

BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/KS/AS/2020-21/10123]

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

Rohan Finance & Securities Limited

(PAN: AABCR1905P)

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 2,91,643 trades comprising substantial 81.38% of all the trades executed in stock options segment of BSE during the IP 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 IP. It was observed that Rohan Finance & Securities Limited (hereinafter referred to as the “**Noticee**”) was one of the various entities which indulged in execution of reversal trades in stock options segment of BSE during the IP. Such trades were observed to be non-genuine in nature and created false or misleading appearance of trading in terms of artificial volumes in stock options and therefore alleged to be manipulative, deceptive in nature. In view of the same, SEBI initiated adjudication proceedings against the Noticee for 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. The undersigned was appointed as the Adjudicating Officer vide order dated April 3, 2018, 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 “**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 Adjudication Rules and Section 15HA of SEBI Act, 1992.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A Show Cause Notice dated September 21, 2018 (hereinafter referred to as 'SCN') was issued to the Noticee under Rule 4(1) of the Adjudication Rules to show-cause as to why an inquiry should not be initiated against the Noticee and why penalty should not be imposed upon the Noticee under Section 15HA of the SEBI Act, 1992 for the violations alleged to have been committed by the Noticee.
5. It was *inter alia* alleged in the SCN that the Noticee had executed 44 non genuine trades in 22 Stock Options contracts which resulted in artificial volume of total 20,04,000 units. The Noticee made a loss of approx. Rs. 1,27,94,000 by executing non genuine trades during the I.P. Summary of dealings of the Noticee in 22 Stock Options contracts, in which the Noticee allegedly executed non genuine trades during the I.P, is as follows:

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (No. of units)	Avg. Sell Rate	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	ADPW15MAY56.00PEW2	15.80	84000	7.50	84000	100%	100%	100%	100%

2	ALBK15APR130.00PEW3	31.80	68000	17.10	68000	100%	33%	100%	52%
3	ALBK15JUN85.00CEW1	22.40	104000	13.10	104000	100%	100%	100%	100%
4	ALLD15APR45.00CE	24.15	56000	15.20	56000	100%	100%	100%	100%
5	ALLD15JUN50.00CEW1	21.45	44000	12.35	44000	100%	100%	100%	100%
6	ANBK15MAY105.00PEW1	29.75	36000	15.85	36000	100%	100%	100%	100%
7	BOSH15MAR26000.00PEW1	700.00	3000	26.00	3000	100%	50%	100%	92%
8	CANB15MAY430.00PEW3	80.40	9000	47.10	9000	100%	100%	100%	100%
9	HAIL15MAY330.00PEW3	61.05	4000	36.05	4000	100%	100%	100%	100%
10	IDBI15MAY95.00PEW3	26.75	24000	15.30	24000	100%	50%	100%	32%
11	IDEA15MAY220.00PEW3	44.15	18000	27.50	18000	100%	100%	100%	100%
12	IDFC15JUN190.00PEW1	37.45	8000	21.80	8000	100%	100%	100%	100%
13	IOBL15APR34.00CE	9.40	72000	5.90	72000	100%	100%	100%	100%
14	JAIA15MAY34.00PEW1	14.90	80000	8.50	80000	100%	100%	100%	100%
15	LNTF15APR40.00CE	25.40	52000	15.80	52000	100%	100%	100%	100%
16	LNTF15MAY110.00PE	46.95	56000	28.05	56000	100%	100%	100%	100%
17	PTCI15MAY50.00CEW1	23.95	92000	13.10	92000	100%	100%	100%	100%
18	SAIL15MAY95.00PE	30.25	72000	17.50	72000	100%	100%	100%	100%
19	TATP15JUN50.00CEW1	27.35	20000	14.85	20000	100%	100%	100%	100%
20	TATP15MAY100.00PEW1	24.60	28000	13.90	28000	100%	100%	100%	100%
21	TGBL15MAY180.00PEW1	37.75	20000	21.75	20000	100%	100%	100%	100%
22	UCOB15JUN85.00PEW1	22.20	52000	12.60	52000	100%	50%	100%	57%

6. From the above table, following was noted as regards to dealings of the Noticee:

- (a) The Noticee has executed non genuine trades in 22 contracts, wherein all trades of the Noticee in the said 22 contracts were non genuine trades.
- (b) No. of non-genuine trades of the Noticee has significantly contributed to the total no. of trades from the market in the above contracts, as 33% to 100% of the trades that happened in the aforementioned contracts were due to non-genuine trades executed by the Noticee.
- (c) A substantial 100% of volume generated by the Noticee in each of the above contracts was artificial volume, and further artificial volume

generated by the Noticee also contributed to 32% to 100% of the total volume from the market in said contracts.

