

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

**ORDER UNDER SECTION 11 AND 11 B OF SEBI ACT AGAINST BANSAL
SHAREVEST SERVICES LTD., AND ASSOCIATED ENTITIES**

1. M/s. Bansal Sharevest Services Ltd. (hereinafter referred to as the “broking company”) is a corporate member of National stock Exchange (NSE) [INB 231064339 (cash segment); INF 231064339 (derivative segment)] and Uttar Pradesh Stock Exchange (UPSE) [INB 101064336]. Shri Pradeep Kumar Bansal (hereinafter referred to as “the broker”) is a member of Calcutta Stock Exchange (CSE) [INB 030859814], UPSE [INB 100859813] and Inter-connected Stock Exchange (ICSE) [INB 240859810]. Securities and Exchange Board of India (SEBI) had come across information regarding alleged illegal trading in securities by the broking company and the broker. Therefore an inspection of the broking company and the broker was ordered vide order dated 17th July, 2003.
2. Inspection was carried out jointly with National Stock Exchange. The inspection was conducted at the offices of the broking company in Mumbai, Bhuj, Kolkatta, Mathura, Bangalore and office of the broker at Calcutta.
3. Analysis of the data of some of the trades of the broking company on NSE showed that there were a large number of single trades. These trades caused suspicion as according to market information such single trades are usually recorded on Exchanges by the illegal trades only to establish a benchmark price. Therefore, there were reasonable grounds to believe that the broking company was engaged in illegal trading outside the stock exchanges.

4. As the transactions of aforesaid nature if allowed to continue could seriously disturb the integrity and equilibrium of the market and also prove detrimental to interest of investors, the broking company and broker and other associated entities namely M/s. Bansal Sharevest Services Ltd, Member, NSE (cash segment), INB 231064339, M/s. Bansal Sharevest Services Ltd, Member, NSE (derivative segment), INF 231064339, M/s. Bansal Sharevest Services Ltd, Member, UPSE, INB 101064336, Shri Pradeep Kumar Bansal , Member, UPSE, INB 100859813, Shri Pradeep Kumar Bansal , Member, CSE, INB 030859814, Shri Pradeep Kumar Bansal , Member, ICSE, INB 240859810, Shri Pradeep Kumar Bansal , sub-broker, NSE, INS 230664315 were prohibited from, buying, selling or dealing in securities in the stock exchanges or outside the stock exchanges, vide order dated 23.7.03, till the completion of inspection and determination of action on receipt of the report. It was stated in the order that the entities will be given a post decisional hearing on receipt of request.
5. Subsequently, SEBI vide order dated 24.07.2003 appointed an Investigating Authority under section 11 C of the SEBI Act, 1992 to investigate the affairs of the above entities and the persons associated with them. The Investigating Authority was conferred with all the powers as contained in section 11(1)(i), 11(3) and 11C of the SEBI Act including the powers of search and seizure. On July 26, 2003, SEBI, under the powers vested in section 11C of the SEBI Act also carried out a search and seizure operation, in three premises of the broker located in Mumbai as per the search warrant issued by Additional Metropolitan Magistrate, Mumbai issued on July 25, 2003.
6. The broking company vide letters dated 6.08.03 and 30.08.03 made the following submissions:
 - 6.1 That SEBI has no right, authority or competence to pass any order under Section 11(4) prior to completion of inspection. The broking company

contended that orders under Section 11(4) can be passed only when an investigation by an Investigating Authority appointed under Section 11C of the SEBI Act or an inquiry under SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 is pending or has been completed. It argued that according to SEBI's own showing even the inspection has not been completed and the question of any inquiry under 2002 Regulations does not arise at all. Further that no investigation by any Investigating Authority is pending. The broking company stated that the order under Section 11(4) is wholly illegal and without any jurisdiction and without authority of law. By reason of sudden and abrupt suspension of its trading activities and disabling of its NSE and UPSE terminals, the broking company submitted that, it had suffered huge and enormous loss and such losses have been occasioned by reason of SEBI's wrongful and purported exercise of powers illegal under Section 11(4) of SEBI Act.

