Sebi Vs. J

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

Decided On : Mar-15-2007

Judge : V Chopra

Appellant : Sebi

Respondent : J

Judgement :
1.1 Securities and Exchange Board of India (hereinafter referred to in short as "the Board") ordered an investigation into the dealings of many entities including M/s JVS Securities (P) Ltd., in the shares of Ranbaxy Laboratories Ltd (hereinafter referred to in short as "Ranbaxy"). M/s JVS Securities (P) Ltd. (hereinafter referred to as "the Broker") is a broker of Calcutta Stock Exchange (CSE) and National Stock Exchange (NSE) with SEBI Registration nos. INB030724038 and INB230752430 respectively. The said investigation was initiated on observing sudden spurt in the price of the Ranbaxy scrip from Rs.270/- in January 1999 to about Rs.1200/- in October 1999 accompanied with significant increase in volumes traded in the Exchanges particularly on the Stock Exchange, Mumbai (BSE), National Stock Exchange (NSE) and Calcutta Stock Exchange (CSE).

1.2 The Board after considering the Investigation Report, appointed an Enquiry Officer vide Order dated November 27, 2002 to enquire into the violations allegedly committed by the Broker under the provisions of Regulation 4(a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to

Securities Markets) Regulations, 1995 (hereinafter referred to in short as "PFUTP Regulations") Regulation 7 of the SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 read with clause A(3) and (4) of Schedule II of the Code of Conduct for Stock Brokers issued under SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 (hereinafter referred to in short as "Stock Brokers Regulations") and Rules, Regulations and Bye-laws of Stock Exchanges.

1.3 The Enquiry Officer, after conducting an enquiry in accordance with the provisions of Regulation 6 of the Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002 submitted a report dated November 27, 2003 whereby he observed that the Broker violated the provisions of SEBI circular No.SMDRP/POLICY/CIR-32/1999 dated September 14, 1999; Regulation 7 read with clause A(3) and (4) of Code of Conduct as specified in Schedule II of SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992; and Regulation 4(b) & (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995. He recommended suspension of registration of the Broker for a period of six months.

2. SHOW CAUSE NOTICE 2.1 Pursuant to the receipt of the said Enquiry Report, a Show Cause Notice dated April 28, 2004 was issued to the Broker, along with a copy of the said Enquiry Report, advising the Broker to show cause as to why the action, as recommended by the Enquiry Officer or any other penalty deemed appropriate should not be imposed on it. The Broker submitted its reply to the said show cause notice, vide letter dated May 19, 2004.

3. REPLY OF THE BROKER 3.1 The Broker stated that 17 out of a total of 36 transactions (2,75,000 shares) took place prior to September 14, 1999, the date on which SEBI issued its circular prohibiting negotiated deals.

3.2 The Broker stated that the Enquiry Officer has failed to show how in the case of thirty six transactions, an allegation of synchronized trades can be levelled merely because the purchase order and a sale order happens to be entered at around the same time for the same price and that too in a screen based trading mechanism of the stock exchange.

3.3 The Broker stated that the Enquiry Officer has failed to show the basis of his finding that prices and quantities had been negotiated outside the system. The Broker stated that there is no rationale behind such a purported finding of the Enquiry Officer that out of 6,39,873 shares, 3,65,900 shares were matched with brokers associated with Ketan Parekh Group. They have also added that there is not even allegation in the Enquiry Report about any linkage between the Broker and Ketan Parekh Group.

3.4 The Broker stated that all the trades are normal trades executed through screen based trading system and are not artificially synchronized or matched. Therefore there is no question of any violation of SEBI Circular dated September 14, 1999.

3.5 The Broker stated that the Enquiry Officer has not demonstrated any reasonable basis for his finding that price and quantities were negotiated outside the exchange system and orders were entered simultaneously with a prior understanding.

3.6 The Broker stated that the Enquiry Officer has failed to show that there was any tampering with the price discovery mechanism and he has not shown in any reasons of his findings regarding the violations.

4.1 In the said reply to show cause notice, the Broker requested for personal hearing. The Broker was accordingly advised to attend the personal hearing before me at Head Office SEBI at Mumbai on September 28, 2006. Mr. Somasekhar Sundaresan, Advocate, J. Sagar & Associates and Mr. Jyoti Vardhan Sonthalia, Director, M/s JVS Securities (P) Ltd attended the hearing. Therefore, I am proceeding in the matter on the basis of the submission of the Broker and the materials before me.