(d) Non genuine trades executed by the Noticee in above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

7. The SCN issued to the Noticee was sent via Speed Post Acknowledgement Due and via a digitally signed email. Thereafter, the Noticee, vide its letter dated November 26, 2018 submitted the following:

1. *Upon Perusal of the SCN it appears that there are certain data/information available with SEBI in connection with the matter but which has not been provided with the SCN. Only certain selective information and data appears to have been provided. Therefore, In respect of the above SCN, we request SEBI to grant us an opportunity of inspection of document including procedural part of the proceedings which are equally important to determine the issue arising out of SCN.*
2. *We would like to draw your attention to the order of Hon'ble Delhi High Court dated July 09, 2018 in the matter of Amit Jain (W.P. (C) 8394/2014), where the SCN for alleged violation of SEBI (PIT) Regulations, 1992 was set aside on the grounds that proper procedure was not followed by SEBI.*
3. *In light of the above and for the purpose of enabling us to effectively respond to the allegations mentioned in the SCN, we request the following documents be provided to us in the interest of natural justice:*
 - (a) *Copy of investigation report and all necessary documents indicating the action proposed and action approved by the Board.*
 - (b) *Date on which the findings of the investigation were put up for the information/knowledge of the Whole Time Member.*
 - (c) *Copy of the material placed before the Whole Time Member to decide that there were sufficient grounds to enquire into the alleged violations.*

(d) Details of all the material placed before the WTM on the basis of which he decided to initiate proceedings against us.

(e) Date on which investigation report was approved by WTM and the present proceedings was approved.

(f) Copy of the file notings of WTM when he/she appointed Adjudicating Officer.

(g) Copy of reasons recorded by the Board, Chairman, member or the Executive

Director that there are reasonable grounds to investigate the affairs of the Noticee in the said matter.

(h) Copy of Order of the Board authorizing investigation in the matter.

4. *We humbly submit that it is not possible for us to provide our response until all the documents are inspected by us and a copy of the same is provided to us. We humbly request SEBI not proceed in the matter till our request for inspection of documents is pending and follow the principles of natural justice.*
5. *We reserve the right to present evidence, conduct cross examination, and seek additional documents under inspection, make additional submissions and avail an opportunity of personal hearing after the completion of inspection of documents in the aforesaid matter.*
6. *We also request that no adverse order may be passed against us during the pendency of our request for inspection of documents and personal hearing.*

8. Vide letter dated December 13, 2018, Noticee's request for inspection of documents made vide letter dated November 26, 2018 was accepted and forwarded to the relevant Department. Further, vide letter dated March 03, 2020, it was conveyed to the Noticee that as per the records, the relevant Department provided opportunity to the Noticee for inspection of documents, however, the Noticee expressed its inability to attend the same

and requested for copies of the documents that were to be made available during the inspection. In view of aforesaid request, Noticee was provided with the soft copies of relied upon documents vide email dated February 17, 2020. Further, vide aforesaid letter, Noticee was granted an opportunity of personal hearing on March 12, 2020.

9. Vide letter dated march 06, 2020, Noticee submitted that it was unable to appear in person at SEBI, Mumbai Office due to some financial issues, and requested for opportunity of hearing at SEBI, ERO office. Vide letter dated March 17, 2020, Noticee's request was acceded to and opportunity of personal hearing was granted on March 27, 2020 at SEBI, ERO office. Vide letter dated April 22, 2020, it was conveyed that hearing dated March 27, 2020 was postponed due to COVID pandemic and further, Noticee was granted opportunity of personal hearing on May 11, 2020 at SEBI ERO office. Vide email dated May 09, 2020, it was conveyed to the Noticee that the hearing dated May 11, 2020 had been postponed due to COVID pandemic.

