

Sebi Vs. N

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

Decided On : Jan-25-2006

Judge : Madhukar

Appellant : Sebi

Respondent : N

Judgement :

1.1 Vision Technology India Limited (herein after referred as "VTIL") came out with a public issue in the year 1994 and was listed on The Stock Exchange, Mumbai (hereinafter referred to as "BSE"), Madras Stock Exchange (MSE), Ahmedabad Stock Exchange (ASE) and Jaipur Stock Exchange (JSE) apart from Bangalore Stock Exchange (Bg SE), being the regional exchange of the company.

1.2 At the BSE, it was observed that the price of the scrip increased from Rs.4 as on 12th October 1999 to Rs.14 on 30th November 1999 and to a peak of Rs.650 on 7th March 2000 and thereafter there was steep fall in the price of the scrip of VTIL. Bg SE had imposed a special margin of 100% in the scrip of VTIL with effect from 13th January 2000 till 31st March 2000.

1.3 Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted an investigation to look into any possible violations of the provisions of Securities and Exchange Board of India (Prohibitions of Unfair Trade Practices Relating to Securities Markets) Regulations 1995 (hereinafter referred to as "FUTP

Regulations") and of Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) 1992 (hereinafter referred to as "Broker Regulations").

1.4 During the above mentioned investigation conducted by SEBI it was observed that M/s. Vivenasri Financial Services Ltd. (herein after referred as "VFSL") and M/s. Harsha Pranav Securities Pvt. Ltd. (herein after referred as "HPSPL") were predominant traders in the scrip of VTIL during the period October 1999 to March 2000. It was observed that those clients have enrolled themselves with many brokers of BSE and / or their sub-brokers and traded in the scrip of VTIL at the same point of time. It was further observed that M/s. NVS Brokerage Private Limited (hereinafter referred to as "the Broker") who dealt on behalf of VFSL and HPSPL was one of the top members in the scrip on the basis of gross purchases and gross sales during the period December, 1999 to March 2000 on BSE. Trading details of VFSL done through the member are as given under in Table - 1:

Sett. No.	Purchases	Sales	Gross	Net
45	28,700	7,700	36,400	21,000
46	23,500	23,500	0	0
47	0	47,000	0	24,800
24	800	24,800	-24,800	48,15,500
15	500	15,500	31,000	0
50	6,000	1,600	7,600	4,400
51	3,300	0	3,300	3,300
52	18,100	500	18,600	17,600
Total	95,100	73,600	168,700	21,500

Trading details of HPSPL done through the member are as given under in Table - 2:

Sett. No.	Purchases	Sales	Gross	Net
42	9,400	5,100	14,500	4,300
43	30,600	45,400	76,000	-14,800
44	4,600	4,600	0	0
9	200	0	0	0
Total	44,600	55,100	99,700	-10,500

1.5 It was alleged that the Broker while dealing with its clients VFSL and HPSPL had not exercised due care and skill as laid down by Broker Regulations hence violated provisions of regulation 7 read with Schedule II of Broker Regulations. It was further alleged that trades done by the Broker on behalf of its clients VFSL and HPSPL facilitated manipulation of the scrip of VTIL thereby aided and abetted market manipulation in the scrip of VTIL done by its clients in violation of the provisions of the regulations of 4 (a), (b), and (d) of FUTP Regulations.

2.1 In view of alleged irregularities committed by the Broker, SEBI vide order dated 13th May 2003, appointed an Enquiry Officer (hereinafter referred to as "Enquiry Officer") to enquire into the alleged irregularities committed by the Broker. Enquiry Officer after conducting an enquiry, submitted enquiry report dated 28th June 2004 to SEBI finding the Broker guilty of violating of Code of Conduct of Broker

Regulations and recommended a minor penalty of suspension of certificate of registration of the Broker for a period of fifteen days.

3.1 After the Enquiry Officer submitted the above mentioned enquiry report, as required under regulation 13 (2) of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as "the Regulations"), a show cause notice dated 2nd July 2004 was issued to the Broker.

3.2 The Broker vide letter dated 29th July 2004 responded to the show cause notice. With regard to the allegation that the Broker had not shown due skill and care while dealing on behalf of its clients, the Broker submitted that the clients VFSL and HPSPL were introduced through its internal auditor, a reliable source and that all the required formalities like filing up client registration form etc., were completed. Clients had always maintained credit by way of either funds or shares. The Broker added that clients had taken delivery in all the transactions hence they are genuine clients. In view of the same, the Broker submitted that there was no need to question the credibility of the clients. Further the Broker submitted that, compared to its own turnover, the turnover of the clients was not significant and that it with the kind of clientele it has, it was not possible for the Broker to look at each client suspiciously and question their motives.

3.4 In view of the above, the Broker sought to be exonerated even from the allegations of violation of Broker Regulation.

4.1 I have carefully considered the Enquiry Report, show cause notice issued to the Broker on completion of enquiry and the reply of the Broker to the said show cause notice.

4.2 I note that extracts of Order Log of BSE show that Broker had put number of large buy/sell orders in the system details are under given in Table - 3

Broke	Buy	Rate	Ord	Added/Delet	Date	Time	Client	r / Qty	ed	Code	Code	Sel
531	B	25.5	5000	A	03-12-99	10:03:49	4602	531	B	25.5	50000	A
03-12-99												10:07:16
7410	531	B	25.2	50000	A	03-12-99	10:07:32	7410	531	B	0	50000
03-12-99												10:07:55
531	B	25.2	5000	A	03-12-99	10:08:20	4602	531	B	25.2	50000	A
03-12-99												10:08:31
7410	531	B	27.2	50000	A	06-12-99	13:08:20	4602	531	B	29.35	5000
07-12-99												10:02:13
4602	531	B	31.65	6000	A	08-12-99	09:55:58	8122	531	B		

31.65 5000 A 08-12-99 09:57:31 4602 531 B 0 6000 D 08-12-99 10:05:29 531 B
34.15 3000 A 09-12-99 09:55:04 8122 531 B 34.15 5000 A 09-12-99 11:33:21
4602 531 B 36.85 5000 A 10-12-99 09:53:51 4602 531 B 36.85 5000 A 10-12-99
09:55:03 4602 531 B 49.95 5000 A 16-12-99 13:56:39 4602 531 B 49.95 50000 A
16-12-99 13:57:01 4243 531 B 53.9 5000 A 17-12-99 09:58:57 4602 531 S 115.9
5000 A 03-01-00 10:55:28 4243 531 B 109.9 5000 A 03-01-00 10:56:16 4243 531
S 115.9 5000 A 03-01-00 11:03:19 4243 531 B 136.7 20000 A 10-01-00 11:16:39
4243 531 S 136.7 10000 A 10-01-00 11:16:51 4243 531 B 0 20000 D 10-01-00
11:24:56 531 B 136.7 10000 A 10-01-00 11:30:28 4243 531 B 147.6 1000 A 11-
01-00 10:52:57 4243 531 B 0 1000 D 11-01-00 13:13:55 531 S 147.6 13500 A 11-
01-00 13:14:45 4243 531 B 155.5 7800 A 12-01-00 10:17:51 4243 531 B 164
5000 A 13-01-00 10:30:42 4243 531 B 169.5 10000 A 17-01-00 10:23:19 4243
531 S 213.5 5000 A 20-01-00 10:40:01 4243 531 S 230.4 5000 A 24-01-00

12:23:24 4243 From the above extract it can be observed that the member Clg. No. 531 i.e., Broker had placed a large buy-order (50, 000 shares) which were deleted within few seconds and another buy-order for the same quantity and at the same price was placed within a few seconds.4.3 I note that during the period 3rd January 2000 and 8th March 2000 price of the scrip increased from Rs.115.90 to Rs.604.90, reaching a high of Rs.650.00. There were moderate volumes in the scrip during this period.

On 10th January 2000, the scrip was traded at Rs.136.70 (which was the 8% upper circuit limit on this day). The total quantity traded on this day was 28, 000 shares. There were total valid buy-orders for 1, 07, 900 shares and total valid sell orders for 28, 000 shares. On this day, large buy and sell orders were placed by Broker. It is observed that Broker had placed both sell and buy-orders for the same client code within seconds of each other.4.4 On 24th January 2000, the price of the scrip of VTIL opened at Rs.224 reached a high of Rs.230.40 and a low of Rs.214.10 and closed at Rs.230.10. The number of shares traded on this day were 61, 600. I note on this day, Broker had placed both a buy as well as a sell order at Rs.230.40 within seconds of each other. On 7th February 2000, the scrip opened at Rs.311.00 and closed at Rs.319.50 (8% upper circuit limit). The scrip was traded at Rs.319.50 from 09:57:43 till the end of market hours. On this day, large buy-orders at Rs.319.50 were placed by some of which were deleted later.

Further Broker traded for total quantity of 31, 100 shares on 7th March 2000 when scrip opened at Rs.628 reached a high of Rs.650 and a low of Rs.601 closing at Rs.636.25. Total valid buy-orders on this day were for 42, 300 shares and total valid sell-orders were for 62, 900 shares.

Buy orders placed by Broker which were executed successively, influenced the price of the scrip from Rs.630 at 10:29:58 to Rs.644.90 10:33:26.

4.5 I observe that the Broker has resorted to putting huge orders to influence the price and from the reply given by the Broker I note that though the member was not aware of the financial capability of the said clients, they were allowed to buy and sell large in quantity. I note that HPSPL and VFSL were introduced to it in the year 1999 - 2000 i.e., just prior to the price movement in the scrip. Further while justifying placement of orders of size 50,000 shares or in value terms Rs.12.5 lacs, as normal size, the Broker in its submissions dated 19th December 2003 stated that 50, 000 shares is a normal order size for a high net worth and good trading client however the Broker has not given any evidence which suggest that the said clients were high net worth clients and were good trading clients. I also note that on 3rd December 1999, the Broker had placed a buy order of 50, 000 shares which was deleted within few seconds and another buy-order for the same quantity and at the same price was placed within a few seconds wherein total valid buy-orders were for 9, 63, 700 and total valid sell orders were only for 2, 600 shares. The Broker has not offered any acceptable explanation in this regard.4.6 While I agree that the agent has to place order as per instructions of the clients, the question is what the Broker did in its capacity as intermediary responsible in its own way for integrity of the market. Intermediaries which operate in the market are required to maintain high standards of integrity, promptitude and fairness in the conduct of the business dealings, which in this case the Broker failed to.

4.7 I note that the Broker allowed new clients to place big orders without verifying credentials of its clients. The clients have taken advantage of this lack of exercise of due diligence by the Broker and have indulged in irregular trading creating artificial market in the scrip of VTIL and therefore the Broker has violated the provisions of Code of Conduct prescribed for Stock Brokers laid down in Schedule

Il to regulation 7 of Brokers Regulations.

5.1 Therefore I agree with the recommendation of the enquiry officer and in terms of Section 19 of Securities and Exchange Board of India Act, 1992, read with regulation 13 (4) of Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002, I hereby impose minor penalty of suspension of certificate of registration of M/s. NVS Brokerage Private Limited.

INB.010995139, Member, The Stock Exchange, Mumbai for a period of 15 (Fifteen) days.

5.2 This order shall come into effect after the expiry of three weeks from the date of this order.

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