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**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 BY ADJUDICATING OFFICER) RULES, 1995**

In respect of:  
**Chitragupta Sales & Services  
Private Limited**  
(PAN: AACCC4454B)  
(CIN: U51909WB1995PTC069322)  
Address: 39, Kali Krishna Tagore  
Street, Kolkata, West Bengal - 700007

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In the matter of dealing in illiquid stock options at BSE

**BACKGROUND**

1. SEBI observed large scale reversal of trades in Stock Options segment of Bombay Stock Exchange (hereinafter, referred to as “**BSE**”) leading to creation of artificial volume. SEBI conducted an investigation into the trading activity in illiquid Stock Options at BSE (hereinafter, referred to as “**investigation**”) for period 01/04/2014 to 30/09/2015 (hereinafter referred to as “**I.P.**”).
2. Pursuant to investigation, it was observed that during the I.P, total 2,91,643 trades comprising substantial 81.38% of all the trades executed in Stock Options Segment of BSE were non genuine trades. The aforesaid non genuine trades resulted into 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 I.P.
3. Reversal trades were considered those trades in which an entity reverse 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 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. Artificial volume is considered to be the volume (no. of units) reversed in both legs of said reversal trades while keeping out the volume, if any, which is not reversed.
4. It is noted that Chitragupta Sales & Services Private Limited bearing PAN: AACCC4454B (hereinafter, referred to as “**Noticee**”) was one of the various entities which were indulged in execution of non genuine trades in Stock Options Segment of BSE during the I.P. The dealings of Noticee in Stock Options segment of BSE during the I.P., and allegations against Noticee for execution of non genuine trades are emanated below.
5. Noticee, while dealing in Stock Option segment of BSE during the I.P. allegedly executed 69 non genuine trades in 16 Stock Option contracts, resulting in artificial volume of total 8360500

units in such contracts. Following is noted from the dealings of Noticee in aforesaid 16 contracts at BSE:

- a) Substantial 60% to 100% of the trades executed by Noticee in aforesaid 16 contracts were non genuine trades.
  - b) No. of non genuine trades of Noticee has significantly contributed to the total no. of trades from the market in the above contracts, as up to 100% of the trades that happened in the said 16 contracts were due to non-genuine trades executed by the Noticee.
  - c) Substantial 69% to 100% of the volume generated by the Noticee in each of the above contracts, was artificial volume. Further, said artificial volume generated by Noticee also contributed to significant up to 100% of the total volume from the market in aforesaid 16 contracts.
  - d) Alleged non genuine trades executed by Noticee had significant differential in buy rates and sell rates considering that the trades were reversed on same day.
6. In view of the foregoing, it was alleged that Noticee indulged in execution of reversal trades in Stock Options at BSE during the I.P. Such reversal trades are non-genuine in nature and have created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore alleged to be manipulative, deceptive in nature. Thus, it is alleged that Noticee violated the provisions of Regulation 3(a),(b),(c),(d), 4(1), 4(2)(a) of 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**

7. SEBI, in terms of Section 19 read with Section 15I(1) and (2) of the SEBI Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter, referred to as “**SEBI Adjudication Rules, 1995**”) appointed Adjudicating Officer to inquire into and adjudge the alleged violations of aforesaid regulations in respect of Noticee, and if satisfied that penalty is liable, impose such penalty deemed fit in terms of Rule 5 of SEBI Adjudication Rules, 1995 and Section 15HA of SEBI Act.

#### **SHOW CAUSE NOTICE, WRITTEN SUBMISSIONS, PERSONAL HEARING**

8. Show Cause Notice dated November 30, 2018 (hereinafter referred to as “**SCN**”) was issued to the Noticee and sent through Speed Post AD mentioning the allegations against the Noticee and requiring it to show cause within 14 days of receipt of the SCN, as to why an inquiry should not be held and penalty be not imposed under Section 15HA of SEBI Act for the aforesaid alleged violations against it. Subsequently, scanned copy of the SCN along with annexures was also sent through Noticee through e-mail.

