

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST DRESDNER KLEINWORT BENSON SECURITIES (INDIA) LTD. UNDER REGULATION 13(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.

- 1.0 During the preliminary investigations conducted by the Securities and Exchange Board of India (hereinafter referred to as 'SEBI') in the transactions of Shri Ketan Parekh and entities connected with him it was revealed that Dresdner Kleinwort Benson Securities (India) Ltd. (hereinafter referred to as 'DKB'), a foreign brokerage firm registered with SEBI having NSE and BSE brokership, had indulged in large transactions on behalf of entities connected / associated with Ketan Parekh. It was also revealed that DKB was making payments to them on the date of transactions itself, without waiting for pay-out of funds from the exchange in lieu of sale of securities. These investigations of transactions executed by DKB prima facie brought out that trades executed by DKB Securities are structured/synchronised and were put with the prior understanding with the counter party broker to ensure that trades put through DKB Securities matched with select brokers. This matching of trades was found to be done with a view to create artificial volume without any intention of effecting genuine trades. It was found that the transactions on behalf of Ketan Parekh entities (hereinafter referred to as KP entities) are, prima facie, financing transactions but were given the colour of purchase and sale of shares at the exchange. Accordingly, formal detailed investigations were conducted.
- 1.1 Pursuant to the above investigations, SEBI appointed an Enquiry Officer under Regulation 28(1) of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 by an Order dated 22nd January, 2002 for enquiring into the possible violations 'interalia' 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 Market) Regulations, 1995, by DKB.
- 1.2 The Enquiry Officer conducted the enquiry in accordance with the above Regulations and submitted his report dated 25th March, 2003. The Enquiry Officer found DKB guilty of having violated the provisions of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 read with SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. Accordingly, in terms of sub-regulation 7 of Regulation 28 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 read with the provisions of Regulation 13(1) and Regulation 23 of the SEBI (Procedure of Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, the Enquiry Officer recommended a penalty of suspension of certificate of registration granted to DKB for a period of two years.
- 2.0 A show cause notice was issued on April 21, 2003, whereby DKB was called upon to show cause as to why appropriate penalty under Regulation 29(1) of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 read with Regulation 13(2) of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 should not be imposed on DKB. A copy of the Enquiry report was also enclosed along with the aforesaid show cause.
- 2.1 DKB submitted its reply to the showcause vide its letter dated June 10, 2003. Subsequently, an opportunity of hearing was granted to it on August 06, 2003. Chamber of ZiaMody represented the DKB. Submissions of DKB in reply dated June 10, 2003 and in the oral hearing, are as follows :
- 3.0 By executing the Relevant Trades on behalf of KP entities viz. Classic Credit Ltd. (hereinafter referred to as CCL) and Panther Finca and Management Services Ltd. (hereinafter referred to as PFMS), DKB has not breached any securities laws of India. It was also said that DKB had not entered into transactions on behalf of CCL and PFMS with the specific intent and purpose of artificially raising or depressing prices or creating false market and volumes in securities. It was also stated that at the time of the Relevant Trades, DKB had no knowledge of the fact that these were circular trades and not genuine trades.
- 3.1 DKB also submitted that there had been substantial market volume during the relevant period, including the trading days on which DKB had not traded in the respective shares. Further, the market volumes during the relevant period were not at substantive variance to the daily market volumes when DKB had not executed trades in the relevant stocks. Thus, the deliberate intent to manipulate the prices of such stocks cannot be imputed to DKB. According to DKB the allegations made by SEBI in the show cause notice with regard to the circular and fictitious nature of trade transactions executed by DKB, were based on hindsight coupled with access to information not then available to DKB. DKB submitted that it was only an executing agency on behalf of CCL and PFMS and had no knowledge about the circular and fictitious trades. Moreover, the impersonal nature of the screen based trading system made it impossible for DKB to be aware of the identity of counter party buying broker or its client. It was also argued that the total volume of trades done by DKB on behalf of CCL and PFMS in the relevant stocks were not significant as to inflate, depress or cause fluctuations in the market price of the securities.
- 3.2 It was submitted by DKB that it had dealt in only nine stocks on behalf of CCL and PFMS, out of which DSQ Software, Tip Industries, Silverline Industries, Shonk Technologies and Mascon Global, DKB had executed only one single client order in each of the stocks during the relevant period. According to DKB, this was insufficient to adversely effect the market volume or price of a stock. Further the trade volumes executed by them, according to DKB, were below 5% of the total volume of trades in the market in the relevant stocks. Furthermore, such trades were executed at prevalent market price and these trades, had not substantially impacted the price movement in the relevant stocks. It was submitted that there was no intention to defeat the 'best offer price' principle in the order matching mechanism of the screen based trading system. The payment of funds by DKB to CCL and PFMS was in accordance with the securities laws, and if the same is construed as a financial activity, this was pursuant to the legal and valid contractual obligations of DKB and the said activity was incidental and consequential to the securities business. DKB also stated that the price movement in the relevant stocks was in consonance with the recognized indices i.e. BSE Sensex and NSE Nifty.
- 3.3 Regarding the Enquiry Report and the allegations therein that trades were entered into by DKB effectively excluding others from KP group's sell offer and ensuring exact matching of the price and quantity of the sell offer, it states that 506 sale orders were placed

by CCL and PFMS through DKB resulting in 4, 766 executions, which indicate that negotiated trades did not exclude other market participants from trading in the relevant scrips. It also stated that there was no evidence to demonstrate that there had been any pre-determination or content between DKB on the one hand and the counter party buying broker / client on the other hand while executing such trades. DKB also mentioned that the circular of SEBI dated 14.09.99 does not prohibit negotiated deals per se and it interpreted the circular to mean that negotiated trades are valid only if they are conducted like any other normal trades. According to DKB, when they entered into the relevant trades, they believed the same to be just like any other normal trade. DKB stated that it did not know that such trades were circular in nature. Further, DKB admitted that trades were executed by it as told by Mr. Kartik Parekh at a specific price quantity. However, it stated that it was not aware that scrips were being purchased by KPG entities. DKB submitted that the primary feature of the impersonal trading mechanism through screen based system does not permit the broker to know the identity of the buying client and therefore there was no fault on its part.

- 3.4 DKB also stated that they had done limited trading in the illiquid scrips, which cannot be alleged to be abnormal or unusual. Regarding illiquid scrips, DKB submitted that executions by them were in the range of 2.38% to 42.81% of the combined market volume in NSE and BSE on the respective trade dates. It further emphasized that illiquid scrips do not witness high volumes in the ordinary course and trading would normally be limited to a few major shareholders in such cases. With respect to liquid scrips, the limited volume of trade executed by DKB (i.e. less than 5% of the day's combined market volume of the said stock in NSE and BSE) would not affect the market. They also alleged that the findings of the enquiry officer were based on the principles of probability that DKB should have known about the fact that it was dealing with KP group entities on both sides. They submitted that the report did not contain evidence to suggest that DKB had known such transactions to be circular in nature. They also cited the judgment of

the Securities Appellate Tribunal in Sterlite case that mere probability would not be sufficient to establish the offence of market manipulation.

- 3.5 As to the finding by the Enquiry Officer that settlement obligation at the stock exchange was later discharged by DKB instead of seller it was submitted by DKB in their reply that it had executed on sale trades for CCL and PFMS and accordingly the settlement obligation in the stock exchange comprised only its obligation to make delivery of the stocks to be sold and there was no payment obligation as part of the settlement process. DKB further said that the settlement obligations of making deliveries was discharged by it pursuant to its receipt of stocks from CCL and / or PFMS, prior to their making any payment to CCL /PFMS. It states that the settlement obligation for any trade executed on the stock exchanges is with the stock broker. The circular of SEBI dated 07.05.97 regarding borrowing and lending of funds was also referred to. While DKB admitted that it had paid the sale consideration for the shares sold by CCL and PFMS prior to the respective stock exchange pay out, it stated that the same was within the scope of the above mentioned circular of SEBI dated 07.05.97.

- 3.6 With respect to the finding by the Enquiry Officer that DKB was ensuring repayments of funds advanced by it to CCL and / or PFMS and that it had been using the exchange mechanism (which guaranteed the trades), by putting sales transaction on the stock exchange it was submitted by DKB that it had made payments to CCL and /or PFMS only after the stocks were credited to the depository account and after the relevant stocks were sold in the market. DKB also said that there was no possibility of it and CCL or PFMS defaulting in the settlement obligation pursuant to the execution of the relevant trades and thus the finding by the Enquiry Officer was incorrect. DKB submitted that it had no knowledge about the identity of the buying broker and hence, it cannot be said that it was a party to the arrangement which contemplated a 'deliberate default' to take advantage of the exchange mechanism. It also stated that payment of funds to the client prior to the pay-out day of the exchange was a common practice amongst institutional clients. DKB further submitted that the transactions entered into by it were genuine and not intended to take benefit of the trade guarantee fund of the respective stock exchange and it cannot be said that such transactions were camouflaged for the actual funding by DKB to the KPG entities. It was also submitted that the money paid to KPG entities were strictly in accordance with the prevailing laws. Regarding the charge of aiding and abetting the creation of false market, DKB submitted that an essential ingredient for the same was 'knowledge' and the Enquiry Officer had not demonstrated any evidence to show that DKB had 'knowledge' about the creation of such false market. In the light of the above submissions, DKB requested for absolving them from the charges alleged by the Enquiry Officer in his report.

