCN, *inter alia*, submitting the following:
- (a) *There is delay in issuance of SCN. The trades pertain to 2015 and the SCN was received in 2021. To advance its arguments, Noticee relied upon the order of Hon'ble Securities Appellate Tribunal (SAT) in the matter of Khandwala Securities Ltd. v. SEBI, Jagruti Securities v. SEBI and S.P.J. Stock Brokers Pvt. Ltd. v. SEBI;*



- (b) *The trades were done through recognised and registered stock broker. All the trades were done as per the trading norms and on the stock exchange platform. There was no intention to hike the price and all the trades were executed in the scrip purely based on commercial terms;*
- (c) *No investor was put to loss;*
- (d) *Noticee does not have any relation/nexus with other brokers and/or clients involved as counterparty broker/client. Matching of trades was a mere coincidence, and was not fraudulent and malafide;*
- (e) *Noticee also sought copy of following documents:*
 - i. *Copy of investigations report;*
 - ii. *Details of counterparties to its trades;*
 - iii. *Details of all trades executed by the counterparties;*
 - iv. *Copy of statements recorded during investigation and their cross examination. Noticee relied upon the order of Hon'ble Supreme Court in the matter of Price Waterhouse Coopers v. SEBI.*

9. The Post SCN Intimation (hereinafter referred to as “PSI”) dated August 08, 2022 issued to Noticee 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 on August 22, 2022 and remained open for a period of 3 months. Later, the applicable period of the Settlement Scheme 2022 was extended to January 21, 2023 by SEBI. The said PSI was delivered to the Noticee. The Noticee did not avail the Settlement Scheme 2022, therefore, the adjudication proceeding against the Noticee was resumed.

10. Subsequently, vide notice of hearing dated May 09, 2023, Noticee was granted an opportunity of hearing. However, the Noticee did not appear for the hearing. Therefore, Noticee was granted another opportunity of hearing vide hearing notice dated June 06, 2023 which it did not avail of.

11. A second PSI dated March 06, 2024 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 second PSI was issued to the Noticee through SPAD and email. It was observed that Noticee did not avail the Settlement Scheme 2022, therefore, the adjudication proceeding against the Noticee was resumed.

12. Noticee was granted an opportunity of hearing vide hearing notice dated January 01, 2025. Though, Noticee failed to appear for the hearing, vide letter dated March 05, 2025, Noticee filed further reply to the SCN and submitted the following:

- (a) *The present SCN is issued after a gap of more than eight years from the alleged trades in illiquid stock options, as the company has already wound-up. Noticee replied upon the order of Hon’ble Supreme Court in the matter of Anil Rai v. State of Bihar, Mohamad Ravi Mohamad Amin v. Fatmabai Ibrahim, Government of India v. Citedal Fine Pharmaceuticals, Madras, Bhavnagar University v. Palitana Sugar Mill, State of Punjab v. Bhatinda District Coop. Milk P. Union Ltd., Joint Collector Ranga Reddy Dist. & Anr. v. D. Narsing Rao & Ors., order of Hon’ble SAT in the matter of Anilkumar Nandkumar Harchandani & Ors v. SEBI, Ashok Kumar Choudhury v. SEBI, HB Stock holdings Ltd. v. SEBI, Rajeev Bhanot & Ors. v. SEBI, Mr. Rakesh Kathotia & Ors. v. SEBI, Ashlesh Gunvantbhai Shah v. SEBI, Libord Finance Ltd. v. Whole Time Member, SEBI;*
- (b) *Article 137 in the Schedule to the Limitation Act, 1963 is the residual entry which provides the general period of the limitation of three years. It was submitted that for the purpose of issuing a show cause notice under the aforesaid rule 4(1), Article 137 applies and therefore, the Adjudicating Officer must issue a show cause notice within a period of three years from the date of the relevant transactions;*
- (c) *SEBI has failed to protect the interest of the investors and has not charged the stock broker nor the stock exchange for their alleged dealings in securities;*
- (d) *the power to levy penalty itself was given to the SEBI by way of the 2019 amendment to the SEBI Act, 1992 hence, the SCN is bad in law as the provisions of law under which the SCN is proposing to levy the penalty against the Noticee were not in existence at the time of the alleged transaction;*
- (e) *SEBI has provided investigation report which does not show the name of the Noticee. Investigation was conducted on 59 entities and that does not include the name of the Noticee and it's broker;*
- (f) *PFUTP Regulations, 2003 is not applicable on investors and it is applicable to intermediaries only. Hence, notice issued under PFUTP Regulations, 2003*