9. Noticee, vide its e-mail dated December 15, 2018 forwarding letter dated December 13, 2018 denied the allegations made in the SCN and sated that it will provide necessary explanation to SEBI to demonstrate bona fides and absence of any wrong doing in the matter during the course of present proceedings. Noticee further requested to provide entire records and papers in possession of SEBI in the matter and to grant inspection of the same so as to respond to allegations made against it in the SCN. Noticee specifically sought documents viz, opinion recorded by WTM in the matter, investigation report along with annexures, alerts generated, if any related to options contracts, documents from which observations were made regarding option segment in present matter, complete trade and order log, correspondence exchanged, and documents received by SEBI from third party, statements recorded by SEBI in the matter, all other information, details, documents, material in relation to the subject matter not in knowledge of Noticee but is relevant in determination of the issues in the matter.
10. In response to the said letter, vide letter and e-mail dated January 2, 2019 Noticee was informed that that the allegations in respect of Noticee and to substantiate the same, all the relied upon information and records have already been mentioned / provided to Noticee in the SCN. It is also informed that there were no other information and records being relied upon in respect of Noticee in the present adjudication proceedings. In the said letter, Noticee was advised to submit its letter latest by January 18, 2019.
11. Noticee, vide its letter dated January 10, 2019 submitted its detailed reply to SCN. Key submissions from the same are as follows:
- “Noticee denied all the allegations and observations against it in the SCN.  
SEBI has not provided any evidence or proof to show that our trades were fraudulent. None of the ingredients of the FITP Regulations are attracted in the present case essentially because:*
- i. The trades were executed on the floor of the exchange with due compliance with all the rules and regulations of the exchanges;*
  - j. At no point of time was there any warning or any observation about the scrips / stocks which were executed by us;*
  - k. The observations regarding the stocks being illiquid is incorrect*
  - l. Even assuming the stocks were illiquid, then any small quantity or volumes would look significant as there are no active traders in the stock;*
  - m. For the transactions to be termed fraudulent, as per the definition of “fraud”, there has to be an “inducement” and SEBI has not even alleged inducement;*
  - n. There is no nexus, directly or indirectly with the counter party brokers or the clients in the present matter and SEBI has not even alleged this;*
  - o. The trades in question were in the normal course of business and there is nothing amiss in the trades executed by us;*
  - p. None of the traders are deceptive in nature or have any impact on the investors or their investment decision which is asine qua non of “fraud”;*
  - q. SCN is erroneous in as much as it is only a belated coercive use of power / action in terms of which poser is south to be used against 3-4 years back settled trades on the basis of wrong interpretation of power deemed to have been existed with SEBI under PFUTP Regulations;*
  - r. The SCN does not specify and consider facts matrix of our dealings in stock options segment of BSE. IT does not state the reasons, rationale, cause of action, locus and invoking of jurisdiction after over 3 years from the dates of settled transactions. The SCN is therefore arbitrary;*
  - s. The SCN fails to appreciate that when SEBI itself has not discharged its obligations of quick investigation, seeking explanation of parties at that time, declaring trades in stock options as illegal at the relevant time, subjecting to us to adjudication proceedings belatedly in unfair, unreasonable and absurd.*

*Upon reading of SCN it appear that various documents and data that are referred to and relied upon by SEBI in the*

*captioned proceedings as there is a disconnect in the charging provision and the allegation / observation mentioned in the Noticee. We therefore requested for an inspection so that the disconnect be fixed. In fact, serious allegation is made against us that we have committed "fraud" in the securities market without even providing the investigation report or any cogent evidence in this regard. Hence, we requested to produce and provide us the entire records and papers in possession of SEBI in the matter and to grant an opportunity of inspection of the same, to enable us to understand the allegations against us and to effectively respond to SCN. However, our legitimate request was denied and we have been called upon to file our reply. We submit that in the interest of natural justice and in order to enable us to comprehensively defend ourselves, SEBI ought to have provided us the details and information sought by our letter.*

*As regards to observation that we dealt in illiquid stock options, we submit that we traded in stock option contract of underlying scrips such as IFCI, AMTK, SMIL, Bank of Baroda, BHEL, etc, which are liquid and most of which make index of BSE. Thus, to allege that we deliberately traded in only those options which were illiquid in nature is unfair.*

*Apparently, SEBI has held that we transacted in illiquid options on the basis that our trades were in far-off strike prices and therefore very few entities were trading such strike rates. However, in that case, it may also be concluded that said trades could have had no effect on other investor or market at large and that such illiquidity would be reason for volatility and alleged 'reversal' transactions since variations in option price would be dramatic if the chosen strike price is thinly traded. BSE and SEBI have themselves allowed and permitted trading in options of 'far months' with a strike price which are at large variance to current market price. The fact that such parameters are laid down is clearly indicative of fact that options will always be in 'in the money' and 'out of money' and since regulators themselves permitted in the same, no adverse inference be drawn against us in this regard.*

*It is pertinent to mention that Stock Exchange regularly come out with list of illiquid scrips in cash segment. However, no such list is issued by exchanges or regulator for dealing in stock option contracts. Thus, to fasten the responsibility or allege a single individual entity that it traded in illiquid option is unwarranted and unfair.*

*Derivative market is 'zero-sum game' and thus in each and every case one party will inevitably make profit and counterparty will make loss. In capital market neither BSE nor SEBI can guarantee profit or loss to any individual / entity. In derivative trading, traders often make profit or loss over a period of time since the market does not always behave as per their prediction/expectation. Thus, profit and loss is concomitant to trading in derivative segment. The mere fact that we traded in option segment cannot be ground to rope us into present proceedings.*

*Profit by us while dealing in option segment was in ordinary course consequent to our bonafides trading in option segment. As per SCN in most of the cases our trades were low percentage of market. Going by logic of EBI, if these were illiquid stock options, then any trade and transactions would look significant. Additionally, we traded only on few days out of one and half of year of investigation period. Thus, it is erroneous to allege that our trades created artificial volume on BSE.*

*We submit that there was no major movement in price of underlying scrip which itself proves that our trades had no impact on market. Thus, our transactions neither distorted the equilibrium in market nor caused any loss or prejudice to investors at large.*

