

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13 (4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 AGAINST SHRI RAJESH MEGHANI, MEMBER, NATIONAL STOCK EXCHANGE.

CO/CS/ /IES

- 1.0 M/s. Amara Raja Batteries Ltd. (hereinafter referred to as 'ARBL') , came out with a public issue in the year 1991 and its shares are listed on the Stock Exchange, Mumbai (BSE), National Stock Exchange (NSE), Hyderabad Stock Exchange Ltd. (HSE) and Calcutta Stock Exchange Association Ltd. (CSE).
- 2.0 In the first week of October, 2000, the price of the scrip of 'ARBL' at BSE was Rs.91/- and same went up to Rs.205/- on January 1, 2001 .Thereafter the price touched a high of Rs.320/- on March 8, 2001. On March 9, 2001, BSE closed the normal trading at 2 p.m. to facilitate the Badla session and the price of the scrip of ARBL at that time was Rs.308.40/-. On that date, NSE was functioning till 4.30 p.m. and the price of the scrip of ARBL fell to Rs.266.75/- and therefore on March 12, 2001 (the next trading day), BSE adjusted the price of various scrips including 'ARBL' to that of NSE. The price of 'ARBL' further fell down and thereafter touched a low of Rs.78.50/- on March 19, 2001.
- 2.1 The volumes in the scrip of 'ARBL' were approximately 50,000-60,000 shares per day in October, 2000 and went up to around 8-15 lakhs shares per day in the month of February and first week of March, 2001 at both BSE and NSE .
- 3.0 Securities and Exchange Board of India (SEBI) on receipt of certain complaints regarding the market manipulations / irregularities in the trading in the scrip of 'ARBL' , ordered detailed investigations in the matter to enquire into the alleged violations of the provisions of SEBI Act, 1992 , SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995 and SEBI (Stock Brokers & Sub Brokers) Regulations, 1992 and other Regulations and the role played by various persons / intermediaries including Shri Rajesh Meghani (hereinafter referred to as "the broker member"), Member, NSE.
- 3.1 The investigations prima facie revealed that some of the brokers and sub brokers of BSE & NSE had aided and abetted Shri Harinarayan Bajaj and his son, Shri Rahul Bajaj in creating a false market in the scrip of 'ARBL'. It was also revealed that the above intermediaries had failed to exercise due care and skill in their dealings in the scrip of ARBL. It was also found that Shri Harinarayan Bajaj and his son, Shri Rahul Bajaj were shifting positions of approximately 5.5 lakhs shares of 'ARBL' between BSE & NSE in settlement No.1 of NSE and the same was increased approximately to 11 lakhs shares in Settlement No. 9 of NSE. Further, it was found that Shri Bajaj was not having the requisite funds to pay for the deliveries and also for the margins. The investigation also found that when the price of the scrip of 'ARBL' fell down, Shri Bajaj could not purchase any further shares due to lack of funds.
- 4.0 The broker member had started dealing in the scrip of 'ARBL' from the third week of January 2001 (from Settlement No. 03 /2001 of NSE), these transactions were done on behalf of his client Shri Harinarayan Bajaj. The broker member had purchased 4,46,000 shares and sold 2,85,000 shares at NSE. The broker member had also traded on behalf of Shri Harinarayan Bajaj through Opulent Securities, Member BSE . The broker member had purchased and sold 1,65,000 shares of 'ARBL' through Opulent Securities Ltd.
- 4.1 SEBI, therefore, vide its order dated June 18, 2001 appointed an Enquiry Officer to enquire into the affairs of the broker member in his dealings in the scrip of 'ARBL' and for the possible violations of the provisions of SEBI Act, 1992, SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995 and the provisions of rules, Bye Laws & Regulations of NSE .
- 4.2 The broker member attended and made his submissions before the Enquiry Officer . The Enquiry Officer after perusing the documents and after considering the submissions made on behalf of the broker member submitted his report on August 23, 2002 . The Enquiry Officer found that the broker member is guilty of violating Clause A (2) of Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub Brokers) , Regulations, 1992 . However, the Enquiry Officer recommended to take a lenient view on the charge under SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995. The Enquiry Officer had also observed in his report that the broker member had acted as an unregistered sub broker to Opulent Securities (Member , BSE). Accordingly the Enquiry Officer in his report had recommended that the certificate of registration granted to the broker member be suspended for a period of 6 months .
- 5.0 Subsequently, SEBI sent a notice dated August 26, 2002 under regulation 29 (1) of the SEBI (Stock Brokers and Sub Brokers) Regulations 1992 (hereinafter referred to as " the said Regulations") asking him to show cause why the penalty as recommended by the Enquiry Officer be not imposed against him . A copy of the Enquiry Report was also forwarded to the broker member along with the show cause notice. The broker member vide letter dated September 26, 2002 requested 15 days time for filing the reply. An opportunity of hearing was also given to the broker member on October 28, 2002 in which the broker member appeared before me and made his submissions.. He had also handed over the written submissions at the time of the personal hearing and inter alia contended that except the last trade for 90,000 shares he had never traded beyond his financial capacity. The broker member had thereafter requested me to adjourn the hearing for making further submissions. Accordingly the said hearing was adjourned.
- 5.1 The broker member vide letter dated October 29, 2002, had requested that he was looking forward for the next meeting with SEBI. The broker member had also vide his letter dated November 06, 2002 furnished his reply to the show cause notice on the similar lines with the above written submissions.
- 5.2 The broker member vide his aforesaid reply stated that his client had given him a cheque for Rs.50 lacs as margin for his trade of 7th March 2001 and 9th March 2001 and the said cheque was returned on 14th March 2001. The broker member further stated that at the time of purchase of 90,000 shares he was having Rs. 115 lacs as margin including the cheque of