5. CONSIDERATION OF ISSUES & FINDINGS 5.1 I have carefully examined the enquiry report, show cause notice, reply of the Broker and submissions made at the time of hearing.

5.2 The scrip of Ranbaxy traded around the price range of Rs.270/- at the beginning of January 1999. The price of the scrip moved up to Rs.320/- by the end of January 1999. Subsequently, price continued to move upward during February - March 1999 and reached to Rs.650/- by end of March 1999. Further, the price of the scrip moved to Rs.700/- during May 1999 and came down to Rs.600/- during June 1999. The price subsequently moved upwards and touched Rs.800/- during July 1999 and Rs.1000/- during August 1999. The scrip was being traded in the range of Rs.900/- to Rs.1100/- during August - September 1999 and increased to Rs.1200/- during October 1999. Effectively the price of the scrip moved up from Rs.267 on 01.01.99 to a high of Rs.1215/- on 13.10.99.

Later on the price started falling gradually and closed at Rs.869 on 29.10.99 at BSE. The price of the scrip of Ranbaxy had moved significantly during the period from Rs.270/- in January 1999 to about Rs.1200/- in October 1999. The price rise in the scrip was accompanied with significant increase in volumes.

5.3 The Enquiry Officer has arrived at a conclusion in his Enquiry Report that the Broker has carried out 36 instances of synchronization of trades with a view to create misleading appearance of trading which tampers with price discovery mechanism of stock exchange.

5.4 The main charge levelled against the Broker is on the basis of the aforesaid 36 synchronized trades. The synchronized trade is a kind of transactions where the seller and buyer execute the trade for almost same quantity and price at substantially the same time. Synchronized deal per se is not illegal. On the other hand, the synchronized deal with fraudulent or deceptive intention to create misleading appearance of trading and to manipulate the price and volume of the scrip price to tamper the price discovery mechanism of stock exchange with a view to get undue gain out of it, is no doubt a serious matter.

5.5 Hence the issue to be decided in this case is whether the Broker has carried out any such synchronized trades and to take a decision as to whether the penalty recommended by the enquiry officer against the Broker is proper or not. In order to decide the said issue, I felt it necessary to analyze the details of synchronized trades executed by the Broker which is hereunder; Buy Mem Name B.L.B. SHARE

