

Sebi Vs. Cfl Securities Ltd.

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Court : SEBI Securities and Exchange Board of India or Securities Appellate Tribunal SAT

Decided On : Sep-29-2004

Judge : A Batra

Appellant : Sebi

Respondent : Cfl Securities Ltd.

Judgement :

A.K. Batra, Member BACKGROUND 1. The shares of M/s Surya Roshni Ltd. were listed for trading at Delhi Stock Exchange (DSE), National Stock Exchange (NSE), The Stock Exchange, Mumbai (BSE), Bangalore Stock Exchange (Bg SE), Ahmedabad Stock Exchange (ASE) and Madras Stock Exchange (MSE).

2. A case was initiated by SEBI on January 11, 2001, based on an investigation report submitted by NSE, wherein the trading pattern of SRL for the time period July 26, 2000 to September 05, 2000 was examined. However, in view of large trading volumes prior to this period, NSE was requested to extend the scope of their investigation and forward a comprehensive report. NSE conducted another investigation for the period May 17, 2000 to September 05, 2000 (earlier period included) and submitted the report to SEBI on August 31, 2001. Since the scrip was also listed and traded on BSE, it was also requested to investigate the matter and submit its report to SEBI. BSE submitted its investigation report to SEBI on June 10, 2002.

3. For the same time period i.e. from May 17, 2000 to September 05, 2000, Bangalore, Ahmedabad and Madras Stock Exchange reported nil trading; the trading details received from DSE showed trading to have taken place only on one day i.e. April 18, 2000.

4. Based on the identification of brokers by NSE and BSE, in their reports, the trading details of 8 brokers, including that of M/s. CFL Securities Ltd. (hereinafter referred to as 'CFL'), member, NSE, were examined. It was found that CFL had dealt extensively in the shares of SRL.

ENQUIRY REPORT AND FINDINGS 5. In view of the above, an enquiry was initiated into the involvement of CFL in trading in the shares of SRL. The Enquiry Officer submitted his report on the above matter on 28.01.04. The violations of CFL, as put forth by the Enquiry Officer in his report, are as follows: a. CFL created artificial volumes and also aided and abetted its related clients.

b. CFL acted in concert with related client(s) in the 1. Creation of false market or misleading appearance of trading in the market, and, 2. Execution of transactions that are not genuine trade transactions.

6. The enquiry officer held CFL guilty of having violated the provisions of Regulation 4 (b) and 4 (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and Clause A (2) & A (4) of Regulation 7 of the SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 and accordingly the Enquiry Officer recommended suspension of certificate of registration of CFL for a period of two months.

SHOW CAUSE NOTICE AND REPLY 7. On receipt of the enquiry report, a notice dated 11.02.04 was issued to CFL, asking them to show cause as to why a penalty, as considered appropriate, should not be levied on them. CFL had replied vide its letter dated 27.02.04 to the said show cause notice. The primary contentions put forth by CFL in its reply are as follows: a. There was no intention at any time to create artificial volumes, price rigging, misuse of market mechanism, structural dealing etc., b. The methodology adopted for funding was only a temporary funding arrangement to meet their pay-in obligation in time, as part of

the efforts to survive in the midst of hardships and to save their reputation.

c. Their NSE terminal had been deactivated since October 16, 2001 and no business has been conducted since then.

d. There was no intention to violate any of the provisions of SEBI and violations, if any, were unintentional.

8. In view of the facts and circumstance of the matter and taking into account the submissions made by the said broker in response to the show cause notice issued to them, it was not deemed necessary to grant a personal hearing to the said broker.

ISSUES FOR CONSIDERATION 9. I have examined the material available on record, including the contents of the enquiry report, the show cause notice and the reply to the show cause notice. My findings with respect to the said matter are as under.

10. I have observed that a majority of the trades were executed on behalf of M/s Harbinger Trading Co. Pvt. Ltd. (hereinafter referred to as 'Harbinger') and that the other clients of CFL did not have much contribution in trading of CFL, as compared to Harbinger. The details of trades executed by CFL for Harbinger and other clients are as under:

Name of the client	Sett. No.
Harbinger Trading Co. Pvt. Ltd.	21 22 23 27 28 30 31 32 33 34 35 36 21,94,055
Purusarth Trading Co. Pvt. Ltd.	29 239000
Shashank C. Patel	21 22 23 31 456700
Globex Financial Ser.	