Rs. 50 lacs. With regard to the allegation that the broker member purchased and sold 1,65,000 shares of ARBL through Opulent Securities Member of BSE and such transactions enabled Shri. Bajaj to build up huge position in the market, the broker member stated that there was strict restriction on the quantity of shares which was fixed about 25,000 to 30,000 which was also squared up in each settlement. It was further stated by the broker member that the aforesaid transactions did not enable his client to build up huge position. With regard to the allegation that no quantitative restriction were given by the broker member while executing series of trades for Shri Bajaj the broker member stated that he had given a quantitative restriction of 45,000 shares on his client except settlement no.10. As regards the high exposure given to his client, the broker member stated that they had allowed exposure to their constituent Mr. Jatin and not to Mr. Bajaj. It was further contended by the broker member that Mr.Jatin was known to him for the last five years and Mr Bajaj who was introduced to the broker member by Mr. Jatin had taken advantage of the broker member's trust on his constituent Mr. Jatin.

- 5.3 The broker member had also stated that on March 9, 2001 he had taken a cheque of Rs.50 lacs from his client, however, the said cheque was returned on 14th March 2001. Therefore, at the time of purchase of 90,000 shares on March 12, 2001 he was unaware about the return of cheque and immediately requested NSE to cancel the trade. The broker member had stated that the request made by him to the officers of NSE for cancelling the trade was rejected by them. As regards net worth of his client, the broker member stated that his client is staying at a posh area called Marine Drive in Mumbai. The broker member stated that the client is of 60 years old and therefore, it did not create any suspicion regarding the order placed by him. The broker member further stated that except the last trade of 90,000 shares they had never traded beyond their financial capacity.
- 5.4 The broker member had also stated that when they are registered as stock brokers as per Securities Contracts (Regulations) Act, 1956 there is no need of sub-brokers registration. Further, the broker member stated that they have referred the SEBI guidelines for brokers and they could not find out any specific guidelines for broker dealing with another broker on behalf of the client.
- 5.5 The request of the broker member with regard to the adjournment was allowed and the same was adjourned to February 12, 2003.
- 5.6 In view of the observation made by the Enquiry Officer that the broker member acted as an unregistered sub broker, SEBI issued another notice dated February 05, 2003 asking him to show cause as to why appropriate orders under the said Regulations not be passed against him. The broker member however, failed to give a reply to the aforesaid show cause notice.
- 6.0 I have perused the extracts of the investigation report, the Enquiry Report and the oral as well as written submissions made on behalf of the broker member before me.
- 6.1 It is observed that the broker member had executed various transactions on behalf of his client Shri. Harinarayan Bajaj both at BSE and NSE. The settlement wise trading of the broker member at NSE for his aforesaid client, is given as under:

Trading, Delivery & Carry Forward (Badla) Position of Amara Raja Batteries Ltd. (From Aug 00 to March 01) at NSE.