10. Vide letter dated June 10, 2020, Noticee submitted the following:

We refer to your above mentioned letter wherein you have provided us an Opportunity for the Personal hearing on March 27, 2020.

In this context, we bring to your knowledge that the above mentioned letter has been received by us on 3 June 2020 due to lockdown situation in the country.

Further in reference to the above it is to inform you that due to non-receipt of the letter and lock down situation, we have not been able to attend the hearing organised by you.

As you may be aware that due to COVID 19 Situation in the country and particularly in Kolkata our office is working with minimal operations and poor staff attendance due to which immediate attendance for hearing is a hindrance. Moreover, the reason being that the working papers is yet to be prepared in consultation with our consultants along with the relevant employee who was looking after the matter.

In View of the same it is hereby requested to kindly schedule the hearing in the 1 week of August 2020, which will enable us to prepare the documentation considering the COVID 19 situation.

If given an opportunity the hearing can be attended from SEBI-ERO Kolkata office so that our concerned Person can attend the hearing on the said matter with the SEBI Officials.

If permitted to appear from SEBI Kolkata Office then we will inform you the details of Person who will attend.

We also request that no adverse order may be passed against us during the pendency of our above mentioned request.

11. Vide letter dated June 19, 2020, Noticee was granted opportunity of personal hearing on July 03, 2020 in SEBI ERO office. Vide letter dated June 29, 2020 Noticee submitted the following:

As you may be aware that due to Covid 19 situation in the country and particularly in Kolkata our office is working with minimal operations and poor staff attendance due to which immediate attendance for hearing is a hindrance. Moreover, the reason being that the working papers is yet to be prepared in consultation with our consultants along with the relevant employee who was looking after the matter.

We had discussed this matter with our consultants but due to Covid-19 spreading so fast that no Professionals are willing to take up the assignment for hearing and preparing the documents.

In View of the same it is hereby Once again requested to kindly schedule the hearing in the 1st week of August 2020, which will enable us to prepare the documentation considering the Covid 19 situation.

If given an Opportunity the hearing can be attended from SEBI-ERO Kolkata office so that our concerned Person can attend the hearing on the said matter with the SEBI Officials.

If permitted to appear from SEBI Kolkata Office then we will inform you the details of Person who will attend.

We also request that no adverse order may be passed against us during the pendency of our above mentioned request.

12. Vide email dated July 02, 2020, Noticee was granted an opportunity of personal hearing on July 29, 2020 at SEBI ERO office. Vide letter dated July 21, 2020, Noticee requested for postponement of hearing on account of COVID pandemic. Vide letter dated August 18, 2020, Noticee was granted another opportunity of personal hearing on September 03, 2020 at SEBI ERO office. Vide letter dated September 01, 2020, Noticee submitted the following:

We refer to your above mentioned Letter wherein you have provided us the Final Opportunity for the Personal hearing on September 03, 2020.

It is further to bring to your knowledge that our management was preparing for hearing on Sept 03, 2020 with SEBI but in the mean time we have

come to the knowledge that SEBI has come out with one time settlement options in the above case for which we have received the notification.

Accordingly, our legal team has verified by the same on the SEBI Portal wherein the details of the settlement amount are mentioned. Further the option is in force till 31st October 2020 before which it has to be opted else the same will be invalidated.

The matter has been placed before the board of directors and accordingly it has been advised to engage a senior lawyer in the matter to seek his opinion whether the company should opt for the settlement scheme or not. More likely our management will move on to take the decision for settlement options instead of going into the veracity of the case and indulge in hearing of the matter.

Based-on the one time: settlement scheme options in place by SEBI, it is hereby requested to kindly allow us to analyse the option and opt for it instead of the scheduled hearing on 3rd September 2020.

We also request that no adverse order may be passed against us during the pendency of our above mentioned request.

