

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/BM/RK/2024-25/30898]

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

In respect of
Gothi HUF Shavji Raja
(PAN: AADHG3863N)

In the matter of Trading in Illiquid Stock Options on BSE

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) observed large scale reversal of trades in stock options segment of Bombay Stock Exchange (hereinafter referred to as “**BSE**”). SEBI observed that such large scale reversal of trades in stock options lead to creation of artificial volume at BSE. In view of the same, SEBI conducted an investigation into the trading activities of certain entities in illiquid stock options at BSE for the period April 1, 2014 to September 30, 2015 (hereinafter referred to as “**IP**”).
2. Pursuant to investigation, it was observed that total of 2,91,744 trades comprising 81.40% of all the trades executed in stock options segment of BSE during the IP were allegedly non genuine trades. The aforesaid alleged non-genuine trades resulted into creation of artificial volume in stock options segment of BSE during the IP. It was observed that Gothi HUF Shavji Raja (PAN – AADHG3863N) (hereinafter referred to as the “**Noticee**”) was one of the various entities who indulged in execution of reversal trades in stock options segment of BSE during the IP. Such trades were alleged to be non-genuine in nature and created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore were alleged to be manipulative, 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, 2003**”).

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI appointed Shri G Ramar as Adjudicating Officer (AO) in the matter vide order dated April 20, 2021, communicated vide communique dated April 26, 2021, under Section 19 read with Section 15-I(1) of the SEBI Act, 1992 (hereinafter referred to as “**SEBI Act, 1992**”) and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as “**SEBI Adjudication Rules**”) to conduct adjudication proceedings in the manner specified under Rule 4 of Adjudication Rules read with Section 15-I(1) and (2) of SEBI Act, 1992, and if satisfied that penalty is liable, impose such penalty deemed fit in terms of Rule 5 of SEBI Adjudication Rules and Section 15HA of SEBI Act, 1992. Pursuant to transfer of cases, the undersigned was appointed as the AO in the matter vide Order dated January 12, 2024.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A Show Cause Notice dated April 01, 2022 (hereinafter referred to as “**SCN**”) was issued to the Noticee under Rule 4(1) of the SEBI Adjudication Rules to show-cause as to why an inquiry should not be initiated against him and why penalty should not be imposed under Section 15HA of the SEBI Act, 1992 for the violations alleged to have been committed by him.
5. It was inter alia alleged in the SCN that the Noticee had executed 46 non-genuine trades in 22 Stock Options contracts which resulted in artificial volume of total 403000 units. Summary of dealings of the Noticee in the said Options contracts, in which the Noticee allegedly executed non-genuine trades during the I.P, are as follows:

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 Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades in the Contract	% 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	ARVI14DEC 240.00CEW 2	40	10000	55	10000	100	100	100	100

2	CANB14NO V350.00CE	38	9000	51	9000	100	100	100	100
3	CENT14DE C500.00CE W1	35	6000	52.8	6000	100	100	100	100
4	CESC14DE C600.00CE W2	54.62	13000	85.69	13000	100	66.67	100	66.67
5	DLFL14DEC 110.00CEW 2	43.75	14000	54	14000	100	100	100	100
6	HNZL14DEC 140.00CEW 2	32.25	14000	40	14000	100	100	100	100
7	HPCL14DE C540.00CE W1	47	8000	60	8000	100	100	100	100
8	INGL14DEC 400.00CEW 1	38	8000	52.25	8000	100	100	100	100
9	KARB14DE C100.00CE W1	42.5	12000	53	12000	100	100	100	100
10	NMDC14DE C120.00CE W1	15.5	14000	21.25	14000	100	100	100	100
11	OBNK14DE C230.00CE W1	60	9000	76	9000	100	100	100	100
12	ONGC14DE C340.00CE W1	28	10000	39.5	10000	100	100	100	100
13	PFCL14DEC 230.00CEW 2	50	10000	67	10000	100	100	100	100
14	RANB14DE C560.00CE W1	54	5000	74.6	5000	100	100	100	100
15	RANB14NO V540.00CE W3	48.5	2500	87	2500	100	100	100	100
16	RCAP14NO V420.00CE	53	5000	83	5000	100	100	100	100
17	RECL14DE C260.00CE W2	51	12000	68	12000	100	100	100	100
18	RECL14DE C280.00CE W2	42	12000	55.5	12000	100	100	100	100
19	UBRL14NO V640.00CE W3	82	3000	118	3000	100	100	100	100
20	VOLT14NO V200.00CE	66	8000	78	8000	100	100	100	100
21	VOLT14NO V210.00CE	53	7000	66	7000	100	100	100	100
22	VOLT14NO V250.00CE	25	10000	36	10000	100	100	100	100