- 4.1 I have carefully examined the Enquiry Report and the submissions made by DKB in reply to the show cause notice dated April 21, 2003. From the

aforsaid, the following issues emerge for consideration, in the facts and law involved in the instant case.

- a) Whether the finding of the Enquiry Officer that DKB had indulged in circular trades is correct in view of the submission of DKB that there is no proof for 'pre-determination' on their part?
- b) Whether the finding of the Enquiry Officer regarding market manipulation by DKB is valid against the argument by DKB that the trade volumes executed by it in the relevant stocks were below 5% of the total volume of trades in the market in the relevant stocks and it has executed only one single client order in most of the stocks during the relevant period, and hence, this could not adversely affect either the market volume or prices of the said stocks can be accepted?
- c) Whether the activities indulged by DKB would constitute misuse of Exchange mechanism against the SEBI circular dated 07.05.97 and DKB's claims that the negotiated trades did not exclude other market participants and that such trades were done on the basis of 'best offer price' is correct?
- d) Whether the circular or negotiated deals are banned or are allowed to be done in the same manner as that of the normal market trades?
- e) Whether the finding of Enquiry Officer that the trades executed by DKB on behalf of CCL and PFMS in illiquid scrips for which generally there was no ready market is correct in view of the submission of DKB that it had executed only a few trades in such illiquid scrips and that the majority of the trades were liquid scrips for which a ready market always existed?

Before I proceed to deal with the issues raised by DKB with reference to findings of Enquiry proceedings, it is pertinent to refer to the trades of DKB executed on behalf of KP entities wherein the shares sold by one KP entities through DKB were again purchased by same/different KP entities through other brokers.

From the material on record, I find that DKB had conducted mainly sale transactions on behalf of KP entities at NSE and BSE. I have found that entire quantity or almost entire quantity of sale orders put by DKB on behalf of KP entities viz. CCL and PFMS got matched with the buy order of certain select brokers shares put on behalf of other set of KP entities or same selling KP entity. Order log and trade log showed that buy and sell orders were put at the same time or almost at the same time i.e. within a gap of few seconds of putting in of buy / sell order and that there was almost exact matching in the order quantity and the order rate.

I have also found that DKB had made payment to KP entities on the date of transactions itself, without waiting for pay-out of funds from the exchange in lieu of sale of securities. DKB had charged a varying rate of brokerage on each transaction. The analysis of varying rate of brokerage charged from the same client revealed that rate of brokerage charged was largely related to the period between date of payment to the client and date of receipt of funds from the exchanges on pay-out. Longer the period of advance payments, higher was the brokerage charged. Needless to say that these are transactions, which were confronted to DKB at the time of investigations

as well as by the Enquiry Officer. I will refer to two such instances in detail, as under:-

I. On 07-Dec-00, DKB Securities has sold 500,000 shares of DSQ Bio-Tech @ Rs. 186.25 on behalf of PFMS in the Physical segment of NSE.

Order log and trade log show that sell order placed by DKB Securities on behalf of PFMS for sale of 500000 shares of DSQ Bio-Tech matched with buy order of proprietary account of Classic Shares & Stock Broker Ltd. (CSSB) and NH Securities Ltd. (NH Sec.). Both these brokers are connected with Ketan Parekh. These "matched" buy and sell orders are as discussed below.

1. On 7-Dec-00 DKB Securities placed an order for sale of 100000 shares of DSQ Bio on behalf of PFMS @ Rs. 186.25 at 10:37:16. This sale order got matched with the buy orders of NH Sec, which was placed through broker NH Sec for 50000 shares @ Rs. 186.25 at 10:37:16 and the buy order of Classic Share & Stock Brokers (CSSB), which was placed through broker CSSB for 50000 shares @ Rs. 186.25 at 10:37:17. The buy and sell orders were placed either at the same time or within a space of few seconds.
2. On 7-Dec-00 DKB Securities placed an order for sale of 100000 shares of DSQ Bio on behalf of PFMS @ Rs. 186.25 at 10:37:32. This sale order got matched with the buy order of CSSB, which was placed through broker CSSB for 100000 shares @ Rs. 186.25 at 10:37:30. The buy and sell orders were placed within a space of two seconds.
3. On 7-Dec-00 DKB Securities placed an order for sale of 100000 shares of DSQ Bio on behalf of PFMS @ Rs. 186.25 at 10:37:42. This sale order got matched with the buy order of NH Sec, which was placed through broker NH Sec for 100000 shares @ Rs. 186.25 at 10:37:42. The buy and sell orders were placed at the same time.
4. On 7-Dec-00 DKB Securities placed an order for sale of 100000 shares of DSQ Bio on behalf of PFMS @ Rs. 186.25 at 10:37:52. This sale order got matched with the buy order of NH Sec, which was placed through broker NH Sec for 100000 shares @ Rs. 186.25 at 10:37:52. The buy and sell orders were placed at the same time.
5. On 7-Dec-00 DKB Securities placed an order for sale of 100000 shares of DSQ Bio on behalf of PFMS @ Rs. 186.25 at 10:38:06. This sale order got matched with the buy order of CSSB, which was placed through broker CSSB for 100000 shares @ Rs. 186.25 at 10:38:05. The buy and sell orders were placed within a space of one second(s).

The above details show that buy orders of proprietary account of brokers Classic Shares & Stock Broker Ltd. and NH Securities Ltd. and sell orders of PFMS were

put at the same time or almost at the same time, there was almost exact matching in the order quantity and the same buy and sell rate.

I find that on 07-Dec-00, i.e. date of transaction itself, DKB has made payment to PFMS for the shares sold without waiting for pay-out of funds from the exchange. It is seen that difference of days between the date when payment was made to PFMS and the date when the amount was to be received by DKB Securities from the exchange, was 13 days. It is also seen that the brokerage charged by DKB Securities for this transaction was 1.00%. I also find that sell transaction of DKB Securities constituted 37.38% of the total quantity traded in DSQ Bio-Tech in the Physical Segment of NSE on December 7, 2000. There is no change in the beneficial ownership of shares as such, (i.e. shares were sold by one KP entity through DKB Securities were again purchased back by other KP entities through other brokers through synchronized deals at the market)

II. On 14-Feb-01, DKB Securities has sold 1000000 shares of HFCL @ Rs. 984.74 on behalf of CCL in the Physical segment of NSE.

Order log and trade log show that sell order placed by DKB Securities on behalf of CCL for sale of 1000000 shares of HFCL matched with buy orders of KP entities viz. PFMS, Panther Investrade Ltd. (PIL), Chitrakut Computers Pvt. Ltd. (CCPL), CCL, proprietary account of broker Classic Shares & Stock Broker Ltd. (CSSB) placed through other brokers. These "matched" buy and sell orders are as discussed below.

- On 14-Feb-01 DKB Securities placed an order for sale of 40000 shares of HFCL on behalf of CCL @ Rs.986.00 at 12:01:54. This sale order got matched with the buy order of PFMS, which was placed through broker Keynote for 40000 shares @ Rs.986.00 at 12:01:55. The buy and sell orders were placed within a space of one second.
- On 14-Feb-01 DKB Securities placed an order for sale of 40000 shares of HFCL on behalf of CCL @ Rs.986.25 at 12:02:57. This sale order got matched with the buy order of PFMS, which was placed through broker Keynote for 40000 shares @ Rs.986.25 at 12:02:07. The buy and sell orders were placed at the same time.

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shares @ Rs.982.50 at 12:07:38. The buy and sell orders were placed within a space of seven seconds. Since the buy and sell order were put at almost at the same time, there is almost exact matching in the quantity and the rate also.