13. Subsequently, vide office note dated January 07, 2021, the Settlement Division of SEBI communicated the list of entities against whom adjudication proceedings were initiated and who did not avail of the Settlement Scheme, 2020, introduced vide public notice dated July 27, 2020, under Regulation 26 of the SEBI (Settlement Proceedings) Regulations, 2018 to provide a one-time settlement opportunity to all the entities against whom enforcement proceedings were approved in the matter of trade reversals in illiquid stock options segment at BSE. In this

regard, it was noted that name of the Noticee appeared in the said list of the entities who had not availed of the scheme.

14. Further, vide letter dated January 14, 2021, Noticee was granted final opportunity of hearing on January 19, 2021. Vide letter dated January 18, 2021, Noticee submitted that:

We refer to your above mentioned Letter wherein you have provided us the Opportunity for the Personal hearing on January 19, 2021.

This letter has been received by us on 14th January 2021 through email; however, the concerned officer who was Incharge for looking after the legal matters was COVID Positive. Further our team went on to discuss the matter with our external advisor who was supposed to appear for this hearing but since the main person who had been handling the matter from beginning was not present to discuss in length the matter, therefore the consultant has refused to appear before you on the specified date.

Under such conditions we are extremely sorry to inform you at the last moment but there is no choice rather than requesting for one last time extension on the same.

Considering the above scenario, It is highly requested to grant us time till second week of February 2021 so that we can prepare ourself.

Your cooperation in this regard will be highly appreciated.

We also request that no adverse order may be passed against us during the pendency of our above mentioned request.

15. Vide email dated January 18, 2021, following was conveyed to the Noticee:

It is noted that you have already taken several adjournments in the captioned subject matter. In this regard, you may note that no further request for adjournment of the hearing scheduled tomorrow (i.e. January 19, 2021 at 03:15 pm) will be entertained. Credentials for webex hearing is already sent to you through email id anande@sebi.gov.in.

Please note that if you fail to appear for the hearing on the aforementioned date, the matter shall be proceeded on the basis of the material available on record.

16. Vide email dated January 19, 2021, Noticee submitted the following:

We are fully aware that we have taken many adjournments, but it must be noted here that all has occurred due to COVID 19 situation in the country. Even after this email we tried to convince our legal consultant to appear before the Adjudicating Officer, but he has completely denied. No one from our office is qualified enough to attend this hearing.

Under such situation kindly allow one last opportunity of extension to present our matter before the adjudicating officer in proper manner.

17. In this regard, it was conveyed to the Noticee vide email dated January 19, 2021, that no further adjournment of the personal hearing in the matter was possible. Further, Noticee did not avail the opportunity of personal hearing through webex platform (video conferencing) on scheduled date and time i.e. on January 19, 2021 at 03:15 pm. It is noted that the Noticee did not join the scheduled hearing via video conference even though the login

credentials were duly received by it through email. The log report of the meeting is also on record.

CONSIDERATION OF ISSUES AND FINDINGS

18. I have carefully perused the charges levelled against the Noticee, its 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 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?

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

20. I note that the allegation against the Noticee is that, while dealing in the stock option contracts at BSE during the IP, the Noticee had executed reversal trades which were allegedly non-genuine trades and the same have resulted in the 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 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 & manipulative.

21. I note from the trade log of the Noticee that it had traded in 25 unique contracts in the stock options segment of BSE during the IP. It is observed that the Noticee had executed 44 non-genuine trades in 22 contracts. I further note that the above mentioned trades of the Noticee had resulted in the creation of artificial volume of a total of 20,04,000 units in the said 22 contracts and the said trades have also resulted in a close out difference of approximately Rs. 1,27,94,000 against the Noticee.