*With demurer, we submit that any kind of alleged fictitious/manipulative trade in cash segment may create distorted impression in minds of investors that price of scrip is rising/falling who may invest/divest from said scrip. However, in case of option segment there is no such effect since each contract expires at end of contract period and for every party who make profit there is counterparty who make a loss. There is no question of transfer of beneficial ownership in option segment since at the end of settlement cycle only net loss/profit is adjusted. Therefore, in our opinion, allegation of creation of 'artificial' or 'reversal' trade is of no consequence in option segment of exchange.*

*We did not act in concert or in collusion with anyone and nor we part of any group or connected with anyone for the purpose of influencing price of for any manipulative activity as alleged or otherwise. It is admitted position that there is no connection whatsoever between us and counterparties.*

*On analysis of the transactions provided to us with the SCN, we list 18 counterparties (names listed along with PAN in a table). We state and assert that we have no 'connection' or 'relation' with any of the said 18 counterparties to our trades. Our trading in the stock option segment was independent of any other entities dealing in the same and based on our limited understanding of capital market.*

*All our transactions have been carried out on the floor of stock exchange. Undisputedly, in case of screen based trading, the automated system itself matches orders on a price-time priority basis and hence, it is not possible for anybody to have access over identity of counterparty. Since counterparty identity is not displayed, one can never have any choice with whom it wants to deal or not to deal. Despite above, we state and assert that at no point of time were we aware of counterparty with which our transactions got matched since all our transactions were executed through normal screen based trading system of stock exchange where matching is done by automated on line trading module.*

*Further, we had dealt in stock option segment through a SEBI registered intermediary viz, Aryav Securities Pvt Ltd and Babubali Fore Pvt Ltd. From the data provided by SEBI, it can be observed that the counterparties (listed name of 18*

counterparties) were dealing with different broking entities (listed name of 7 brokers). We state, declare and assert that we had no prior meeting of minds with aforesaid broking entities as well as their clients, nor any contemporaneous knowledge about any alleged wrongdoing. We are not guilty of conduct which is contumacious or dishonest or acted in conscious disregard of law.

We would like to draw attention to the matter *Jagruti Securities* (2008 SCC online SAT 184) and *S.P.J Stockbroker Pvt Ltd* (2013 SCC Online SAT 67) wherein it was held that such trades cannot be treated a illegal per se unless there is some cogent connection between the counterparties or there is "mischievous meeting of minds amongst certain parties". We submit that such element is completely absent in the present case. On the same point attention was drawn to Hon'ble SAT order in the matter of *Sanjay Agrawal vs. SEBI*.

All our trades in option segment were within prudent 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 and frontline gate keepers of stock exchange. Had I been alerted by the broker or stock exchange we would have taken prompt and immediate corrective measures, if any, at that point in time only. Further, no cautionary warning, advisory, communication or alarm was raised by BSE at any point of time. In fact with state of art surveillance system, BSE could have annulled the trades at that point of time. It is pertinent to mention that it is only recently that BSE, vide notice dated March 8, 2016 announced that it has introduced measure for prevention of potential reversal trades in equity derivative segment w.e.f March 14, 2016. Thus, in case of potential reversal trade, second leg of a reversal trade shall automatically be cancelled by exchange in on-line real time basis. Only because online prevention measure and check and balances did not exist on relevant point of time to avoid inadvertent reversal trades no adverse inference be drawn against us in this regard.

Beside recording common generic allegations against us, not a single instance or observation on our specific role in alleged reversal is delineated in SCN. Such a approach in our submission is bad in law. In this regard reliance placed on case of commissioner of central excise, Bangalore vs Brindavan Beverages (P) Ltd and Ors [Civil Appeal 3417 of 2012] decided on June 15, 2007.

It is believed that there are no grievances by any investor, broker, stock exchange or any other agency concerned with respect to our dealing in the option segment of BSE.

We submit that in any business activity in stock market, one can either make profit or loss. We submit that at the relevant time we had no idea of any profit or loss in said transactions and we traded in option segment taking into account our 'risk and reward' parameters.

SEBI has discontinued proceedings against the brokers and intermediaries against whom similar allegations of dealing in illiquid stock options while executing trades on behalf of clients have been levelled. Similar recourse ought to be adopted on an individual entity like us.

We had followed and complied with all the procedures and requirements of capital market while dealing through SEBI registered intermediary. All the pre-trade, trade and post trade activities were carried out on the trading, clearing and settlement system of stock exchange which itself has sophisticated on line surveillance software and systems in place.

Based on above, it is apparent that we were not involved in any 'modus operandi' or manipulations while dealing in option segment of BSE. There is enough material on record to suggest that no further enquiry is required in the matter. Therefore, it is requested that the SCN be dropped without imposing any monetary penalty on us."

12. Vide letter dated January 28, 2019 and e-mail dated February 1, 2019, Noticee was granted opportunity of hearing on February 13, 2019. Authorised Representative (AR) of the Noticee, vide e-mail dated 13/02/2019 confirmed attendance for the hearing and enclosed authority letter from the Noticee in this regard. Subsequently, on February 13, 2019, AR of the Noticee appear for the hearing on behalf of the Noticee wherein they reiterated the submissions made in reply of the Noticee dated January 10, 2019.