& FINANCIAL SERVIC 5/5/1999 J.V.S. SECURITIES PVT. LTD. 12:02:07 J.V.S. SECURITIES PVT. LTD. 5/10/1999 DINESH KUMAR SINGHANIA & CO. 12:11:18 J.V.S. SECURITIES PVT. LTD. 5/14/1999 SANT KUMAR SONTHALIA 14:04:27 J.V.S. SECURITIES PVT. LTD. 5/21/1999 DINESH KUMAR SINGHANIA & CO. 10:36:39 J.V.S. SECURITIES PVT. LTD. 14:06:08 GKCL STOCK BROKING PVT. LTD. 6/16/1999 J.V.S. SECURITIES PVT. LTD. 10:41:02 J.V.S. SECURITIES PVT. LTD. 6/16/1999 DINESH KUMAR SINGHANIA & CO. 14:00:40 J.V.S. SECURITIES PVT. LTD. 7/27/1999 J.V.S. SECURITIES PVT. LTD. 8/4/1999 SNB SHARE BROKING PVT. LTD. 13:39:21 J.V.S. SECURITIES PVT. LTD. 8/9/1999 DINESH KUMAR SINGHANIA & CO. 11:19:56 J.V.S. SECURITIES PVT. LTD. 8/10/1999 DINESH KUMAR SINGHANIA & CO. 10:27:49 J.V.S. SECURITIES PVT. LTD. 8/16/1999 Agbros Securities Pvt. Ltd. 8/16/1999 J.V.S. SECURITIES PVT. LTD. 13:08:52 J.V.S. SECURITIES PVT. LTD. 8/17/1999 J.V.S. SECURITIES PVT. LTD. 8/25/1999 DINESH KUMAR SINGHANIA & CO. 14:19:01 J.V.S. SECURITIES PVT. LTD. 8/30/1999 DINESH KUMAR SINGHANIA & CO. 12:02:29 J.V.S. SECURITIES PVT. LTD. 9/10/1999 J.V.S. SECURITIES PVT. LTD. 9/14/1999 B.L.B. SHARE & FINANCIAL SERVIC 13:02:54 J.V.S. SECURITIES PVT. LTD. 9/14/1999 DINESH KUMAR SINGHANIA & CO. 14:19:33 DINESH KUMAR SINGHANIA & CO. 9/22/1999 J.V.S. SECURITIES PVT. LTD. 12:12:41 B.L.B. SHARE & FINANCIAL SERVIC 9/24/1999 J.V.S. SECURITIES PVT. LTD. 15:21:34 J.V.S. SECURITIES PVT. LTD. 13:20:41 J.V.S. SECURITIES PVT. LTD. 9/27/1999 J.V.S. SECURITIES PVT. LTD. 9/28/1999 KANODIA STOCK BROKING (P) LTD 10:19:11 B.L.B SHARE & FINANCIAL SERVIC 9/28/1999 J.V.S. SECURITIES PVT. LTD. 15:45:28 J.V.S. SECURITIES PVT. LTD. 9/29/1999 DINESH KUMAR SINGHANIA & CO. 10/11/1999 J.V.S. SECURITIES PVT. LTD. 11:57:36 DINESH KUMAR SINGHANIA & CO. 10/12/1999 J.V.S. SECURITIES PVT. LTD. 13:03:41 J.V.S. SECURITIES PVT. LTD. 10/14/1999 B.L.B. SHARE & FINANCIAL SERVIC 14:52:46 RAJENDRA KUMAR AGRAWAL 10/15/1999 J.V.S. SECURITIES PVT. LTD. 11:09:33 RAJENDRA KUMAR AGRAWAL 10/15/1999 J.V.S. SECURITIES PVT. LTD. 12:14:40 J.V.S. SECURITIES PVT. LTD. 10/15/1999 J.V.S. SECURITIES PVT. LTD. 14:59:02 J.V.S. SECURITIES PVT. LTD. 15:02:10 J.V.S. SECURITIES PVT. LTD. 12:16:33 J.V.S. SECURITIES PVT. LTD. 13:04:17 5.6 I find from the above table that the Broker had executed 36 synchronized/matching trades in the shares of Ranbaxy. I find that synchronized/matching trades are evident from the above table and in all cases, order quantity and price are same with counter party order quantity and price. Orders were placed at the same time in most of the cases with counter party members while in few cases the orders were matched within a period of 1-5 seconds. I also find that the percentage of matching transactions of the member to his total transactions in the share of Ranbaxy during the period under consideration is 8.11%.

5.7 I observe that order of 3,65,900 shares out of total of 6,39,873 shares (i.e. 57.2%) of the Broker were matched with the brokers who had dealt for the following entities connected or associated with Ketan Parekh group J.V.S. SECURITIES PVT. LTD.5/10/1999 DINESH KUMAR SINGHANIA & CO.12:11:18 J.V.S. SECURITIES PVT. LTD.5/21/1999 DINESH KUMAR SINGHANIA & CO.10:36:39 J.V.S. SECURITIES PVT. LTD.6/16/1999 DINESH KUMAR SINGHANIA & CO.14:00:40 J.V.S. SECURITIES PVT. LTD.7/27/1999 J.V.S. SECURITIES PVT. LTD.8/9/1999 DINESH KUMAR SINGHANIA & CO.11:19:56 J.V.S. SECURITIES PVT. LTD.8/10/1999 DINESH KUMAR SINGHANIA & CO.10:27:49 J.V.S. SECURITIES PVT. LTD.8/16/1999 J.V.S. SECURITIES PVT. LTD.8/25/1999 DINESH KUMAR SINGHANIA & CO.14:19:01 J.V.S. SECURITIES PVT. LTD.8/30/1999 DINESH KUMAR SINGHANIA & CO.12:02:29 J.V.S. SECURITIES PVT. LTD.9/14/1999 DINESH KUMAR SINGHANIA & CO.14:19:33 DINESH KUMAR SINGHANIA & CO.9/22/1999 J.V.S. SECURITIES PVT. LTD.12:12:41 J.V.S. SECURITIES PVT. LTD.9/29/1999 DINESH KUMAR SINGHANIA & CO.10/11/1999 J.V.S. SECURITIES PVT. LTD.11:57:36 DINESH KUMAR SINGHANIA & CO.10/12/1999 J.V.S. SECURITIES PVT. LTD.13:03:41 J.V.S. SECURITIES PVT. LTD.10/15/1999 J.V.S. SECURITIES PVT. LTD.15:02:10 5.8 I find that 16 out of 36 synchronised trades were carried out with the KP related brokers. I also observe that the aforementioned brokers have been declared defaulters by CSE and SEBI has subsequently cancelled the registrations of these brokers as per Press Release dated October 22, 2001 and July 30, 2002. The Broker has not disputed the said finding. However, they contended that they are not aware of any linkage between the brokers listed above and the Ketan Parekh Group. It may be noted that order of 3,65,900 shares out of total of 6,39,873 shares (i.e. 57.2%) of the Broker were matched with the brokers who had dealt for the following entities connected or associated with Ketan Parekh group. In this context, I observe that some other brokers against whom similar kind of proceedings were initiated had also executed two or three such trades with KP related entities and the same can be mere coincidence. However, in the instant case, the Broker executed 16 synchronised trades with the above KP related entities and the said transactions can not be treated as mere coincidence.