6. From the above table, following was noted as regard to dealings of the Noticee:
- (a) The Noticee had executed alleged non genuine trades in 22 contracts, wherein all the trades of Noticee in the said contracts were allegedly non-genuine trades.
 - (b) No. of alleged non-genuine trades of the Noticee had significantly contributed to total no. of trades from the market in the above contracts, as 66.71% to 100% of the trades that happened in the said contracts were due to non-genuine trades executed by the Noticee.
 - (c) 100% of volume generated by Noticee in the above contracts was alleged to be artificial volume, and further, the percentage of alleged artificial volume generated by the Noticee in the above contracts to the total volume from the market in the said contracts was between 66.67% and 100%. Therefore, the Noticee allegedly generated artificial volume in the above contracts.
7. The SCN with reference no. SEBI/HO/EAD/EAD4/P/OW/2022/14436/1 dated April 01, 2022 was issued to the Noticee by erstwhile AO and was served on the Noticee via SPAD and through digitally signed email dated April 04, 2022. The proof of service is on record.
8. Subsequently, 1st Post SCN intimation (PSI) through email dated August 12, 2022 was issued to the Noticee, which was duly delivered to him. Vide Part-B of the said SCN, the Noticee was given intimation about the SEBI Settlement Scheme, 2022. The intimation regarding settlement scheme given to the Noticee is as follows:

“2. Meanwhile, SEBI has framed the SEBI Settlement Scheme, 2022 pursuant to the Order dated May 13, 2022 passed by the Hon’ble Securities Appellate Tribunal, wherein the following directions were issued to SEBI:

*“17. We are, thus, of the opinion that SEBI should reconsider and seriously give a thought in coming out with a fresh scheme under Clause 26 of the Settlement Regulations, 2018. Such scheme can be a onetime scheme for this class of person. **The terms of settlement should be attractive so that it could attract the noticees / entities to come forward and settle the matter which will ameliorate the harassment of penalty proceedings to the noticees and at the same time would help to clear the backlog of these pending matters before various AOs.**” (Emphasis Supplied).*

- 3. In compliance with the above directions of the Hon’ble Securities Appellate Tribunal, SEBI has introduced a one-time settlement scheme called the SEBI Settlement Scheme, 2022,*

in terms of Regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 in the matter of Illiquid Stock Options. The said scheme proposes payment of Settlement Amount as per the details given below:

S No	Number of Contracts*	Settlement Amount (Rs.)
1	1-5	1,00,000/-
2	6-50	2,00,000/-
3	51 and above	5,00,000/- base amount + 10,000 per contract

** You may refer to the relevant Annexure/table of the SCN which contains a summary of the contracts you entered to determine the applicable slab for settlement.*

4. The period of the SEBI Settlement Scheme, 2022 will commence on August 22, 2022 and will close on November 21, 2022, so as to provide an opportunity for settlement to the entities who have executed reversal trades in the stock options segment of BSE during the period April 01, 2014 to September 30, 2015, against whom enforcement proceedings have been initiated and are pending. In case you wish to avail the benefit of the said Scheme, you may access the details of the said Scheme, which would be available on the website of SEBI i.e. www.sebi.gov.in, during the said period.

5. Necessary application for settlement may be filed within the validity period of the scheme and payment of the settlement amount shall be made online. Additionally, for any clarification in regard to settlement scheme, you may refer to the FAQs at SEBI website or send email to scheme2022@sebi.gov.in.

6. In case you do not wish to avail of the facility under the SEBI Settlement Scheme, 2022, the adjudication proceedings in respect of the allegations contained in Part A of the SCN shall resume. Accordingly, an inquiry shall be held against you in terms of Adjudication Rules read with section 15-I of the SEBI Act, and penalty, if any, shall be imposed under section 15HA of the SEBI Act. In such case, you are called upon to file your reply within 30 days of receipt of this Show Cause Notice.”

9. Pursuant to that, vide public notice dated November 21, 2022, it was advertised/informed that “Considering the interest of entities in availing the Scheme, the competent authority has extended the period of the Scheme till January 21, 2023”.

