BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. MC/DPS/2018-19/30]

UNDER SECTION 15-I (2) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES, 1995.

In respect of –

1. **Jai Ambey Metal Works Private Limited** (PAN: AABCJ5217A) having address at – 749/8 Behind Banjari Mandir Rawabhata Ind Area, Raipur, Chhattisgarh, India, 493221.

In the matter of Dealing in Illiquid options on the BSE.

BACKGROUND

1. The Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted an investigation into the trading activity in illiquid Stock options at BSE for the period between April 1, 2014 to September 30, 2015 (hereinafter referred to as the "**Investigation Period**") after observing large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange Ltd. (hereinafter referred to as "**BSE**").

2. Investigation revealed that during the Investigation Period, a total of 2,91,643 trades comprising 81.38% of all the trades executed in BSE Stock Options Segment were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract. Jai Ambey Metal Works Private Limited ("**the Noticee**") was one such client whose reversal trades involved squaring off transactions with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly resulted into generation of artificial volumes by the aforesaid clients and counterparties, leading to

allegations that the Noticee had violated Regulation 3(a),(b),(c),(d) and Regulation 4(1), 4(2)(a) SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter, referred to as "**PFUTP Regulations, 2003**").

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer (hereinafter referred to as "**AO**") under section 15-I of the SEBI Act read with rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter be referred to as the "**Adjudication Rules**") vide order dated May 31, 2018, to inquire into, and adjudge under section 15 HA of the SEBI Act, the alleged violations of the aforesaid provisions of the PFUTP Regulations, 2003, by the Noticee. The appointment of the AO was communicated vide order dated June 4, 2018.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice No. EAD5/MC/DPS/28544/1/2018 dated October 11, 2018 (hereinafter referred to as "**SCN**"), was issued to the Noticee in terms of Rule 4 (1) of the Adjudication Rules, to show cause as to why an inquiry should not be held and penalty not be imposed against the Noticee in terms of section 15 HA of the SEBI Act, for alleged violation of Regulation 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

5. The allegations levelled against the Noticee in the SCN are summarized as below:
    a) The Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in the Stock Options Segment of BSE during the Investigation Period.

b) The Noticee is alleged to have engaged in 54 such reversal trades in 23 unique contracts, which led to generation of alleged artificial volume of 5804000 units, between June 1, 2015 and August 28, 2015.

c) The trades entered by the Noticee were reversed on the same day with same counterparties at a substantial price difference without any basis for significant change in the contract price which indicates that these trades are artificial and are non-genuine in nature.

d) A summary of dealings of Noticee in 23 Stock Options contracts in which Noticee allegedly executed non genuine reversal trades during the Investigation Period, provided in the SCN is reproduced below-

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	FEDB15AUG55.00CEW2	9.3	160000	15.7	160000	100%	56%
2	FEDB15AUG65.00PEW2	0.05	80000	2.95	80000	100%	10%
3	FEDB15AUG80.00PE	7.3	76000	11.3	76000	100%	100%
4	HXTL15JUN260.00CEW1	13.1	236000	21.55	236000	100%	100%
5	IBRL15JUL65.00PE	5.73	96000	10	96000	100%	36%
6	IFCI15JUL22.00CE	3.5	32000	4.45	32000	100%	4%
7	IFCI15SEP24.00PEW2	2.6	160000	4.62	160000	95%	68%
8	INCM15AUG75.00CEW3	10.5	92000	18.5	92000	100%	35%
9	IOBL15JUL32.00PE	0.05	416000	0.85	416000	100%	100%
10	KARB15JUL150.00CE	1.2	84000	7.2	84000	100%	19%
11	LNTF15AUG50.00CE	13	68000	21.8	68000	100%	65%
12	LNTF15AUG60.00CE	7	60000	12.75	60000	100%	11%
13	LNTF15JUL80.00PE	5	68000	8	68000	100%	25%
14	LNTF15JUN70.00PEW3	7.52	268000	11.28	268000	100%	52%
15	LUPL15AUG1770.00CEW3	37.5	20000	137.5	20000	100%	100%
16	NMDC15JUL110.00CE	3.5	120000	8.9	120000	100%	18%
17	PNBK15AUG155.00CEW2	3	66000	6	66000	100%	100%
18	PTCI15JUN50.00CEW3	6.55	200000	11.55	200000	100%	37%
19	SYND15AUG85.00CEW3	12	66000	19.5	66000	100%	66%