5.9 Market Intermediaries are expected to observe due diligence to maintain harmony in the market. In the instant case, the Broker could have simply identified the continuous sell and buy orders in a synchronized manner and should not have entertained the clients who carried out such synchronized deals. It is pertinent to note that the Broker was dealing on behalf of entities belonging to Ketan Parekh group, namely A. B. Corporation, Classic Credit Ltd., etc.

5.10 I find that the Broker never disputed the said 36 synchronized trades. What they submitted before me is that they have no intention to get the transaction artificially matched since they had traded in the screen based system where the automated trading server matches purchase orders and sale orders without human intervention. It may be noted that synchronized deals with exact matching of price and quantity for 36 instances of trade are only possible if the trades are put in the system with prior understanding. In such cases prices and quantities have been negotiated outside the system and orders had been executed simultaneously. I find that all the afore mentioned 36 transactions give an impression that these were all synchronized and traded in circular manner, otherwise there was no possibility of such perfect matching of quantity and price etc. The intention of the parties to execute such synchronized transactions could be inferred from the above attending circumstances especially execution of several synchronised transactions in a single day, circular nature of trading and reversal of transactions etc. Further, I observe that the standard of proof required in a proceeding of this nature is at variance with the standard of proof required in criminal cases. It is sufficient if the preponderance of probabilities suggests towards the indulgence of the delinquent in the misconduct.

5.11 Considering the fact that the Broker was dealing on behalf M/s A.B Corporation, Classic Credit Ltd etc which are Ketan Parekh group entities and it executed many of the synchronized trades with Dinesh Kumar Singhania & Co. and Ashok Kumar Poddar who were also dealing for KP Group / associated entities of KP and the entire trades were executed almost at the same price and quantity with exact order time in a synchronised / structured manner indicate the intention of the Broker to create false market by way of misleading appearance of trading. Such trades tamper with price discovery mechanism of stock exchange and are against the concept of transparency. The synchronized deals entered into by the Broker abetted in creating artificial volumes and false market in the scrip of Ranbaxy Laboratories Ltd. In view of this it is established that the Broker has violated the provisions of Regulation 4 (b) and (c) of PFUTP, which provides that, No person shall (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; 5.12 Further, the Broker has violated Regulation 7 read with the clause A (3) and (4) of Code of Conduct as specified in Schedule II of Stock Brokers Regulations, which provides that (3) Manipulation: A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) Malpractices: 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.

5.13 Having considered all aspects and circumstances of the case, I am of the view that suspension of certificate of registration issued to the Broker for a period of 7 days is sufficient to meet the ends of justice.

6.1 Taking into account all facts and circumstances of the case and in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992 read with Regulation 13(4) of SEBI Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby impose a minor penalty of suspension of certificate of registration issued to the Broker, M/s JVS Securities (P) Ltd., a registered Broker of Calcutta Stock Exchange (CSE) and National Stock Exchange (NSE) with SEBI Registration Nos. INB030724038 and INB230752430 respectively for a period of 7 days.

6.2 This order shall come into force immediately on the expiry of 21 days from the date of this order.