- is beyond Jurisdiction. Notice should not have been issued in PFUTP Regulations, 2019, it becomes violation of Article 20(1);
- (g) In the absence of any specific evidence against the Noticee, nothing beyond the knowledge of the Noticee should be called upon to be answered by the Noticee;
 - (h) No adverse inference could be taken against the Noticee on the basis of untested statement without allowing opportunity of cross- examination;
 - (i) BSE is the first level regulator and BSE and the clearing corporation had not objected to the trades at the time they were executed, and the trades were cleared;
 - (j) Noticee contended that the trading member did not collect margin with respect to the trade, and SEBI has not relied upon any order placement proof for the allegations made in the SCN;
 - (k) No adverse inference could be drawn against the Noticee as BSE and SEBI had permitted trading in options for 'far months' with a strike price which are at large variance to current market price;
 - (l) The Noticee stated that at the relevant time when it executed the alleged objectionable trades, there was no such thing as a 'reversal trade' in existence and the fact that such trades of the Noticee got executed at the relevant time clears all the doubts regarding the genuineness and legality of those trades. There were neither any prevention checks nor warning issued either from the exchange's end or from SEBI. It was only after March 14, 2016 that the Reversal Trade Prevention Check ("RTPC") for the stock options segment of BSE came into existence and thereafter the phenomenon of reversal trades was recognized as illegal. Prior to that, all those trades which were in the nature of reversal trades were proper and were executed in the normal course of trading;
 - (m) BSE, vide Notice No. 20160308-33 dated March 08, 2016, announced that it had 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 stock exchange in an on-line real time basis on trading system. The Noticee submitted that because on-line preventive measure and check and balance did not exist at relevant point of time to avoid inadvertent reversal trades, the reversal trades could not be considered as unlawful at the time when trades were executed;
 - (n) The Notice did not understand the nitty gritty of the stock market let alone the intricacies involved in F&O trading. BSE and the trading members who executed such transactions in the account of their clients have not been made a party to the transactions. To advance its arguments on the responsibility of trading member and BSE with respect to the impugned transactions, Noticee relied upon the orders of Hon'ble Supreme Court in the matter of Chander Kanta v. Rajinder Singh Anand and orders of Hon'ble SAT in the matter of Religare Securities Ltd. v. SEBI, Madhukar Sheth v. SEBI, Marwadi Shares & Finance Ltd. v. SEBI;
 - (o) The Noticee submitted that that all the relevant documents relied upon by SEBI to initiate the instant proceedings in the matter of Illiquid Stock Options



- has not been provided to the Noticee. Noticee relied upon the order of Hon'ble Supreme Court in the matter of *Kashinata Dikshita v. UOI* and order of Hon'ble SAT in the matter of *Smitaben N Shah v. SEBI*;
- (p) The trades of the stock broker of Noticee were not alleged to have contributed to price rise and therefore the violation of PFUTP Regulations as alleged against the Noticee cannot be sustained;
- (q) In the present online trading platform offered by exchanges, trades are carried out through registered brokers in an anonymous opaque screen based trading system. The trade of an entity is executed when the same matches with counterparty based- on price time priority. The identities of the parties to a trade are not disclosed to the investor or member broker. Further, it is impossible to know the identity of the parties in a screen based transaction;
- (r) The requirement of 'intention' is a pre-requisite to prove 'fraud' for violation of PFUTP Regulations. It should be noted that the offences alleged under the PFUTP Regulations in the present case are serious offences against the Noticee which require evidence of 'fraud or deceit' to be carved out and attributed against the Noticee as they are not just ordinary civil defaults. It is a settled principle recognized by SEBI that 'the necessity of intent' and the element of 'fraud' appear to be a pre-requisite in all parts of regulation 3 and 4 of the PFUTP Regulations. Thus, for the transaction to be termed fraudulent, as per the definition of "fraud", there has to be an "inducement" and SEBI has not even alleged inducement. The trades in question were in the normal course of business and there is nothing illegal in the trades executed by the Noticee. None of the trades are deceptive in nature or have any impact on the investors or their investment decision which is a sine qua non of fraud. Noticee relied upon the order of Hon'ble SAT in the matter of *KSL & Industries Ltd v. SEBI*;
- (s) There is no evidence of any cogent connection between the Noticee and its counterparty. To advance its arguments, Noticee relied upon the orders of Hon'ble SAT in the matter of *Jagruti Securities Limited v. SEBI*, *S.P.J. Stock Brokers Pvt. Ltd. v. SEBI*, *HB Stockholdings Limited v. SEBI*, *Umang Dhanuka & Ors. v. SEBI*, *Saroj & Co. proprietor Sanjay Agrawal v. SEBI*;
- (t) Noticee contended that regulations 3(a), (b),(c),(d) and 4(1), 4(2)(a) of PFUTP Regulations, 2003 do not apply to the investors before the 2019 amendment of section 11B of SEBI Act, 1992. Hence, the same are also not applicable to the Noticee;
- (u) Noticee further contended that it was the responsibility of brokers to stop any manipulative trades and has enclosed SEBI Circular *ISD/CIR/RR/AML/1/06* dated January 18, 2006 having subject: *Guidelines on Anti Money Laundering Standards*, for reference. The Noticee relied upon and quoted Hon'ble SAT's judgement in the case of *Marwadi Shares & Finance Limited v. SEBI*;
- (v) Noticee stated that it has not been charged for price manipulation, hence allegations for causing artificial volume are inconsequential. Also, it is not a habitual or repetitive defaulter;



