

SECURITIES AND EXCHANGE BOARD OF INDIA

MO/33/ISD/12/03

ORDER UNDER REGULATION 13 (4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 AGAINST M/s SANJEEV PHUMBHRA, MEMBER OF CALCUTTA STOCK EXCHANGE.

1. M/s Sanjeev Phumbhra is registered with SEBI as a stock broker (hereinafter referred to as 'member') bearing SEBI registration no. INB 030043510 and is a member of Calcutta Stock Exchange (CSE). An inspection of books of accounts, documents and other records of the member was conducted on 14th June, 2002. During the inspection, it was found that the member had indulged in off market trades outside the price and order matching mechanism of CSE. The data collected by the inspection team indicated that the broker had indulged in off the floor transactions with the brokers Shri Sanjay Khemani, member CSE. Further, it was observed that the member indulged in fund transfers with other brokers like Shri Sanjay Khemani, Shri D K Singhania, Shri Ashok Kumar Poddar and Shri Harish Chandra Biyani, members CSE. It was found that the fund transfers were not backed by any transactions.
2. The findings of the inspection report were forwarded to the member vide letter dated 25.06.2002 advising the member to file his comments if any, on the findings of the inspection. The member vide letter dated 15.07.02 replied to the said findings of the inspection report. On not being satisfied with the reply filed by the member an Enquiry officer was appointed vide SEBI's order dated 08.08.2002. The allegations as per the show cause notice dated April 30, 2003 issued by Enquiry Officer are as under:
 - a) That the member carried out transactions with Sanjay Khemani, member CSE, outside the price and order matching mechanism of CSE. By not executing the aforesaid transactions on the trading system of CSE, the

member violated SEBI Circular SMDRP/POLICY/CIR-32/99 dated 14th September, 1999 which was notified by CSE to its members vide its notice dated 16th September 1999. Further, it was alleged that such transactions are irregular and are prohibited under Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 and are also in violation of Clause A(1) (4)&(5) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 and Rule 4(b) of SEBI (Stock Brokers and Sub Brokers) Rules 1992.

- b) That the member made payments/received funds from other members of CSE, without corresponding transactions in securities. It was therefore alleged that the member carried out business other than that of securities, which is prohibited under Rule 8(1)(f) of SC(R) Rules, 1957.
- 3. The Enquiry Officer submitted his report on 29.08.2003. In his report the EO found that the member indulged in off market deals and lending of funds and recommended suspension of certificate of registration of the member for a period of 6 months.
- 4. Consequent upon above, in terms of regulation 13(2) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as 'the said regulations') a show cause notice dated 08.09.2003 was issued to the member to show cause as to why the penalty as recommended by the enquiry officer should not be imposed on him. The member was advised to submit its reply, if any, within 15 days of the receipt of the show cause notice failing which it would be presumed that the member has no explanation to offer. The member was also asked to intimate along with the reply whether it desired a personal hearing. The member vide letter dated 26.09.2003 replied to the said show cause notice reiterating its stand taken at the time of inspection.

5. I have carefully examined the facts and circumstances of the case. I have also carefully considered the Enquiry Report. On appreciating the facts and circumstances of the case the findings are as under:

5.1 I find that the member indulged in off market deals with member Sanjay Khemani of CSE as under:

Name of the Broker: **SANJAY KHEMANI**

Name of the scrip: Satyam Computers.