21 23 30 31 4450	C. T. Sidhwani	21 0	A. T. Sidhwani	23 0	V. M. Rawal	32 172500
Bhavana Corporation	31 32 81100					11.

I have also observed that CFL had entered into several structured transactions with other brokers of NSE. The details of such transactions are as follows : 1. Structured transactions with M/s DGP Securities Ltd. (Client: Mrs. Asha Devi Beriwalla and DGP Research A/c.).

Order Date	Buy Order	Time Order	Order No.	Buy Order Vol	Price	Sell order time	Sell order no.
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Selling TM	Sell order vol.
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Sell order price	29/5/00	200005290513010	CFL	200005290512988	DGP
200005290513534	CFL	200005290513542	DGP	200005290513965	CFL
200005290513977	DGP	200007050870156	CFL	200007050870133	DGP
200007120250951	CFL	200007120250941	DGP	200007120251615	CFL
200007120251612	DGP	200007260157869	CFL	200007260157840	DGP
200007120259012	CFL	200007120258858	DGP	200007260159890	CFL
200007260159855	DGP	200007260161156	CFL	200007260161210	DGP
200007260162561	CFL	200007260162533	DGP	200008020172443	CFL
200008020172399	DGP	200008080328773	CFL	200008080328747	DGP
200008080330097	CFL	200008080330092	DGP	200008180563562	CFL
200008180563535	DGP	200008230978216	CFL	200008230978195	DGP
200008230978939	CFL	200008230978961	DGP	200008230979678	CFL
200008230979636	DGP	200008230980657	CFL	200008230980633	DGP
200008231004932	CFL	200008231004919	DGP	200008300921685	CFL

200008300921659 DGP i) CFL has entered into 22 structured transactions with M/s. DGP Securities Ltd. ii) The client for these trades was Harbinger (through CFL) and Mrs.

Ashadevi Beriwal and DGP Research Account (through DGP) on the other side.

iii) These orders have been placed at almost the same time and for the same quantity and same rate.

iv) Mrs. Ashadevi Beriwal and DGP Research Account are related to M/s. DGP Securities Ltd. v) Harbinger and CFL are associated / related to each other.

2. Structured transactions with M/s Rosy Blue Securities Ltd. (Client: M/s Tropical Securities & Investment Pvt. Ltd.): Order Date Buy Order Time Order No. Buy Order Vol Price Sell order time Sell order no.

Selling TM Sell order vol.

Sell order price	03/07/00	200007030722808	CFL	200007030722830	Rosy
200007030723391	CFL	200007030723399	Rosy	200007030723969	CFL
200007030723993	Rosy	200007030724775	CFL	200007030724763	Rosy

200007030725821	CFL	200007030725889	Rosy	200007030727091	CFL
200007030727110	Rosy	200007040557111	CFL	200007040557115	Rosy
200007040557595	CFL	200007040557575	Rosy	200007040557947	CFL
200007040557959	Rosy	200007040558464	CFL	200007040558473	Rosy
200007040558961	CFL	200007040558980	Rosy	20000704055981	CFL
200007040559393	Rosy	200007040559700	CFL	200007040559797	Rosy
200007040560179	CFL	200007040560191	Rosy	200007040624433	CFL
200007040624458	Rosy	200007040624995	CFL	200007040624980	Rosy
200007040625802	CFL	200007040625808	Rosy	200007040626448	CFL

200007040626410 Rosy i. CFL has entered into 18 structured transactions amounting to a total of 2,55,000 shares with M/s Rosy Blue Securities Ltd. ii. The client for CFL was again Harbinger and one M/s Tropical Securities & Investment Pvt. Ltd. was the client for M/s Rosy Blue Securities Pvt. Ltd. Both the clients are related to each other and to CFL.

iii. The orders for all the above deals were also placed at the same time, at the same price and for the same quantity.

3. Details of structured transactions with M/s Ventura Securities Ltd. (Client: M/s Globex Financial Services Ltd.) Order Date Buy Order Time Order No. Buy Order Volume Price Sell order time Sell order no.

Selling TM Sell order vol.