6.2 That no copy of order of inspection dated 17.07.2003 has been furnished to the broking company.

6.3 That on 21st July 2003 the officials of SEBI conducted a search at the broking company's branch offices. The broking company submitted its officers furnished Xerox copies of numerous documents of its records and in spite of demands no receipt whatsoever was given by officers of SEBI. The broking company contended that the officers of SEBI copied various information contained in the hard disc of its computers and obtained statements of its officers and directors without serving summon or notice upon it and therefore the purported search was conducted wrongfully and illegally. The broking company further contended that officers of NSE wrongfully and illegally conducted search and inspection of its books at the instance of SEBI.

6.4 That execution of single trade transaction is prevalent amongst share brokers and is undertaken with a view to ascertain the correct price.

6.5 The broking company submitted that at the time of inspection at its Bhuj branch office, the sub broker Shimpy Garg was not present and the terminal of the said sub broker was manned by an employee of such sub broker and that it was not aware of the transactions entered into by the said sub broker and that the broking company cannot be made liable for any transaction entered into by any of its sub brokers.

6.6 The broking company denied that the inspection team found any evidence of unexplained trade and it did not carry any illegal transactions in violation of section 19 of SC (R) Act in any of its branches.

6.7 That trading in single share is permissible in law as even a single share constitutes a marketable lot. They contended that the inspection is carried out for the purposes of collecting information and thereafter a decision is to be taken by the Competent Authority as to whether the matter requires any further inquiry or investigation and that the power to pass interim orders of the nature like the present one can be derived only from Section 11(4) of the Act. The broking company stated that this power can be exercised while any investigation or inquiry is pending or on its completion and the power is not available to be exercised at any stage prior thereto i.e. at the stage of inspection.

6.8 The broking company vide letter dated 30.08.2003 challenged the order dated 23rd July 2003, inter-alia, on the following grounds –

- a. That the order was passed without giving any opportunity of hearing whatsoever to the broking company.
- b. That no copies of the documents, information or material forming basis of the order has not yet been made available to the broking company in the absence of which no effective opportunity can be availed of.

- c. That the order has been passed apparently solely on the basis of “market information and some preliminary information made available by the inspecting officers.
 - d. That the haste with which the Board proceeded smacks of malafides in as much as without even waiting for the inspection report it proceeded to get a FIR registered against the applicant for same transaction which is a matter of inspection, inquiry and investigation by the Board.
 - e. That the order passed by the board is without jurisdiction in as much as the power to pass interim order under Section 11(4) can be exercised only when some inquiry or investigation is pending.
7. A post decisional hearing was given to the broking company and the broker on 30.09.2003. Shri P K Bansal, Shri R C Jain, Shri Raj Kumar and Yogesh Jain attended the hearing. During the course of hearing Shri P K Bansal admitted that there were lapses on his part and pleaded to forgive them. They have also filed their written submissions vide letter dated 30.09.03. In the said letter the broking company made, inter-alia, the following submissions:
- 7.1 That the broker and the broking company was in the business since long past without any blot. The broking company further stated that some anonymous trading rival had attempted to take revenge and to humiliate them and that the broker had never indulged in any illegal activity.
 - 7.2 The broking company submitted that it had been co-operating with inspection team fully and it is not fair and reasonable to prohibit them from trading without giving an opportunity to explain. The broker further submitted that he was complying with the Rules and Regulations framed by SEBI.
 - 7.3 The broking company submitted that it is put to problem with the SEBI's Order dated 23.7.03 and would further aggravate beyond control with respect to settlements of investors claim/financial and other problems

creating tension which cannot be compensated in terms of money. The broker further assured that the records are kept safe and would never be tampered and stated that they did not do any wrong trades in past and will not do so in future.

8. I have considered all the facts and circumstances of the case the submissions of the broker on his behalf and on behalf of the broking company during the personal hearing on 30.09.2003 and vide letters dated 06.08.03 and 30.08.03 dated 30.09.2003 and relevant material available on record. The following findings are made on considering the aforesaid submissions of the broking company:
9. The procedure for inspection is laid down in Chapter V of SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 (hereinafter referred to as 'the said Regulations'). The Board derives its power to inspect from Regulation 19 of the said Regulations and the procedure for the same is prescribed under Regulation 20 of the said Regulations: The aforesaid provisions are as under:

Board's right to inspect

- 19 (1) *Where it appears to the Board so to do, it may appoint one or more persons as inspecting authority to undertake inspection of the books of accounts, other records and documents of the stock- brokers for any of the purposes specified in sub-regulation (2).*
- (2) *The purposes referred to in sub-regulation (1) shall be as follows, namely:*
- (a) *to ensure that the books of accounts and other books are being maintained in the manner required;*
 - (b) *that the provisions of the Act, rules, regulations and the provisions of the Securities Contracts (Regulation) Act and the rules made thereunder are being complied with;*
 - (c) *to investigate into the complaints received from investors, other stock brokers, sub-brokers or any other person on any matter having a bearing on the activities of the stock- brokers; and*
 - (d) *to investigate suo-moto, in the interest of securities business or investors' interest, into the affairs of the stock- broker.*

Procedure for inspection

20. (1) *Before undertaking any inspection under regulation 19, the Board shall give a reasonable notice to the stock- broker for that purpose.*
- (2) *Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors or in public interest no such notice should be given, it may by an order in writing direct that the inspection of the affairs of the stock broker be taken up without such notice.*
- (3) *On being empowered by the Board, the inspecting authority shall undertake the inspection and the stock-broker against whom an inspection is being carried out shall be bound to discharge his obligations as provided under regulation 21.*

10.I find that section 11 (4) of the SEBI Act, 1992 stipulates that “without prejudice to the provisions contained in sub-sections (1), (2), (2A) and (3) and section 11B, the Board may, by an order, for reasons to be recorded in writing, in the interests of investors or securities market, take any of the following measures, either pending investigation or inquiry or on completion of such investigation or inquiry, namely: -

- a) *Suspend the trading of any security in a recognized stock exchange;*
- b) *Restrain persons from accessing the securities market and prohibit any person associated with securities market to buy, sell or deal in securities;*
- c) *Suspend any officer-bearer of any stock exchange or self-regulatory organization from holding such position;*
- d) *Impound and retain the proceeds or securities in respect of any transaction which is under investigation;*
- e) *Attach, after passing of an order on an application made for approval by the Judicial Magistrate of the first class having jurisdiction, for a period not exceeding one month, one or more bank account or accounts of any intermediary or any person associated with the securities market in any manner involved in violation of any of the provisions of this Act, or the rules or the regulations made thereunder:*

Provided that only the bank account or accounts or any transaction entered therein, so far as it relates to the proceeds actually involved in violation of any of the provisions of this Act, or the rules or the regulations made thereunder shall be allowed to be attached;

f) Direct any intermediary or any person associated with the securities market in any manner not to dispose of or alienate an asset forming part of any transaction which is under investigation:

Provided that the Board may, without prejudice to the provisions contained in sub-section (2) or sub-section (2A), take any of the measures specified in clause (d) or clause © or clause (f), in respect of any listed public company or a public company (not being intermediaries referred to in section 12) which intends to get its securities listed on any recognized stock exchange where the Board has reasonable grounds to believe that such company has been indulging in insider trading or fraudulent and unfair trade practices relating to securities market:

Provided further that the Board shall, either before or after passing such orders, give an opportunity of hearing to such intermediaries or persons concerned.

It is pertinent here to mention that the above provision stipulates that the measures as prescribed under sub-sections (a) to (f) can be taken either pending investigation or inquiry. The inquiry mentioned in the section presupposes inspection. Therefore, the interim measure taken in the instant case is fully justified. Further, the action taken under the above provision is without prejudice to action under section 11B of the Act.

Section 11B – Power to issue directions

Save as otherwise provided in section 11, if after making or causing to be made an enquiry, the Board is satisfied that it is necessary,-

- i. In the interest of investors, or orderly development of securities market; or*
- ii. To prevent the affairs of any intermediary or other persons referred to in section 12 being conducted in a manner detrimental to the interest of investors or securities market; or*
- iii. To secure the proper management of any such intermediary or person,*

It may issue such directions,-

- a) To any person or class of persons referred to in section 12, or associated with the securities market; or*
- b) To any company in respect of matters specified in section 11A, as may be appropriate in the interests of investors in securities an the securities market.*

11. In view of the provisions enumerated above it is clear that pending inspection/inquiry appropriate interim measure can be taken against the intermediary. Hence, section 11 (4) can be applied to the case. Section 11 (4) empowers the Board to take any of the measures as prescribed in clauses (a), (b), (c), (d), (e), and (f) pending investigation or inquiry or on completion of such investigation or inquiry. Therefore in the broking company's case the order dated 23.07.2003 was passed under sections 11, 11B and 11 (4) (b) of the SEBI Act, 1992.