Summary of non-genuine trades of Noticee is as follows:

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (No. of units)	Avg. Sell Rate	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	ADPW15MAY56.00PEW2	15.80	84000	7.50	84000	100%	100%	100%	100%
2	ALBK15APR130.00PEW3	31.80	68000	17.10	68000	100%	33%	100%	52%
3	ALBK15JUN85.00CEW1	22.40	104000	13.10	104000	100%	100%	100%	100%
4	ALLD15APR45.00CE	24.15	56000	15.20	56000	100%	100%	100%	100%
5	ALLD15JUN50.00CEW1	21.45	44000	12.35	44000	100%	100%	100%	100%
6	ANBK15MAY105.00PEW1	29.75	36000	15.85	36000	100%	100%	100%	100%
7	BOSH15MAR26000.00PEW1	700.00	3000	26.00	3000	100%	50%	100%	92%
8	CANB15MAY430.00PEW3	80.40	9000	47.10	9000	100%	100%	100%	100%
9	HAIL15MAY330.00PEW3	61.05	4000	36.05	4000	100%	100%	100%	100%
10	IDBI15MAY95.00PEW3	26.75	24000	15.30	24000	100%	50%	100%	32%
11	IDEA15MAY220.00PEW3	44.15	18000	27.50	18000	100%	100%	100%	100%
12	IDFC15JUN190.00PEW1	37.45	8000	21.80	8000	100%	100%	100%	100%

13	IOBL15APR34.00CE	9.40	72000	5.90	72000	100%	100%	100%	100%
14	JAIA15MAY34.00PEW1	14.90	80000	8.50	80000	100%	100%	100%	100%
15	LNTF15APR40.00CE	25.40	52000	15.80	52000	100%	100%	100%	100%
16	LNTF15MAY110.00PE	46.95	56000	28.05	56000	100%	100%	100%	100%
17	PTCI15MAY50.00CEW1	23.95	92000	13.10	92000	100%	100%	100%	100%
18	SAIL15MAY95.00PE	30.25	72000	17.50	72000	100%	100%	100%	100%
19	TATP15JUN50.00CEW1	27.35	20000	14.85	20000	100%	100%	100%	100%
20	TATP15MAY100.00PEW1	24.60	28000	13.90	28000	100%	100%	100%	100%
21	TGBL15MAY180.00PEW1	37.75	20000	21.75	20000	100%	100%	100%	100%
22	UCOB15JUN85.00PEW1	22.20	52000	12.60	52000	100%	50%	100%	57%

22. It is noted that the Noticee had executed non-genuine trades in 22 contracts, wherein percentage of non-genuine trades of the Noticee in stock options contracts to total trades in the contracts were in the range of 33% to 100%. A substantial 100% of volume generated by the Noticees in each of the above contracts was artificial volume, and further artificial volume generated by the Noticee also contributed to significant 32% to 100% of the total volume from the market in the said contracts. Non-genuine trades executed by the Noticee in the above contracts had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

23. I note from the trade log that the trades executed by the Noticee in a contract were squared up within a short span of time with its counterparties. To illustrate, the Noticee on May 12, 2015 at 13:49:22 hrs entered into 1 sell trade with counter party viz. Krishna Jaluka for 84,000 units at rate of Rs. 7.5 per unit in the contract "ADPW15MAY56.00PEW2". Thereafter, on the same day, Noticee at 14:02:25 hrs entered into 1 buy trade with same counterparty for 84,000 units at the rate of Rs. 15.8 per unit in the same

contract. It is noted that while dealing in the said contract during the I.P., the Noticee executed 2 reversal trades (1 sell trade + 1 buy trade) with same counterparty viz. Krishna Jaluka on the same day and with significant price differential in buy and sell rate. Thus, the Noticee, through its dealing in the contract viz. "ADPW15MAY56.00PEW2" during the I.P., executed 2 non genuine trades which is 100% of the total trades from the market in the said contract during the I.P., and thereby, Noticee generated artificial volume of 1,68,000 units which was 100% of the volume traded in the said contract from the market during the I.P.

24. 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 its counterparties with significant price difference. I note from the trade log of the Noticee that the time taken by the Noticee for reversing its non-genuine trades ranged from 36 seconds to 45 minutes & 30 seconds, on the same day. Such a short span of time taken for reversing the trades in an illiquid stock option contract suggests the non-genuineness of these trades executed by the Noticee. The fact that the transactions in a particular contract were reversed with the same counterparties indicates a prior meeting of mind 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 contracts, 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. Thus, it is observed that Noticee had indulged in reversal trades with its counterparties in the stock options segment of BSE and the same were non-genuine trades.