20	TATP15JUL65.00PE	0.05	216000	1.9	216000	100%	64%
21	UBIL15AUG205.00PEW3	3	2000	7	2000	100%	3%
22	UCOB15AUG50.00CE	2	172000	4.3	172000	100%	33%
23	UCOB15SEP50.00PEW1	3	152000	6	152000	100%	67%

6. By indulging in execution of aforesaid non-genuine reversal trades, the Noticee was alleged to have violated regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003, text of which has been reproduced below:-

"*3. Prohibition of certain dealings in securities*

No person shall directly or indirectly—

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—

(a) indulging in an act which creates false or misleading appearance of trading in the securities market"

7. The aforesaid SCN was issued through Speed Post Acknowledgement Due (SPAD) to the Noticee and also served to the Noticee vide email on October 15, 2018 at email IDs: jaiambeymetal@jainpukhraj.in; jaiambeymetal@yahoo.in; and jam.ispat@yahoo.com. Noticee vide letter dated October 31, 2018, had requested for all documents relied upon by SEBI in the captioned matter while issuing the said SCN. In this regard, Noticee was informed vide letter dated November 12, 2018 that all information considered relevant for the purpose of the allegations levelled against the Noticee, including relevant extracts of the investigation report, trade and order log/data and other information collected during investigation which is relevant was provided to the Noticee in the SCN and Annexures thereto. No statements have been recorded in the matter. Therefore, Noticee was informed vide letter dated November 12, 2018 that all relevant information and *requisite documents on the basis of which charges have been framed against the Noticee* have already been provided to the Noticee. Opportunity of hearing was provided to the Noticee on November 27, 2018.

8. Noticee vide email dated November 26, 2018, submitted the scanned copy of its reply. Hearing on November 27, 2018 was attended by the Authorised Representative of the Noticee (AR) – Mr. Saurabh Bachhawat. AR of the Noticee reiterated the submissions made in its reply dated November 26, 2018.

9. The submissions made by the Noticee are summarized below:-
   (a) Noticee is in the business of Steel Ingot manufacturing;
   (b) This is for the first time that SEBI has issued any notice to the Noticee for any alleged violation;
   (c) Noticee has been incurring losses in business for last 4 years;
   (d) Noticee was not provided with complete materials / documents.
   (e) Noticee denies and disputes the allegations observed large scale reversal of trades and no data/ documents with regard to the same was provided.
   (f) Noticee also submitted that if SEBI is of view that more than 82% trades were done in such fashion then it casts doubt on the surveillance systems of SEBI and the Exchange.
   (g) Noticee submitted that only details of trades executed by the Noticee during investigation was provided and the details of other entities was not provided and

referred to judgment passed by the Hon'ble Supreme Court in the matter of Nand Kishore Prasad vs. State of Bihar [(1978) 3 SSC 366).

(h) Noticee submitted that no allegation of any connection with the counterparty and the transactions has been done in the screen based trading platform of the exchange and any buyer or seller is completely unaware about the identity of its counterparty of such trades.

(i) Charge of violation of the alleged PFUTP Regulation cannot be levelled merely on the basis of reversal trades. There has to be some collusion / connection / nexus / prior meeting of minds to be shown so as to substantiate such trading between the entities and referred to judgements passed by the Hon'ble Securities Appellate Tribunal (SAT), in the matter of R.K. Global vs. SEBI {Appeal No. 158 of 2008 , Date of decision 16th September, 2010), M/s. Jagruti Securities Ltd. Vs. SEBI (Appeal No. 102 of 2006, Date of decision 27th October. 2008), M/s. S.P.J. Stock Brokers Pvt. Ltd. Vs. SEBI (Appeal No. 52 of 2013, Date of decision 4th September. 2013).