- On 14-Feb-01 DKB Securities placed an order for sale of 40000 shares of HFCL on behalf of CCL @ Rs.983.00 at 12:08:12. This sale order got matched with the buy order of CSSB, which was placed through broker CSSB for 40000 shares @ Rs.983.00 at 12:08:12. The buy and sell orders were placed at the same time.
- On 14-Feb-01 DKB Securities placed an order for sale of 40000 shares of HFCL on behalf of CCL @ Rs.983.00 at 12:08:20. This sale order got matched with the buy order of CSSB, which was placed through broker CSSB for 40000 shares @ Rs.983.00 at 12:08:19. The buy and sell orders were placed within a space of one second
- On 14-Feb-01 DKB Securities placed an order for sale of 25000 shares of HFCL on behalf of CCL @ Rs.986.00 at 13:22:20. This sale order got matched with the buy order of PFMS, which was placed through broker Woodstock for 25000 shares @ Rs.986.00 at 13:22:20. The buy and sell orders were placed at the same time
- On 14-Feb-01 DKB Securities placed an order for sale of 25000 shares of HFCL on behalf of CCL @ Rs.986.00 at 13:22:29. This sale order got matched with the buy order of PFMS, which was placed through broker Woodstock for 25000 shares @ Rs.986.00 at 13:22:28. The buy and sell orders were placed within a space of one second
- On 14-Feb-01 DKB Securities placed an order for sale of 25000 shares of HFCL on behalf of CCL @ Rs.986.00 at 13:22:42. This sale order got matched with the buy order of PFMS, which was placed through broker Woodstock for 25000 shares @ Rs.986.00 at 13:22:44. The buy and sell orders were placed within a space of two seconds
- On 14-Feb-01 DKB Securities placed an order for sale of 25000 shares of HFCL on behalf of CCL @ Rs.986.00 at 13:22:56. This sale order got matched with the buy order of PFMS, which was placed through broker Woodstock for 25000 shares @ Rs.986.00 at 13:22:52. The buy and sell orders were placed within a space of four seconds

I find that buy orders of KP entities viz. PFMS, Panther Investrade Ltd (PIL), hitrakut Computers Pvt. Ltd (CCPL), CCL, proprietary account of broker Classic Shares & Stock Broker Ltd (CSSB) and sell order of CCL were put at the same time or almost at the same time, there was almost exact matching in the order quantity and the same buy and sell rate.

I find that on 14-Feb-01, i.e. date of transaction itself, DKB has made payment to CCL for the shares sold without waiting for pay-out of funds from the exchange. It is seen that difference of days between the date when payment was made to CCL and the date when the amount was to be received by DKB Securities from the exchange, was 14 days. The brokerage charged by DKB Securities for this transaction was 1.11%. The sell transaction of DKB Securities constituted 16.60% of the total quantity traded in the scrip of HFCL in the Physical Segment at the Exchange on February 14, 2001. This volume would be a very high percentage of deliverable quantity.

I have seen that there are around 73 such instances (45 instances in NSE and 28 instances in BSE) where DKB had conducted only sale transactions on behalf of KP entities at NSE and BSE. In these entire instances, I have noticed that trades were executed in the manner mentioned above. During the period from August 2000 to March 2001, DKB had put around total 470 sell orders (380 orders at NSE + 95 orders at BSE) on behalf of KP entities which got matched with around 490 buy orders of same KP entity or other set of KP entities put through other brokers.

In the light of facts on the record and submissions made during the proceedings and the issues arising are being as under:

5.0 Whether the finding of the Enquiry Officer that DKB had indulged in circular trades is correct in view of the submission of DKB that there is no proof for 'pre-determination' on their part?

5.1 On an analysis of the order log and trade log obtained from BSE and NSE, I find that though there were more than a few thousand brokers spread over more than 300 cities, almost all sell orders put by DKB on behalf of KP entities had matched every time with only select group of brokers such as, Triumph Securities, Triumph Intl Finance, Classic Shares & Stock Brokers, NH Securities, C. J. Dalal, Milan Mahendra, Hem Securities, Latin Manharlal, Visaria Securities, Woodstock, Vyomit Shares, Keynote Capitals etc.

5.2 Analysis of the client details obtained from these brokers named above also revealed that buy and sell clients of the brokers were KP entities. Investigation brought out that one set of Ketan Parekh entities had sold through DKB and simultaneously other set of entities purchased these shares through the brokers above. Analysis of the details of matched sell orders of DKB and buy orders of other brokers showed that buy and sell orders were put at the same time or almost at the same time. There was almost exact matching in the order quantity and the order rate, which indicated that these orders were synchronised and were put with prior understanding to get matched.

Hence, by synchronizing the buy and sell orders, the shares sold by KP entities through DKB Securities were again purchased back by KP entities through other brokers.

5.3 The argument of DKB that while entering into such trades, they had not known the same to be circular in nature do not hold good. The fact that trades have been entered into are evidenced by the trade log and order log. The sale order of DKB was found to have been matching precisely with select brokers of KP group every time. This cannot be a coincidence to be happening in a market which comprises of large number of players unless the selling broker and buying broker put their orders with prior understanding. The fact that orders have been matched continuously is sufficient in itself to prove the charge of having indulged in circular trades. The trades between connected or related parties where sale and purchase of securities are matched with each other in terms of price, volume and time of execution, which are called the 'wash trades' in U.S. markets are known to DKB which is a foreign broker and it is well aware that such trades are not permitted as they interfere with the fair price discovery and mislead the market. DKB while admitting negligence on its part in executing such trades argued that it could not suspect that its clients were indulging in circular trades.

5.4 During investigations of SEBI, the authorised representative of DKB had stated on oath that either Mr. Kartik Parekh or Ketan Parekh used to give sale orders specifying the number of shares to be put for sale and the rate in an order. Authorised representative of DKB had also stated that they were not aware of the counterparty buying broker and counter-party buying

client. They also claimed that their group did not indulge in any synchronised or matched trading and they genuinely felt that scrips were being purchased by institutions/market forces and they did not put sale orders with a view to synchronise. When asked how large sell order were getting executed within seconds of in-putting of orders and in single transche, especially in illiquid scrip, DKB has admitted that they were told by Mr. Kartik Parekh that if they put the order at the specific price and quantity given by him, the order would be executed. Therefore, DKB cannot claim any ignorance of the nature of such matched trades and the adverse impact of the same on the market and the investors. In view of this, DKB cannot argue that it had no prior knowledge about the matching of trades.

Investigations also revealed that, from the order log and trade log, during the period from August 2000 to March 2001, DKB had put around total 470 sell orders (380 order at NSE + 95 order at BSE) on behalf of KP entities which got matched with around 490 buy orders. As a broker of repute claimed by DKB, this fact should have alerted it to ascertain the intentions of the clients. This shows that DKB was grossly negligent in continuously executing sale orders for Ketan Parekh entities, who had indulged in manipulation of the market. Though there were reasonable circumstance to suspect the clients, DKB failed to exercise due care, skill and diligence as required in terms of the code of conduct laid down by SEBI for registered Stock Brokers.

6.0 Whether the finding of the Enquiry Officer regarding market manipulation by DKB is valid against the argument by DKB that the trade volumes executed by it in the relevant stocks were below 5% of the total volume of trades in the market in the relevant stocks and it has executed only one single client order in most of the stocks during the relevant period, and hence, this could not adversely affect either the market volume or prices of the said stocks can be accepted?

6.1 The following table shows the volume executed by DKB.

Sr No.	Exchange	TrxDate	Client Name	Scrip Name	Sold Qty	Total Traded Qty	Percent of selling to the total market
1	BSE	1-Feb-01	CCL	SHONKH TECH	500,000	1167950	42.81
2	NSE	7-Dec-00	PFMS	DSQ BIO TECH LT	500,000	1337557	37.38
3	BSE	4-Dec-00	PFMS	DSQ BIO TECH LT	200,000	608463	32.87
4	BSE	20-Nov-00	PFMS	DSQ BIO TECH LT	400,000	1230046	32.52
5	BSE	27-Oct-00	CCL	ZEE TELEFILM	1,500,000	5462628	27.46
6	NSE	3-Jan-01	CCL	DSQ BIO TECH LT	1000000	3793853	26.36
7	BSE	26-Dec-00	CCL	TIPS INDUS.	100,000	409208	24.44
8	NSE	2-Mar-01	CCL	ZEE TELEFILM	3000000	17135892	17.51
9	BSE	1-Feb-01	CCL	MASCON GLOBAL	500,000	2971621	16.83
Sr No.	Exchange	TrxDate	Client Name	Scrip Name	Sold Qty	Total Traded Qty	Percent of selling to the total market
10	NSE	14-Feb-01	CCL	HIMACHAL FUT	1000000	6023314	16.60
11	NSE	13-Dec-00	CCL	DSQ BIO TECH LT	500,000	3513378	14.23
12	BSE	27-Oct-00	CCL	HIMACHAL FUT	410,000	3212548	12.76
13	NSE	24-Nov-00	CCL	DSQ BIO TECH LT	525,000	4413122	11.90
14	NSE	23-Nov-00	CCL	GLOBAL TELE.	500,000	4371010	11.44
15	BSE	11-Dec-00	CCL	HIMACHAL FUT	250,000	2196284	11.38
16	NSE	4-Jan-01	CCL	DSQ BIO TECH LT	750000	6669885	11.24
17	NSE	27-Sep-00	CCL	HIMACHAL FUT	620,000	5998605	10.34
18	NSE	22-Dec-00	CCL	ZEE TELEFILM	2,000,000	19573780	10.22
19	NSE	23-Aug-00	CCL	HIMACHAL FUT	450,000	4571057	9.84
20	BSE	1-Jan-01	CCL	ZEE TELEFILM	1,500,000	15876901	9.45