25. I note that it is not mere coincidence that Noticee could match its trades with the same counterparties with whom it had undertaken first leg of the respective trades. This is the outcome of meeting of minds elsewhere and it was a deliberate attempt to deal in such a fashion. Here I would like to rely on the judgment of Hon'ble Supreme Court in SEBI v Kishore R Ajmera (AIR 2016 SC 1079), wherein it was held that - *"...in the absence of direct proof of meeting of minds elsewhere in synchronized transactions, the test should be one of preponderance of probabilities as far as adjudication of civil liability arising out of the violation of the Act or provision of the Regulations is concerned. The conclusion has to be gathered from various circumstances like that volume of the trade effected; the period of persistence in trading in the particular scrip; the particulars of the buy and sell orders, namely, the volume thereof; the proximity of time between the two and such other relevant factors. The illustrations are not exhaustive..."*

26. The Hon'ble Supreme Court further observed 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."

27. I note that direct evidence is not forthcoming in the present matter as regards to meeting of minds or collusion of the Noticee with other entities. However, I note that the trading behaviour of the Noticee makes it clear that aforesaid non-genuine trades could not have been possible without meeting of minds at some level. In this context, I deem it appropriate to refer to the Hon'ble SAT order dated July 14, 2006, in the case of Ketan Parekh vs. SEBI (Appeal no. 2/2004), wherein the Hon'ble SAT has observed that - *"The nature of transactions executed, the frequency with which such transactions are undertaken, the value of the transactions, the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is from the cumulative effect of these that an inference will have to be drawn."*

28. Further, I place my reliance on the judgment of Hon'ble Supreme Court in the matter in respect of SEBI v Rakhi Trading Private Limited (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 8, 2018), in which the Hon'ble Supreme Court observed 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.....”

29. The trading behaviour of the Noticee confirms that such trades were not normal and wide variation in prices of the trades in the same contract in a short time without any basis for such wide variation, all indicate that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contracts. In view of the above, I find that the allegation of violation of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations by the Noticee stands established. The Hon'ble Supreme Court of India in the matter of SEBI Vs. Shri Ram Mutual Fund [2006] 68 SCL 216(SC) held that - *“In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant...”*

30. In view of the same, I am convinced that it is a fit case for imposition of monetary penalty on the Noticee under the provisions of Section 15HA of the SEBI Act, which reads as under:

¹***[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 ²[which shall not be less than five lakh rupees but which may extend to twenty - five crore rupees or three times the amount of profits made out of such practices, whichever is higher].*

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

Factors to be taken into account by the adjudicating officer.

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

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

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

(c) the repetitive nature of the default.

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.

¹ Inserted by the SEBI (Amendment) Act, 2002, w.e.f.29-10-2002.

² 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

32. Though the records available before me does mention about amount of gain/loss of the entities involved in the non-genuine trades including the Noticee. However, it is worth considering that entities involved in these non-genuine trades have either booked gains or loss and the gains or loss appears to be of notional in nature. Generally, there is nil or negligible participation of the public in the trading in illiquid stock option contracts. Hence, the impact of these non-genuine trade has been considered. When the impact of artificial volume created by the two counterparties is seen as a whole, it is not possible from the material on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counter parties or the consequent loss caused to investors as a result of the default. The Noticee has entered into 44 non-genuine transactions in 22 stock option contracts which demonstrates the repetitive nature of the default on its part.

ORDER

33. 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 the powers conferred upon me under Section 15-I of the SEBI Act, 1992 read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of Rs. 5,00,000 /- (Rupees Five Lakh only) on the Noticee viz. Rohan Finance & Securities Limited under the provisions of Section 15HA of the SEBI Act, 1992. I am of the view that the said penalty is commensurate with the lapse/omission on the part of the Noticee.

34. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order 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. In case of any difficulties in payment of penalties, the Noticee may contact the support at portalhelp@sebi.gov.in.
35. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under Section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.
36. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticee viz. Rohan Finance & Securities Limited and also to the Securities and Exchange Board of India.

Date: January 20, 2021

Place: Mumbai

K SARAVANAN

ADJUDICATING OFFICER