(j) Noticee had traded in the options of very well-known companies which had credible position in the market. There was no reason to doubt credibility of the platform provided by the exchange as approved by SEBI and therefore Noticee though it appropriate to trade on the stock options segment without any intention to create any false or misleading appearance of trading in the market. These were business/financial calls taken by the Noticee which eventually resulted in Company making profits on the BSE's Stock Options Segment.

(k) Noticee submitted that it executed only 54 trades in toto during the investigation period and this could not have any impacted.

(l) SCN also stated that the liquidity in the Stock Options Segment of BSE Ltd. was very low, it would have increased the chances of reversal of buy and sell positions by clients and counterparties in a contract , which would then create such alleged reversal trade. It is submitted that it is higly likely on a exchange platform where there are limited buyers and sellers, for those parties to repeatedly be counterparties to each other trades, which is what would have happened in the present case.

(m) SCN stated that during 1.5 years of investigation period, Noticee trades have taken place only on 10 days. Had the Noticee intended to create artificial volume and create a false and misleading appearances of trading, frequency of such trades would have been much higher. No one can achieve the alleged goals by such infrequent trades and referred SAT judgements, in the matter of KSL & Industries Ltd. vs. SEBI (Appeal No. 9 of 2003, Date of decision 30th September, 2003), Vintel Securities Pvt. Ltd. vs. SEBI (Appeal No. 219 of 2009, Date of decision 23rd November, 2009).

(n) Noticee submitted that it had traded in 24 unique contracts on 10 different days between the period June 1, 2015 to August 28, 2015.

(o) Noticee submitted that it is apparent that the counter parties to all the trades executed by the Noticee were different. Furthermore the Noticee has traded in various contracts over the Investigation Period and therefore it is impossible to say that the trades executed by the Noticee could create false and misleading appearance of trading in the market.

(p) No loss to the investor or any other entity.

(q) With respect to the trading in the Stock Option Segment the Hon'ble Supreme Court in the matter of SEBI Vis. Rakhi Trading Pvt. Ltd. (2018 SCC Online SC 101) has dealt with certain ingredients of a non-genuine trade and also that such non-genuine trades are unfair practices. However, the facts of the present matter are distinguishable from the matter of SEBI Vis. Rakhi Trading Pvt. ltd. The following are the distinguishing factors:

(r) *In the matter of Rakhi Trading it was the case that one party intentionally booked gains and the other party had booked losses and it was held that a party trading intentionally for loss is per se not a genuine dealing in securities market.* However, in the present case the Noticee had made a profit of Rs. 1,50,35,922/- (also disclosed in the returns filed by the Noticee) and also it is not a case of SEBI that any one of the parties of the trades executed by the Noticee were for intentionally booking any profit or loss.

(s) *In the matter of Rakhi Trading the entity had entered into preplanned and rapid reverse states.* It is submitted that in the present case it is not SEBl's allegation that there was a prior meeting of minds between the counter parties of the trades or that the trades executed by the Noticee were preplanned. As already submitted above the Noticee was never aware as to who was the counter party to its trade as the trades were done on the screen trading platform provided by the Exchange and the reversal trades are alleged are mere coincidence.

(t) *In the matter of Rakhi Trading the transactions were be held to be not-genuine and as an unfair trade practice on the basis that one party was consistently making losses that too in a preplanned and rapid reverse trade*. It is submitted that the trades were done in normal course business which makes economic sense as the Noitcee had made profits and also it is not in the allegation in the captioned notice that the Noticee has made any intentional loss or profit.

(u) *In the matter of Rakhi Trading the Hon'ble Supreme Court has held that the trades in question did not intend to transfer beneficial ownership and therefore, those trades were not-genuine*. It is submitted that the trades executed by the Noticee were with an intend to make profit and as the Noticee found an opportunity to make profit it did so. It may be noted that the derivative trading in India is settled in cash and there is no transfer of beneficial ownership possible in derivatives possible.