12. Further, Sub-Regulation (2) of Regulation 20 stipulates that if the Board is satisfied that in the interest of the investors or in public interest no such notice should be given to the stock-broker, it may by order in writing direct that the inspection of the affairs of the stock broker be taken up without such notice. Therefore, I find that no such notice was issued to the broking

company taking into account the interest of the investors and impending urgency of the matter. The broking company would be appropriately informed of the further proceedings in the matter and further proceedings would be conducted as per the procedure laid down therein which includes providing reasonable opportunity for the broking company to defend itself.

13. Further, SEBI vide order dated 24.07.2003 appointed an Investigating Authority under section 11 C of the SEBI Act, 1992 (inserted by the SEBI (Amendment) Act, 2002, w.e.f. 29.10.2002) to investigate into the affairs of the above entities and the persons associated with them. Section 11C does not prescribe that the Investigating Authority should issue a prior show cause notice before investigation or before conducting search and seizure.

14. I find that the interim order dated 23.07.03 was fully justified on the grounds of prima-facie finding against the broking company that it was indulging in illegal trading which are outside the stock exchange mechanism. I find that carrying out such illegal trades outside the recognized stock exchanges is detrimental to the interest of the investors and securities market. Therefore, an immediate interim measure was required to be taken. The third proviso to section 11 (4) provides that the Board shall give an opportunity to the intermediary either before or after passing such orders. In this regard, an opportunity of hearing was also given to the broking company on 30.09.2003. The broking company's request for providing to it several documents would be considered in further proceedings as per the procedure laid down therein. As regarding other contentions raised by the broking company the same would also be dealt with by the appropriate Authority in further proceedings. The prima-facie findings of the inspection conducted against the broking company and its branch offices are as below.

15.As stated earlier, the inspection was conducted at the offices of the broking company in Mumbai, Bhuj, Kolkatta, Mathura, Bangalore and office of the broker at Calcutta. The activities of the broking company and the broker in each of the said places are enumerated briefly below:

16.The activities of the broking company at Bangalore were as follows:

16.1 Transactions on behalf of the broking company at Bangalore were executed by M/s Mudit Securities as a Sub-broker. On perusal of records of M/s Mudit Securities specifically, purportedly their Sauda sheets exhibiting transactions with the broking company, it was observed that there were several single share trades executed on various days, on various scrips in the Exchange as detailed below:

Date	Client	Scrip	Qty	Rate
30.06.2003	Sumeet Garg(CS008)	Infosys	1	3333.43
18.06.2003	Self(CS002)	HFCL	1	32.16
17.06.2003	Sumeet Garg(cs008)	Pentasoft	1	12.21
09.06.2003	Self(CS002)	Balmerlawrie	1	94.71
30.05.2003	-do-	Hexaware	1	107.76
29.05.2003	-do-	SCI	1	75.51
28.05.2003	-do-	Hexaware	1	109.76
-do-	-do-	Satyam	1	164.37
-do-	-do-	SCI	1	74.01
-do-	-do-	Telco	1	167.22
-do-	-do-	Tisco	1	143.97
27.05.2003	-do-	SCI	1	75.01
26.05.2003	-do-	TELCO	1	174.32
-do-	-do-	SCI	1	77.41
23.05.2003	-do-	Satyam	1	160.47
22.05.2003	-do-	Telco	1	165.72
-do-	-do-	Tisco	1	142.87
16.04.2003	-do-	Mastek	1	313.01

On a specific query to the representative of the broking company during the hearing as to why such abnormal trades were executed, for whom they were executed and also the purpose of execution of such trades, it was stated that single share trades were executed to ascertain the rate of any scrip at precise moment or provide training to the new operators for execution of trades in the live environment. When asked when the single share trades were executed only for the purpose of ascertaining rates at precise moment and why the same were not followed by any orders executed for such scrips, the broking company failed to give any satisfactory reply. The broking company had also admitted that it had indulged in single order trades in scrips like TISCO, TELCO etc., but maintained that the same were not in regular frequency.

