

SECURITIES AND EXCHANGE BOARD OF INDIA

MO/35/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 RAMA SECURITIES PVT. LTD., MEMBER OF CALCUTTA STOCK EXCHANGE.

1. M/s Rama Securities Pvt. Ltd. is registered with SEBI as a stock broker (hereinafter referred to as 'member') bearing SEBI registration no. INB 031017730 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 10th and 11th 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, Shri D K Singhania, Shri Gautam Bajoria and Shri H C Biyani, members CSE. Further, it was observed that the member indulged in fund transfers with other brokers like Shri Sanjay Khemani, Shri D K Singhania, Shri Gautam Bajoria and Shri H C 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 21.06.2002 advising the member to file its comments if any, on the findings of the inspection. The member vide letter dated 10.07.2002 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, D.K. Singhania, Gautam Bajoria and H.C. Biyani, members, 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 it. 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 failed to reply to the said show cause notice.

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 members Sanjay Khemani, D.K. Singhanian, Gautam Bajoria and H.C. Biyani, of CSE as under:

Name of the Broker: **SANJAY KHEMANI**

Name of the Srip	Date of transactions	Sett.No.	Buy/Sell	Quantity	Price (Rs.)
Global Tele	17/1/01	2001142/ F	BUY	10000	630.00
Global Tele	17/1/01	2001142/ F	BUY	10000	635.40
Global Tele	12/1/01	2001142/ F	SELL	20000	746.50
HFCL	15/1/01	2001142/ F	BUY	15000	1069.00
HFCL	16/1/01	2001142/ F	BUY	10000	1074.00
HFCL	12/1/01	2001142/ F	SELL	25000	1218.00
DSQ Soft	17/1/01	2001142/ F	BUY	10000	337.50
DSQ Soft	17/1/01	2001142/ F	BUY	10000	338.50
DSQ Soft	17/1/01	2001142/ F	BUY	10000	338.50
DSQ Soft	12/1/01	2001142/ F	SELL	30000	382.50
ZEE	15/1/01	2001142/ F	BUY	15000	218.00
ZEE	15/1/01	2001142/ F	BUY	15000	219.00
ZEE	15/1/01	2001142/ F	SELL	30000	253.00

Name of the Srip	Date of transactions	Sett.No.	Buy/Sell	Quantity	Price (Rs.)
Global Tele	25/1/01	2001143/ F	BUY	10000	704.00
Global Tele	25/1/01	2001143/ F	BUY	10000	704.50
Global Tele	25/1/01	2001143/ F	BUY	10000	705.00
Global Tele	22/1/01	2001143/ F	SELL	15000	769.00
Global Tele	22/1/01	2001143/ F	SELL	15000	768.50
HFCL	19/1/01	2001143/ F	BUY	15000	1190.00
HFCL	25/1/01	2001143/ F	BUY	20000	1202.00
HFCL	25/1/01	2001143/ F	BUY	15000	1202.50
HFCL	23/1/01	2001143/ F	SELL	25000	1267.00
HFCL	23/1/01	2001143/ F	SELL	25000	1267.50

Name of the Srip	Date of transactions	Sett.No.	Buy/Sell	Quantity	Price (Rs.)
DSQ Soft	19/1/01	2001143/ F	BUY	25000	373.50
DSQ Soft	24/1/01	2001143/ F	SELL	15000	441.50
DSQ Soft	24/1/01	2001143/ F	SELL	10000	441.00
ZEE	25/1/01	2001143/ F	BUY	30000	264.00
ZEE	25/1/01	2001143/ F	BUY	20000	264.50
ZEE	25/1/01	2001143/ F	BUY	25000	264.70
ZEE	24/1/01	2001143/ F	SELL	25000	292.00
ZEE	24/1/01	2001143/ F	SELL	25000	292.50
ZEE	24/1/01	2001143/ F	SELL	25000	293.00

Name of the Srip	Date of transactions	Sett.No.	Buy/Sell	Quantity	Price (Rs.)
Global Tele	1/2/01	2001144/F	BUY	20000	680.00
Global Tele	1/2/01	2001144/F	BUY	10000	680.50
Global Tele	1/2/01	2001144/F	SELL	15000	741.00
Global Tele	1/2/01	2001144/F	SELL	15000	741.50
HFCL	1/2/01	2001144/F	BUY	20000	1058.00
HFCL	1/2/01	2001144/F	BUY	10000	1057.50
HFCL	1/2/01	2001144/F	BUY	10000	1057.00
HFCL	29/01/01	2001144/F	SELL	25000	1264.50
HFCL	29/01/01	2001144/F	SELL	15000	1265.00
DSQ Soft	29/1/01	2001144/F	BUY	15000	406.00
DSQ Soft	29/1/01	2001144/F	BUY	10000	406.20
DSQ Soft	29/1/01	2001144/F	BUY	15000	406.50
DSQ Soft	31/01/01	2001144/F	SELL	25000	437.00
DSQ Soft	31/1/01	2001144/F	SELL	5000	436.50
DSQ Soft	31/1/01	2001144/F	SELL	10000	437.20
ZEE	1/2/01	2001144/F	BUY	30000	246.50
ZEE	1/2/01	2001144/F	BUY	25000	246.70
ZEE	1/2/01	2001144/F	BUY	20000	247.00
ZEE	31/1/01	2001144/F	SELL	25000	272.00
ZEE	31/1/01	2001144/F	SELL	25000	272.20
ZEE	31/1/01	2001144/F	SELL	25000	272.50

Name of the Srip	Date of transactions	Sett.No.	Buy/Sell	Quantity	Price (Rs.)
Global Tele	8/2/01	2001145/F	BUY	20000	634.00
Global Tele	8/2/01	2001145/F	BUY	10000	634.50
Global Tele	8/2/01	2001145/F	BUY	2000	635
Global Tele	2/2/01	2001145/F	SELL	25000	708.50
Global Tele	2/2/01	2001145/F	SELL	15000	709.00
Global Tele	2/2/01	2001145/F	SELL	10000	708.70
HFCL	8/2/01	2001145/F	BUY	4000	922.50
HFCL	8/2/01	2001145/F	BUY	15000	922.70

HFCL	8/2/01	2001145/F	BUY	5000	923.00
HFCL	2/2/01	2001145/F	SELL	5000	1087.50
HFCL	2/2/01	2001145/F	SELL	5000	1088.00
HFCL	2/2/01	2001145/F	SELL	14000	1088.50
ZEE	8/2/01	2001145/F	BUY	25000	229.00
ZEE	8/2/01	2001145/F	BUY	25000	229.20
ZEE	8/2/01	2001145/F	BUY	25000	229.50
ZEE	2/2/01	2001145/F	SELL	25000	261.50
ZEE	2/2/01	2001145/F	SELL	25000	261.70
ZEE	2/2/01	2001145/F	SELL	25000	262.00

Name of the Srip	Date of transactions	Sett.No.	Buy/Sell	Quantity	Price (Rs.)
Global Tele	21/2/01	2001147/F	BUY	20000	572.50
Global Tele	21/2/01	2001147/F	BUY	20000	549.00
Global Tele	21/2/01	2001147/F	BUY	30000	573.00
Global Tele	16/2/01	2001147/F	SELL	25000	654.00
Global Tele	16/2/01	2001147/F	SELL	25000	654.00
Global Tele	16/2/01	2001147/F	SELL	20000	630.20
HFCL	22/2/01	2001147/F	BUY	10000	777.25
HFCL	22/2/01	2001147/F	BUY	10000	777.75
HFCL	22/2/01	2001147/F	BUY	10000	778.25
HFCL	16/2/01	2001147/F	SELL	15000	1008.50
HFCL	16/2/01	2001147/F	SELL	15000	1009.00

Name of the broker: **D K Singhania**

Name of the scrip	Date of transaction	Settlement No.	Buy/Sell	Quantity	Amount (Rs.)
SATYAM	20/4/00	2001104/F	BUY	1600	5290560.00

Name of the scrip	Date of transaction	Settlement No.	Buy/Sell	Quantity	Amount (Rs.)
DSQ Soft	10/5/00	2001107/F	BUY	9000	6945300.00

Name of the scrip	Date of transaction	Settlement No.	Buy/Sell	Quantity	Amount (Rs.)
PENTA	10/5/00	2001107/F	SELL	3700	2197800.00

Name of the scrip	Date of transaction	Settlement No.	Buy/Sell	Quantity	Amount (Rs.)
HFCL	18/5/00	2001108/F	BUY	11700	8786700.00

Name of the scrip	Date of transaction	Settlement No.	Buy/Sell	Quantity	Amount (Rs.)
ZEE	18/5/00	2001108/F	SELL	13100	1981250.00

5.2 I find that the member admitted the above instances. Enquiry Officer in his report noted the denial of the member that the said transactions are with a view to avoid transparency or to interfere with the price discovery process as the transactions were executed at the market rates and therefore that the investor did not get the best possible price. 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 match 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, the 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	Paid/Recd	Amount
1	DK SINGANIA	4/5/00	Recd	3000000.00
2	SANJAY KHEMANI	4/5/00	Recd	5000000.00
3	SANJAY KHEMANI	12/5/00	Recd	1250000.00
4	SANJAY KHEMANI	26/05/00	Recd	2000000.00
5	DK SINGANIA	3/8/00	Recd	6200000.00
6	HC BIYANI	4/8/00	Recd	3150000.00
7	SANJAY KHEMANI	15/12/00	Paid	8000000.00
8	GAUTAM BAJORIA	15/12/00	Paid	1700000.00
9	SANJAY KHEMANI	15/12/00	Paid	100000.00
10	DK SINGANIA	15/12/00	Paid	4500000.00
11	HC BIYANI	23/12/00	Paid	950000.00
12	DK SINGANIA	23/12/00	Paid	4200000.00
13	SANJAY KHEMANI	23/12/00	Paid	180000.00
14	DK SINGANIA	26/06/00	Recd	17500000.00
15	DK SINGANIA	26/06/00	Recd	3000000.00

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 Rama Securities Pvt. Ltd. for a period of 6 months. This order shall come into force after 3 weeks from the date of the order.

Place: Mumbai
Date: 16.12.03

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

