

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER UNDER REGULATION 29 OF SEBI (STOCK BROKERS & SUB BROKERS) REGULATIONS, 1992 AGAINST M/S.SPRINGFIELD SECURITIES LTD, MEMBER HSE AND COCHIN STOCK EXCHANGE.

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Investigations were conducted by SEBI into the alleged irregularities by Shriram Mutual Fund (SRMF) into the scrips of Videocon International Ltd (VIL) during June 1998. SRMF and its associates / sister concerns viz.SIS Stock Broking Pvt. Ltd (SIS) and Springfield Securities Ltd (SSL) belonging to the Shriram Group of Companies were operating from 101/102, Dalamal Towers, Mumbai.

It was observed in the investigations that SRMF purchased 1,20,600 shares of VIL @ Rs.84/- per share. This purchase was claimed to have been made by SRMF on 19.6.98. However, the contract note issued by broker M/s.Jaysukhlal Jagjivan Stock Brokers Pvt Ltd (JJSB) showed that the purchase was made on 24.6.98. It was also observed that the market price of the shares of VIL was Rs.62.75/- on 24.6.98. It was further revealed that the purchase of the shares of VIL by SRMF was part of bail out operations conducted for brokers of BSE having payment difficulties due to large carry forward positions in VIL.

On the basis of enquiry conducted with SSL, it was found that it purchased 5,00,000 shares of VIL as a part of the said bail out operations. Shri Surin Usgaonkar, Chairman of SSL in his statement made before SEBI informed that on the basis of request made by Shri Rajendra Banthia, Vice President of BSE, SSL agreed to take up 5,00,000 shares of VIL from the brokers facing the payment problem. He admitted that SSL agreed to purchase the shares @ Rs. 90/- per share, though the rate in the contract note was mentioned as Rs. 111.60. SSL clarified that the difference of Rs. 21.60 on 5,00,000 shares of VIL i.e. Rs. 108 lacs was received by it on behalf of various

brokers from Joy Holdings Pvt. Ltd. (JHPL). Investigations prima facie revealed that Joy Holding is an associate concern of VIL.

It was found that out of these 5,00,000 shares which SSL had agreed to purchase, SSL eventually bought 2,14,100 shares through M/s Jaysukhlal Jagjivan Stock Brokers Pvt. Ltd. (JJSB) Rs. 111.60 per share. This purchase was made from the contingency pool of BSE on June 19, 1998 after the closure of trading hours in three transactions.

This purchase was carried forward in the next settlement. On enquiry, Shri Nitin Doshi of JSBL submitted that these shares were purchased for SRMF but as mutual fund cannot carry forward the purchases, these shares were shown to have been purchased by SSL.

Shri Surin Usgaonkar, Chairman and Director of SSL in his statement during the course of investigations admitted that he gave a letter from SSL to JSBL to buy 2,14,100 shares in the afternoon of June 19, 1998 which happens to be the last day of Settlement no.4-13/98. However, latter vide letter dated December 30, 1998 he claimed that after checking his data he has come to the conclusion that the deal took place on June 18, 1998 and not on June 19, 1998. He was thus advised to submit evidence in support of his changed stand. However, till date he has failed to do so, and hence SEBI concluded that SSL has given false and misleading statement to SEBI.

Out of 2,14,100 shares purchased by SSL, SSL sold 1,20,600 shares to the various schemes of SRMF @ Rs.85/- whereas the ruling price on that day i.e. June 24, 1998 was Rs.62.75/-. The deal was executed as a cross deal between 2 clients (i.e. SRMF and SSL) of the broker JJSB. As both the parties to the deal had the knowledge of the counter party clients, these transactions were not genuine transaction but aimed at only helping SRMF in bailing out the brokers who were in the payment crisis and formed part of bail out operations.

On the basis of these findings, an enquiry officer was appointed to enquire into the possible violation of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as 'Broker Regulations') with reference to their dealings in the scrip of VIL.

The Enquiry Officer after issuing SSL the show cause notice and considering the reply of SSL vide his report dated December 9, 2002 found that SSL has failed to abide by the Code of Conduct as specified in Schedule II and thus has violated the provisions of Regulation 7 of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

A show cause notice dated December 19, 2002 was issued advising SSL to show cause as to why the penalty as considered by the Board should not be imposed on it. SSL was further granted an opportunity of personal hearing on 12.02.03 before me which was attended by its Authorised Representative Shri A. Janakiraman (C A).

The main submissions made on behalf of SSL are summarised below :

SSL objected to the initiation of any proceedings against it so far as its dealing in VIL are concerned on the ground that the findings against it are derived from the Investigations conducted by SEBI against Videocon Group and other entities and as such those findings have been set aside by the Hon'ble Securities Appellate Tribunal (SAT) in Appeal Nos. 23 to 26 of 2001- Videocon International Ltd. Vs. Securities and Exchange Board of India.

It further submitted that SEBI cannot proceed with the case as SAT had already set aside the same allegations in an enquiry against VIL and others and as such any action by SEBI on the same issue would be violative of the principles of judicial discipline. In view of the SAT Order the allegations against SSL are unsustainable and the proceedings contemplated by the show cause notice ought to be dropped.