16.2 The reply of the broking company in this regard is not satisfactory as it had not denied the fact of presence of large number of single share trades in their records. Further, the broker had also admitted the fact that they were aware of the significance and nature of these kind of illegal transactions where in such transactions, single share order entries are made in respect of various scrips to have a binding on the rates contracted with the clients and that the bulk orders would be executed outside the Exchange mechanism. The broker could not furnish any satisfactory reply when it was pointed out that such single order entries would not be continuously executed in a day by the new operators if they were for the purpose of training. The practice of executing single order trades adopted by the broker especially to ascertain the rate at the “precise moment “ is the modus operandi adopted by any illegal operator. The significance of the words “precise moments “ in illegal trading is that the rate of scrip prevailing at the exact time of punching of orders in the system would be the binding rate on both the broker and the client in illegal transactions. When the terminal was available before the broker while executing trades for the clients or for viewing the rates at any

particular time either for himself or for his clients, there was absolutely no reason for the broker to execute a single trade officially in the system to ascertain the rate of a scrip.

16.2.1 The confirmation in writing by the broking company having indulged in such large scale single order trades, admission of the broking company that such trades were executed to ascertain the rates of scrips at the “precise moment” and failure of the broker to furnish any logical and convincing reply for the queries on single order trades pima-facie prove that the broker involved in illegal trades.

16.3 The suspicion that the broking company indulged in illegal trades, outside the Exchange mechanism and maintaining unofficial records for the same gets further strengthened by retrieval of various other data from their system containing unaccounted trades/sauda positions. The broking company could not explain them convincingly and failed to account for the same in official records. One such record is a data of Sauda positions of various clients as on 18.7.2003 maintained by the broker in their system. The broking company had contended that such trades were only dummy trades and it was created by his brother using some known names and creating some artificial names for the execution of programmes he designed and for practicing the software he had developed. The contention of the broking company cannot be accepted because the data retrieved were from the system used by the broker for his day to day on line operations containing the record of their daily transactions. Further, the data retrieved was nothing but the Sauda positions of various clients arrived at after series of trades in a day or a settlement at any point of time in a day/settlement. The record indicates that the same were as on 18.7.03. The broking company could not produce the details of the so called dummy trades as a consequent of which such Sauda positions had been arrived at. Further the theory of dummy trades created with artificial names could not be accepted because all the client codes used

in the data match with the names of the active clients of the broker. It is highly unlikely that all the artificial names stated to have been created can coincide with the actual names of the clients.

16.4 Further, it should be mentioned that the data retrieved from the system are maintained in Excel sheets and the programmes stated to have been developed by the brother for practice are in C++, ASSEMBLY Language and power point. Such programme would not facilitate maintenance of any data in Excel sheets. Therefore the presence of unaccounted saudas in the System not getting reflected in the official books of the broking cimpany is yet another evidence to show that prima-facie the broker had been executing trades outside the official Exchange mechanism and has been maintaining some parallel unofficial records for the same.

16.5 Similarly, there were several unaccounted trades in the sauda book of the broking company which did not contain any order number and trade numbers assigned by the Exchange mechanism while executing such trades. Instead, they contained only "0" under such headings. On specific query regarding the absence of trade number and order number for the transactions and also as to where and how such transactions were executed and accounted for, the broker had informed that such trades had been manually fed into the system and however the same had been executed in NSE only and if given time, the fact would be established. The submission of contract notes now in support of the said transaction cannot be accepted at this stage. In addition to above, there are several instances of unaccounted Sauda positions of various clients, unaccounted trades etc not reflecting in the official books of the broker. Since an Enquiry under Enquiry regulations has to be conducted and the fact finding has to be done by the Enquiry Officer.

16.6 Further, during inspection, a record of various kinds of accounts maintained by the broking company and stated to be its personal account book was seized and scrutinized. On scrutiny, it was observed that the said personal

book of the broker contained various entries regarding sauda positions of various clients and also some entries on receipts and payments from /to various persons/clients. Some recordings of sauda positions indicate a probable illegal tradings or illegal transactions outside the Exchange mechanism by the broker when asked regarding the nature of such transactions and as to how the same had been accounted for, the broker admitted recording of such transactions and stated that the same pertain to transactions of clients which were done through some other member by name CAT Securities dealing in NSE due to failure of their VSAT. The reply of the broker is not satisfactory. The contentions of the broking company are doubtful. Had such transactions been executed as regular and official trades, there is absolutely no reason for the broker to record the same in his personal and unofficial note book. The aforesaid instances prima-facie establish that the broking company had been indulging in unofficial and illegal trades outside the normal Official Exchange mechanism and maintaining some unofficial records for the same.