## **CONSIDERATION OF ISSUES AND FINDINGS**

13. On perusal of the material available on record and giving regard to the facts and circumstances of the case and submissions of the Noticee, following issues require consideration in the present matter:

- a) Whether the Noticee has violated the provisions of Regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of PFUTP Regulations 2003?
- b) Does the violation, if any, on part of the Noticee attract monetary penalty under Section 15HA of SEBI Act?
- c) If so, what quantum of monetary penalty should be imposed on the Noticee taking into consideration the factors mentioned in Section 15J of the SEBI Act read with rule 5 (2) of the SEBI Adjudication Rules, 1995?

14. Aforesaid provisions alleged to have been violated by the Noticee reads as follows:

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;*

15. Before proceeding to the issues, the following technical issues raised by the Noticee are being addressed:

16. During the proceedings, Noticee requested to provide all the relied upon information and records in the present matter and also specifically mentioned few probable documents inter-alia including investigation report and its annexures, opinion of WTM, alert generated, complete trade and order log for investigation period, correspondence of SEBI with third parties, statement recorded during investigation, etc. In this regard, it is noted that all the relevant and relied upon information and records in respect of Noticee were already provided to Noticee in the SCN, wherein details of allegations in respect of Noticee have been provided and same was substantiated by the facts relating to the alleged non-genuine trades executed and artificial volume generated by Noticee. It is specifically noted that SCN provides relevant narrative on reversal trades being allegedly non genuine in nature, and further SCN provide trade log of all the trades executed by Noticee (along with time of orders) while dealing in F&O segment of BSE during the I.P. in form of annexure B to SCN, trade log of its all the alleged non genuine trades executed by Noticee (along with time of orders) during I.P. at BSE

in form of annexure C to SCN, and detailed contract wise summary of its dealing in all the 16 contracts in which it alleged to have executed non genuine trades in form of annexure D. Further, Noticee have been provided with copy of communique / order appointing Adjudicating Officer with direction to conduct present proceedings inter-alia in respect of the Noticee. From the above, it is pertinent to note that Noticee has been provided with all the relevant and relied upon information and records in respect of it, and further there are no other information and records being relied upon in the present matter in respect of the Noticee.

17. It is also contended that no role has been attributed to Noticee in the SCN in alleged reversal of trades and generic allegations have been mentioned. In this regard as noted above, Noticee was provided with relevant information about allegations made against it along with the supporting information in form of details of its alleged non genuine trades. Further, liberty was provided to Noticee to respond to the SCN.

**Issue a) - Whether the Noticee has violated the provisions of Regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of PFUTP Regulations 2003?**

18. Reversal trades were considered those trades in which an entity reverse its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. It has been alleged that the said reversal trades were non genuine trades as they were 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.
19. Since the aforesaid reversal trades did not effected change in beneficial ownership, it has been alleged that they created artificial volume. Artificial volume is considered to be the volume (no. of units) reversed in both legs of said reversal trades while keeping out the volume, if any, which is not reversed.
20. Noticee executed 69 reversal trades in 16 Stock option contracts, which were allegedly non genuine and same resulted into artificial volume of total 8360500 units. Contract wise dealings of Noticee in said 16 contracts during the I.P. is as follows:

Sl	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	No. of non genuine trades of Noticee in the contract	Artificial Volume generated by Noticee in the contract (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	ADPW15MAR56.00PEW1	0.94	552000	0.05	552000	3	1104000	100%	33%	100%	19%
2	AMTK15MAR155.00PEW2	3.2	530000	0.13	530000	8	1060000	100%	100%	100%	100%
3	APLT15MAR155.00CEW1	27.66	150000	14.5	150000	6	300000	100%	27%	100%	28%
4	BHEL15MAR270.00CE	4.4	158000	1.4	158000	2	316000	100%	14%	100%	17%

Sl	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	No. of non genuine trades of Noticee in the contract	Artificial Volume generated by Noticee in the contract (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
5	BOBL15FEB160.00CE	24.35	356250	17.41	356250	4	712500	100%	67%	100%	74%
6	BOBL15MAR160.00CEW1	16.39	435000	7.65	435000	3	600000	60%	33%	69%	53%
7	CARN15MAR255.00CEW2	8.15	375000	0.7	375000	7	750000	100%	100%	100%	100%
8	DISH15MAR80.00CEW2	2.25	148000	0.25	148000	2	296000	100%	9%	100%	4%
9	HAIL15MAR260.00CEW1	30.75	208000	11.4	208000	5	416000	100%	38%	100%	43%
10	IFCI15MAR38.00PEW2	1.7	384000	0.4	384000	2	768000	100%	50%	100%	33%
11	INCM15MAR105.00CE	5.85	388000	2	388000	2	776000	100%	13%	100%	22%
12	KARB15MAR125.00CEW1	20.2	132000	12.93	132000	5	264000	100%	56%	100%	90%
13	SMIL15MAR400.00PEW2	9.05	119000	0.1	119000	6	238000	100%	100%	100%	100%
14	SYND15MAR100.00CEW1	21.55	120000	12.1	120000	4	240000	100%	67%	100%	94%
15	ZEEL15MAR320.00CEW1	26.94	140000	14.1	140000	5	280000	100%	100%	100%	100%
16	ZEEL15MAR360.00PEW1	23.2	120000	12.8	120000	5	240000	100%	42%	100%	54%