Sell order price 17/5/00 200005170465730 CFL 200005170465719 Ventura 200005170466092 CFL 200005170466082 Ventura 200005170466503 CFL 200005170466492 Ventura i) A total of 3 structured deals were executed between CFL and M/s Ventura Securities Ltd., amounting to a total of 2,17,000 shares.

ii) Here also the client was Harbinger (for CFL), with M/s Globex Financial Services Ltd. on the other side.

iii) These orders were also placed at almost the same time and for the same quantity and at the same rate.

4. Structured transactions with M/s PNR Securities Ltd. (Client: M/s Tropical Securities & Investment P. Ltd.).

Order Date Buy Order Time Order No. Buy Order Volume Price Sell order time
Sell order no.

Selling TM Sell order vol.

Sell order price 13/7/00 200007130071981 CFL 200007130072015 PNR
200007130073687 CFL 200007130073694 PNR i) CFL has entered into 2
structured transactions with M/s. PNR Securities Ltd. ii) The buying client for these
trades was Harbinger (through CFL) and M/s Tropical Securities & Investment Ltd.
was the selling client.

iii) These orders were placed at almost the same time, for the same quantity and
at the same rate.

12. In addition to structured transactions with other members of NSE, as illustrated
above, CFL Securities had also entered into several cross deals involving its
clients, most of them with Harbinger as one of the clients. The details of such
cross deals are as under: Order Date Buy Order Time Order No. Buying client Buy
Order Volume Price Sell order time Sell order no.

Selling client Sell order vol.

Sell order price	19/05/00	200005190353501	HT	200005190353528	CTS
200005190354813	HT	200005190354815	G	200005190355497	HT
200005190355455	MG	200005190353501	HT	200005190358091	SP
200005190358119	HT	200005190358091	SP	200005230044041	MP
200005230044039	HT	200005230047268	SP	200005230047265	HT
200005230048991	SP	200005230048960	HT	200005230050374	SP
200005230050231	HT	200005250698622	HT	200005250698577	MP
200005260577712	HT	200005260577712	SP	200005290452302	MP
200005290452284	HT	200005300445395	SP	200005300445414	HT
200006020521822	HT	200006020521824	ATS	200006020524172	HT
200006020524187	G	200006020527781	HT	200006020527775	JHM

200006020589737 HT 200006020589738 SP HUF 200006020590566 HT
200006020590571 SP 200006020592350 HT 200006020592347 SJM
200007210532423 HT 200007210532429 GLO BE X AR 200007210533104 HT
200007210533110 MG AR 200007250496170 GLO BEX AR 200007250497060
HT 200007250498806 MG AR 200007250498832 HT 200007280915843 HT
200007280918526 GLO BE X AR 200007310473470 SP AR 200007310473465
HT 200007310619604 SP AR 200007310619609 HT 200007310626459 SP AR
200007310626469 HT 200007310739835 MG AR 200007310739788 HT
200008010442457 BHA VNA 200008010442452 HT 200008010443512 JHM AR
200008010443510 HT 200008010444883 ASH OK AHU JA 9550
200008010444881 HT 200008010510677 VMR AB 200008010510674 HT
200008010511709 VMR AB 200008010511707 HT 200008010512382 VMR AB
200008010512379 HT 200008010513369 VMR AB 200008010513354 HT
200008040900577 HT 200008040900595 VMR AR 200008040902403 HT
200008040902423 JHM AB 200008040904772 HT 200008040904805 BHA VN A
200008040909707 HT 200008040909732 ASH OK 200008070673923 BHA VNA
200008070673928 HT a. CFL has transacted approximately 40 cross deals
involving more than 17 lakh shares of SRL during the period under consideration.

b. These orders were placed at approximately the same time.

c. The orders were placed at same price and for the same quantity.

d. It is observed that Harbinger is counter party to almost all the transactions which have taken place.