16.7 Inspection further revealed that broking company was using illegal software apart from the licensed version of software for both online trading and back office requirements.

16.7.1 It was further found in the inspection that in one of the terminals bearing id No.2 used by the trading conducted on 23.12.2002 at 6.08 pm was observed. Since this was beyond the normal trading hours of an Exchange, it prima-facie appears that the terminals were being used for illegal trading. The data for 23.12.2002 retrieved from the system happens to be Monday and the trading time recorded by the broker was beyond the normal trading hours of the Exchange.

16.7.2 During inspection it was observed that the System of the broking company was containing a folder in the name of "Simulator" (EXE.file). Going by

the presence of such “simulator (EXE.file) in the system and also going by the fact that there are several records of trades of the broking company which could not be accounted for in the Exchange records as has been reported earlier, there is every possibility that the broking company would have continued to use the simulator facility to indulge in internal matching mechanism for various orders executed through its terminals clandestinely and in an unauthorized manner.

16.8 From the records retrieved from the broking company during inspection it is found that he was providing some illegal trading facilities like smaller trade lots, badla, longer settlement periods etc to some clients which are not permitted in official trading mechanism. From a record dated 9.1.03 of an advertisement released by the sub-broker through A& M Communications Pvt. Ltd it was found that an advertisement was issued which reads as under:

“SHARE BROKER NSE & FO WITH UNIQUE FACILITIES A-Z”.

When asked to explain what is “unique facilities A-Z” being offered, the broking company replied that it was a six months contract with the advertiser, who had used such words and that he did not know the meaning. When further asked as to how a sub-broker could offer trade in F&O segment to the clients, when the same has not been permitted, the sub-broker did not furnish any reply. The broking company is prima-facie found offering trading facilities/features to clients which are not permitted under law.

16.9 Further, a file named **“Copy (4) of BR Status” created on 30.4.2003** retrieved from the system of the broking company used for its day to day activities showed clearly the practice of the broking company in offering badla to the clients and also charging the carry forward brokerage rates.

16.10 On scrutiny of record of cash/bank transactions available in the premises, by the inspection team it was observed that there were several cash transactions both receipts and payments from various sources not properly recorded as to the source of receipt/payment, purpose of such transaction.

16.10.1 As serious doubts were raised regarding cash transactions in the absence of source of receipt/payment, purpose of payment etc the absence of which again is an essential characteristic of this kind of illegal trading where all transactions are settled in cash, explanations of the broking company was sought in this regard. The broking company had vehemently declined to furnish any information and had merely stated that only his Chartered Accountant could furnish such information and the details would be available only in Bombay. The reply of the broking company is not satisfactory since he had made a statement in writing that he is in-charge of day to day activities of the branch at Bangalore. The failure on the part of the broking company to furnish information on such cash transaction prima-facie prove that such transactions arose out of some illegal activity and that the transactions could be resultant of some illegal trading and other parallel transactions in securities that would have taken place outside the regular Exchange mechanism.

17. The activities of the broking company at Kolkatta were as follows:

17.1 From the analysis of the trading data, available in a file retrieved called (NSE old), it was found that huge number of illegal trading data without NSE order, without NSE trade number NSE trade time are kept. Two dates i.e. October 11, 2001 (file name -TR01097N) and October 12, 2001 (file name - TR01098N) were selected on a test check basis. These trades have not been done on NSE trading system. These are thus illegal trades done outside the exchange's trading systems. The authorized representative of the broking company at Kolkatta failed to appear before SEBI inspection authority to give necessary explanation.