21. It is noted that except contract viz, BOBL15MAR160.00CEW1, in rest 15 contracts, all the trades of Noticee were reversal trades. It shows that Noticee consistently indulge into reversal of trades with same counterparties on the same day. There was no change in beneficial ownership in the trades executed by Noticee, as upon reversal they did not carry any open positions of the entities involved. These reversal trades have therefore shown impression of trades in such contract without change in beneficial ownership, which was deceptive to the unsuspecting investors.
22. In each of the 16 contracts, Noticee reversed its trades at a price incurring losses to it. Further, as visible in the above table, in most of the contracts difference in buy and sell rates of these reversal trades was substantial considering that all these trades were reversed in a course of few seconds / few minutes on the same day.
23. It is also pertinent to note that Noticee through its reversal trades contributed significantly to the total no. of trades (up to 100%) and volume (up to 100%) in such contracts. In 10 of the 16 contracts, volume generated by Noticee contributed to 40% to 100% of the total volume in these contracts. It shows that Noticee through above reversal trades dominated the dealing in these stock option contracts.
24. As per SCN, Noticee undertaken reversal of trades in two legs, viz, first it entered into buy or sell trade with a certain counterparty, and subsequently in second leg, it reversed all the position taken in aforesaid trades through reverse sell or buy trades with same counterparty. Upon perusal of trade-log of the aforesaid 69 alleged non genuine reversal trades in 16 contracts, it is noted that Noticee executed two legs of reversal trades (buy / sell) within a short span of 4



seconds to 50 minutes from each other. It is pertinent to note that in significant 11 of the said 16 contracts, trades were reversed within short interval of 25 minutes and therein in 3 contracts, these reversal was undertaken within 7 seconds only. As already noted above, these reversal trades were executed by Noticee with significant difference / variation in buy and sell rates, incurring losses to Noticee.

25. For instance, gist of the dealing of Noticee in 3 contracts viz, BHEL15MAR270.00CE, DISH15MAR80.00CEW2, and IFCI15MAR38.00PEW2 is given below:

Sl.	Buyer Short Name	Seller Short Name	Rate (Rs.)	Trade Qty (no. of Units)	Trade Time (hh:mm:ss)	Buy order Time (hh:mm:ss)	Sell Order Time (hh:mm:ss)	Time difference in order entry (hh:mm:ss)	Time difference in reversal of trades (hh:mm:ss)
1	<b>Dealing in contract viz, BHEL15MAR270.00CE on 09/03/2015</b>								
(i)	Vishal Ferro Alloys	Chitragupta Sale & Services	1.4	158000	14:27:41	14:27:41	14:27:41	00:00:00	00:00:04
(ii)	Chitragupta Sale & Services	Vishal Ferro Alloys	4.4	158000	14:27:45	14:27:45	14:27:45	00:00:00	
2	<b>Dealing in contract viz, DISH15MAR80.00CEW2 on 20/02/2015</b>								
(i)	Prime Gold Internation	Chitragupta Sale & Services	0.25	148000	12:22:55	12:22:55	12:22:55	00:00:00	00:00:07
(ii)	Chitragupta Sale & Services	Prime Gold Internation	2.25	148000	12:23:02	12:23:02	12:23:02	00:00:00	
3	<b>Dealing in contract viz, IFCI15MAR38.00PEW2 on 19/02/2015</b>								
(i)	Shrawan Kumar Agrawal	Chitragupta Sale & Services	0.4	384000	13:38:30	13:38:29	13:38:30	00:00:01	00:00:05
(ii)	Chitragupta Sale & Services	Shrawan Kumar Agrawal	1.7	384000	13:38:35	13:38:35	13:38:35	00:00:00	

- a) While dealing in the contract viz, BHEL15MAR270.00CE on 09/03/2015, Noticee at 14:27:41 hrs executed sell trade for 158000 units at premium rate of Rs.1.4 per unit with counterparty viz, Vishal Ferro Alloys. Subsequently, within mere 4 seconds of the aforesaid trade, at 14:27:45 hrs, Noticee entered into reversal buy trade with same abovementioned counterparty for same no. of units, however, at relatively higher premium of Rs.4.4 per unit. It is noted that orders for execution of two legs of reversal trades were entered by Noticee and its aforesaid counterparty at the same time viz, 14:27:41 hrs and 14:27:45, respectively. It shows that there was synchronisation in placement of buy /sell orders by Noticee and its counterparty to match the trades. Above resulted into total 2 reversal trades with total volume 316000 units, wherein as two legs of reversal trades were entered at significant variation in price, same resulted into considerable losses to Noticee and gains to the counterparty. In the above reversal trades, positions of both the parties were squared off among themselves only and no open positions were carried forward, hence there was no change in beneficial ownership of the units traded in these trades. Volume generated in

these reversal trades was artificial volume without any change in beneficial ownership, and it gave misleading appearance of trading.

- b) While dealing in the contract viz, DISH15MAR80.00CEW2 on 20/02/2015, Noticee at 12:22:55 hrs executed sell trade for 148000 units at premium rate of Rs.0.25 per unit with counterparty viz, Prime Gold International. Subsequently, within mere 7 seconds of the aforesaid trade, at 12:23:02 hrs, Noticee entered into reversal buy trade with same abovementioned counterparty for same no. of units, however, at relatively higher premium of Rs.2.25 per unit. It is noted that orders for execution of two legs of reversal trades were entered by Noticee and its aforesaid counterparty at the same time viz, 12:22:55 hrs and 12:23:02, respectively. It shows that there was synchronisation in placement of buy /sell orders by Noticee and its counterparty to match the trades. Above resulted into total 2 reversal trades with total volume 296000 units, wherein as the two legs of reversal trades were entered at significant variation in price, same resulted into considerable losses to Noticee and gains to the counterparty. In the above reversal trades, positions of both the parties were squared off among themselves only and no open positions were carried forward, hence there was no change in beneficial ownership of the units traded in these trades. Volume generated in these reversal trades was artificial volume without any change in beneficial ownership, and it gave misleading appearance of trading.
- c) While dealing in the contract viz, IFCI15MAR38.00PEW2 on 19/02/2015, Noticee at 13:38:30 hrs executed sell trade for 384000 units at premium rate of Rs.0.40 per unit with counterparty viz, Shrawan Kumar Agrawal. Subsequently, within mere 5 seconds of the aforesaid trade, at 13:38:35 hrs, Noticee entered into reversal buy trade with same abovementioned counterparty for same no. of units, however, at relatively higher premium of Rs.1.70 per unit. It is noted that Noticee and its counterparty entered orders for aforesaid first leg of the reversal trades within interval of 1 second, and such orders for second leg of reversal trades were entered by both at the same time viz, 13:38:35 hrs. It shows that there was synchronisation in placement of buy /sell orders by Noticee and its counterparty to match the trades. Above resulted into total 2 reversal trades with total volume 768000 units, wherein as the two legs of reversal trades were entered at significant variation in price, same resulted into considerable losses to Noticee and gains to the counterparty. In the above reversal trades, positions of both the parties were squared off among themselves only and no open positions were carried forward, hence there was no change in beneficial ownership of the units traded in these trades. Volume generated in these reversal trades was artificial volume without any change in beneficial ownership, and it gave misleading appearance of trading.

26. Similar modus operandi was seen in the dealing of Noticee in rest of the contracts. Synchronisation of trades by Noticee and its counterparties is visible in the trading pattern exhibited in the said 16 contracts. It is noted that in 60 of the 69 trades of Noticee, time difference in placement of orders by Noticee and its counterparties was upto 60 seconds. It is specifically noted that in all the second leg trades when the prior trades were reversed, buy /

sell orders by Noticee and its counterparties were entered within very short interval of 0 to 2 seconds from each other. It is also pertinent to note that buy and sell order rate entered by Noticee and its counterparties in 65 of the 69 trades were same, and further, buy and sell order quantity entered by Noticee and its counterparty in 49 of the 69 trades were same. Hence, most of the reversal trades of the Noticee were resulted from the synchronised placement of orders by Noticee and its counterparties in close co-ordination. With the above precise synchronisation in placement of orders, Noticee and its counterparties ensured reversal of trades among them.

27. Noticee has argued that at no point of time it was aware of counterparty with which its transactions got matched since all its transactions were executed through normal screen based trading system of stock exchange where matching is done by automated on line trading module. In this regard, it is pertinent to note that considering the precision with which these trades were reversed consistently in synchronised manner, it will not be correct to hold that such trades were executed by Noticee anonymously in screen based trading system. It is pertinent to note that while synchronised trades may occur by accident in a liquid stock. However, execution of synchronised trades in an illiquid security indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price, and cannot take place without pre-arrangement.
28. Noticee has argued that it executed trades on the floor of the exchange with compliance with all the rules and regulation of exchanges. It is important to note that fulfilling procedural obligation for execution of trades viz, trades executed through broker at Stock Exchange, timely fulfilment of settlement obligations, etc, does not justify execution of non genuine trades as alleged in the present matter, and that the two are separate and distinct propositions.
29. Noticee has pointed out that BSE only in 2016 came with potential reversal trade prevention checks, and this facility to stop inadvertent reversal of trades was not available during the I.P. when Noticee traded in the option contracts. In this regard, it is noted that Noticee consistently matched its reversal trades with same respective counterparty through synchronised placement of orders. Consistency in such dealings across 16 contracts make it clear that these reversal trades were not inadvertent, however, were result of Noticee acting in concert with its counterparties to undertake the same. It is pertinent to note that due to such exploitation of trading systems by various entities, Stock Exchange, subsequently, had to take corrective measures to put appropriate bars at systems level to restrict such reversal of trades.
30. Fact is that Noticee indulged in repeated reversal of trades with same counterparties in pre-determined manner resulting into generation of artificial volume in 16 stock option contracts, and therefore such trades are considered non genuine, as rightly they are not executed in normal course of trading in which inter-alia trading happens in anonymous and spontaneous environment.