Settl. No.	Purchase	Sales	C/f	Delivery
N-3	5000	5000	N/A	Nil
N-4	45,000	45,000	N/A	Nil
N-5	45,000	45,000	N/A	Nil
N-6	45,000	45,000	N/A	Nil
N-7	45,000	45,000	N/A	Nil
N-8	45,000	45,000	N/A	Nil
N-9	55,000	55,000	N/A	Nil
N-10				
03-07-01	55,000			
03-09-01	16,000			
12-03-01	90,000		N/A	
Total	446,000	285000		

Investigation also revealed that the broker member had purchased shares of ARBL through Opulent Securities Ltd, Member, The Stock Exchange, Mumbai (BSE), with whom the broker member was not registered as a sub broker.

Trading at BSE (Through Opulent Securities by Shri. Rajesh Meghani)

Trading, Delivery & Carry Forward (Badla) Position of Amara Raja Batteries Ltd. From Aug 00 to March 01

Settl. No.	Purchase	Sales	C/f	Delivery
A-45	20,000	20,000	Nil	Nil
A-46	30,000	30,000	Nil	Nil
A-47	30,000	30,000	Nil	Nil
A-48	30,000	30,000	Nil	Nil
A-49	30,000	30,000	Nil	Nil
A-50				
03-05-01	25,000			
03-07-01		25000		
TOTAL	1,65,000	1,65,000		

- 6.2 The broker member had stated inter alia on oath before the investigating authority , that 95% trades in the scrip of ARBL were conducted on behalf of his client Shri Harinarayan Bajaj. It is further observed that the broker member had not taken any deposit at the time of executing the first order.
- 7.0 As regards the charge framed by the Enquiry Officer against the broker member under Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, the Enquiry Officer had observed in his report " There is no proof that Shri. Meghani was aware of Mr. Bajaj's dealings with other brokers nor had the information that Mr. Bajaj is indulging in creating a false market in the scrip of ARBL. In view of this, a lenient view may be taken and benefit of doubt given to Shri. Meghani on this charge". I concur with the observations of the Enquiry Officer and as such do not find it necessary to discuss it further.
- 8.0 On the facts and circumstances of the matter, the following issues are framed for discussion.

9.0 Whether the broker member had purchased 90,000 shares of ARBL on March 12, 2001 , despite having debit balance on account of Shri Harinarayan Bajaj

- 9.1 It is an admitted fact that the broker member had started dealing in the scrip of ARBL in the third week of January 2001. It is also an admitted fact that the broker member had purchased 4,46,000 and sold 2,85 000 shares of ARBL on behalf of his client aforesaid client, Shri Harinarayan Bajaj in settlement No. N 3 to N - 10 . It is also observed that the broker member had dealt in high volumes in the scrip of ARBL from settlement no. 4 of NSE . The broker member had also admitted that 95 % trading done by him in the scrip of ARBL were on behalf of his client Shri. Harnarayan Bajaj. It is also a fact that the client had defaulted pay in margin for settlement no. No- 10 of NSE. Despite the above failure, the broker member had again purchased 90,000 shares of ARBL on behalf of the aforesaid client on March 12, 2001. Further, the broker member had lost more than Rs. 4.5 crores in his dealings with the aforesaid client in the scrip of ARBL and thereby defaulted in his pay-in obligation to NSE.
- 9.2 It is also worth mentioning that the aforesaid trading was executed by the broker member at a time when the price of the scrip of ARBL was very high. It is further noticed that the broker member was dealing with his aforesaid client for the first time. No prudent broker would have executed such a huge transaction when the client had defaulted in respect of even his margin obligation for the previous settlement.
- 9.3 The contention of the broker member that his aforesaid client was high network client residing in a posh area called Marine Lines, Mumbai can not be accepted in the absence of satisfactory evidence to that effect. The broker member had failed to satisfy that his aforesaid client was a high network client and capable of fulfilling his commitments. The broker member before executing the transactions on behalf of his client should have verified whether his client was having liquidity to fulfill his commitments with respect to his transactions.
- 9.4 The broker member stated that his client had given a cheque of Rs. 50 lacs as a margin for his trade on 7th March and 9th March , 2001 and the cheque returned on March 14, 2001 . As he was unaware of the return of the cheque, when he bought 90,000 shares for his client he was having a margin of Rs. 115 lacs including the above cheque of Rs. 50 lacs . The contention of the broker member that he had collected sufficient margin can not be accepted as it is observed that he had not collected margin from his client for the trading executed on March 12, 2001. It is also observed that the broker member had failed to make his pay-in obligation to the Exchange.
- 9.5 Therefore, it is proved that the broker member had purchased 90,000 shares of ARBL at NSE on March 12, 2001 despite having debit balance on the account of his client Shri Harinarayan Bajaj.

10.0 Whether the broker member had traded in the scrip of ARBL beyond his own financial capability.

- 10.1 It is an undisputed fact that the broker member had purchased 4,46,000 shares and sold 2,86,000 shares of ARBL in settlement numbers N-03 to N-10 of NSE, on behalf of his client, Shri Harinarayan Bajaj . The broker member contended that he had always maintained a restriction of 45,000 shares up to settlement No. 8. The broker member further stated that in settlement no. 9, he had allowed the aforesaid client to take increased exposure of 10,000 shares as they had enough margin. The aforesaid contention of the broker member cannot be accepted in view of the fact that he had given high exposure of 45,000 shares to his aforesaid client throughout the settlement nos. N-4 to N-8 at NSE.
- 10.2 The initial exposure given by the broker member to his client in settlement no. N-3 was only 5000 shares and thereafter, he had executed 45,000 shares continuously in all the settlements up to N-8. In settlement No. 9, he had purchased and sold 55,000 shares of ARBL and in settlement No. N-10, he had purchased 1,61,000 shares of ARBL on behalf of his aforesaid client. It is also observed that at the end of settlement No. N-10, the client had a huge debit balance with the broker member and the broker member had also suffered a huge loss in the aforesaid dealings. It is observed that the broker member had lost more than Rs. 4.5 crores in his dealings with the aforesaid client in the scrip of ARBL and thereby defaulted in his pay-in obligation to NSE
- 10.3 The contention of the broker member that he had given an exposure of only 45,000 shares cannot be viewed lightly when compared to the price of the scrip at that relevant point of time. It is also worth mentioning here that Shri Harinaryan Bajaj had no dealings in the past with the broker member. No prudent broker would have given such high exposure to a client when the price of the scrip is ruling at 52 week high.
- 10.4 It is also observed that in settlement no. 9, the purchase and sale executed by the broker member on behalf of his client was 55,000 shares . In settlement no. N-10, the broker member had purchased 1,61,000 shares on behalf of his aforesaid client. At the end of this settlement, the aforesaid client had a huge debit balance in the books of the broker member. The broker member had suffered a huge loss in his dealings with Shri Harinarayan Bajaj. The broker member had also defaulted his pay-in obligation to the Exchange. The fact that the broker member had defaulted in his pay in obligation to the Exchange will clearly indicate that he had traded with his aforesaid client in the scrip of ARBL beyond his own financial capability. If he was financially capable he could have made the payment to NSE. Had the broker member taken due care and skill, he would not have suffered loss in his dealings with his aforesaid client.

10.5 Therefore, it is proved that the broker member had traded in the scrip of 'ARBL' on behalf of his client, Shri Harinarayan Bajaj beyond his own financial capability.

11.0 The broker member had traded in the scrip of ARBL beyond the financial capability of his client, Shri. Harinarayan Bajaj .

11.1 It is already observed in the preceding paragraphs that the broker member had purchased 4,46,000 and sold 2,86,000 shares of ARBL from settlement no. N-3 to N-10 on behalf of his client, Shri Harinarayan Bajaj . It is also a fact that the client had defaulted pay in margin for settlement no. No- 10 of NSE. It is further observed that at the end of settlement No. N-09, the aforesaid client had a huge debit balance with the broker member and the broker member had suffered huge loss in the aforesaid dealings. It is observed that the broker member had lost more than Rs. 4.5 crores in his dealings with the aforesaid client in the scrip of ARBL and thereby defaulted in his pay-in obligation to NSE.