17.2 While analyzing the NSEDEMO directory of broking company one file called DLMAST was found which contains the details regarding trading terminals of the broking company. NSE allots only numeric codes to authorized trading terminals whereas It was observed from the data that only 16 terminals are NSE authorized trading terminals and the remaining 23 trading terminals are unauthorized trading terminals of the broking company. Further, it was observed that Shri Sumeet Garg, Sub-broker of the broking company provided trading terminals to 12 of their clients through CTCL. The said trading terminals were provided by the sub-broker to his clients illegally. NSE Rules, Regulation and Bye-Laws and SEBI Rules do not permit installation trading terminal at places other than trading member office or their branch office or their SEBI registered sub-brokers office. Further, on scrutiny of the Standard Chartered Bank A/c No.331-1-015512-4 of another sub-broker of the broking company Shri Pradeep Garg, for the month of January and February, 2003, it was observed that the sub broker involved in huge cash transactions which are indicative of transactions outside the official exchange system. It was observed that the sub-broker has got 6 trading terminals provided by the Exchange, of which 3 are for cash segment and other three for derivatives segment. As per NSE Rules, Regulation and Bye-Laws and SEBI regulations derivative terminals can be installed only at the trading member's office or their branch office. There is no concept of sub-broker in the derivative segment.

17.3 It was observed that the address given in the SEBI registration certificate (for CSE card) of the broker is 849, 14/113, Padam Towers, Civil Lines, Kanpur – 208 001. However, all trading activities in respect of the CSE card is done from the broker's Kolkata office situated at 4A, Pollock Street, Swaika Centre, 4th Floor, Room No.1, Kolkata - 700 001. The authorized representative of the broker could not produce any proof of intimation of the change of address to SEBI. NSE Rules, Regulation and Bye-Laws and SEBI

Rules do not permit installation trading terminal at places other than trading members office or their branch office or their SEBI registered sub-brokers office.

17.4 It was observed from the broker's sauda book for two months (April 2002 to May 2002) that a number of one share transactions have been executed by the broker in all the major scrips, i.e. Global Tele, Satyam Computers, ZEE Tele, HFCL, Rolta, etc. The authorized representative of the broker was not able to provide a satisfactory answer as to the nature of such one share transactions. As per the statement given by the authorised representative of the broker, in most cases these one share transactions have been squared off. Most of the trades were for 1 share only, apparently to serve as benchmark for the balance to be executed in the unofficial books. This prima-facie related to illegal trading where such small quantities are traded to serve as reference point for dealing with clients.

18. The activities of the broking company at Bhuj were as follows:

18.1 The inspection team observed that the branch office of the broking company was not maintaining any records. Sonu Agarwal, Director of the broking company in his statement stated that no books were maintained in the Bhuj office and are being maintained from his Bombay office. It was observed that not even a single book was found in that premises. The inspection team found four rough sheets in front of the terminals with some transactions written on it. The transactions mentioned in sheet one were compared with the trades done from Bhuj centre. It was observed that these transactions did not match with the trades done on the exchange. It was noticed that only 50% of the quantity mentioned in the rough sheet were executed on the NEAT terminal. As Dena Bank is marked for delivery in the deal sheet the quantity of the same in the deal sheet was matched with the trade log. The trades mentioned in the other rough sheet did not match with any trades on the NEAT or the main CTCL. The broking

company submitted that these transactions were done by his sub broker – Shimpy Garg and he was not aware of the nature of these transactions. The broking company submitted that his sub broker settled the accounts directly with the Bombay office and the Bhuj office did not deal with the sub broker in any way. It was further noted that the sub broker was a relative of the broker.

18.2 With respect to trading in F & O segment, Inspection found notings pertaining to 11 scrips written on two sheets of writing pad which reportedly belonged to Shimpy Garg. The quantity of the scrips written on the sheets were matching (exactly, half quantity and quarter quantity) with market lot of the scrips in futures segment, hence analysis of the same was made in futures segment. The transactions in cash segment and F & O segment were illegal in nature.

18.3 During the course of inspection, the inspection team observed that trading terminals belonging to the broking company were located in Room Nos. 201 and 202. The broker has no terminal through CTCL Software. This is an unauthorized extension of trading terminals by sub-broker which is prima-facie in violation of NSE Rules & Bye-laws.

19.The activities of the broking company at Mumbai-Masjid Bunder Office were as follows:

19.1 On checking the sauda sheet (Soft Copy) of M/s Rajeev Bansal for the month of May 2003, inspection team found several transactions having been entered into by the sub-broker with its client/s, where no corresponding trade has been found in the NSE trade data for the above period. These transactions, prima-facie, carried outside the system of the exchange.