31. It is noted that various arguments presented by Noticee to hold its trades as genuine do not come close to provide any credible basis to indulge in such unjustified reversal of trades which have also resulted into artificial volume. For instance, from dealing of Noticee in 3 contracts illustrated in point 25 above, viz, BHEL15MAR270.00CE, IFCI15MAR38.00PEW2, and DISH15MAR80.00CEW2, it is seen that trades were reversed with significant variation in prices within mere 4, 5 and 7 seconds, respectively, after execution of initial trades. Similar modus operandi is noted in reversal trades undertaken by Noticee in said 16 contracts. Such variation in price is without reasonable basis as there was no justification for the significant price difference in the same contract in a span of a few minutes. Hence, these reversal trades leaves no doubt that such trades were not undertaken in normal course.
32. These trades executed by Noticee makes no economic sense as Noticee consistently indulge into reversal of trades incurring losses to it. Further, it is not mere coincidence that Noticee in all the 16 contracts could match its trades consistently with same counterparties with whom it undertaken first leg of respective reversal trades. In fact, Noticee and its counterparties put deliberate effort to place their orders very close to each other to ensure reversal of trades among them at pre-determined prices. These trades were executed with precision to match with the same counterparty, and they resulted into generation of artificial volume and misleading appearance of trading in these contracts. It is clear that such reversal trades do not follow the basic trading sense or rationale, hence, same can be termed as non genuine. In this regard, reliance is also placed on following observation in judgement of Hon'ble Supreme Court in the matter in the matter of SEBI vs. Rakhi Trading Pvt Ltd in Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on 08.02.2018, which was a similar case involving execution of reversal trades in index options.
- "31.... The non-genuineness of these transactions is evident from the fact that there was no commercial basis to suddenly, within a matter of minutes, reverse a transaction when the value of the underlying had not undergone any significant change.*
- "35.....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...".*
- "73. Applying the test laid down in Kishore R. Ajmera case to the present case, I find that by cumulative analysis of the reversal transactions between Respondent and Kasam Holding, quantity, time and significant variation of prices, without major variation in the underlying price of the securities clearly indicate that the Respondent's trades are not genuine and had only misleading appearance of trading in the securities market, without intending to transfer beneficial ownership.*
33. Noticee has offered arguments viz, it entered reversal trades with 18 counterparties which were dealing through 7 Stock Brokers, it had no connection with these counterparties, and it did not colluded or acted in concert with them to execute the alleged trades. Though the above submissions are made, however, there are counterparties with which Noticee have dealt on more than one contract viz, AHK Developers in 5 contracts, Sourabh H Bora, UB Ventures and Shristi Cement in 2 contracts. Further, it is pertinent to note that irrespective of the fact that Noticee dealt with multiple counterparties, Noticee while dealing with its counterparties

indulge in execution of reversal trades with synchronisation of its orders. It is specifically noted that in all the said 16 contracts, Noticee and its counterparties entered orders in synchronised manner with close proximity of up to 2 seconds to ensure reversal in second leg of the reversal trades. Such consistency in dealing pattern is beyond coincidence, specifically in scenario when Noticee was incurring losses in each set of its reversal trades. Hence, evidently, Noticee acted in concert with its counterparties to undertake reversal of trades in pre-determined manner, which would not have been possible without prior meeting of mind. In this regard, reliance is placed on following observation in judgement of Hon'ble Supreme Court in the matter of SEBI vs. Rakhi Trading Pvt Ltd in Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on 08.02.2018, which was a similar case involving execution of reversal trades in index options.

*"92. 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....."*

Reliance is also placed on following observation in judgement of hon'ble Supreme Court of India in the matter of SEBI Vs Kishore R. Ajmera in Civil Appeal No. 2818 of 2008 decided on February 23, 2016, which has similar scenarios as of the present case:

*"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."*

34. It is common knowledge that trades in securities market are executed with economic sense, and in normal course attempt is to earn profit. However, it is pertinent to note that trading behaviour of Noticee did not exhibit attempt to make profits, and in fact has shown contrary behaviour. In a gist, trading behaviour in these trades of Noticee do not make any economic sense, and appear as means to book gains and losses by the participating entities.
35. It has been noted that there was no change in beneficial ownership of the volume reversed in non genuine trades of Noticee as positions of both the parties in these trades were squared off among themselves only, and no open positions were carried forward. Hence, the volume generated in 69 non genuine reversal trades of Noticee was artificial volume which created misleading appearance of trading. It is pertinent to note that Regulation 4(2)(a) of PFUTP Regulations 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".

