

**SECURITIES AND EXCHANGE BOARD OF INDIA
ORDER**

UNDER REGULATION 13(4) SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.AGAINST M/S. OPTION SECURITIES PVT. LTD., MEMBER, THE DELHI STOCK EXCHANGE ASSOCIATION LIMITED, IN THE MATTER OF M/S VATSA WORLD LIMITED.

1.0 BACKGROUND

1.1 M/s. Option Securities Pvt. Ltd. (hereinafter referred to as 'the Broker') is a member of The Delhi Stock Exchange Association Ltd.(hereinafter referred to as 'DSE') and is registered with the Securities and Exchange Board of India (hereinafter referred to as SEBI) vide registration no. INB051052836.

1.2 The Delhi Stock Exchange (DSE) observed significant variation in the price of the scrip, Vatsa World Limited (VWL), listed on their exchange. The price of the scrip on DSE varied between Rs.5/- and Rs.43/- during the period from January 1, 2001 to July 31, 2001 (hereinafter referred to as relevant period). In view of the above, DSE conducted an investigation into the trading in the scrip of VWL and furnished their report to SEBI.

1.3 DSE had inter-alia made the following observations:

- i. The price of the scrip increased from Rs.12.50 on April 9, 2001 to Rs.43.05 on July 10, 2001.
- ii. The increase in price was not accompanied by a corresponding increase in trading volume.
- iii. The entire trading was concentrated amongst 8 members of the exchange.
- iv. Most of the trades were squared off and there was only one instance of delivery during the entire trading period spread over 15 settlements.

Some of the members or their clients were suspected to be related to the company. Hence, DSE suspected possible price manipulation and insider trading by the company, its promoters or associates.

1.4 Based on the investigation report of DSE, SEBI ordered a preliminary enquiry into the trading of the scrip during November 2001. During the course of preliminary enquiry, it was observed that the trading was indeed concentrated amongst few brokers. Also, some of the trading members and the trading clients were suspected to be associated with the company. In view of the above, SEBI ordered a formal investigation into the case during May 2002. It was observed that one of the brokers who had traded in the shares of VWL was M/s Option Securities Pvt. Ltd.(hereinafter referred to as "the said broker"), who had traded on behalf of his client Shri V K Gupta.

2.0 ENQUIRY REPORT AND RECOMMENDATION :

2.1 In view of the above findings, an enquiry officer was appointed under Regulation 5(1) of the SEBI (Procedure for Holding Inquiry by Enquiry Officer and imposing penalties) Regulations, 2002 (hereinafter referred to as 'the said regulations'), in order to enquire into the affairs of the said broker, in the matter of alleged manipulation in the shares of VML.

2.2 The enquiry officer, after conducting the enquiry as per the procedure laid down in the said regulations, submitted a report dated 16.02.2004, with the recommendation that the certificate of registration granted to the said broker may be suspended for one month.

3.0 SHOW-CAUSE NOTICE AND HEARING :

3.1 Pursuant to receipt of the Enquiry Report, a Show Cause Notice dated 20.02.04 was issued to the said broker, enclosing a copy of the enquiry report, wherein he was called upon to show cause as to why the action as considered appropriate should not be taken against him. The said broker submitted his reply to the show cause notice, vide his letter dated March 04, 2004, pleading inter alia, that the suspension of the certificate of registration for a period of one month would be too harsh. In addition, the said broker had stated that :

- a) he has not failed to exercise due care and skill, as alleged. The quantity of the shares of VML traded on behalf of their client was very small vis-a-vis the total quantity of shares traded by them on DSE, thus arousing no suspicion in their minds,
- b) there was nothing in the alleged transactions to arouse suspicion as to the illiquidity of the scrip,
- c) since the client Sh.V.K.Gupta was personally known him, the requirement as to margin money was dispensed with, taking into account his residential proximity and the low magnitude of the transactions
- d) and since no connection was found between Sh. V.K.Gupta and the himself, with the management of VWL, the proposed penalty was excessive and would operate harshly.

The hearing before me has been dispensed with in this case as the same was not considered necessary in the light of the facts and circumstances of the case.

5.0 CONSIDERATION OF ISSUES AND FINDINGS :

5.1 I have considered the facts of the case, the findings of the Enquiry Officer, the reply of the broker to the show cause notice and other material on record.

5.2 I find that during the period from April 9, 2001 to July 10, 2001, the scrip was traded only on 33 days and the total number of shares traded was only 26700. The average traded volume per day works out to about 810 shares. In many of the trading days there were only one or two trades in the scrip. Thus, it is clear that there was very little trading interest in the scrip.