19.2 The trading terminal (USER ID No. 11307) at Masjid Bunder office was found being operated by Mr. Natwar Lal Saraf, a person who is not an approved user as per records of NSE, and as per the records of NSE, Mr. Rajeev Bansal is the approved user.

20. The activities of the broking company at Mumbai - Byculla Office were as follows:

20.1 It was found in the inspection some notepads having certain transactions written on them. These notepads have transaction details relating to the various scrips such as IFCI, Essar Gujarat, Nagarjuna Fertilizers, Chambal Fertilizers, etc. The clients appearing in the notepads are Shri Ram Gopal, Shri D. Badola, Shri G. Badola, Shri Naveenji. etc. Shri Rajeev Bansal nephew of the broker and a sub-broker admitted that the pad belonged to him used for making day-to-day notings. The broker and Shri Rajeev Bansal have failed to give a satisfactory reply regarding the nature of notings on the aforesaid pad. The notings on the pad prima-facie relate to illegal trading carried out by the broking company and his associates outside the exchange.

20.2 During the search and seizure operation, it was found that the broking company was in possession of an unauthorized BSE terminal which reportedly belonged to Shri Prem Singhal. The broking company is not registered as a sub-broker of any member of BSE, hence it prima-facie acted as a sub broker without being registered with SEBI.

20.3 With respect to the broking company the broker gave a list of 10 accounts. However, during the search and seizure operation, it was revealed that the broking company actually has 17 bank accounts. For himself, the broker informed about one account only, whereas the documents seized from his office revealed 13 accounts. Similarly, while the broker informed about one account for Smt Suman Lata Bansal, the documents revealed three

accounts. For Shri Sonu Agarwal, the broker gave one account number, though the documents seized reveal two accounts. Therefore, the broker prima-facie made false statement under oath before the inspection team.

21. The activities of the broking company at Mathura were as follows

- 21.1 Inspection found single share transactions being conducted by the broking company & Shri Rajeev Bansal. Total trading on various terminals on 21.7.2003 was of 30 shares of different companies in 16 trades. Most of the trades by the broking company were for 1 share only, apparently to serve as benchmark for the balance to be executed in the unofficial books. This prima-facie was illegal trading where such small quantities are traded to serve as reference point for dealing with clients. All the trades were admittedly done for their client Shri Kailash Chander Agarwal s/o Shri Seeta Ram Agarwal, r/o Kishan Ganga Gali, Lal Darwaza, Mathura. He was stated to be an employee of Mathura Refinery. However, the transactions were executed by the broker in his own account. The broker was unable to offer any explanation. Further, the broker was unable to show any client records (like client introduction form, client ledger, copy of contract notes issued to client etc.).
- 21.2 From the copy of bank statement of Shri Rajiv Bansal and Shri Ankur Bansal numerous instances of receipt & payment of funds through cash were found. These cash transactions prima-facie indicate that Shri Rajeev Bansal was indulging in illegal trading, as the settlement in such trades are made in cash only.

22. In view of the above, it is clear that a prima-facie case is made out against the broker and the broking company that they were indulging in illegal trading in shares. Vide order dated 23.7.03, the broking company and the broker were prohibited from, buying, selling or dealing in securities in the

stock exchanges or outside the stock exchanges, till the completion of inspection/investigation and determination of action on receipt of the report. I am of the considered view that the facts and circumstances of the case as enumerated in the order dated 23.07.03 have not changed. On the contrary, several incriminating evidence suggesting illegal trading have been found. Therefore, it would be in the interest of investors and capital market, if the prohibition imposed vide order dated 23.07.03 continues till the inspection or investigation is completed as ordered vide SEBI order dated 24.07.2003 or till the matter is determined. The facts and details of the inspection/investigation report would be considered in further proceedings by the appropriate Authority or by the Enquiry Officer in detail in the enquiry proceedings before him in accordance with the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.

23. Therefore in exercise of powers under section 11 (1), 11 (4) (b) and section 11 B of the SEBI Act read with section 3 (4) of the SEBI Act, I hereby confirm the earlier prohibition order dated 23.07.03 prohibiting the Broker's company and the broker from buying, selling or dealing in securities in the stock exchange or outside the stock exchange pending further proceedings and final orders.

DATE: DECEMBER 16, 2003

PLACE: MUMBAI

G.N.BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA