BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/VV/JR/2019-20/5161]

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:

Vandna Arora

PAN: ABIPA0893L

In the matter of dealing in Illiquid Stocks Options at BSE

FACTS OF THE CASE IN BRIEF

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI'), observed large scale reversal of trades in Illiquid Stock Options (hereinafter referred to as "ISO") segment of Bombay Stock Exchange (hereinafter referred to as "BSE") leading to creation of artificial volume. Reversal trades were considered those trades in which an entity reverse its buy or sell positions in a contract with subsequent sell or buy position with the same counter party during the same day. The said reversal trades are alleged to be non-genuine trades as they are not executed in normal course of trading, lack basic trading rationale and allegedly lead to false or misleading appearance of trading in terms of generation of artificial volume, hence were deceptive and manipulative. Whereas the artificial volume was considered as the volume (no. of units) reversed in non-genuine trades, comprising both original volume and reversed volume while keeping out the volume which is not reversed.

2. SEBI conducted an investigation into the trading activities of certain entities in ISO, BSE for period April 1, 2014 to September 30, 2015 (hereinafter referred to as “Investigation Period”/IP”). Pursuant to investigation, it was observed that during IP, total 2,91,643 trades comprising substantial 81.38% of all the trades executed in Stock Options of BSE were non-genuine trades. The aforesaid non-genuine trades resulted in creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in Stock Options segment of BSE during the IP. It was also noted that said non-genuine trades were not restricted to any specific contract or between any specific set of entities.

3. It was alleged that Vandna Arora (hereinafter referred to as “Noticee”) was one of the entities who had indulged in creating artificial volume of 93,78,500 units through 54 non-genuine trades in 23 stock option contracts. Following is noted from the dealings of Noticee in aforesaid 23 contracts at BSE

    a. Of the 69 trades executed by the Noticee on BSE Stock option segment, 54 trades were non-genuine.
    b. Number of non-genuine trades of Noticee has significantly contributed to the total number of trades from the market in the said 23 contracts.
    c. A substantial 7% to 100% of volume generated by the Noticee in each of the 23 contracts was artificial volume, and further, artificial volume generated by him also contributed to significant upto 100% of the total volume of the market in above contracts.
    d. In all of the above contracts, alleged non-genuine trades executed by Noticee had significant difference in buy rates and sell rates. The difference in buy/sale price of the trades executed by the Noticee was in the range of 1.44 times to 21 times of previous trade executed in the same contract on the same day and with the same counter party and in a gap of few seconds to few minutes. For example in the contract ‘HXTL15MAR245.00CEW2, the Noticee sold 16000 units at ₹29.5 per unit to Stratagem Stock Broker Private Limited at 14:41:16 and this order

was reversed at ₹20.5 per unit on the same day between same counter parties at 14:41:21 i.e. within 5 seconds.

4. In view of the foregoing, it was alleged that the Noticee has entered into reversal trades in BSE ISO and these reversal trades were non-genuine in nature and have created false and misleading appearance of trading in terms of artificial volume in Stock Options and therefore alleged to be manipulative, deceptive in nature. The Noticee was alleged to have violated regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as "PFUTP Regulations").

APPOINTMENT OF ADJUDICATING OFFICER

5. Vide an order of the Competent Authority, SEBI, dated April 3, 2018, Mr. Sahil Mailk was appointed as the Adjudicating Officer under Section 15-I of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "SEBI Act") read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "Adjudication Rules") to inquire and adjudge under section 15HA of SEBI Act.

6. On transfer of Mr Sahil Malik, the undersigned has been appointed as the Adjudicating Officer vide order dated August 13, 2019.

SHOW CAUSE NOTICE, REPLY AND HEARING

7. Based on the findings by SEBI, Show Cause Notice dated September 17, 2018 (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 should not be imposed on her for the alleged violations.