36. It is also pertinent to note that artificial volume generated from the said non genuine trades shown misleading appearance of trading in aforesaid 16 contracts to the unsuspecting investors. These non genuine and deceptive trades are covered under the definition of 'fraud' and dealing of Noticee noted hereinabove were 'fraudulent' as defined under regulation 2(1)(c) of SEBI PFUTP Regulations, 2003. Further, it cannot be ignored that repeated synchronisation of trades in pre-determined manner had an adverse impact on the fairness, integrity and transparency in the securities market.
37. In view of the above, it is clear that Noticee indulge in execution of 69 non genuine trades in 16 contracts and created artificial volume of 8360500 units. Such act of Noticee was deceitful and misleading to other unsuspecting investors, and amounts to manipulation of volume in these contracts. It is clear that by indulging in such execution of non genuine trades, Noticee created a misleading impression of trading in said stock option contracts in a fraudulent manner, and thereby, it violated provisions of Regulations 3(a), 4(1) and 4(2)(a) of PFUTP Regulations, 2003.

**Issue b) – Does the violation, if any, on part of the Noticees attract monetary penalty under Section 15HA of SEBI Act?**

38. Given the findings hereinabove, it is clear that the reversal trades undertaken by Noticee were non genuine, and resulted into artificial volumes in 16 stock option contracts. It is also noted that Noticee has deliberately acted in this manner. The above conduct of Noticee has therefore violated the provisions of Regulations 3(a), 4(1) and 4(2)(a) of PFUTP Regulations, 2003.
39. Reliance is also placed on order of the Hon'ble Supreme Court of India in the matter of *SEBI Vs. Shri Ram Mutual Fund* [2006] 68 SCL 216(SC), where honourable court has also 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..."*
40. Hence, the Noticee is liable for monetary penalty under Section 15HA of SEBI Act, which states as follows:

**88[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 89[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].*

88 Inserted by the SEBI (Amendment) Act, 2002, w.e.f.29-10-2002.

89 Substituted for the words —twenty-five crore rupees or three times the amount of profits made out of such failure, whichever is higher by the Securities Laws (Amendment) Act, 2014, w.e.f. 08-09-2014

**Issue c) - If so, what quantum of monetary penalty should be imposed on the Noticee taking into consideration the factors mentioned in Section 15J of the SEBI Act read with rule 5 (2) of the SEBI Adjudication Rules, 1995?**

41. While determining the quantum of penalty under section 15HA of SEBI Act, it is important to give consideration to the factors stipulated in section 15J of SEBI Act, which reads as follows:

**Section 15J of SEBI Act - Factors to be taken into account by the Adjudicating Officer**

*While adjudging quantum of penalty under section 15-I of SEBI Act, 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.”*

*93 [Explanation.—For the removal of doubts, it is clarified that the power of an adjudicating officer 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.]*

93 Inserted by Part VIII of Chapter VI of the Finance Act, 2017 vide Gazette Notification No. 7, Extraordinary Prt II Section 1 dated March 31, 2017. This shall come into force from April 26, 2017.

42. Records shows the amount of gain / loss of the entities involved in non genuine trades including the Noticee, however, it is pertinent to note that entities involved in such trades have either booked gains or loss from the dealings at the Stock Exchange. These gain / loss at Stock Exchange thus appears to be notional.
43. Hence, the impact of these non genuine trades has been considered. It is noted that the trading was in illiquid stock option contracts where there was nil or negligible participation by the public. 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 actual 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.
44. It has been noted that Noticee executed 69 non genuine trades in 16 Stock Option Contracts, and generated artificial volume of total 8360500 units. Though the Noticee had insignificant contribution when its dealings are compared with entire sock option segment at BSE during the I.P. However, it had significant contribution in trading in said 16 stock option contracts through its aforesaid non genuine trades and resulting artificial volume, as it contributed to upto 100% of the total no. of trades and total volume in such contracts.

## **ORDER**

45. In view of the above, after taking into consideration all the facts and circumstances of the case, violation established as mentioned above, a monetary penalty of Rs. 5,00,000/- (Rupees Five Lakh only) is hereby imposed upon Noticee viz, Chitragupta Sales & Services Private Limited under Section 15HA of SEBI act for violation of Regulations 3(a), 4(1) and 4(2)(a) of PFUTP Regulations, 2003.
46. The Noticee 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, or through e-payment facility into Bank Account, the details whereof are as follows:-

<b>Account No. for remittance of penalties levied by Adjudication Officer</b>	
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

47. The Noticee shall forward the said Demand Draft or the details / confirmation of penalty so paid through e-payment to the Division Chief of the Enforcement Department 1 (EFD1) – Division of Regulatory Action (DRA 1) of SEBI.
48. The format for forwarding details / confirmations of e-payments shall be made in the following tabulated form as provided in SEBI Circular no. SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017 and details of such payment shall be intimated at e-mail ID: [tad@sebi.gov.in](mailto:tad@sebi.gov.in):

Date	
Department of SEBI	
Name of Intermediary / Other Entity	
Type of Intermediary	
SEBI Registration no. (If any)	
PAN	
Amount (in Rupees)	
Purpose of payment (including the period for which payment was made e.g, Quarterly, Annually)	
Bank Name and Account Number for which payment is remitted	
UTR No.	

49. In terms of rule 6 of the SEBI Adjudication Rules, copies of this order is being sent to the Noticee and also to the SEBI.

**Date: February 28, 2019**  
**Place: Mumbai**

**Jeevan Sonparote**  
**Adjudicating Officer**