13. From the above, it is clear that CFL had, while acting for Harbinger, entered into several structured transactions in the share of SRL, with four other brokers of NSE. CFL had also entered into several cross deals in the shares of SRL, with Harbinger being the client on one side of each transaction. I have also considered the submissions made by CFL regarding the transactions detailed above, the reasons for the same and the modus operandi adopted by them : a. CFL had admittedly done structured transactions with the entities mentioned at para 11 above and had admittedly entered into these transactions to tide over their liquidity/pay-in requirements.

b. CFL [on behalf of its related entities, M/s. Tropical Securities & Investment Pvt. Ltd., Harbinger and M/s. Aditi Dalal] was in need of funds towards their pay-in obligations.

c. As regards the method adopted for funding, it was stated that they/their clients would sell shares of SRL held by them, to various entities on spot /off market basis and would receive funds immediately. These funds would then be used to make payments to the exchange.

d. At the same time, the entities who had bought the shares on spot/off market basis (and funded CFL) would sell the said shares, on the exchange, through various brokers of NSE, by way of structured transactions, back to CFL, thereby creating an obligation on the part of CFL to return the monies given by these entities. (by way of the spot/off market transactions mentioned at point (c) above)

e. Therefore, the shares, originally bought from CFL/its clients on a spot basis, would revert to CFL/its clients, through the stock exchange settlement system. The trading that took place on the exchange would thus mirror the financing arrangements which had crystallised outside the exchange as spot/off market deals, resulting into matched/structured transactions as shown above.

f. Analysis of the Demat statement furnished by CFL shows that credits have been made to entities who were not CFL's client. Hence, it appears that CFL was making adjustments for persons other than their clients as far as delivery of shares was concerned. CFL has also admitted to this fact.

13. Thus, I find that CFL has mis-utilised and put to risk the stock exchange mechanism, by transferring/mirroring the clients' off-the-market financing transactions, on to the exchange system, in an inappropriate manner. In doing so, it has been a party to creation of artificial volumes in the market.

14. Thus, I see from the above that there is a clear cut case of the following violations: a. Being a party to creation of artificial volumes in the scrip of SRL over an extended period.

b. Acting in concert with the clients and aiding and abetting them in creation of misleading appearance of trading in the market and executing transactions that are not genuine, misutilising the stock exchange mechanism by transferring/mirroring off the market financing transactions, on to the exchange system.

15. I have considered the submission of CFL that the intention behind the above mentioned transactions was to fund their obligations towards NSE and that they had no intention to create artificial volumes in the shares of SRL. However, the fact of the matter is that by virtue of their transactions the trading pattern in shares of SRL was distorted and artificial volumes were created in the shares of SRL, if not be design then by default.

16. Hence, I am convinced that CFL has contravened the provisions of Regulation 4 (b) and 4 (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and Schedule II Clause A (2) & A(4) of Regulation 7 of the SEBI (Stock Brokers & Sub-Brokers) Regulations,1992 which read as under: "4. No person shalla)

b) Indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market; c) indulge in any act, which results in reflection of prices of securities based on transactions that are not genuine trade transactions ; d) " Schedule II Clause A 1.

2. A stock-broker shall act with due skill, care and diligence in the conduct of all his business.

3.

4. A Stock Broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

17. Under section 11 of the SEBI Act, SEBI can take measures to protect the interests of investors and to regulate the securities market inter alia by registering and regulating the working of stock brokers. If the regulatory requirements are violated by the stock brokers without attracting any action, the measures taken by SEBI for regulation of the stock brokers would be rendered nugatory and the regulatory function would be jeopardized. It is to be noted that indulgence of the said broker in the transactions of the type mentioned above cannot be allowed as such transactions are likely to have a detrimental effect on the functioning of the securities market.

17. I find that CFL has been responsible for creating artificial volumes in the shares of M/s Surya Roshni Ltd., as observed above and has not taken due care and diligence in observance and compliance of the statutory requirement in conduct of its business as a stock broker.

Looking into the violations committed by CFL, I am satisfied that it is necessary to impose a suitable penalty on CFL.

18. However, considering the submissions made by CFL that there was no relationship between the management of SRL and themselves, that their trades did not have any significant impact on the price of the shares and that their business has already come to a stand still by virtue of the deactivation of their trading terminals by NSE, I feel a penalty of one month would suffice, as against the two months as suggested by the Enquiry Officer.

ORDER 19. Therefore, in exercise of the powers conferred upon me by virtue of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 13 (4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby order that the certificate of Registration of M/s. CFL Securities Ltd., member, NSE, be suspended for a period of one month.

20. This order shall come into force with effect on expiry of three weeks from the date of the order.