(v) *In the matter of Rakhi Trading the trades of that entity had deprived other market players for full participation and that it created a restriction on the free and fair operation*

of market forces. It is submitted that it is not the case of SEBI that any entity was deprived of any kind of trading on the Stock Option Segment or otherwise because of the trades executed by the Noticee. It is also not the allegation in the captioned notice that any other entity was induced to trade on the Stock Option Segment of BSE Ltd. because of such alleged false and misleading appearance of trading by the Noticee. It is also important to note that as per paragraph 4 of the captioned notice 81.38% of all the trades exhibited in BSE Stock Option Segment were trades similar to that of the Noticee which further establishes the fact that large majority of the entities trading on the Stock Option Segment were acting in similar manner and that no one was induced by the trades of the company to trade on the Stock Option Segment.

(w) Thus in view of the facts stated, arguments advanced and authorities cited, it is humbly prayed that the present proceedings be quashed since no primary violation of any PFUTP Regulations is made out against the Noticee and the genuineness of the trades has also been explained hereinabove.

CONSIDERATION OF ISSUES AND FINDINGS

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

Issue No. I Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?

Issue No. II If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?

Issue No. III If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?

Issue No. I **Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?**

11. The allegation that the Noticee carried out reversal trades is directly supported by evidence from the trade log records in Annexures B and C of the SCN.

Between June 1, 2015 and August 28, 2015, the Noticee is seen to have indulged in 54 reversal trades in 23 contracts.

12. To illustrate, on June 1, 2015, the Noticee bought 236000 units from the counterparty i.e. Gagan Impex Pvt Ltd at Rs. 13.1 per unit of the contract named "HXTL15JUN260.00CEW1". Within 42:32 minutes, the Noticee sold back 236000 units of the contract to the same counterparty i.e. Gagan Impex Pvt Ltd at Rs. 21.55 per unit, at a price difference of Rs.8.45. These 2 trades (1 buy trade and 1sell trade). made up 100 % of the total market volume for this contract.

13. Similarly, on June 15, 2015, Noticee bought 148000 units from the counterparty – J B Overseas at Rs. 6 per unit of the contract named "LNTF15JUN70.00PEW3". Within 4 seconds, the Noticee sold back 148000 units to the same counterparty i.e. J B Overseas at Rs. 9.4 per unit. At a price difference of Rs.3.40. Within 36 seconds of the said reversal trade, Noticee once again carried out a sell trade for 120000 units with the same counter party i.e. J B Overseas at Rs. 13.6 per unit of the same contract and reversed the trade by buying 120000 units again after 4 seconds from the same counter party for i.e. J B Overseas at Rs. 9.4 per unit. On the same day again after 03:47 minutes of the said reverse trade, Noticee bought 100000 units from the same counter party i.e. J B Overseas at Rs. 6.5 per unit of the contract named "PTCI15JUN50.00CEW3". Within 4 seconds, the Noticee sold back 100000 units to the same counterparty i.e. J B Overseas at Rs. 11.5 per unit. Within 17 seconds of the said reversal trade, Noticee once again carried out a buy trade for 100000 units with the same counter party i.e. J B Overseas at Rs. 6.6 per unit of the same contract and reversed the trade by selling 100000 units again from the same counter party for i.e. J B Overseas at Rs. 11.6 per unit. Therefore on June 15, 2015 itself, 8 such reversal trades in 2 contracts were observed, with same counterparty.

14. A similar modus operandi is seen to have been adopted by the Noticee with respect to trades on July 8, 16, 24, August 5, 11, 20 and 28, 2015. It is also noted that out of 54 reversal trades, in 39 reversal trades the time difference between sell order and buy order was zero and in remaining 15 reversal trades the time difference between sell order and buy order was between 1 to 7 seconds.