10. However, it was observed that Noticee did not avail the SEBI Settlement Scheme, in view of which, the adjudication proceeding against the Noticee was resumed in terms of Para 6 of the PSI.
11. It is observed that the Noticee vide email dated April 24, 2023 sought extension of time to file reply in the matter and accordingly, vide email dated April 25, 2023, Noticee was advised to submit reply in the matter latest by May 10, 2023. Noticee vide email dated May 10, 2023, May 13, 2023 and May 15, 2023 submitted his Demat account statements for the period from 2014-2015, bank account statements, contract notes and ITRs for the FY 2015-16 To 2022-23 and requested for an opportunity of hearing in the matter. Vide letter dated May 10, 2023, Noticee submitted as summarized under:
- a) *That he is engaged in the business of trading in stocks, futures and options since 2012 through different brokers and all the trades were executed through registered stock brokers.*
12. In the interest of natural justice and in order to conduct inquiry in terms of Rule 4(3) of the SEBI Adjudication Rules, Noticee was provided an opportunity of personal hearing on July 03, 2023 by erstwhile AO vide hearing notice dated June 19, 2023, which was duly delivered via SPAD and through digitally signed email dated June 21, 2023. Vide the said hearing notice, the Noticee was also advised to submit reply to the SCN, if any, latest by June 30, 2023. Noticee, vide letter dated June 30, 2023 requested to adjourn the said hearing.
13. Subsequently, 2nd Post SCN intimation (PSI) dated March 07, 2024 was issued to the Noticee and was duly delivered through SPAD and digitally signed email dated March 07, 2024. The said PSI inter alia intimated the following to the Noticee:

“PART - B

1. Pursuant to the Order dated May 13, 2022 passed by the Hon'ble Securities Appellate Tribunal, SEBI had framed the SEBI Settlement Scheme, 2022 which was open from August 22, 2022 to January 21, 2023. Pursuant to the closure of the SEBI Settlement Scheme, 2022, adjudication proceedings continued against the remaining entities. During the adjudication proceedings, significant number of the remaining entities, at the time of personal hearing, expressed their interest in availing of settlement. Accordingly, SEBI has

decided to introduce another Settlement Scheme (“ISO Settlement Scheme, 2024”) in terms of Section 15JB of the SEBI Act, 1992 read with Regulation 26 of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 in the matter of Illiquid Stock Options. The said scheme proposes payment of Settlement Amount as per the details given below:

Sr No.	Number of Contracts	Settlement Amount (Rs.)
1	1-5	1,20,000/-
2	6-50	2,40,000/-
3	51 and above	6,00,000/- base amount + 12,000 per contract

2. The period of the ISO Settlement Scheme, 2024 will commence on March 11, 2024 and will close on May 10, 2024, so as to provide an opportunity for settlement to the entities who have executed reversal trades in the stock options segment of BSE during the period April 01, 2014 to September 30, 2015, against whom enforcement proceedings have been initiated and are pending. In case you wish to avail the benefit of the said Scheme, you may access the details of the said Scheme, which would be available on the website of SEBI i.e. www.sebi.gov.in, during the said period.

3. Necessary application for settlement may be filed within the validity period of the scheme and payment of the settlement amount shall be made online. Additionally, for any clarification in regard to settlement scheme, you may refer to the FAQs at SEBI website or send email to isoscheme2024@sebi.gov.in .

4. In case you do not wish to avail of the facility under the ISO Settlement Scheme, 2024, the adjudication proceedings initiated vide SCN shall stand automatically revived and the proceedings shall continue, from the stage at which the said proceedings were kept pending. In such case, you are advised to file your reply within 14 days of receipt of this Intimation, if not filed earlier.

14. Pursuant to that, vide public notice dated May 8, 2024, it was advertised/informed that “Considering the interest of entities in availing the Scheme, the competent authority has extended the period of the Scheme till June 10, 2024.”

15. It is observed that despite being granted the opportunity for Settlement twice, Noticee did not avail the settlement scheme and accordingly, another final opportunity of hearing in the matter was provided to the Noticee on October 23, 2024 vide hearing notice dated October 03, 2024. However, Noticee did not avail the opportunity of hearing provided to him vide the said hearing notice and did not even submit reply except as mentioned at paragraph 11 above.
16. Therefore, it is noted that the principles of natural justice have been adhered to, as the SCN and the Hearing Notice were duly served upon the Noticee and sufficient opportunity was granted to him to appear for the personal hearing.

CONSIDERATION OF ISSUES AND FINDINGS

17. The charges levelled against the Noticee have been carefully perused, his reply and the documents / material available on record. The issues that arise for consideration in the present case are:
- (a) Whether the Noticee has violated provisions of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003?
 - (b) Does the violation, if any, attract monetary penalty under Section 15HA of the SEBI Act, 1992?
 - (c) 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, 1992?
18. Before proceeding further, the relevant provisions of the PFUTP Regulations, 2003 are mentioned as below:

PFUTP Regulations, 2003

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;

Issue (a) : Whether the Noticee has violated provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1) & 4(2)(a) of PFUTP Regulations, 2003?

19. Before proceeding to the merits of the case, it is noted that pursuant to a preliminary examination conducted in the Illiquid Stock Options 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.

20. During the course of hearing in the case of ***R. S. Ispat Ltd Vs SEBI***, the Hon'ble Securities Appellate Tribunal (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*".

21. A Settlement Scheme was framed under the SEBI (Settlement Proceedings) Regulations, 2018, which provided one-time opportunity for settlement of proceedings in the Illiquid Stock Options matter. The said scheme was kept open from August 01, 2020 till December

31, 2020. Adjudication proceedings were initiated against those entities who had not availed of the opportunity of settlement.

22. Further, another settlement scheme was introduced pursuant to the order of Hon'ble SAT dated May 13, 2022. The details of SEBI settlement scheme is given at paragraph 7 above. Adjudication proceedings were resumed against those entities who did not avail the SEBI settlement scheme in 2022. During the adjudication proceedings, significant number of the remaining entities, at the time of personal hearing, expressed their interest in availing of settlement. Accordingly, SEBI had decided to introduce another ISO Settlement Scheme, 2024 in terms of Section 15JB of the SEBI Act, 1992 read with Regulation 26 of the Settlement Regulations in the matter of Illiquid Stock Options. As the Noticee did not avail ISO Settlement Scheme 2024, adjudication proceedings is resumed in respect of it.

23. It is further 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 Vs Bhavesh Pabari** (2019) SCC Online SC 294, the Hon'ble Supreme Court of India has, 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.”

24. As can be seen from the narration of facts in the foregoing paragraphs, pursuant to appointment of erstwhile AO on April 20, 2021, SCN dated April 01, 2022 was issued to the Noticee and in compliance with principles of natural justice opportunities of personal hearing were granted to Noticee on July 03, 2023 and October 18, 2024.

25. It is noted that allegation against the Noticee is that, while dealing in the stock option contracts at BSE during the IP, he had executed reversal trades which were allegedly non-genuine trades and the same had resulted in generation of artificial volume in stock option contracts at BSE. Reversal trades are considered to be those trades in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversal trades are alleged to be non-genuine trades as they are not executed in the normal course of trading, lack basic

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

26. It is relevant at this juncture to deal with the transactions executed by the Noticee in the alleged non-genuine trades.
27. It is noted from the trade log of the Noticee that he had allegedly executed 46 non-genuine trades in 22 contracts and the above mentioned trades of the Noticee had resulted in the creation of artificial volume of 403000 units in the said contracts. Summary of non-genuine trades of the Noticee is as follows:

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 Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades in the Contract	% 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	ARVI14DEC 240.00CEW 2	40	10000	55	10000	100	100	100	100
2	CANB14NO V350.00CE	38	9000	51	9000	100	100	100	100
3	CENT14DEC 500.00CE W1	35	6000	52.8	6000	100	100	100	100
4	CESC14DEC 600.00CE W2	54.62	13000	85.69	13000	100	66.67	100	66.67
5	DLFL14DEC 110.00CEW 2	43.75	14000	54	14000	100	100	100	100
6	HNZL14DEC 140.00CEW 2	32.25	14000	40	14000	100	100	100	100
7	HPCL14DEC 540.00CE W1	47	8000	60	8000	100	100	100	100
8	INGL14DEC 400.00CEW 1	38	8000	52.25	8000	100	100	100	100
9	KARB14DEC 100.00CE W1	42.5	12000	53	12000	100	100	100	100

10	NMDC14DE C120.00CE W1	15.5	14000	21.25	14000	100	100	100	100
11	OBNK14DE C230.00CE W1	60	9000	76	9000	100	100	100	100
12	ONGC14DE C340.00CE W1	28	10000	39.5	10000	100	100	100	100
13	PFCL14DEC 230.00CEW 2	50	10000	67	10000	100	100	100	100
14	RANB14DE C560.00CE W1	54	5000	74.6	5000	100	100	100	100
15	RANB14NO V540.00CE W3	48.5	2500	87	2500	100	100	100	100
16	RCAP14NO V420.00CE	53	5000	83	5000	100	100	100	100
17	RECL14DE C260.00CE W2	51	12000	68	12000	100	100	100	100
18	RECL14DE C280.00CE W2	42	12000	55.5	12000	100	100	100	100
19	UBRL14NO V640.00CE W3	82	3000	118	3000	100	100	100	100
20	VOLT14NO V200.00CE	66	8000	78	8000	100	100	100	100
21	VOLT14NO V210.00CE	53	7000	66	7000	100	100	100	100
22	VOLT14NO V250.00CE	25	10000	36	10000	100	100	100	100

28. It is noted that the Noticee had allegedly executed non-genuine trades in the said contracts, wherein the percentage of alleged non-genuine trades of the Noticee in stock options contracts to total trades in the contracts was in the range of 66.67% to 100% in the aforesaid contracts. Further, alleged artificial volume generated by Noticee in the contracts amounted to 100% of total volume generated by it in the said contracts. It is also noted that alleged artificial volume generated by the Noticee in the said contracts contributed 66.67% to 100% of the total volume from the market in the said contracts.

29. The details of squaring up done by the Noticee is illustrated below through his dealings in the contract viz, 'ARVI14DEC240.00CEW2':

Trade Date	Client Name	CP Client Name	Trade Time	Trade Rate (Rs.)	Traded Quantity	Buy/Sell by the Noticee
08/12/2014	DHAR COAL PRODUCTS PRIVATE LIMITED	GOTHI HUF SHAVJI RAJA	13:27:55.757607	55	10000	Sell
08/12/2014	GOTHI HUF SHAVJI RAJA	DHAR COAL PRODUCTS PRIVATE LIMITED	13:38:25.305917	40	10000	Buy

- i. As can be seen from the table above, the trades executed by the Noticee in the contract were squared up within short time, with the same counterparty. Noticee on December 08, 2014 at 13:27:55 hrs (Order time of Noticee: 13:27:55.75 and Counterparty Order time: 13:27:55.24) entered into a sell trade with counterparty viz. DHAR COAL PRODUCTS PRIVATE LIMITED for 10000 units at the rate of Rs 55 per unit in the contract 'ARVI14DEC240.00CEW2'. Thereafter, on the same day, Noticee entered into a buy trade for 10000 units with same counterparty viz. DHAR COAL PRODUCTS PRIVATE LIMITED at a rate of Rs 40 per unit.
- ii. These trades were entered into with the same counterparty in the same contract. It is noted that while dealing in the said contract during the IP, the Noticee executed reversal trades with same counterparty viz. DHAR COAL PRODUCTS PRIVATE LIMITED on the same day, with significant price difference. Thus, the Noticee, through his dealing in the contract viz. 'ARVI14DEC240.00CEW2' during the I.P., executed non genuine trades which was 100% of the total trades from the market in the said contract during the I.P., and thereby, Noticee generated artificial volume of 20000 units which was 100% of the volume traded in the said contract from the market during the I.P.
- iii. In the same way, squaring up was done by the Noticee with the same counterparty in the other scrips, viz, CANB14NOV350.00CE, CENT14DEC500.00CEW1, CESC14DEC600.00CEW2, DLFL14DEC110.00CEW2, HNZL14DEC140.00CEW2, HPCL14DEC540.00CEW1, INGL14DEC400.00CEW1, KARB14DEC100.00CEW1, NMDC14DEC120.00CEW1, OBNK14DEC230.00CEW1, ONGC14DEC340.00CEW1, PFCL14DEC230.00CEW2, RANB14DEC560.00CEW1, RANB14NOV540.00CEW3, RCAP14NOV420.00CE, RECL14DEC260.00CEW2, RECL14DEC280.00CEW2, UBRL14NOV640.00CEW3, VOLT14NOV200.00CE, VOLT14NOV210.00CE, VOLT14NOV250.00CE.

30. Noticee submitted that the trades were executed through the registered stock brokers. In this regard, it is noted that the execution of trades through registered stock brokers does not accord authenticity/ absolve the Noticee from such non-genuine trades. The non-genuineness of these 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 his counterparty. The fact that the transactions in a particular contract were reversed with the same counterparty indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. Since these trades were done in illiquid option contracts, there was no trading in the said contract and hence, 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 buy and sell orders were placed by the Noticee and counterparty within a short span of time, strongly indicates meeting of minds. Thus, it is observed that Noticee had indulged in reversal trades with his counterparty in the stock options segment of BSE and the same were non-genuine trades.
31. It is also noted that it is not mere coincidence that the Noticee could match his trades with the same counterparty with whom he had undertaken first leg of the respective 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. This is the outcome of meeting of minds elsewhere and it was a deliberate attempt to deal in such a manner. In this regard, it is noted that in matters dealing with violation of PFUTP Regulations, 2003, the reason as with respect to execution of non-genuine trades might not be immediately forthcoming. However, the correct test instead, is one of preponderance of probabilities and therefore at this juncture, it is pertinent to rely on the judgment of Hon'ble Supreme Court in **SEBI v Kishore R Ajmera (AIR 2016 SC 1079)** decided on February 23, 2016, 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...”

32. The Hon'ble Supreme Court further held in the same matter 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.”*

33. The observations made in the aforesaid judgments of Hon'ble Supreme Court apply with full force to the facts and circumstances of the present case. Therefore, applying the ratio of the above judgments, it is conspicuous that the execution of trades by the Noticee in the illiquid 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 short span of time was a clear indication that there was pre-determination in the prices by both the counterparty 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 his counterparty to carry out the trades at pre-determined prices

34. Further, following is noted from the judgement of the Hon'ble SAT in the matter of **Ketan Parekh vs SEBI (supra)**:

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.

35. It would be instrumental to also place reliance on the judgment of Hon'ble Supreme Court in the matter of **SEBI v Rakhi Trading Private Limited (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018)**, in which the Hon'ble SC held 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....."*
36. Further, the Hon'ble SAT in its judgement dated September 14, 2020 in the matter of **Global Earth Properties and Developers Pvt Ltd** relied upon the Hon'ble Supreme Court judgement in the matter of **SEBI v Rakhi Trading Private Limited (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018)**, and held that, *"It is not a mere coincidence that the Appellants could match the trades with the counter party with whom he had undertaken the first leg of respective trade. In our opinion, the trades were non-genuine trades and even though direct evidence is not available in the instant case but in the peculiar facts and circumstances of the present case there is an irresistible inference that can be drawn that there was meeting of minds between the Appellants and the counter parties, and collusion with a view to trade at a predetermined price."*
37. 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 contracts. In view of the above, the violation of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003 against the Noticee stands established.

Issue (b): Does the violation, if any, attract monetary penalty under Section 15HA of the SEBI Act, 1992?

38. Considering the findings that the Noticee as mentioned above has executed non-genuine trades resulting in the creation of artificial volume, thereby violating the provisions of Regulation 3(a), (b), (c) & (d) & Regulation 4(1) and 4(2)(a) of the PFUTP Regulations, 2003 and in terms of the judgement of Hon'ble Supreme Court of India in the matter of ***SEBI Vs. Shri Ram Mutual Fund[2006] 68 SCL 216(SC)*** decided on May 23, 2006 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...*" ,it is a fit case for imposition of monetary penalty on Noticee 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 (c): 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, 1992?

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

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.*

[Explanation.— For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA

shall be and shall always be deemed to have been exercised under the provisions of this section.]

40. It is observed, that the material available on record does not quantify any disproportionate gains or unfair advantage, if any, made by the Noticee and the losses, if any, suffered by the investors due to such violations on part of the said Noticee. However, the Noticee has entered into 46 non-genuine trades which demonstrates the violation of PFUTP Regulations, 2003.

ORDER

41. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in section 15J of the SEBI Act, 1992 and in exercise of power conferred under Section 15-I of the SEBI Act, 1992 read with Rule 5 of the SEBI Adjudication Rules, 1995, following penalty under Section 15HA of the SEBI Act, 1992 is imposed on the Noticee:

Name of the Noticee	Violation provisions	Penalty
Gothi HUF Shavji Raja PAN: AADHG3863N	Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003	Rs 5,00,000/- (Rupees Five Lakhs only)

The said penalty is commensurate with the lapse/omission on the part of the Noticee.

42. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT ☐ **Orders** ☐ **Orders of AO** ☐ **PAY NOW**

43. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings 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.

44. In terms of the provisions of Rule 6 of the SEBI Adjudication Rules, a copy of this order is being sent to the Noticee viz. Gothi HUF Shavji Raja and also to the Securities and Exchange Board of India.

Date: October 24, 2024

Place: Mumbai

BARNALI MUKHERJEE

ADJUDICATING OFFICER