11.2 Therefore, it is proved that the broker member had traded in the scrip of ARBL beyond the financial capability of his client, Shri. Harinarayan Bajaj.

12.0 Whether the broker had acted as an unregistered sub broker without having proper registration with SEBI

12.1 It is observed by the enquiry officer in his report that the broker member was acting as an unregistered sub broker to Opulent Securities in BSE which is in violation of Section 12 of SEBI Act, 1992 and Rule 3 of SEBI (Stock Brokers and Sub Brokers) Rules, 1992. As no specific charge was framed in the Enquiry Report for the aforesaid violation, SEBI vide its letter dated February 5, 2003 issued a notice to the broker member asking him to show cause as to why appropriate orders should not be issued against him under SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 for violating Section 12 of SEBI Act, 1992 read with Rule 3 of SEBI (Stock Brokers and Sub Brokers) Rules, 1992. The corresponding Regulations are SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. The broker member failed to file his reply to the aforesaid show cause notice.

12.2 I have perused the enquiry report and other submissions made by the broker member. It is found that the broker member had executed transaction through Opulent Securities, Member BSE on behalf of Shri Harinarayan Bajaj. The broker member had purchased and sold 1,65,000 shares on behalf of Shri Harinarayan Bajaj through Opulent Securities. It is an admitted fact that the broker member was not registered as a sub broker to Opulent Securities, with SEBI. It is also admitted by the broker member that no proprietary trading was done by him in the scrip of ARBL.

12.3 The broker member contended that they referred the SEBI guidelines for brokers but there was no such specific guideline for broker dealing with another broker on behalf of the client. As both are registered members of the Exchange and are authorized to issue the contract notes, they issue contract note to each other as per the procedure. The said contention can not be accepted in view of the specific restriction mentioned in section 12 of SEBI Act, 1992. Therefore, the conduct of the broker member while dealing with Opulent Securities as a sub broker without having proper registration from SEBI is in violation of Section 12 of SEBI Act, 1992 read with Rule 3 of SEBI (Stock Brokers and Sub Brokers) Rules, 1992 and therefore, it is proved that the broker member had violated the provisions of SEBI Act and Rules as aforesaid.

13.0 The broker member by virtue of his trading in ARBL on behalf of Shri Harinarayan Bajaj has failed to exercise due skill and care in his dealings

13.1 It is already established that broker member had purchased 90,000 shares of ARBL on March 12, 2001 despite having debit balance on account of Shri Harinarayan Bajaj. Further it is observed from the facts that the broker member had traded in the scrip of ARBL beyond his own financial capability, and also beyond the financial capability of his client. The said actions of the broker member resulted in huge loss to himself and also led to serious repercussions in the market. Had the broker exercised due skill and care while dealing with his client Shri Harinarayan Bajaj, he could have avoided the above incidents. The above instances occurred as the broker member failed to exercise due care and skill while dealing with his client Shri. Harinarayan Bajaj.

13.2 Therefore, it is proved that the broker member had failed to exercise due skill and care in his trading in ARBL on behalf of Shri. Harinarayan Bajaj and thus violated the provisions of Clause A (2) of Schedule II read with Regulation 7 of the SEBI (Stock Brokers and Sub Brokers) Regulation 1992.

14.0 Considering the involvement of the broker member as stated above, and in view of the above findings, I am of the view that the penalty of suspension of certificate of registration granted to the broker member for a period 6 months as recommended by the Enquiry Officer is reasonable .

Therefore, under the powers conferred upon me under Section 4(3) of the SEBI Act, 1992, and Regulation 13 (4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby, suspend the certificate of registration granted to Shri Rajesh Meghani, Member National Stock Exchange for a period of 6 months with effect from 19/08/03.

G. N. BAJPAI

DATE : July 29, 2003

CHAIRMAN

PLACE: MUMBAI

SECURITIES AND EXCHANGE BOARD OF INDIA