- (w) Besides recording common generic allegations against the Noticee, no observation on Noticee's specific role in alleged reversal has been mentioned in the Show Cause Notice and this approach is bad in law;*
- (x) Noticee submitted that SEBI has failed to protect the interest of investors by not charging BSE and the broker;*
- (y) Noticee also referred to the SEBI AO Order dated January 20, 2022 in the case of Neha Sethi and requested to not impose penalty upon Noticee;*
- (z) Noticee has contended that the Adjudication orders have been passed against the counterparties by different AOs, and now the impugned trades have been adjudicated, and AO has become functus officio;*
- (aa) The Noticee submitted that during the investigation period the BSE had introduced an incentive scheme in order to attract the brokers to undertake maximum trade on BSE platform, even exempting transaction fee and offering additional payment for each trade;*
- (bb) 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 clearly indicates 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 Noticee in this regard.*

13. Pursuant to appointment of the undersigned as AO, a final opportunity of hearing was granted to Noticee vide hearing notice dated August 14, 2025. Vide email dated September 03, 2025 Noticee appointed Mr. Ram Awatar Dhoot, Chartered Accountant as the Authorised Representative (AR) to appear before the AO and sought 15 days' time to appear for the hearing. Subsequently, vide hearing notice dated January 05, 2026, Noticee was granted final opportunity of hearing.

14. The AR of the Noticee appeared for the hearing on January 13, 2026 and reiterated the submissions made vide reply dated March 05, 2025.

CONSIDERATION OF ISSUES AND FINDINGS

15. I have perused the allegations levelled against the Noticee in the SCN 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?

16. 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:

“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;”*

17. Before proceeding in the matter, I would like to deal with the preliminary issues raised by Noticee. Noticee has submitted that there was delay in issuing SCN in the matter. Noticee has relied upon the order of Hon’ble Supreme Court in the matter of Anil Rai v. State of Bihar, Mohamad Ravi Mohamad Amin v. Fatmabai Ibrahim, Government of India v. Citedal Fine Pharmaceuticals, Madras, Bhavnagar University v. Palitana Sugar Mill, State of Punjab v. Bhatinda District Coop. Milk P. Union Ltd., Joint Collector Ranga Reddy Dist. & Anr. v. D. Narsing Rao & Ors., order of Hon’ble SAT in the matter of Anilkumar Nandkumar Harchandani & Ors v. SEBI, Ashok Kumar Choudhury v. SEBI, HB Stock holdings Ltd. v. SEBI, Rajeev Bhanot



& Ors. v. SEBI, Mr. Rakesh Kathotia & Ors. v. SEBI, Ashlesh Gunvantbhai Shah v. SEBI, Libord Finance Ltd. v. Whole Time Member, SEBI to advance its arguments.

18. In this regard, it is noted that pursuant to a preliminary examination conducted in the ISO matter, 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 option segment during the investigation period. 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, 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".

19. Hence, a Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided one-time opportunity for settlement of 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 did not avail the opportunity of settlement.

20. Noticee has further contended that Article 137 of Schedule II of the Limitation Act provides a three-year bar for issuing an SCN. In this regard, I note that SEBI Act is a self-contained framework of law and specific limitation clauses have been provided where the legislature found it appropriate such as sections 11(4)(e), 15I(3), 15T, 15Z and 15W of SEBI Act. Since, legislature intentionally omitted a limitation period for section 15-I(1) and (2) of SEBI Act, the residual entry of the Limitation Act cannot be read into it. In this regard, reliance is placed on observations of Hon'ble Supreme



Court in the matter of The Property Company (P) Ltd. v. Rohinten Daddy Mazda¹ as follows:

“On a reading of the aforementioned decisions, it can be stated, without doubt, that the provisions of the Act, 1963 (provisions that lay down a prescribed period of limitation as well as Sections 4 to 24 of the Act, 1963 respectively) would only apply to suits, applications or appeals which are made under any law to ‘courts’ and not to those made before quasi-judicial bodies or tribunals, unless such quasi judicial bodies or tribunals are specifically empowered in that regard.”