21	NSE	27-Oct-00	PFMS	GLOBAL TELE.	256,000	2780342	9.21
22	BSE	17-Oct-00	CCL	ZEE TELEFILM	1,100,000	12449568	8.84
23	BSE	20-Nov-00	CCL	HIMACHAL FUT	400,000	4651080	8.60
24	NSE	7-Dec-00	CCL	HIMACHAL FUT	400,000	4814524	8.31
25	NSE	13-Oct-00	CCL	SILVERLINE I	450,000	5597119	8.04
26	BSE	15-Jan-01	PFMS	ZEE TELEFILM	1,380,000	17552839	7.86
27	BSE	15-Jan-01	CCL	ZEE TELEFILM	1,375,000	17552839	7.83
28	BSE	1-Jan-01	PFMS	ZEE TELEFILM	1,150,000	15876901	7.24
29	NSE	9-Feb-01	CCL	ZEE TELEFILM	1000000	15486405	6.46
30	NSE	11-Oct-00	CCL	GLOBAL TELE.	415,000	6436071	6.45
31	NSE	11-Jan-01	PFMS	DSQ BIO TECH LT	145000	2280748	6.36
32	BSE	19-Sep-00	CCL	ZEE TELEFILM	1,000,000	15939818	6.27
33	BSE	13-Feb-01	CCL	HIMACHAL FUT	500,000	8088221	6.18
34	NSE	12-Oct-00	PFMS	HIMACHAL FUT	600,000	9781679	6.13
35	BSE	20-Nov-00	CCL	ZEE TELEFILM	620,000	10257963	6.04
36	BSE	26-Dec-00	CCL	DSQ BIO TECH LT	75,000	1367613	5.48
37	BSE	4-Dec-00	PFMS	HIMACHAL FUT	230,000	4448536	5.17
38	BSE	15-Jan-01	CCL	GLOBAL TELE.	275,000	5378016	5.11
39	NSE	11-Jan-01	CCL	HIMACHAL FUT	487000	9601181	5.07
40	NSE	17-Aug-00	CCL	HIMACHAL FUT	300,000	6278052	4.78
41	NSE	7-Sep-00	CCL	ZEE TELEFILM	750,000	15992496	4.69
42	NSE	8-Feb-01	CCL	ZEE TELEFILM	1000000	21370724	4.68
43	NSE	28-Sep-00	CCL	HIMACHAL FUT	342,000	7328136	4.67
44	NSE	15-Feb-01	CCL	HIMACHAL FUT	195000	4259513	4.58
45	NSE	16-Nov-00	CCL	HIMACHAL FUT	500,000	11206825	4.46
46	NSE	13-Dec-00	PFMS	DSQ BIO TECH LT	150,000	3513378	4.27
47	BSE	13-Feb-01	CCL	ZEE TELEFILM	500,000	12385052	4.04
48	NSE	13-Oct-00	PFMS	HIMACHAL FUT	400,000	9939098	4.02
49	NSE	4-Jan-01	CCL	DSQ SOFTWARE	275000	6837720	4.02
50	BSE	22-Dec-00	CCL	ZEE TELEFILM	500,000	12704538	3.94
51	NSE	7-Sep-00	CCL	HIMACHAL FUT	300,000	7712381	3.89
52	NSE	20-Dec-00	PFMS	HIMACHAL FUT	260,000	8315161	3.13
53	BSE	1-Jan-01	PFMS	HIMACHAL FUT	135,000	4353363	3.10
54	NSE	13-Dec-00	CCL	HIMACHAL FUT	150,000	5377146	2.79
55	BSE	26-Dec-00	CCL	HIMACHAL FUT	250,000	10782212	2.32
56	NSE	4-Jan-01	CCL	HIMACHAL FUT	171500	7599681	2.26
57	NSE	20-Sep-00	CCL	HIMACHAL FUT	250,000	11315033	2.21
58	NSE	20-Sep-00	CCL	ZEE TELEFILM	300,000	14148306	2.12
59	NSE	6-Dec-00	CCL	HIMACHAL FUT	145,000	7160349	2.03

60	NSE	11-Oct-00	CCL	HIMACHAL FUT	100,000	5525152	1.81
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Sr No.	Exchange	TrxDate	Client Name	Scrip Name	Sold Qty	Total Traded Qty	Percent of selling to the total market
61	NSE	6-Dec-00	PFMS	HIMACHAL FUT	125,000	7160349	1.75
62	NSE	27-Sep-00	CCL	GLOBAL TELE.	100,000	6841795	1.46
63	NSE	22-Feb-01	CCL	HIMACHAL FUT	191000	13647100	1.40
64	BSE	17-Oct-00	CCL	HIMACHAL FUT	85,000	6215119	1.37
65	NSE	17-Oct-00	CCL	ZEE TELEFILM	200,000	14741564	1.36
66	BSE	1-Jan-01	PFMS	GLOBAL TELE.	70,000	5326495	1.31
67	NSE	24-Nov-00	CCL	HIMACHAL FUT	100,000	8129014	1.23
68	BSE	19-Sep-00	CCL	HIMACHAL FUT	80,000	6869846	1.16
69	NSE	27-Dec-00	CCL	HIMACHAL FUT	90,000	9127607	0.99
70	BSE	26-Dec-00	CCL	HIMACHAL FUT	106,000	10782212	0.98
71	NSE	16-Feb-01	CCL	HIMACHAL FUT	105000	11887237	0.88
72	NSE	7-Dec-00	PFMS	HIMACHAL FUT	30,000	4814524	0.62
73	NSE	28-Sep-00	CCL	ZEE TELEFILM	75,000	16806957	0.45

6.2 The above table demonstrates that the argument of DKB that it had executed only 5% of total volume of trades in the market is not correct. For example., DKB's trades on behalf of CCL in the scrip of Shonk Technologies were 42% of the total volume traded at BSE on 1st February, 2001. Similarly in the scrip of DSQ Biotech, the trades on behalf of PFMS were around 38% of the total volume. The figure of 5% has been computed by DKB on the basis of cumulative trading in the stocks in all the exchanges whereas an ideal calculation is to be done exchange wise. The figures mentioned above indicate that the volumes executed by DKB were sufficient to make impact on the market.

7.0 Whether the activities indulged by DKB would constitute misuse of Exchange mechanism against the SEBI circular dated 07.05.97 and DKB's claims that the negotiated trades did not exclude other market participants and that such trades were done on the basis of 'best offer price' is correct?

7.1 It was revealed from the records of the DKB that its clients had done only sale transactions through them at NSE and BSE. The accounts of these clients with DKB reveal that the broker was making payments to them on the date of transactions itself, without waiting for pay-out of funds from the exchange in lieu of sale of securities. These are as below:

1	2	3	4	5	6	7	8
Exchange	Scrip Name	Sold Qty	Transaction Date	Date on which settlement amount paid by DKB Securities to KP entities	Date of Exchange Funds Payout	Period of advance payment by DKB Securities (no. of days - 5)	Percentage of Brokerage charged by DKB Securities
BSE	ZEE TELEFILM	500,000	22-Dec-00	22-Dec-00	29-Dec-00	7	0.760
BSE	MASCON GLOBAL	500,000	1-Feb-01	01-Feb-01	08-Feb-01	7	0.797
NSE	ZEE TELEFILM	200,000	17-Oct-00	17-Oct-00	25-Oct-00	8	0.709

1	2	3	4	5	6	7	8
Exchange	Scrip Name	Sold Qty	Transaction Date	Date on which settlement amount paid by DKB Securities to KP entities	Date of Exchange Funds Payout	Period of advance payment by DKB Securities (no. of days - 5)	Percentage of Brokerage charged by DKB Securities
BSE	SHONKH TECH	500,000	1-Feb-01	01-Feb-01	09-Feb-01	8	0.800
BSE	HIMACHAL FUT	500,000	13-Feb-01	13-Feb-01	23-Feb-01	10	0.918
BSE	ZEE TELEFILM	500,000	13-Feb-01	13-Feb-01	23-Feb-01	10	0.919
BSE	TIPS INDUS.	100,000	26-Dec-00	26-Dec-00	05-Jan-01	10	0.932
BSE	HIMACHAL FUT	106,000	26-Dec-00	26-Dec-00	05-Jan-01	10	0.932
BSE	DSQ BIO TECH LT	75,000	26-Dec-00	26-Dec-00	05-Jan-01	10	0.932
BSE	HIMACHAL FUT	250,000	26-Dec-00	26-Dec-00	05-Jan-01	10	0.933
BSE	HIMACHAL FUT	85,000	17-Oct-00	17-Oct-00	27-Oct-00	10	1.018
BSE	ZEE TELEFILM	1,100,000	17-Oct-00	17-Oct-00	27-Oct-00	10	1.049
BSE	ZEE TELEFILM	1,000,000	19-Sep-00	19-Sep-00	29-Sep-00	10	1.104
BSE	HIMACHAL FUT	80,000	19-Sep-00	19-Sep-00	29-Sep-00	10	1.105
BSE	HIMACHAL FUT	250,000	11-Dec-00	11-Dec-00	22-Dec-00	11	0.933
BSE	DSQ BIO TECH LT	400,000	20-Nov-00	20-Nov-00	01-Dec-00	11	0.988
BSE	ZEE TELEFILM	1,500,000	1-Jan-01	01-Jan-01	12-Jan-01	11	0.989
BSE	HIMACHAL FUT	400,000	20-Nov-00	20-Nov-00	01-Dec-00	11	0.990
BSE	ZEE TELEFILM	1,150,000	1-Jan-01	01-Jan-01	12-Jan-01	11	0.990
BSE	HIMACHAL FUT	135,000	1-Jan-01	01-Jan-01	12-Jan-01	11	0.990
BSE	HIMACHAL FUT	230,000	4-Dec-00	04-Dec-00	15-Dec-00	11	0.990
BSE	GLOBAL TELE.	70,000	1-Jan-01	01-Jan-01	12-Jan-01	11	0.991
BSE	DSQ BIO TECH LT	200,000	4-Dec-00	04-Dec-00	15-Dec-00	11	0.992
BSE	ZEE TELEFILM	620,000	20-Nov-00	20-Nov-00	01-Dec-00	11	0.992
NSE	HIMACHAL FUT	400,000	13-Oct-00	13-Oct-00	25-Oct-00	12	0.940
NSE	SILVERLINE I	450,000	13-Oct-00	13-Oct-00	25-Oct-00	12	0.940
NSE	HIMACHAL FUT	100,000	24-Nov-00	24-Nov-00	06-Dec-00	12	0.940
NSE	GLOBAL TELE.	256,000	27-Oct-00	27-Oct-00	08-Nov-00	12	0.940