15. Noticee in its reply submitted that no allegation of any connection with the counterparty has been made and the transactions has been done in the screen based trading platform of the exchange and any buyer or seller is completely unaware about the identity of its counter party of such trades; merely on the basis of reversal trades charge of violation of PFUTP Regulation cannot be levelled and relied on SAT Judgements of R.K. Global vs. SEBI, M/s Jagruti Securities Ltd. vs. SEBI and S.P.J. Stock Brokers Pvt. Ltd. vs SEBI, wherein it is stated that there has to be collusion between the buyer and the seller and in absence of any collusion, the trade cannot be termed as artificial. In this context, I note that buy and sell orders of all the 54 reversal trades were synchronised to the seconds, with maximum time difference between buy and sell orders being 7 seconds. While synchronised trades may occur by accident in a liquid stock, execution of synchronised trades in an illiquid market with anonymous trading indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. Thus, the nature of trading as brought out above clearly indicates an element of prior meeting of minds and hence collusion to carry out trades at pre-determined prices.

16. I take note of the submissions of the Noticee that he made a profit of Rs. 1,50,35,922/- in the aforesaid transactions on record, that he executed reversal trades only on 10 days during the Investigation Period, that he executed 54 reversal trades and that a case was not made that other investors were misled due to the trades of the Noticee or that third parties suffered any loss due to such reversal trades. These are factual submissions and accepted.

17. I note that as stated in the SCN, the Noticee generated a total trading volume of 5804000 units through such reversal between June 1, 2015 and August 28, 2015 in 23 separate contracts as per the table reproduced below:-

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	FEDB15AUG55.00CEW2	9.3	160000	15.7	160000	100%	56%
2	FEDB15AUG65.00PEW2	0.05	80000	2.95	80000	100%	10%
3	FEDB15AUG80.00PE	7.3	76000	11.3	76000	100%	100%
4	HXTL15JUN260.00CEW1	13.1	236000	21.55	236000	100%	100%
5	IBRL15JUL65.00PE	5.73	96000	10	96000	100%	36%
6	IFCI15JUL22.00CE	3.5	32000	4.45	32000	100%	4%
7	IFCI15SEP24.00PEW2	2.6	160000	4.62	160000	95%	68%
8	INCM15AUG75.00CEW3	10.5	92000	18.5	92000	100%	35%
9	IOBL15JUL32.00PE	0.05	416000	0.85	416000	100%	100%
10	KARB15JUL150.00CE	1.2	84000	7.2	84000	100%	19%
11	LNTF15AUG50.00CE	13	68000	21.8	68000	100%	65%
12	LNTF15AUG60.00CE	7	60000	12.75	60000	100%	11%
13	LNTF15JUL80.00PE	5	68000	8	68000	100%	25%
14	LNTF15JUN70.00PEW3	7.52	268000	11.28	268000	100%	52%
15	LUPL15AUG1770.00CEW3	37.5	20000	137.5	20000	100%	100%
16	NMDC15JUL110.00CE	3.5	120000	8.9	120000	100%	18%
17	PNBK15AUG155.00CEW2	3	66000	6	66000	100%	100%
18	PTCI15JUN50.00CEW3	6.55	200000	11.55	200000	100%	37%
19	SYND15AUG85.00CEW3	12	66000	19.5	66000	100%	66%
20	TATP15JUL65.00PE	0.05	216000	1.9	216000	100%	64%
21	UBIL15AUG205.00PEW3	3	2000	7	2000	100%	3%
22	UCOB15AUG50.00CE	2	172000	4.3	172000	100%	33%
23	UCOB15SEP50.00PEW1	3	152000	6	152000	100%	67%

18. From the table above, I note that the Noticee on average contributed 51% of the volume in the 23 contracts traded, and an average of 65% volume in 17 of

the 23 contracts, which establishes the lack of public participation in the contracts.

19. The manner of placing buy and sell orders in a synchronised manner within seconds of each other, reversal of the trades within a short time on the same day, and wide variation in prices of the trades in the same contract in a short time without any basis for such wide variation, all indicate that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contracts. By engaging in such trades, the Noticee violated provisions of Regulation 4(2)(a) of PFUTP Regulations, 2003 which states that dealing in securities will be deemed to be a fraudulent and unfair trade practice if it involves "*indulging in an act which creates false or misleading appearance of trading in the securities market*".

20. The Noticee, by engaging in non-genuine transactions which created a misleading impression of trading in respective contracts, dealt in the stock options contracts in a fraudulent manner in violation of Regulation 3(a) and 4(1) of the PFUTP Regulations, 2003.