SSL further submitted that none of the allegations contained in the show cause notice can survive in the facts and circumstances of the case. Further, the bail out transactions were bonafide efforts of the exchange authorities to prevent crash of the market and any assistance in this connection direct, or indirect has to be viewed in the broader prospect. It was further submitted that any of its act was not serious enough to warrant the penalty recommended by the Enquiry Officer and therefore requested to quash the enquiry order dated December 9, 2002 . It has further submitted that even if it is held that SSL had violated the Regulations as alleged, the authority may not accept the penal action recommended by the Enquiry Officer as it is harsh, excessive and not commensurate with

the alleged violation. It was further submitted that recommendation of Enquiry Officer was too harsh considering the violation especially in view of the fact that considerable time has elapsed from the date of violation. It was also submitted that SSL has already surrendered its membership at NSE and is only a member of Hyderabad Stock Exchange and Cochin Stock Exchange. It was also submitted that all the officers in charge of the business at the relevant time have left and the business is being managed by new set of persons. On these grounds SSL has requested to take a lenient view. Shri Janakiraman, appearing for SSL, however, did not contest the charge that SSL received the difference of Rs.21.60 on 5,00,000 shares worth Rs. 108 lacs from JHPL on behalf of various brokers.

I have carefully considered the investigations report, show cause notice issued and the reply filed and submissions made on behalf of SSL. At the outset, I would like to clarify that the proceedings before the Hon'ble Securities Appellate Tribunal in Appeal no. 23-26 of 2001 were against the Order dated 19.4.2001 of SEBI directing VIL and its directors inter alia not to raise money from the public in the capital market for a period of 3 years in the interest of investors for inter alia violation of Regulations 4(a) and 4(d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995. What the Hon'ble Securities Appellate Tribunal decided as to whether the charge of market manipulation as levied against the Appellant therein, were established in view of the evidences referred in the impugned order. After examining the issue in detail and considering the evidence available on record Hon'ble Tribunal concluded that there was no sufficient material available to establish that the Appellants therein had directly or indirectly indulged in market manipulation and therefore the impugned order holding the Appellant guilty for violating 4(a) and 4(d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 cannot be sustained.

The present proceedings however, are entirely different from those referred to in the Appeal before SAT. These proceedings are against SSL, a Broker for alleged violation of Clause A1 to A5 and C6 of the Code of Conduct as stated above. The charges and the relevant provisions are entirely different in both the matters. In the instant case SSL is a member broker and is covered under the provisions of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992. To protect the sanctity and integrity of the market, its intermediaries are expected to set a high standard of integrity and fairness in their dealings to infuse confidence in the market participants including small investors. The member being registered with SEBI is duty bound not only to comply with the Rules and Regulations but also was expected to adhere to and respect the spirit of the Regulations.

SSL has not disputed the fact that the transactions in question were traded after the closure of trading hours which was not possible through BOLT in the normal circumstances. The member should have suspected the foul play in exercise of its due care and skill and should have refused to be part of the irregular activities. Further, as stated above, SSL did not contest the charge that SSL received the difference of Rs. 21.60 on 5,00,000 shares worth Rs. 108 lacs from JHPL on behalf of various brokers. Further, SSL has not disputed the allegation that a cross deal was executed between it and SRMF for the sale of 1,20,600 shares @ Rs.84/- per share. From a certified copy of the Arbitration award dated 11.9.2000, it is clear that the aforesaid transaction had indeed taken place on 19.6.98, whereas subsequently SSL forwarded letter attempting to furnish false and misleading information to SEBI.

In my view the provisions of Code of Conduct have to be followed by the intermediaries in order to ensure certain ethics, standards and professionalism. It generates confidence of the investors in the dealings of securities. Even though there may not be a direct involvement of SSL in market manipulation and as such there is no charge also in this regard but becoming party to the transactions which are entered into after the official working hours of the exchange to bail out of certain persons was certainly an act which was against the Code of Conduct as enumerated in the relevant Regulations. Further, while making purchase @ Rs. 90/- per share and mentioning Rs. 111.60 in the contract note and then receiving the difference of Rs. 21.60 per share has also indicted the broker of lacking the integrity, involvement in malpractice and deceptive transactions, non compliance of statutory requirements. Then submitted different versions to SEBI without substantiating the same even after being advised to do so by SEBI clearly establish that SSL has tried to misled SEBI in violation of C.6 of Code of conduct and has therefore violated the provisions of Regulation 7 of the relevant Regulations.

Having regard to the above, I agree with the findings of the Enquiry Officer, that SSL has violated / not complied with the provisions of the Code of Conduct. I however, considering the facts and circumstances of the case, am not inclined to agree with the recommendations of the Enquiry Officer who has recommended the suspension for the period of three months. In my view, the penalty of one month suspension would be commensurate with the violations committed by SSL. I therefore, order that the Certificate of Registration granted by SEBI to SSL, Member HSE and Cochin Stock Exchange be suspended for a period of one month.

This order shall come into effect from 3rd April, 2003.

Place: Mumbai

Date : March 13, 2003

(G. N. BAJPAI)

Chairman

Securities and Exchange Board of India