1	2	3	4	5	6	7	8
Exchange	Scrip Name	Sold Qty	Transaction Date	Date on which settlement amount paid by DKB Securities to KP entities	Date of Exchange Funds Payout	Period of advance payment by DKB Securities (no. of days - 5)	Percentage of Brokerage charged by DKB Securities
NSE	ZEE TELEFILM	2,000,000	22-Dec-00	22-Dec-00	03-Jan-01	12	0.941
NSE	DSQ BIO TECH LT	525,000	24-Nov-00	24-Nov-00	06-Dec-00	12	0.942
NSE	ZEE TELEFILM	3000000	2-Mar-01	02-Mar-01	14-Mar-01	12	0.983
NSE	HIMACHAL FUT	105000	16-Feb-01	16-Feb-01	28-Feb-01	12	0.987
BSE	ZEE TELEFILM	1,380,000	15-Jan-01	15-Jan-01	27-Jan-01	12	1.038
BSE	ZEE TELEFILM	1,375,000	15-Jan-01	15-Jan-01	27-Jan-01	12	1.039
BSE	GLOBAL TELE.	275,000	15-Jan-01	15-Jan-01	27-Jan-01	12	1.040
NSE	ZEE TELEFILM	1000000	9-Feb-01	09-Feb-01	21-Feb-01	12	1.048
NSE	ZEE TELEFILM	75,000	28-Sep-00	28-Sep-00	11-Oct-00	13	0.996
NSE	HIMACHAL FUT	30,000	7-Dec-00	07-Dec-00	20-Dec-00	13	0.997
NSE	HIMACHAL FUT	300,000	7-Sep-00	07-Sep-00	20-Sep-00	13	0.997
NSE	HIMACHAL FUT	342,000	28-Sep-00	28-Sep-00	11-Oct-00	13	0.998
NSE	HIMACHAL FUT	400,000	7-Dec-00	07-Dec-00	20-Dec-00	13	0.998
NSE	HIMACHAL FUT	600,000	12-Oct-00	12-Oct-00	25-Oct-00	13	0.998
NSE	HIMACHAL FUT	500,000	16-Nov-00	16-Nov-00	29-Nov-00	13	0.998
NSE	ZEE TELEFILM	750,000	7-Sep-00	07-Sep-00	20-Sep-00	13	0.998
NSE	DSQ BIO TECH LT	500,000	7-Dec-00	07-Dec-00	20-Dec-00	13	0.999
NSE	GLOBAL TELE.	500,000	23-Nov-00	23-Nov-00	06-Dec-00	13	1.000
NSE	DSQ BIO TECH LT	750000	4-Jan-01	04-Jan-01	17-Jan-01	13	1.045
NSE	DSQ BIO TECH LT	145000	11-Jan-01	11-Jan-01	24-Jan-01	13	1.046
NSE	HIMACHAL FUT	191000	22-Feb-01	22-Feb-01	07-Mar-01	13	1.047
NSE	HIMACHAL FUT	171500	4-Jan-01	04-Jan-01	17-Jan-01	13	1.047
NSE	HIMACHAL FUT	487000	11-Jan-01	11-Jan-01	24-Jan-01	13	1.047
NSE	HIMACHAL FUT	195000	15-Feb-01	15-Feb-01	28-Feb-01	13	1.048
NSE	DSQ SOFTWARE	275000	4-Jan-01	04-Jan-01	17-Jan-01	13	1.048

1	2	3	4	5	6	7	8
Exchange	Scrip Name	Sold Qty	Transaction Date	Date on which settlement amount paid by DKB Securities to KP entities	Date of Exchange Funds Payout	Period of advance payment by DKB Securities (no. of days - 5)	Percentage of Brokerage charged by DKB Securities
NSE	HIMACHAL FUT	300,000	17-Aug-00	17-Aug-00	30-Aug-00	13	1.058
NSE	ZEE TELEFILM	1000000	8-Feb-01	08-Feb-01	21-Feb-01	13	1.112
NSE	DSQ BIO TECH LT	500,000	13-Dec-00	13-Dec-00	27-Dec-00	14	1.054
NSE	DSQ BIO TECH LT	150,000	13-Dec-00	13-Dec-00	27-Dec-00	14	1.054
NSE	HIMACHAL FUT	450,000	23-Aug-00	23-Aug-00	06-Sep-00	14	1.055
NSE	HIMACHAL FUT	260,000	20-Dec-00	20-Dec-00	03-Jan-01	14	1.055
NSE	HIMACHAL FUT	620,000	27-Sep-00	27-Sep-00	11-Oct-00	14	1.055
NSE	HIMACHAL FUT	90,000	27-Dec-00	27-Dec-00	10-Jan-01	14	1.055
NSE	HIMACHAL FUT	150,000	13-Dec-00	13-Dec-00	27-Dec-00	14	1.055
NSE	HIMACHAL FUT	145,000	6-Dec-00	06-Dec-00	20-Dec-00	14	1.055
NSE	HIMACHAL FUT	125,000	6-Dec-00	06-Dec-00	20-Dec-00	14	1.055
NSE	GLOBAL TELE.	100,000	27-Sep-00	27-Sep-00	11-Oct-00	14	1.055
NSE	HIMACHAL FUT	250,000	20-Sep-00	20-Sep-00	04-Oct-00	14	1.055
NSE	HIMACHAL FUT	100,000	11-Oct-00	11-Oct-00	25-Oct-00	14	1.060
NSE	ZEE TELEFILM	300,000	20-Sep-00	20-Sep-00	04-Oct-00	14	1.060
NSE	GLOBAL TELE.	415,000	11-Oct-00	11-Oct-00	25-Oct-00	14	1.060
NSE	DSQ BIO TECH LT	1000000	3-Jan-01	03-Jan-01	17-Jan-01	14	1.107
NSE	HIMACHAL FUT	1000000	14-Feb-01	14-Feb-01	28-Feb-01	14	1.108
BSE	HIMACHAL FUT	410,000	27-Oct-00	27-Oct-00	10-Nov-00	14	1.278
BSE	ZEE TELEFILM	1,500,000	27-Oct-00	27-Oct-00	10-Nov-00	14	1.278

7.2 I find that DKB had charged a differential rate of brokerage on each transaction from KP entities. The analysis of this variable rate of brokerage showed that brokerage was related to the period between date of payment to the client and date of receipt of funds from the pay-out. Longer the period of advance payments, higher was the brokerage charged. This is also evident from column 7 & 8 in the above table.

7.3 I find that SEBI's circular dated 07.05.97, cited by DKB is not applicable in the instant case as it permits advancing of funds by way of lending and borrowing only, which are consequential and incidental to the transactions in securities. Hence, it has rightly been not factored in the Enquiry Report. The nature of transactions that had been entered into by DKB is different. DKB had been

funding / financing KP group in their purchase / sale of relevant stocks under the garb of regular sale transactions, which is clear from the data in the table given above. What is intended by the SEBI's circular mentioned above is the financing transaction which is done as part of the securities business would not be disqualified and not the transactions that are entered into by DKB. The same was a clear misuse of the exchange mechanism which is intended to provide 'best offer price' to all the investors uniformly. DKB had indulged in financing of transactions for KP group, which were manipulative. Hence, the plea taken by DKB that SEBI's circular dated 07.05.97 permits borrowing and lending of funds and hence, its transactions/advancing funds was legal is not tenable. Such voluminous repeated matched transactions, cannot by any stretch be regarded as genuine even for the purpose of lending and borrowing. A Stock broker can not lend to the clients, who indulge in artificial volumes and price.

7.4 Regarding the orders on behalf of single client, it may be true that DKB has executed orders on behalf of a single client i.e. KP group. But the fact is that large volumes of trades had taken place which was sufficient to affect the market in a considerable manner. The fact that the scrips were liquid in nature and that such huge volumes have been transacted by DKB itself casts doubt on its conduct. The details of volumes traded are given below:-

7.5 During the period from August 2000 to March 2001 in the scrip of DSQ Software, I find that CCL had sold a total of 209484 shares out of which 207484 shares got matched with the buy orders of proprietary account of Classic Share and Stock Broking. Hence, 99.04% of shares of DSQ Software sold by CCL were again purchased by another KP entity i.e. proprietary account of Classic Share and Stock Broking. Similarly in the scrip of Silverline, CCL has sold a total of 417643 shares, which completely matched with the buy orders of PFMS and proprietary account of CSSB. Hence, 100% of shares of Silverline sold by CCL were again purchased by another KP entities i.e. PFMS and proprietary account of CSSB. Following table gives the scripwise details of names of KP entities selling through DKB and names of corresponding buying client, for the period from August 2000 to March 2001 at NSE.

Name of the sell client of DKB Securities	Trade Qty	Value (Lacs)	Name of the corresponding buy client of other brokers
DSQSOFTWARE			
CCL	207484	833.360	CSSB
CCL	2000	8.050	Shree Harivansha Sec P Ltd
Grand Total	209484	841.410	
	99.04% of the shares sold by KP entities were again purchased back by Ketan Parekh entities		
GLOBALTELE			
CCL	617974	6469.447	CSSB
CCL	140283	1469.464	NH SECURITIES
PFMS	132010	1400.626	CSSB
PFMS	109659	1165.240	PFMS
CCL	98437	1031.128	HKG Capital Services
CCL	64008	672.084	Mahendra U Shah
CCL	15752	165.081	Maruti Securities
CCL	13744	144.112	Hemant Sarvaiya
CCL	2241	23.329	MILAN MAHENDRA SEC PVT LT
Grand Total	1194108	12540.512	
	83 % of the shares sold by KP entities were again purchased back by Ketan Parekh entities		
HFCL			
CCL	2044410	26274.999	CSSB
CCL	1169237	15908.730	NH SECURITIES
CCL	1025711	13193.459	PFMS
PFMS	558652	6050.263	PFMS
PFMS	439763	4764.020	NH SECURITIES
CCL	356059	3793.979	Chitrakut
CCL	344937	3419.974	PIL
PFMS	154087	2088.878	CSSB
CCL	70337	1064.442	Hindun Sales Pvt Ltd
PFMS	65693	991.307	Hindun Sales Pvt Ltd
CCL	68408	917.009	Lopez Finvest Ltd
PFMS	63999	816.242	Chitrakut
CCL	62822	745.363	CIL
CCL	24900	395.661	NIKKO CAPITAL MKT PVT LTD
CCL	3000	39.465	MILAN MAHENDRA SEC PVT LT
CCL	1298	21.054	Udey Dutt and Associates

Name of the sell client of DKB Securities	Trade Qty	Value (Lacs)	Name of the corresponding buy client of other brokers
CCL	1481	20.467	TIFIL Chennai
PFMS	1155	14.680	Satya Impex
Grand Total	6455949	80519.992	
	96 % of the shares sold by KP entities were again purchased back by Ketan Parekh entities		
SILVERLINE			
CCL	128234	392.077	CSSB
CCL	289409	883.072	PFMS
Grand Total	417643	1275.150	
	100 % of the shares sold by KP entities were again purchased back by Ketan Parekh entities		
SQUAREDBIO			
CCL	1105277	1968.457	NH SECURITIES
CCL	676515	1281.663	PFMS
CCL	668088	1278.225	CSSB
PFMS	461291	883.947	CSSB
PFMS	248660	463.129	NH SECURITIES
PFMS	80051	168.258	PFMS
Grand Total	3239882	6043.680	
	100 % of the shares sold by KP entities were again purchased back by Ketan Parekh entities		

Name of the sell client of DKB Securities	Trade Qty	Value (Lacs)	Name of the corresponding buy client of other brokers
ZEETELE			
CCL	3030946	9819.913	CSSB
CCL	1356493	3180.668	NH SECURITIES
CCL	1343435	2686.283	PFMS
CCL	955611	2286.921	PIL
CCL	589981	797.949	A B Corporation
CCL	196402	553.238	Chitrakut
CCL	399882	540.840	M M Shah
Grand Total	7872750	19865.812	
	95 % of the shares sold by KP entities were again purchased back by Ketan Parekh entities		

(CCL-Classic Credit Ltd, CSSB-Classic Share and Stock Brokers, PIL-Panther Investment Ltd.)

7.6 I also find similar pattern of execution of trades in BSE. For instance, during the period from August 2000 to March 2001 in the scrip of DSQ Bio-Tech, PFMS has sold a total of 593210 shares, of which 593110 shares got matched with the buy orders of PFMS. Hence, 99.98% of shares of DSQ Software sold by PFMS were again purchased by the same entity i.e. PFMS. Similarly in the scrip of Mascon, CCL has sold total 500000 shares, which completely matched with the buy orders of PFMS (for 400000 shares) and CCL (for 100000). Hence, 100% of shares of Mascon Global sold by CCL were again purchased by another/same KP entity i.e. PFMS and CCL. Following table gives the scripwise details of names of Ketan Parekh entities selling through DKB and names of corresponding buying client, for the period from August 2000 to March 2001 at BSE.

Name of the sell client of DKB Securities	Traded Qty	Value (Lacs)	Name of the corresponding buy client of other brokers
DSQBIOTECH			
PFMS	593110	1125.09	PFMS
CCL	75000	105.38	PFMS
PFMS	100	0.19	Amit Finance
Grand Total	668210	1230.66	
	99.98% of the shares sold by KP entities were again purchased back by Ketan Parekh entities		
GLOBALTELE			

Name of the sell client of DKB Securities	Traded Qty	Value (Lacs)	Name of the corresponding buy client of other brokers
CCL	270617	1818.41	PFMS
PFMS	69941	557.78	PFMS
Grand Total	340558	2376.19	
	100% of the shares sold by KP entities were again purchased back by Ketan Parekh entities		
HFCL			
CCL	1804982	21583.99	PFMS
PFMS	342017	4728.36	PFMS
CCL	75000	847.13	Maniar Financial Services Pvt Ltd
CCL	4180	46.86	Paresh Doshi Trading A/c
CCL	2976	45.92	CCL
CCL	1100	14.32	Growever Investment Pvt Ltd
CCL	280	3.30	Milan Mahendra Securities Pvt Ltd
CCL	200	2.64	Piyush R Shah Trading a/c
CCL	25	0.33	Laxmi Enterprises
CCL	1	0.01	Shreenidhi Stock & Broking
Grand Total	2230761	27272.86	
	96.37% of the shares sold by KP entities were again purchased back by Ketan Parekh entities		
MASCON GL			
CCL	400000	1329.60	PFMS
CCL	100000	332.40	CCL
Grand Total	500000	1662.00	
	100% of the shares sold by KP entities were again purchased back by Ketan Parekh entities		
SHONKH			
CCL	500000	1175.00	PFMS
Grand Total	500000	1175.00	
	100% of the shares sold by KP entities were again purchased back by Ketan Parekh entities		
ZEETELE			
CCL	7424283	22017.87	PFMS
PFMS	2475489	6112.34	PFMS
CCL	192775	877.13	Maniar Financial Services Pvt Ltd
CCL	296296	846.18	CCL
CCL	22889	76.63	Regulas Freight Forw
CCL	4200	19.03	Bang Venugopal
CCL	4310	10.18	Roopshri Finvest Pvt Ltd
CCL	2300	7.51	Ajay Natwarlal Securities Pvt Ltd
PFMS	600	1.53	M Jain & Co
CCL	500	1.38	Economic Securities
CCL	284	0.78	Ketan Bhiman Trading A/C
PFMS	300	0.77	Narendra S Tanna
CCL	220	0.74	Milan Mahendra Securities Pvt Ltd
CCL	100	0.28	Laxmi Enterprises
CCL	25	0.11	D K Securities
CCL	25	0.07	Vihar Investment Pvt Ltd
PFMS	25	0.06	Ajay Natwarlal Securities Pvt Ltd
CCL	10	0.03	Nakoda Securities
Grand Total	10424631	29972.59	
	98% of the shares sold by KP entities were again purchased back by Ketan Parekh entities		

7.7 Details of matched trades (sell orders of KP entities put through DKB which matched with buy orders of KP entities through other brokers) show that buy and sell orders were put at the same time or almost at the same time i.e. within a gap of few seconds of putting in of buy / sell order. It was also seen that there was almost exact matching in the order quantity and the order rate, which indicated that these orders were synchronised and were put with prior understanding with a view to

ensure that sell order of one set of KP entities matched with the buy order of the other set of KP entities / same set of KP entities namely CCL, LIPL, PFMS, Classic Infin Limited, Panther Investrade Ltd. and proprietary account of Classic Share and Stock Broking Services Ltd (CSSB), NH Securities. By such synchronization of the buy and sell orders, the shares sold by one KP entity through DKB were again purchased back by same/other KP entities through other brokers. The shares did not change hands and were merely rotating from one entity belonging to KP to other entity of / connected with Ketan Parekh. This synchronisation would not have been possible unless both buying client and selling client put buy order and sell order with prior understanding and with a view to match. If KP entities really wanted to sell the shares, then there was no need by these entities to buy the same shares through other brokers. I find from the order log and trade, during the period from August 2000 to March 2001, DKB Securities have put around total 470 sell orders (380 order at NSE + 95 order at BSE) on behalf of KP entities which got matched with around 490 buy orders of other KP entities and almost all these orders resulted in matched trades. This demonstrates market manipulation indulged in by the KP entities through various brokers including DKB.