5.3 During the said period, the price of the scrip increased from Rs. 12.50 on April 09, 2001 to Rs. 43/- on July 10, 2001. The increase in price was not accompanied by a corresponding increase in trading volume and the entire trading was concentrated amongst 8 members of the exchange. Most of the trades were squared off and there was only one instance of delivery during the entire trading period spread over 15 settlements.

5.4 I have observed that the client of the said broker, Shri V.K. Gupta, had bought and sold 2300 shares each, the details of which are as follows :

Sr. No.	Settlement No. / Date	Client Name	Buy Quantity	Price	Sell Quantity	Price
1.	20-06-01	V.K. Gupta	Nil	Nil	100	13.75
2.	21-06-01	V.K. Gupta	100	17.15	Nil	Nil
3.	26-06-01	V.K. Gupta	100	23.35	100	23.35
4.	28-06-01	V.K. Gupta	200	27.05	Nil	Nil
5.	29-06-01	V.K. Gupta	Nil	Nil	200	29.00
6.	02-07-01	V.K. Gupta	400	30.35	Nil	Nil
7.	04-07-01	V.K. Gupta	300	30.25	900	33.00
8.	05-07-01	V.K. Gupta	500	34.00	100	36.00
9.	06-07-01	V.K. Gupta	200	38.05	400	37.00
10.	09-07-01	V.K. Gupta	Nil	Nil	500	40.00
11.	10-07-01	V.K. Gupta	500	43.50	Nil	Nil
	TOTAL		2300		2300	

5.5 As seen above, the client had squared off all his transactions and he did not have any net position in any settlement. He has dealt at steadily increasing prices from Rs.13.75 to Rs.43.50.

5.6 I have observed that the broker had, on behalf of his above mentioned client, purchased and sold 2,300 shares of VWL, during the period 20.06.01 till 10.07.01 at DSE, which constituted 17% of the gross traded quantity in the market during the said period. During this period of twenty days, the price of VML has increased from Rs. 13.75 to Rs. 43.50. All the trades had been squared off and did not result in deliveries. I have also observed that the broker dealt on behalf of his client without obtaining margins.

5.7 I have considered the contention of the broker that the above transactions were done by them in the normal course of business and they had no reason to suspect the motives of their client. However, I am of the view that the increase in the price of the scrip from Rs.13.75 to Rs.43.50 during a span of mere 20 days, on thin volumes, should have been sufficient to arouse suspicion in the mind of the broker. Any prudent person who is dealing in the securities market would have noticed such a peculiarity and would have enquired further into the genuineness of the trades done by his client. A broker is supposed to have better understanding of the market and the level of due diligence expected of a broker is much higher than that of the ordinary investor. In the present case, the peculiarity of the transactions should have warranted further enquiry, particularly in view of the facts that the client was trading in an illiquid scrip, all the trades were being squared off, the trades were resulting in a steady increase in the share price etc. Moreover the broker has dealt on behalf of the client without obtaining the margins.

5.8 I find that the broker has failed to exercise due skill and diligence while dealing in the shares of VML, in having allowed his client to trade in the shares of VML, which contributed to the creation of artificial volumes in the scrip and also in increase of the share price. The broker has thus violated clause A(2) to (4) of Code of Conduct prescribed for Stock brokers in Schedule II in terms of Regulation 7 of Securities and Exchange Board of India (Stock Brokers and Sub Brokers), Regulations 1992.

5.9 It is very likely that artificial volumes in an illiquid scrip may induce unsuspecting innocent investors to trade in that scrip. This is detrimental to the interest of investors and the orderly development of the securities market. I find that in order to protect the interest of the ordinary investors and to retain their faith in the transparent functioning of the securities market, it is imperative to punish the erring market participants.

5.10 However, I also find that no connection between M/s Option Securities Pvt. Ltd. and its client Shri. V.K. Gupta has been established with the management of VWL. In addition, the total quantity of VML shares traded by the said broker is only 4600. I

have considered these factors while arriving at the quantum of penalty.

6.0 ORDER

6.1 In the light of the above findings, in the exercise of powers conferred upon me in terms of Section 19 of the SEBI Act, 1992, read with Regulation 13(4) of SEBI (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002, I hereby order the suspension of the certificate of registration granted to M/s Option Securities Pvt. Ltd. for a period of one month.

6.2 This order shall come into effect on the expiry of three weeks from the date of this order.

PLACE : MUMBAI
DATE : August 16, 2004

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