21. Noticee has referred to judgement of Hon'ble Supreme Court in the matter of ***Securities and Exchange Board of India*** v. ***Rakhi Trading Private Limited*** (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 08, 2018), which was a similar case involving execution of reversal trades in index options, and attempted to distinguish its trades from the matter dealt in the aforesaid judgement, by stating that in the present case, Noticee has made profits, whereas in the Rakhi matter, one party had booked losses and another party had booked profits. Noticee has further stated that its trades were not pre-planned or for intentionally booking any profit or loss,. These contentions of the Noticee are not acceptable, as the facts bring out that the trades resulted in one party booking profits and the counterparty booking losses in a pre-determined manner. The contention of the noticee that others were not induced to trade in

stock options as 81.38% of trades in BSE stock options were similar reversal trades can be accepted as majority of the trades in illiquid stock options contracts were in the nature of reversal trades. I further note that in the aforesaid matter of SEBI vs. Rakhi Trading involving index stock options the Hon'ble Supreme Court observed that "…*the traders thus having engaged in a fraudulent and unfair trade practice while dealing in securities, are hence liable to be proceeded against for violation of Regulations 3(a), 4(1) and 4(2)(a) of PFUTP Regulations…"*

Issue No. II **If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?**

&

Issue No. III **If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?**

22. As it has been established that the Noticee violated provisions of Regulations 3(a), 4(1) and 4(2) (a) of the PFUTP Regulations, 2003; hence the Noticee is liable for imposition of monetary penalty under Section 15 HA of the SEBI Act.

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

    a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

    (b) the amount of loss caused to an investor or group of investors as a result of the default;

    (c) the repetitive nature of the default.

24. As established above, the trades by the Noticee were non genuine in nature and created a misleading appearance of trading. I note that the trading was in

illiquid stock option contracts where there was nil or negligible participation by the public. Investigation has shown amount of profit / loss of the counterparties to the trades as a result of the non-genuine trades. However, considering that the violation by the Noticee is creation of artificial trading volumes by trading between two counterparties and wider market is not involved in the trades, the trades are such that one of the counterparty books a profit while the other counterparty books a loss. Hence, it would be appropriate to consider the impact of these transactions between the two counterparties in totality. When the impact of artificial volumes created by the two counterparties is seen as a whole, it is not possible from material available on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counterparties or the consequent loss caused to investors as a result of the default. I further note that the Noticee contributed around 0.02% of the artificial reversal trades in the market during the Investigation Period.

25. The Noticee has contributed to artificial volumes in 23 contracts through 54 trades on 9 days during the Investigation Period. Therefore, taking into account the facts and circumstances of this matter, and the proportion of trading by the Noticee as compared to the total volume of reversal trades in the market during the Investigation Period, I am of the view that a penalty of ₹5,00,000 will be commensurate with the violations committed by the Noticee.

ORDER

26. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15I (2) of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of ₹5,00,000/- (Rupees Five Lakh only) upon the Noticee, i.e. Jai Ambey Metal Works Private Limited, under Section 15HA of the SEBI Act, for violation of regulations 3(a), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

27. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of “SEBI - Penalties

Remittable to Government of India", payable at Mumbai, OR through e-payment facility into Bank Account the details of which are given below:

Account No. for remittance of penalties levied by Adjudication Officer	
Bank Name	State Bank of India
Branch	Bandra-Kurla Complex
RTGS Code	SBIN0004380
Beneficiary Name	SEBI – Penalties Remittable To Government of India
Beneficiary A/c No.	31465271959

28. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to the Enforcement Department – Division of Regulatory Action – I of SEBI. The Noticee shall provide the following details while forwarding DD/ payment information:
    a) Name and PAN of the entity (Noticee)
    b) Name of the case / matter
    c) Purpose of Payment – Payment of penalty under AO proceedings
    d) Bank Name and Account Number
    e) Transaction Number

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

DATE: NOVEMBER 29, 2018 **MANINDER CHEEMA**

PLACE: MUMBAI **ADJUDICATING OFFICER**