7.10 SEBI had directed the Stock Exchanges to put in place screen based computerized trading which would enable investors to transact in a fair and transparent manner. This mechanism also ensured matching of the orders through the impersonal screen, on the basis of "best offer price". The sellers also realise true price of their securities within the circuit filters prescribed by SEBI. To reinforce confidence in the bourses, Exchanges under the initiative of SEBI guaranteed settlement of the trades and also put in place Trade Guarantee Fund to back up this assurance. However, analysis of trades of Ketan Parekh routed through DKB revealed that this very purpose of impersonal trading was defeated through execution of synchronised trades. These arranged artificial deals put by KP entities defeated the principle of ensuring best price more so when there was synchronised trades / trades with the prior understanding executed by DKB and counter party brokers for their respective clients. Structured and synchronised nature of trades is evidenced by the proximity of timing of in -putting of buy and sell orders, exact matching of price and quantity of shares resulting in matching of trades almost on every occasion between brokers dealing for KP entities even when there are more than a few thousand brokers spread over more than 300 cities in the country. These instances cannot be said to be a mere coincidence that there has been matching of trades as there has been numerous repeated instances of such transactions and these uncanny matches are not isolated transactions.

7.11 Statistically, around 470 orders were put as agency trades by DKB for KP entities and almost all these orders resulted in matched trades. The analysis of these trades show that almost entire quantity of sale orders of one set of KP entities matched with the buy orders of same/different KP entities. This large matching cannot be explained on the basis of 'theory of probability' which is a scientifically accepted mathematical proposition.

7.12 Even though DKB has contended that they did not put the order with a view to synchronize it with other orders and that they were not aware of the counterparty buying broker and counter-party buying client, yet their tacit admission that they were told by Mr. Kartik Parekh that if they put the order at the specific price and quantity given by him, the order would be executed, implies that they were aware or atleast could have known with diligence that buying client was pre-arranged by seller. This is evident from the fact that the sell order for such large quantities get executed within seconds especially in scrips like Mascon Global, Tips Industries, Shonkh Tech etc.

7.13 It is seen from the order log and trade log, during the period from August 2000 to March 2001, DKB have put around a total of 470 sell orders (380 orders at NSE + 95 orders at BSE) on behalf of Ketan Parekh entities which got matched with around 490 buy orders. As a broker of repute claimed by DKB, this fact should have alerted it to doubt the intentions of the clients.

7.14 In order to ensure the repayment of sale consideration which was being given in advance to KP entities before pay out for the sale made through DKB, shares were sold through the trading and settlement mechanism of the stock exchange. As the trades executed at the exchange are guaranteed by the Clearing Corporation/Exchange, the sale through the exchange mechanism ensured that in the eventuality of Ketan Parekh entities defaulting on their obligation to pay for purchases made by them, DKB would have got the money out of settlement guarantee fund of the exchange.

7.15 During the period from April, 2000 to March, 2001, KP entities have transacted around 470 synchronized sale transactions through DKB in respect of scrips, which included illiquid scrips namely--such as DSQ Bio-Tech, Shonkh Tech, Mascon etc. These synchronised/structured/matched/washed trades created large artificial volumes especially in the scrips like DSQ Bio-Tech, Shonkh Tech, Mascon etc. which are otherwise not very liquid stocks. The table given below shows as an illustration that if these circular transactions are excluded from the volumes traded at the exchanges on the given day, then there are hardly any genuine volumes. This shows that the only liquidity on the given day in the scrip is on account of circular transactions of KP entities.

Exch	Trade Date	Client Name	Scrip Name	Selling by DKB Securities	Total Traded Qty at the exchange	Percent of selling to the total market
BSE	2/1/2001	CCL	MASCON GLOBAL	500,000	2971621	16.83
BSE	2/1/2001	CCL	SHONKH TECH	500,000	1167950	42.81
BSE	12/26/2000	CCL	TIPS INDUS.	100,000	409208	24.44
NSE	11/24/2000	CCL	DSQ BIO TECH LT	525,000	4413122	11.90
BSE	11/20/2000	PFMS	DSQ BIO TECH LT	400,000	1230046	32.52

BSE	12/4/2000	PFMS	DSQ BIO TECH LT	200,000	608463	32.87
NSE	12/7/2000	PFMS	DSQ BIO TECH LT	500,000	1337557	37.38
NSE	1/4/2001	CCL	DSQ BIO TECH LT	750000	6669885	11.24
NSE	12/13/2000	CCL	DSQ BIO TECH LT	500,000	3513378	14.23
NSE	1/3/2001	CCL	DSQ BIO TECH LT	1000000	3793853	26.36

7.16 The above table gives instances where volumes were artificially created in the illiquid scrips such as DSQ Bio-Tech, Shonkh Tech, Mascon etc. through circular trading. These artificial volumes were created with a view to induce others to invest in the scrip at prices bench marked by KP entities who had put such large buy orders. These scrips are not tradable in such large quantities. The trades got executed within seconds of in-putting of the sale orders. The trades matched for almost whole quantity put for sale in one go and not in small tranche which would have been the case if the deal was genuine.

8.0 Whether the circular or negotiated deals are banned or are allowed to be done in the same manner as that of the normal market trades?

8.1 The allegation against DKB is only that having entered into circular trades with the purpose of financing KP group, it had executed fictitious and non-genuine trades with a view to create misleading appearance of trading. The circular mentioned above permits deals that are similar to normal trades. Such repeated circular transactions cannot be construed as normal trades. Its conduct helped KP entities in creating artificial volumes and market in certain scrips by way of such circular trades. Shares were found to have been rotated from one entity belonging to Ketan Parekh to other entities belonging to him. There was no change in beneficial ownership also. In view of this, I find that the circular dated 14.9.1999 of SEBI would not protect DKB.

9.0 Whether the finding of Enquiry Officer that the trades executed by DKB on behalf of CCL and PFMS in illiquid scrips for which generally there was no ready market is correct in view of the submission of DKB that it had executed only a few trades in such illiquid scrips and that the majority of the trades were liquid scrips for which a ready market always existed?

9.1 Considering the fact that illiquid scrips were involved, size of transactions, and KP group being the selling as well as buying clients (same/different entity within the group), it can reasonably be concluded that DKB was providing immediate funds to KP group and to secure repayment of funds by KP group, DKB was putting in the sale transactions on their behalf through stock exchange mechanism which were matched with same/ other KP group entity by synchronization of trades. Further DKB was charging the rate of interest in the form of brokerage, which was related to the period for which such funds were being provided by DKB. DKB admittedly charged varying rates of amount which was relatable to the period between the date of payment to the client and date of receipt of funds from the pay out at the stock exchanges. Actually, the rate of interest varied in accordance with the period for which the funds were provided. In view of the findings made above and as per these facts it is clear that the transactions executed by DKB on behalf of KP group were not the genuine sale transactions (as KP group was the selling client and KP group itself was the buying client on the other hand) and these transactions were put through in the stock exchange mechanism just to camouflage the actual funding / financing to KP group.

9.2 The aforesaid type of transactions which are funding/financing in nature but artificially given a different color are not permissible under law. BSE, vide its Circular no. 5638/96 dated 01.10.96, taking note of the transactions which were basically in the nature of funding / financing transactions, advised its member brokers that such transactions are not considered genuine trade / commercial transactions between the members and mentioned that such transactions would also fall within the ambit of **fictitious transactions**. Vide said Circular, BSE while referring to the practice of raising funds by certain members by sale of scrips on spot delivery basis, collecting sale proceeds and then the buying member in turn selling the same scrip to selling member in the settlement and that the difference in buying and selling rate of the scrips representing interest, advised members not to enter into such transactions and it also stated that members found to be involved in such transactions or transactions of similar nature with other members, a serious view in the matter shall be taken and the same will also attract strict disciplinary action against the concerned members. Further, BSE vide its subsequent notice no. 80626/2001 dated 17.3.01, while reiterating the directions given vide its circular dated 01.10.96, once again advised its members, not to enter into such transactions and has warned the members concerned of strict disciplinary action in case of any such violation besides, annulment of such transactions and non availability of Trade Guarantee Fund cover etc. for such transactions. DKB having provided finance to KPG entities under the garb of trading / sale transactions, has therefore violated the above said directives of BSE and as per the said circular, the transactions executed by DKW on behalf of KP entities, amounted to "fictitious transactions".

10.0 In the light of the above, I conclude that DKB has committed the following violations:-

10.1 By virtue of its indulgence in funding the KP group, DKB has violated bye law 357 (ii) of BSE Bye-Laws read with bye-law 355, which prohibit and provide for action / penalty against a member if found to be guilty of un-business like conduct.

Bye law 357 defines unbusiness like conduct and clauses (ii) of the said bye law provides that a member shall be deemed guilty of unbusinesslike conduct:-

(ii) fictitious dealings - If he makes a fictitious transactions or gives an order for the purchase or sale of securities, the execution of which would involve no change of ownership or executes such an order with knowledge of its character.

Bye law 355 provides for the penalty of expulsion, suspension or withdrawal of all or any of the membership rights of the broker, fine, censure etc. in case of breach of bye laws and Regulations by the member broker or for misconduct, unbusinesslike

conduct or unprofessional conduct on the part of the broker member.

The aforesaid conduct of DKB was, therefore, in violation of the above said directions of the stock exchange issued vide BSE circulars dated 01.10.96 and 17.3.01 and the transactions amount to fictitious transactions. By virtue of violating the said circulars DKB is guilty of misconduct as defined under bye-law 356. Further such fictitious dealings on the part of DKB amount to unbusiness like conduct on their part as defined in clauses (ii) of Bye law 357 of BSE as reproduced above. DKB, therefore, is guilty of violation of the said circular and consequently guilty of unbusinesslike conduct in terms of bye law 357 of BSE Bye-laws.

10.2 The aforesaid conduct of DKB is also violative of Rules 4(b) and 4(e) of NSE Rules and Regulation 4.5.4 (c) and 4.6.2 of NSE Regulations. The said Rules read as under :

i. **Rule 4(b): Fictitious Dealings** - If it makes a fictitious transaction or gives an order for the purchase or sale of securities the execution of which would involve no change of ownership or executes such an order with knowledge of its character.

ii. **Rule 4(e): Market Manipulation and Rigging** - If it, directly or indirectly, alone or with other persons, effects series of transactions in any security to create actual or apparent active trading in such security or raising or depressing the prices of such security for the purpose of including purchase or sale of such security by others.

iii. **Regulation 4.5.4 (c):** A Trading Member shall not:

1. make bids and/or offers for securities with an intention of creating a false or misleading appearance with respect to the market for, or the price of any security or;
2. make a transaction or give an order for the purchase or sale of securities, the execution of which would involve no change of beneficial ownership, unless the Trading Member had no knowledge that the transaction would not involve a change in the beneficial ownership of securities.

iv. **Regulation 4.6.2:** No Trading Member shall,

(a) for the purpose of creating or inducing a false or misleading appearance of activity in an eligible security or creating or inducing a false or misleading appearance with respect to the market in such security.

(b) enter any order or orders for the sale of such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price for the purchase of such security has been or will be entered by or for the same or different parties.

It is seen that DKB has executed huge transactions in illiquid scrips on behalf of KP group which created an illusion of active trading in the said illiquid scrips and led to creation of false volumes and false market in the said scrips. Therefore, in view of the above findings DKB's abovesaid conduct is in violation of Rule 4(d) & (e) of NSE Rules and Regulations 4.5.4 (c) and 4.6.2 of NSE Regulations.

10.3 I also find that DKB has also violated Regulation 7 read with clauses A (1) (2) (3) (4) & (5) and Clause B 4(a) of Section B of the Code of Conduct as specified in Schedule II of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.

Regulation 7 of the said regulations lays down that – "The stock broker holding a certificate shall at all times abide by the Code of Conduct as specified at Schedule II".

Clauses A (1) (2) (3) (4) & (5) and Clause B 4(a) of the Code of Conduct read as under :-

Section A

1. Integrity : A stock broker, shall maintain high standards of integrity promptitude and fairness in the conduct of all his business.
2. Exercise of Due Skill and Care :- A stock broker shall act with due skill, care and diligence in the conduct of all its business.
3. Manipulation : A stock broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumors with a view to distorting market equilibrium or making personal gains.
4. Malpractices : A stock broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.
5. Compliance with Statutory Requirements : A stock broker shall abide by all the provisions of the Act and the rules, regulations issued by

the Government, the Board and the stock exchange from time to time as may be applicable to him

Section B

(4)(a) A stock broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

DKB by indulging in financing transactions **which created false volumes/ market and price in various scrips** assisted KP group and thus DKB is guilty of not maintaining high standards of professionalism, integrity and fairness in the conduct of its business. It has also failed to act with due skill, care and diligence as expected from a stock broker. The said transactions interefered with fair and smooth functioning of the market. DKB has thus violated SEBI Circular dated 14.9.99, the abovesaid notice/ Circulars dated 2/9/1999, 1/10/1996 17/3/2001, bye law 357 of BSE and the rule 4 of NSE Rules and

accordingly guilty of failing to comply with statutory requirements. Clauses A(1) to (5) of Code of Conduct.

In view of the above DKB is also guilty of violation of

Further, DKB having provided funds under the garb of carrying out the above said sale transactions, has executed such transactions with the objective of funding KP group with a view to earn interest which created false volumes. Therefore, DKB's conduct may not fall within Clause B (4)(a) of the Code of Conduct.

10.4 I further find that having executed "non genuine" trade transactions on behalf of KP group, DKB assisted KP group in trading, which is in violation of Regulations 4(a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995. The said Regulations provide as follows :

Regulation 4(a): No person shall effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person.

Regulation 4(b): No person shall indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market.

Regulation 4(c): No person shall indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions.

Regulation 4(d): No person shall enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuations in the market price of securities.

10.5 In view of my findings above, I conclude that the sale transactions executed by DKB on behalf of KP group were mere financing transactions given the color of sale and purchase of shares through the trading system of the stock exchanges and the said transactions executed in huge quantities led to creation of artificial volumes. These transactions also created false and misleading appearance of trading in the securities and the said transactions were executed without any intention of effecting genuine trade transactions. These circular transactions had not resulted in actual transfer of beneficial ownership as the selling and buying entities belonged to the same group. This has created artificial volumes and bench marking of prices. So far as violations of clause (b) of regulation 4 is concerned, the same requires that the act must be "calculated" to create a false or misleading appearance of trading in securities market. It is established from the facts found above that DKB was actually funding KP group and the trades/sale transactions executed on their behalf on the stock exchanges were just a camouflage. The said transactions were, therefore, non genuine transactions which led to creation of false volumes/ false market and also resulted in reflection of prices which were based on non genuine transactions. I find that the above said sale transactions executed by DKB which were to ensure repayment of funds lent to KP group, led to creation of artificial volumes. Thus, DKB helped KP group and violated the provisions of Regulations 4(a), (c) and (d) of the SEBI (FUTP) Regulations, 1995.

10.6 However I find that DKB has not traded on its own account. It had only executed transactions for its clients CCL and PFMS. Further, it had only executed sale transactions and that too after receiving the Securities from the clients. I find that the payment was made immediately on receipt of the securities and after executing the sale from the clients without waiting for the settlement in the Exchange. But DKB repeatedly executed transactions which were got matched by the clients through counter party brokers. DKB argued that at the time when the transactions were executed, which is through screen based confidential trading system, there is no way to know the counter party to suspect the trading. Matching of trade among KP group were known only after revealing the findings of SEBI investigations. DKB submitted that if client manipulate the trades without the knowledge or the involvement of the Stock broker, the Stock broker cannot be blamed. DKB had admitted that Mr. Kartik Parikh, brother of Mr. Ketan Parikh, told it that if DKB puts the order at specific price and quantity, the order would be executed. This should have alarmed DKB on the intentions of its clients. I find total complacency and negligence on the part of DKB, which it eventually admitted during the hearing. By its negligent conduct it has aided the KP entities to manipulate the market.

10.7 In the light of the above discussion, the submissions made by DKB and on the basis that DKB had not traded on its own account, I am of the view that suspension of its certificate of registration as a stock broker, for a period of eighteen months is sufficient and the same meets the ends of Justice. I have also noted that DKB has surrendered on its own its certificate of registration of SEBI, which has not been accepted because of the pending enquiry proceedings against it.

11.0 Therefore, in exercise of the powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 13(1) and Regulation 23 of the SEBI (Procedure of Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby direct that the certificate of registration of Dresdner Kleinwort Benson Securities (India) Ltd. (hereinafter referred to as 'DKB') be suspended for a period of eighteen months.

This order shall come into force with immediate effect.

A.K.BATRA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA

Place : Mumbai

Date : 29th April, 2004