Therefore, I do not find merit in the contention of the Noticee that SEBI is barred by Article 137 of Schedule II of the Limitation Act.

21. It is also noted that there are no timelines prescribed in the SEBI Act, 1992 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. 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, Noticee has merely contended that SCN is more than eight years old. 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.

¹ 2026 INSC 33



23. With respect to Noticee's contention that cross-examination of counterparty and relevant officials were not provided, it has placed reliance on the Hon'ble Supreme Court's judgement in the matter of Price Waterhouse Coopers v. SEBI. In this regard, it is noted that no statement was recorded under oath during the investigation process and no such statement is relied upon in the present proceedings. Therefore, the question of cross-examination does not arise in this matter. Thus, the contention of the Noticee is bereft of any merit.

24. Further, in the reply dated March 05, 2024, Noticee submitted that it had not received the investigation report in the matter. However, from the same reply, it is noted that Noticee had referred to the investigation report and the trades executed by the Noticee and enclosed a copy of the same. Therefore, there is no merit in the claim of the Noticee that it was not provided with the complete documents.

25. Now I proceed to examine the issues raised by the Noticee with respect to the merits of the case.

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?

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

27. From the documents on record, it is noted that the Noticee was one of the entities who had executed non-genuine reversal trades and created artificial volume of



1,60,000 units through two trades leading to one reversal trade in one stock options contract during the IP. The summary of trades is given below:

Table No. 2

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
ADPW15APR36.00CE	4.3	80000	6.85	80000	100%	47.61%

28. On April 29, 2015, the Noticee, at 15:09:09.160132 hours, entered into a buy trade in a contract, viz., 'ADPW15APR36.00CE' with counterparty 'Open Futures and Derivatives Private Limited' for 80,000 units at ₹4.3/- per unit. On the same day, at 15:10:06.681718 hours, Noticee entered into a sell trade of same contract with the same counterparty for 80,000 units at ₹6.85/- per unit. It is noted that the Noticee while dealing in the said contract, executed a total of two trades (one buy trade and one sell trade) with same counterparty, viz., Open Futures and Derivatives Private Limited on the same day and with significant price difference in buy and sell rates. It is observed that the Noticee's two trades, while dealing in the aforesaid contract, generated an artificial volume of 1,60,000 units, which made up to 47.61% of total market volume in the said contract on the day of Noticee's trades.

29. It is contended by the Noticee that SCN did not allege that Noticee contributed to price rise, therefore, violation of PFUTP Regulations cannot sustain against it. In this regard, I have noted that as per regulation 3 of PFUTP Regulations, price rise is not *sine qua non* for fraudulent and unfair trade practice. Therefore, contention of the Noticee is bereft of any merit.



30. Noticee submitted that the stock broker and the stock exchange had invited and incentivized trading members and their clients to execute trades in F&O segment of the stock exchange which had illiquid securities. The Noticee further stated that as a result of such incentives, lay investors such as the Noticee were lured to invest in the scheme through SEBI registered intermediaries who at the relevant time convinced the clients to participate in such transactions. I note that the aforesaid contentions makes it clear that the impugned trades were indeed executed by the Noticee and hence it cannot shift the liability on stock exchange or stock broker.
31. Noticee also contended that regulations 3(a), (b), (c), (d) and 4(1), 4(2)(a) of the PFUTP Regulations do not apply to the investors before the 2019 amendment of section 11B of SEBI Act. I note that the amendment by the Finance Act, 2018 w.e.f. March 08, 2019 pertains to imposition of penalty under section 11B of the SEBI Act, 1992. The imposition of penalty for violations of the PFUTP Regulations under adjudication proceedings has already been provided under section 15HA of the SEBI Act. Hence, the contention of the Noticee that the SCN issued by SEBI is unconstitutional, is untenable.
32. As regards Noticee's contention that PFUTP Regulations applied only to intermediaries and that investors were only brought under the net in 2019, I note that regulation 3 and 4 of the PFUTP Regulations have always used the phrase "No person shall..." and "No person shall indulge in a fraudulent or an unfair trade practice..." Further, definition of 'person' under the General Clauses Act includes individuals as well as body corporates. Thus, I find argument of the Noticee devoid of any merit.
33. Noticee further argued that SEBI lacked the power to levy penalties for trades prior to the Finance Act, 2018 (w.e.f. March 2019). In this regard, I note that the power to levy penalties under sections 15A to 15HB (including 15HA for PFUTP Regulations) existed since the 1995 amendment to SEBI Act. The insertion of section 11(2)(4A) and section 11B(2) were procedural clarifications to streamline SEBI's power to



delegate imposition of penalty. It did not create the liability for PFUTP Regulations' violations, which was already codified under section 15HA of SEBI Act, decades prior to the trades in question.

