

## **SECURITIES AND EXCHANGE BOARD OF INDIA**

### **ORDER**

**UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.**

**AGAINST M/s. NAM SECURITIES LIMITED, MEMBER, NATIONAL STOCK EXCHANGE OF INDIA LTD., HAVING SEBI REGISTRATION NO. INB230771039, IN THE MATTER OF M/S EIDER INFOTECH LTD.**

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### **BACKGROUND**

1. NAM Securities Ltd. (hereinafter referred to as "NSL") is a member of the National Stock Exchange of India (hereinafter referred to as "NSE").
2. Eider Infotech Ltd., (formerly known as Eider Telecom Ltd., and hereinafter referred to as "EIL") is a company whose shares were listed on National Stock Exchange of India Ltd., Ahmedabad Stock Exchange, The Stock Exchange, Mumbai, Calcutta Stock Exchange, Delhi Stock Exchange and Ludhiana stock exchange.
3. SEBI conducted investigations into the dealings in the shares of EIL. It was observed that :
  - i. The scrip of EIL was not very active at both NSE and BSE during the period September 1998 to August 1999. In fact, the price volume data of the scrip examined for the period January 1998 to August 1999 suggested that at BSE only 200 shares were traded and at NSE only 1,800 shares were traded. However, the volumes increased during the period September 1999 to March 2000; at BSE, 6,500 shares were traded and at NSE 3,04,200 shares were traded.
  - ii. The scenario after September 2000 and upto March 2001 was that at BSE no shares were traded and at NSE, 26,295 shares of the company were traded. This clearly suggests that the scrip of EIL was mainly active during the period November/December 1999 to March 2000.
  - iii. At NSE, the share price of EIL moved from Rs. 32/- as on 24.11.99, to Rs. 292/- by the end of the first week of January 2000. The price came down to Rs. 228/- by the end of the second week of January 2000. The price went up once again and recorded its highest rate of Rs. 800/- on 11.02.00 at NSE. The steep movement in the scrip price was accompanied by rising volumes (from an average daily volume of 490 shares during the month November 1999, to 4,030 in the month of January 2000, as stated at para 1.3 above.) and it was observed that the movement in the scrip was not supported by fundamentals.
  - iv. From the first week of March 2000, the scrip started witnessing decreasing volumes. Due to non compliance of the listing formalities, NSE had temporarily suspended the scrip for the period 12<sup>th</sup> April, 2000 to 26<sup>th</sup> April, 2000.
  - v. On 26<sup>th</sup> April, 2000, NSE revoked the suspension and trading in the scrip resumed, considering Rs. 111/- as the base price, which was also the last traded price at BSE. The scrip was brought into compulsory Electronic Segment w.e.f 3<sup>rd</sup> May, 2000 and shifted to compulsory Rolling segment mode with effect from 10<sup>th</sup> May, 2000 onwards. After the scrip resumed trading at NSE, the price of the scrip went up very sharply from Rs. 150/- levels and touched an intra day high of Rs. 830/- as on 06.07.00. This constitutes a rise of 555.0% over the opening price as on May 02, 2000 within a period of just 47 trading days.
  - vi. During this period, on most occasions the deals were struck with one share, at a price substantially different from the last traded price. Due to this reason, sharp movement was observed in the price of EIL during the period under consideration. However, the total volume reported during the period May 2000 to August 2000 was only 2,647 shares. Later, the scrip came down to Rs. 250/- levels by the end of August 2000.
  - vii. The total shares traded at the exchange during the period 1<sup>st</sup> December 1999 to March 2000 was around 2,54,000 shares. The average traded volume in the scrip was 490 shares between November 24, 1999 and December 7, 1999. But, during the period between December 8, 1999 and December 28, 1999 the average traded quantity increased substantially to reach 3,406 shares. This reflected nearly a sevenfold increase in the average traded quantity. The average traded quantity spurted further to 4,030 shares between December 29, 1999 and February 01, 2000. It was seen that most of the concentration in the scrip was among a few trading members. Prominent among the members who had dealt in the shares of EIL was NSL.