8. In order to comply with the principles of natural justice an opportunity of personal hearing was given to the Noticee on March 6, 2019 vide letter dated February 5, 2019. The Noticee, vide letter dated February 8, 2019 sought for time to submit the reply. Subsequently, vide letter dated February 20, 2019, the Noticee submitted her reply stating, inter alia, the following:

- *That the noticee has commenced trading after complying all regulatory provision i.e. submission of duly filled KYC along with required documents. SEBI has issued a Risk Disclosure Document ("ROD") which records the risks of trading on the Exchange. Clauses 1.2 and 1.3 of the ROD deal with "Risk of Lower Liquidity" and "Risk of Wider Spreads". It is also a fact that the illiquid contracts had wider spread;.*
- *That the noticee has not been a party to any kind of illegal and unlawful ad, as alleged against it or otherwise. All the trades executed by the noticee were on the trading terminal of the exchange and orders were matched on anonymous order driven trading system or the exchange. The alleged trades of the noticee were within its financial and risk bearing capacity and in conformity with the framework of laws governing the securities market, hence genuine and bonafide.*
- *It is emphatically submitted that the noticee had performed all its obligation of resultant transactions as per mechanism of clearing corporation schedule. Further we would also like to submit that all our trades in option segment were within prudential norms of exchange and as per procedures and guidelines as prescribed by regulator (BSE). At the relevant time, none of our trades were questioned by the brokers who are SEBI registered intermediaries.*
- *It is indeed pertinent to mention that during the investigation period of 15 months, the noticee has only traded in 2 month for 10 out of 368 trading days of investigation period and that too towards the mid of the investigation period.*
- *It may be appreciated that the noticee has to continue in trading for long period if it had employed any device, scheme or artifice to defraud to the investor or get undue gain in association of other entities and prior meeting of mind with counter party is essential for those activity. But in this instance case, the noticee has dealt in stock option only on few occasions i.e. 2.72% of total trading days during the investigation period.*
- *That the Noticee humbly wish to highlight the fact that the BSE, did not alerted to the noticee for alleged violation of SEBI regulation if any during the investigation period so that repetition of alleged violation can be stopped. It is pertinent to mention that the BSE, being the first level of regulator had not preferred any action during the course of alleged trading in stock options which clearly shows that the noticee had not violated regulatory provisions. If any wrong had*

been committed by the Noticee, the question should be asked as why BSE has permitted to continue trade in wrongful manner. No action preferred by BSE also substantiates submission of the noticee that it had not committed any wrong while dealing in stock options at BSE during the investigation period.

- *That there was no evidence is available to show that there was prior meeting of mind with any counter party. It is pertinent to submit that there is no evidence to allege that there was any kinds of relation between the noticee and any her counter party in connection with alleged reversal trades either during the investigation period or thereafter. Therefore it is humbly submitted that the allegation cannot be raised as the noticee has violated so many regulations i.e. regulations 3(a), 3(b), 3(c), 3(d), 4(1) and 4(2)(a) of PFUTP regulations, 2003.*
- *It is humbly submitted that the synchronization of trades with counterparties was co-incidental. The noticee did not execute trades deliberately in stock options with any respective counter party.*

9. Another opportunity of personal hearing was given to the Noticee on April 22, 2019. The Noticee, vide letter dated March 27, 2019 sought for an adjournment. Final opportunity of personal hearing was given to the Noticee on October 10, 2019. The Noticee appeared on the scheduled date and reiterated the submissions made vide letter dated February 20, 2019.

CONSIDERATION OF ISSUES AND EVIDENCE

10. I have carefully perused the charges levelled against the Noticee in the SCN, its reply and the material / documents available on record. In the instant matter, the following issues arise for consideration and determination:-

I. Whether the Noticee has violated regulations 3(a), (b), (c), (d), 4(1), 4(2)(a) of PFUTP Regulations?

II. Do the violations, if any, on the 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?

11. Before proceeding further, I would like to refer to the relevant provisions of the PFUTP Regulations:

Relevant provisions of PFUTP Regulations

Regulation 3. 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 thereunder;

(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.

Regulation 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;

12. I note from the documents on record that the Noticee was one of the entities who had indulged in creating artificial volume of 93,78,500 units through 54 non-genuine trades in 23 stock option contracts during IP.

13. The summary of trades is given below:

Stock Option Contract	Buy Quantity	Sell Quantity	Number of non genuine trades executed by Entity in the Contract	Total number of trades executed by the Entity in the Contract	Total number of trades executed in the contract	Artificial volume generated by Entity in the Contract (B+C)	Total volume generated by Entity in the Contract	Total volume in the Contract	% of Non Genuine trades of Entity in the contract to Entity's Total trades in the Contract = (D/E)	% of Non Genuine trades of Entity in the contract to Total trades in the Contract = (D/F)	% of Artificial Volume generated by Entity in the contract to Entity's Total Volume in the Contract = (G/H)	% of Artificial Volume generated by Entity in the contract to Total Volume in the Contract = (G/I)
A	B	C	D	E	F	G	H	I	J	K	L	M
ADPW15MAR60.00CE	416000	416000	2	2	4	832000	832000	1600000	100%	50%	100%	52%
ANBK15MAR85.00CEW2	476000	476000	2	2	19	952000	952000	2064000	100%	11%	100%	46%
BHRT15MAR320.00CEW2	10000	10000	2	2	2	20000	20000	20000	100%	100%	100%	100%
BHRT15MAR360.00PEW2	10000	10000	2	2	2	20000	20000	20000	100%	100%	100%	100%
CRGL15MAR200.00PEW2	15000	15000	2	2	2	30000	30000	30000	100%	100%	100%	100%
DISH15MAR80.00PE	500000	500000	2	2	2	1000000	1000000	1000000	100%	100%	100%	100%
DLFL15FEB130.00CE	52000	52000	2	2	2	104000	104000	104000	100%	100%	100%	100%
EXID15MAR175.00PE	332000	332000	2	2	40	664000	664000	8612000	100%	5%	100%	8%
FEDB15MAR135.00CEW2	16000	16000	2	2	2	32000	32000	32000	100%	100%	100%	100%
FEDB15MAR150.00PE	400000	400000	2	2	7	800000	800000	1772000	100%	29%	100%	45%
FEDB15MAR155.00PEW2	8000	8000	2	2	2	16000	16000	16000	100%	100%	100%	100%
HDIL15MAR120.00CEW3	376000	376000	2	2	47	752000	752000	7384000	100%	4%	100%	10%
HNZL15MAR155.00CEW2	16000	16000	2	2	2	32000	32000	32000	100%	100%	100%	100%
HNZL15MAR180.00PEW2	20000	20000	2	2	2	40000	40000	40000	100%	100%	100%	100%
HNZL15MAR190.00PEW2	16000	16000	2	2	4	32000	32000	72000	100%	50%	100%	44%
HXTL15MAR245.00CEW2	16000	16000	2	2	2	32000	32000	32000	100%	100%	100%	100%
IDEA15MAR130.00CEW1	158000	158000	8	8	8	316000	316000	316000	100%	100%	100%	100%
IDEA15MAR175.00PE	206000	206000	2	2	10	412000	412000	972000	100%	20%	100%	42%
IOBL15MAR50.00CEW3	572000	572000	2	2	6	1144000	1144000	3616000	100%	33%	100%	32%
LNTF15MAR65.00CE	684000	684000	4	4	85	1368000	1368000	17912000	100%	5%	100%	8%
OBNK15MAR240.00CE	156000	156000	2	2	10	312000	312000	1132000	100%	20%	100%	28%
PFCL15MAR270.00CEW2	78000	78000	2	2	33	156000	156000	2360000	100%	6%	100%	7%
PNBK15MAR170.00PE	156250	156250	2	2	8	312500	312500	2005000	100%	25%	100%	16%

14. To illustrate, on March 9, 2015 the Noticee entered into 1 buy trade for 15000 units at the rate of ₹14.5 per unit at 14:37:47 hrs with Strategem Stock Broker Private Limited for the contract named "CRGL15MAR200.00PEW2". Thereafter, on the same day, Noticee, at 14:39:22 entered into 1 sell trade with same counterparty for 15000 at ₹24 per unit. It is noted that while dealing in the said contract during the I.P., Noticee executed total 2 reversal trades (1 buy trade + 1 sell trade) with same counterparty viz, Strategem Stock Broker Private Limited on the same day and with significant price differential in buy and sell rate. Thus, Noticee, through its dealing in the contract viz, "CRGL15MAR200.00PEW2" during the I.P, executed 2 non-genuine trades which is 100% of the total market trades in the said contract during the I.P and thereby, Noticee generated artificial volume of 30000 units which is 100% of the market volume traded in the said contract during the I.P.

15. It is noted that of the 69 trades executed by the Noticee during the IP in stock option segment of BSE, Noticee indulged in reversal of trades on the same day with same counter party with substantial price difference in sell rates over the buy rates and vice versa in 54 trades.

16. It is also noted that the Noticee in abovementioned 23 contracts, has reversed her trades within a short span of time. The details of 3 such contracts as per following table:

Date	Stock Option Contract	Buyer	Seller	Trade Time	Rate	Traded Quantity	Time Difference
25/02/2015	DLFL15FEB130.00CE	VANDNA ARORA	PROMPT COMMODITIES LTD	10:07:58	10.1	52000	00:00:09
25/02/2015	DLFL15FEB130.00CE	PROMPT COMMODITIES LTD	VANDNA ARORA	10:08:07	20	52000	

09/03/2015	HXTL15MAR245.00CEW2	STRATAGEM STOCK BROKER PRIVATE LIMITED	VANDNA ARORA	14:41:16	29.5	16000	00:00:05
09/03/2015	HXTL15MAR245.00CEW2	VANDNA ARORA	STRATAGEM STOCK BROKER PRIVATE LIMITED	14:41:21	20.5	16000	
09/03/2015	BHRT15MAR360.00PEW2	VANDNA ARORA	STRATAGEM STOCK BROKER PRIVATE LIMITED	14:45:16	7.1	10000	00:00:08
09/03/2015	BHRT15MAR360.00PEW2	STRATAGEM STOCK BROKER PRIVATE LIMITED	VANDNA ARORA	14:45:24	16.7	10000	

17. The Noticee adopted similar modus operandi February 25, 26, 27, 28 and March 2, 3, 5, 9, 11, 12, 2015 i.e. 10 days In fact, it can be observed from the table that mostly all the trades executed by the Noticee in these 23 contracts were not genuine and the same has been reversed on the same day within few seconds to few minutes with the relevant same counterparties with significant difference in price, resulting into significant profit to the Noticee.

18. In this regard, I note that it is the fact that the Noticee executed non-genuine trades in 23 contracts, wherein it executed total 54 non-genuine trades, which resulted in artificial volume of total 93,78,500 units. The number of non-genuine trades of the Noticee had contributed significantly (in the range of 7% to 100%) to the total number of trades from the market in the said 23 contracts. Further, artificial volume generated by the Noticee also contributed to significant (in the range of 7% to 100%) to the total volume from the market in the said 23 contracts. Non-genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day. Considering the fact that all these reversal transactions were

carried out through a screen based trading platform on a segment with different contracts, the repeated sell/buy of illiquid stock options by the Noticee and subsequent reversal trades with the same set of entities for the same quantity, on same day with a significant difference in buy and sell value of stock options, in itself, exhibits abnormal market behavior and defies economic rationality. I note from the above trading pattern of the Noticee that it was deliberately making blatant misuse of trading platform for creating artificial volume to the tune of 93,78,500 units in the 23 stock options and therefore, the rationale for new day-trading strategy is not acceptable.

19. It is not mere a coincidence that Noticee could match her trades consistently with the same counterparty with whom she had undertaken first leg of the respective trades. This is the outcome of meeting of minds elsewhere and it was a deliberate attempt to deal in such a fashion. Here I would like to rely on the judgment of Hon'ble Supreme Court in SEBI v Kishore R Ajmera (AIR 2016 SC 1079), wherein it was held that "*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 was further held that *"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."

20. I note that RDD is a document in the nature of general advisory to investors dealing in derivatives markets considering that derivatives products are complex, risky and high leverage products. Such a document in any case does not either implicitly or explicitly permit deliberate structuring of manipulative trades which lack economic rationale and run contrary to the dynamics of price discovery in option trading. I note that derivative contracts by its very nature derives its value from various factors including underlying price. The transactions of the Noticee as mentioned in above paras demonstrates that option contracts bought / sold were immediately reversed on same day at substantially different price, though there was no corresponding price changes in the underlying stock price. Further, analysis of such trades also indicates that price differentials have been deliberately structured for manipulative purposes as one party to the contract had deliberately foregone profitable proposition at the time of executing trade. Such pattern completely runs contrary to economic rationale of any investor to buy at lesser price and sell at higher price. Any rational investor would never deal in the market to deliberately register loss to facilitate buyer to profit at the time of entering trades. Had the counterparties for trades of the Noticee were different, intraday squaring of positions would not have been possible as no genuine counter party investor would ever forego profits. The fact that the counterparties are same, corroborates that the trades were not genuine and executed for manipulative purposes. Therefore, I find no merit in the submission of the Noticee that the impugned reversal of trades are genuine in nature. Moreover, I do not accept the contention of the Noticee that if BSE had permitted the trades to be executed, the same are genuine and non-fraudulent.

21. It is the contention of the Noticee that there was no evidence that it was engaged in fraudulent and unfair practices and therefore there is no violation of the PFUTP Regulations as alleged in the SCN. In this regard, I am of the view that the scheme, plan, device and artifice employed by the Noticee in this case of

executing reversal trades in illiquid stock options contracts at irrational, unrealistic and unreasonable prices, tantamount to fraud on the securities market in as much as it involves non-genuine/ manipulative transactions in securities and misuse of the securities market mechanism. The non-genuine and deceptive transactions of the Noticee are covered under the definition of 'fraud' and the dealings of the Noticee as discussed herein above were “fraudulent”, as defined under regulation 2 (1) (c) of PFUTP Regulation and prohibited under the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) PFUTP Regulations, thereof.

22. The Noticee has contended that the multiple counterparties to the impugned trades of the Noticee are not related to each other and there has been no meeting of mind among these parties and the impugned trades were not entered into with a view/intent to manipulate the market. It has further submitted that the mere fact that the impugned trades were entered into between the Noticee and unrelated counter-parties within a short time-gap cannot lead to the conclusion that the impugned trades were manipulative in nature.

23. In respect of the aforesaid contentions of the Noticee, I note that in the screen based trading, the manipulative or fraudulent intent can be inferred from various factors such as conduct of the party, pattern of transactions, etc. Further, in the absence of direct proof of meeting of minds, the conclusion can be derived from various circumstances like volume of trade, period of persistence of trading, particulars of buy and sell orders, proximity of time and such other relevant factors. In this regard, it is appropriate to refer to the Hon’ble SAT Order dated July 14, 2006, in the case of ***Ketan Parekh vs. SEBI (Appeal no. 2/2004)***, wherein, Hon’ble SAT has observed that: *“... in order to find out whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism, will depend upon the intention of the parties which could be inferred from the attending circumstances of the cases, because direct evidence in such cases may not be available.”*

24. In line with the aforesaid findings of Hon'ble SAT, I note that the trading pattern of the Noticee in terms of volume of reversal trades, proximity of buy/sell and subsequent reversal evidences the indulgence of the Noticee beyond a reasonable doubt of the manipulative intent in creation of artificial volume. Further, consistent pattern of dealings by Noticee in such options contracts which are illiquid clearly demonstrates the manipulative intent to use stock exchange platform to carry out non-genuine trades with the aim to execute such trades for various manipulative purposes. I note from the trading pattern of the Noticee that it was deliberately making repeated loss through its reversal trades in stock options which does not make any economic sense and it is a blatant misuse of trading platform for creating artificial volume in the illiquid stock options. I note that the rationale for such transactions entered by the Noticee is not genuine and legitimate as the behavior exhibited by the Noticee defies the logic and basic economic sense. I note that no reasonable and rational investor will keep making repeated losses and still continue its trading endeavors.

25. In this regard, reliance is placed upon the judgement of Hon'ble Supreme Court in the matter of ***SEBI vs. Rakhi Trading Private Ltd.*****, in *Civil appeals no., 1969 of 2011 with Civil Appeal Nos., 3174-3177 of 2011 and Civil Appeal No., 3180 of 2011* decided on February 8, 2018**, where Apex Court stated at Para 35 and Para 41 of that said Order that *"The platform of the stock exchange has been used for a non-genuine trade. Trading is always with the aim to make profits. But if one party consistently makes loss and that too in pre-planned and rapid reverse trades, it is not genuine; it is an unfair trade practice". "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."*

26. It is 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 behavior and other scenarios as noted above make it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level. In this regard, reliance is placed on judgment of Hon'ble Supreme Court in the matter in respect of SEBI v Rakhi Trading Private Limited Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018, which inter alia states that: *"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….."*

27. Keeping in mind the dicta of the Hon'ble Supreme Court as reproduced above, I see no reason to take a different view in the present case. Therefore, I hold that the Noticee had indulged in execution of reversal trades in Stock Options with same entities on the same day, which are non-genuine in nature and had created false or misleading appearance of trading in terms of artificial volumes.

28. In view of the forgoing, I am of firm opinion that the Noticee by indulging in reversal of trades on the stock exchange platform, which are manipulative / unfair / fraudulent / non-genuine, in nature, had created artificial volumes in the contracts and thereby Noticee had violated the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations, 2003.

29. The Hon'ble Supreme Court of India in the matter of SEBI Vs. Shri Ram Mutual Fund [2006] 68 SCL 216(SC) 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…".

30. The above violation of PFUTP Regulations, make the Noticee liable under section 15HA of SEBI Act, which, *inter-alia* reads as follows:

15HA Penalty for Fraudulent and Unfair trade practices

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.

31. While determining the quantum of penalty under Section 15HA of the SEBI Act, it is important to consider the factors stipulated in Section 15J of the SEBI Act, which reads as under:-

"15J - Factors to be taken into account by the adjudicating officer

While adjudging quantum of penalty under section 15-I, the adjudicating officer shall have due regard to the following factors, namely:-

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

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

(c) the repetitive nature of the default

32. As established above, the trades by the Noticee were non-genuine in nature and created a misleading appearance of trading in illiquid stock option contracts. Though the records available before me has shown amount of profit / loss of the counterparties to the trades as a result of the non-genuine trades. However, I note that the Noticee indulged in creation of artificial volumes by way of reversal of trades in illiquid options contracts, where wider market participation was not involved in the trades, and 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. It is worth considering that entities involved in these non-genuine trades have either booked gains or loss and the gains or loss appears to be of notional in nature. It is further noted that there was nil or negligible participation by the public in the trading in illiquid stock option contracts, hence the impact of artificial volume created by the Noticee has been considered. As observed in the preceding paragraphs the Noticee executed non-genuine trades in 11 contracts, wherein it executed total 82 non-genuine trades, which resulted in artificial volume of total 1,57,07,500 units. This pattern of trades continued for 5 days. Hence, it can be said that it repetitive in nature.

33. Such persistent trading pattern of the Noticee, which was fraudulent and deceptive, affects the normal price discovery mechanism in the securities market. People who indulge in manipulative, fraudulent and deceptive transaction, or abet the carrying out of such transaction which are fraudulent and deceptive should be suitably penalized for such acts of omissions and commissions.

ORDER

34. After Taking into consideration the nature and gravity of the charges established in the preceding paragraphs, factors mentioned under Section 15J of the SEBI Act and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act, read with Rule 5 of the SEBI Adjudication Rules, I hereby impose a penalty of ₹ 5,00,000/- (Rupees Five Lakh only) on the Noticee viz. M/s. Universal Enterprises Ltd in terms of Section 15HA of the SEBI Act, for the violation of the provisions of Regulations 3 (a), (b), (c), (d) and 4 (1), 4 (2) (a) of PFUTP Regulations for indulging in execution of reversal trades in Stock Options with same entity on the same day, thereby creating artificial volume, leading to false and misleading appearance of trading in the illiquid stock options at BSE.

PENALTY PAYMENT OPTIONS

35. The Noticees shall remit / pay the said amount of penalty within 45 (forty five) days of receipt of this order either by way of Demand Draft (DD) in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai and 1) the said DD should be forwarded to the Division Chief, Enforcement Department 1(EFD), Division of Regulatory Action - I [**EFD 1-DRA-1**] SEBI Bhavan, Plot No.C4-A,' G' Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai – 400 051 and also send an email to tad@sebi.gov.in with the following details:

Case Name	
Name of the Payee	
Date of payment	
Amount Paid	
Transaction No.	
Bank Details	
In which payment is made for	Penalty

OR

36. Payment can also be made online by following the below path at SEBI website www.sebi.gov.in ENFORCEMENT → Orders → Orders of AO → Click on PAY NOW or at https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html

37. 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, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

38. In terms of Rule 6 of the Rules, copy of this order is sent to the Noticee and also to the Securities and Exchange Board of India.

Date : October 24, 2019
Place : Mumbai

VIJAYANT KUMAR VERMA
ADJUDICATING OFFICER