Date of transaction	Member's Buy/Sell	Quantity	Amount (As per difference bill) (IN RUPEES)	Amount in Rs.(as per difference bill)
8/1/2001 TO 9/1/2001	SELL	200001	79394708.91	5363878.84
8/1/2001	Buy	200001	74030830.07	
11/1/2001	SELL	200000	772933431.75	4378931.75
08/01/2001	BUY	200000	72914500.00	
23/01/2001	SELL	128657	54241434.47	1409215.29
23/01/2001	BUY	128657	528322219.18	

Name of the scrip: Zee Tele

Date of transaction	Member's Buy/Sell	Quantity	Amount (As per difference bill) (IN RUPEES)	Amount in Rs.(as per difference bill)
23/01/2001	SELL	200127	57787631.64	10635296.04
19/01/2001	BUY	200127	47152335.60	
02/01/2001	SELL	199270	53676138.41	3070426.24
01/01/2001	BUY	199270	51508680.00	

Name of the scrip: Silvind

Date of transaction	Member's	Quantity	Amount (As per difference bill)	Amount in Rs.(as per difference bill)
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transaction	Buy/Sell		difference bill) (IN RUPEES)	difference bill)
30/01/2001	SELL	121587	30324507.38	3465001.84
29/01/2001	BUY	121587	26859505.54	

Name of the scrip: ACC

Date of transaction	Member's Buy/Sell	Quantity	Amount (As per difference bill) (IN RUPEES)	Amount in Rs.(as per difference bill)
02/01/2001	SELL	222118	36558800.49	902967.83
01/01/2001	BUY	222118	35655832.66	

5.2 I find that the member admitted the above instances. SEBI vide Circular dated 14.09.1999 banned all negotiated deals, cross deals etc. which include Off-the-floor transactions also. In the said circular it had been notified that all negotiated deals shall be permitted only if the said deals are executed on the screens of the Exchange i.e. the price and order matching mechanism of the Exchange like any other normal trade. It was explained in the said circular that the above decision was taken as negotiated deals avoid transparency requirement, do not contribute to price discovery and investors do not have benefit of the best possible price and militate against the basic concept of the stock exchanges which are meant to bring together a large number of buyers and sellers in an open manner.

5.3 In view of the above, the member should not have executed off the floor transactions otherwise than through the trading mechanism of the exchange. This is in violation of SEBI Circular SMDRP/ Policy/CIR-32/99 dated 14/09/1999. In fact, CSE notified the SEBI circular 14.09.99 on the off market trades to its members vide its notice dated 16.09.99.

5.4 Further, I find from the above instances that the quantity and value of such transactions are also quite high. Off market deals do not lend transparency

and distort the true price discovery process in the regular market since the investors would not be aware of the large scale unauthorized transactions taking place outside the market system which if executed on the screen based system would have an impact on the demand and supply of the shares and consequently on the prices. Conducting such off market transactions outside the price order mechanism of the exchange is, therefore, a serious irregularity which is in violation of SEBI Circular dated 14/9/1999. Such transactions also attracts Regulation 4(a) and (b) of SEBI (Prohibition of Fraudulent and unfair Trade Practices relating to Securities Markets) Regulations, 1995. Such deals are also in violation of item 4 & 5 of clause A of Code of Conduct read with regulation 7 of Broker Regulations.

5.5 I find that the member received and paid funds to fellow brokers of the Exchange as under without there being corresponding transactions in securities.

No.	Broker	Date	Cheque No.	Amount
1	SANJAY KHEMANI	10/01/2001	716256-HDFC	1,15,75,000.00
2	SANJAY KHEMANI	28/09/2000	643634-HDFC	60,00,000.00
3	SANJAY KHEMANI	14/02/2000	716222-HDFC	48,00,000.00
4	SANJAY KHEMANI	27/10/2000	763293-HDFC	40,50,000.00
5	SANJAY KHEMANI	26/05/2000	287273-HDFC	34,50,000.00
6	HARISH CHANDRA BIYANI	25/06/2000	430995-HDFC	9,00,000.00
7	HARISH CHANDRA BIYANI	06/07/2000	578305-HDFC	7,00,000.00
8	HARISH CHANDRA BIYANI	04/08/2000	060564-HDFC	11,30,000.00
9	HARISH CHANDRA BIYANI	16/08/2000	303555-HDFC	4,50,000.00
10	HARISH CHANDRA BIYANI	31/08/2000	451056-HDFC	14,80,000.00
11	DINESH KUMAR SINGHANIA	20/07/2000	490790-HDFC	18,50,000.00
12	DINESH KUMAR SINGHANIA	04/08/2000	325268-HDFC	21,00,000.00
13	DINESH KUMAR SINGHANIA	09/11/2000	614386-HDFC	11,00,000.00
14	DINESH KUMAR SINGHANIA	14/12/2000	716221-HDFC	17,25,000.00
15	DINESH KUMAR SINGHANIA	25/01/2001	614404-HDFC	9,00,000.00
16	ASHOK PODDAR	24/05/2000	515790-HDFC	15,00,000.00
17	ASHOK PODDAR	15/06/2000	491075-HDFC	5,00,000.00

18	ASHOK PODDAR	20/07/2000	302025-HDFC	13,00,000.00
19	ASHOK PODDAR	03/08/2000	302516-HDFC	9,00,000.00
20	ASHOK PODDAR	31/08/2000	431056-HDFC	2,05,00,000.00

5.6 I find that the member received substantial amounts and also paid substantial amounts to the fellow brokers as can be seen from the above table without there being corresponding transactions in securities. I have also noted that the member admitted that it received funds and made payments to others as shown above.

Rule 8(1) (f) of SC(R) Rules, 1957 reads as under:-

Qualifications for membership of a recognized stock exchange

The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:-

(1) *No person shall be eligible to be elected as a member if –*

(a).....

(b).....

(c).....

(d).....

(e).....

(f) *he is engaged as principal or employee in any business other than that of a securities except as a broker or agent not involving any personal financial liability unless he undertakes on admission to sever his connection with such business.*

Provided that the SEBI may, for reasons sufficient in the opinion of the said (Board) permit a recognized stock exchange to suspend the enforcement of this clause for a specified period on condition that the applicant is not associated with or is a member of a subscriber to or shareholder or debenture holder in or connected through a partner or employee with any other

organization, institution, association, company or corporation in India where forward business of any kind whether in goods or commodities or otherwise is carried on or in not engaged as a principal or employee in any such business;

5.7 I find that in the absence of corresponding transactions in securities for such huge flow of funds in crores of rupees between the member and others the member had violated Rule 8(1)(f) of SC (R) Rules, 1957.

6. In view of the above, I find that by indulging in off market deals the member violated SEBI Circular No.SMDRP/Policy/Cir-32/99 dated September 14, 1999 which prohibits all negotiated deals unless such deals are executed on the screen of the exchange in the price and order matching mechanism of the exchange. Such transactions also attracts Regulation 4(a) and (b) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995 and also item 4 & 5 of Clause A of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations 1992. Further, I find that the member received funds and made payments to other fellow members and as a consequence violated rule 8 (1) (f) of SC (R) Rules 1957.

7. I have no hesitation to agree with the findings of the enquiry officer that the member indulged in large scale off the floor transactions which interfere with fair and smooth functioning of price discovery mechanism of the exchange. The said acts of the member militate against the very concept of a stock exchange which draws large number of investors before it to deal in a transparent atmosphere. Further, the member received substantial amounts and also paid substantial amounts to the fellow brokers without there being corresponding transactions in securities. Such practices shake confidence of investors in securities market. The violations cannot be taken lightly particularly when the same

are in the nature of disturbing the equilibrium of the market and hindering the interest of investors and the development of capital market.

8. I am satisfied that this is a fit case to impose major penalty suspending the registration of the member. Therefore, in exercise of the powers conferred upon me by Section 19 of SEBI Act, 1992 read with sub-regulation (4) of Regulation 13 of the said Regulations, I hereby suspend the certificate of registration of M/s Sanjeev Phumbhra for a period of 6 months. This order shall come into force after 3 weeks from the date of the order.

Place: Mumbai
Date: 15.12.03

A K BATRA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