34. It was contended by the Noticee that the trades executed were subject to regulatory supervision of BSE, and were not questioned by BSE at that time, so the impugned trades which were cleared were genuine. The Noticee further submitted that BSE and SEBI have themselves permitted trading in options and such trades were executed in the normal course of business. Noticee has also contended that there was neither any mechanism to deter nor a note of caution by BSE about matching trades with same counterparty on the same day during the IP. Accordingly, the Noticee also submitted that BSE and SEBI permitted trading in options for far months with a strike price which may be at wide variance to current market price.

35. 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 a short span of time, the Noticee reversed the position with the same counterparty with significant price difference on the same day. The fact that the transactions in a particular contract were reversed with the same counterparties indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. Since these trades were executed in illiquid options contract, which had negligible trading, there was no price discovery in the strictest terms. The wide variation in prices of the said contract, 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. The fact that the transactions in a particular contract were reversed with the same counterparty for the same quantity of units, indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. 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. Thus, submission of Noticee is devoid of merit.



36. The Noticee has contended that the trading member did not collect margin with respect to the trade, and SEBI had not relied upon any order placement proof for the allegations made in the SCN. In this regard, I note that Noticee has not placed any documents on record to suggest that the trades were disputed and the same were taken up with the stock broker and SEBI for prompt resolution. Further, the trade log obtained from the exchanges clearly show that the impugned trades were placed by the Noticee and the same is admitted by the Noticee at para 30 above. In view of the same the contention of the Noticee is not accepted.
37. 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 makes it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level. Thus, submission of Noticee is devoid of merit.
38. I note that the trades executed by Noticee in the contracts were reversal trades, in which the buy and sell orders were executed with substantial differences without any trading strategy. The trading pattern shows perfect matching of price, quantity and time. In my view, such matching of orders is too much of a coincidence. In this regard, considering the same in toto along with attending circumstances, it is discernible that the aforesaid reversal trades were non-genuine. Therefore, I note that the aforesaid contentions of the Noticee are without any merit.
39. With respect to Noticee's contention that no penalty should be imposed on Noticee for the reversal trades as in the case of Neha Sethi wherein she was let off as no connection was found. I note that facts of the present case are different from the facts of the case of Neha Sethi. The time difference in the order placed by her and the counterparty was almost a minute. However, in the present matter, the orders were placed by the Noticee and the counterparty with the time difference of less than a minute with matching quantities, which in my opinion depicts the meeting of minds. Further, I find it relevant to refer to the case of Radha Malani v. SEBI, wherein



Hon'ble SAT vide order dated November 24, 2021, had upheld the AO Order wherein penalty was imposed even for single reversal trade. Hence, the contention of the Noticee is not tenable.

40. I note that it cannot be a mere coincidence that the Noticee could match its trades with the same counterparty with whom it had undertaken first leg of the respective trades. 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 makes it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level.

41. Further, Noticee has also contended that the essential requirement to constitute fraud is to induce another person or his/her agent to deal in securities, which has not been brought out in the instant SCN. In this regard, reference is drawn to 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. The illustrations are not exhaustive.

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."



42. Therefore, applying the ratio of the above judgment, it is observed that the execution of trades by the Noticee in the options segment with such precision in terms of order placement, time, price, quantity, 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 prices of the same contract, within few seconds was a clear indication that there was pre-determination in the prices by the counterparties when executing the trades. 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.

43. It is also relevant to refer to judgement of the Hon'ble SAT in the matter of *Ketan Parekh v. SEBI*², wherein it was held that:

“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.”

44. In this regard, 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...”

² Ibid.



45. 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?

46. 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.

47. 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?

48. 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.”

49. 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 counterparties 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 two non-genuine trades entered by the Noticee in one options contract led to creation of artificial 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, which should be dealt with suitable penalty.

ORDER

50. Taking into account the facts and circumstances of the case, material available on record, 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 (Pawan Kumar Agarwal HUF) 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.

51. The Noticee shall remit/pay the said amount of penalty within 45 days of receipt of this order by following the path at SEBI website:

ENFORCEMENT >Orders >Orders of AO> PAYNOW;

52. 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.

53. 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.

Place: Mumbai
Date: March 27, 2026

JAI SEBASTIAN
ADJUDICATING OFFICER