### **ENQUIRY PROCEEDINGS**

4. Based on the above, an enquiry officer was appointed by SEBI, vide its order dated 02.07.02, to conduct an enquiry under Regulation 28(1) of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 against NSL, for its dealings in the scrip of EIL and for the alleged price manipulation in violation of the provisions of SEBI (Stock Broker & Sub-Broker) Rules, 1992 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 1995 (hereinafter referred to as 'FUTP Regulations').
5. The Enquiry Officer, after conducting the enquiry as per the procedure laid down under SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 1995, submitted a report dated

03.11.03. The Enquiry Officer has concluded the following:

- a. NSL had contributed substantial trading volumes in the shares of EIL to the extent of 47.0%, during the period September, 1999 to March, 2000. Considering the low floating stock available in the market, these trading volumes constituted a significant portion in the market
- b. NSL had tendered shares in the auction conducted by NSE in successive settlements consistently, thereby trapping the short sellers and taking advantage of their position to sell the shares of EIL at successively higher rates.
- c. NSL executed many artificial trades, in which they placed both the buy and sell orders for the same client and that too through the same terminal. The said transactions accounted for 13,800 shares both on the buy and sell side, amounting to 19.1% of their total transaction during the period December 1999 to August 2000.
- d. NSL executed transactions with Share Plaza (hereinafter referred to as SP) as the common client for themselves and Sanchit Financial & Management Services, Ltd.,(hereinafter referred to as SFMS), another broker at NSE. The trades so carried out, totaling 13 transactions, between 07.01.00 and 18.01.00, were in the nature of synchronized trades between NSL and SFMS.
- e. NSL had received funds from Eider Financial Services Ltd. (hereinafter referred to as EFSL), a group company of EIL, during the period of price manipulation, to influence the price of EIL shares.
- f. During the period April – August 2000, NSL had placed trades of one share at the circuit breaker limit and also done cross deals of one share each, with both the buyer and seller being NSL's clients, at successively higher rates.

6. Based on the abovementioned findings, the enquiry officer recommended that the registration of the broker be suspended for a period of six months.

#### **SHOW-CAUSE NOTICE AND HEARING**

7. Pursuant to the receipt of the Report from the Enquiry Officer, a notice dated 11.11.03 was issued to NSL, enclosing a copy of the enquiry report, and advising him to show cause as to why appropriate penalty, including the penalty as recommended by the Enquiry Officer, should not be imposed. NSL filed a reply vide its letter dated 31.12.03 and submitted that since the time available was too short, it would provide the necessary information on or before the date of hearing. Along with this letter NSL annexed their letter dated 28.11.01 furnishing details asked for at the time of investigation and letter dated 14.07.03 replying to the show cause notice issued by the enquiry officer.
8. An opportunity of personal hearing was granted to NSL on 19.01.04. The same was requested to be postponed by NSL. Another opportunity was granted to NSL and accordingly the next hearing was fixed for 06.02.04. Mr. Ashwani Goyal, Director of NSL appeared before me on the appointed date and reiterated the written submissions made vide their letter dated 27.01.04. Pursuant to the hearing, NSL made further submissions vide its letter dated 09.02.04.

#### **FINDINGS**

9. Having examined the documents available on record, including inter alia the enquiry report, the show cause notice issued to NSL, their replies and the written submissions made by NSL during the personal hearing, my findings with respect to the allegations leveled against NSL are as under.
10. During the period December 1999-March, 2000, NSL traded in 1,43,800 shares on NSE, which accounted for 47% of the trades at NSE during that period. Given the low floating stock of EIL in the market, the significant quantity of shares traded by NSL would have definitely influenced the price of the scrip. I have also noted the even thereafter, between April, 2000 to August, 2000, with a buy of 657 shares and sales of 1103 shares, NSL was among the top five brokers in the scrip. Thus, it is clear that NSL had consistently been one of the top traders in the shares of EIL.
11. I have observed that NSL had offered 1,000 shares out of the total 1,300 shares tendered in the auction at the exchange, between 22.12.99 and 16.02.00. In this regard NSL had submitted that as against the total traded quantity of 3,04,200 shares of EIL during September 1999 to March 2000, the percentage of shares auctioned comes to 0.42%, which is a normal feature of the stock market. The comparison between the number of shares traded on the exchange and the percentage of shares auctioned has no bearing on the allegation made against NSL. The fact that NSL had offered 1,000 shares out of the total 1,300 shares at the auction of the shares of EIL, that too in successive settlements, coupled with the fact that the floating stock had already been cornered by NSL, explains the design of NSL to trap the short sellers, to take advantage of their inability to deliver the shares. I have also noted that NSL had offered the shares in the auctions at successively higher rates.
12. I have observed that the member had executed many "artificial trades" i.e. trades in which the member had executed both the buy as well as the sell side of the transactions, through the same terminal, for the same client on both sides of the transactions. The details of such trades are reproduced in the table below :

| Trd_dt  | trd_time | Trd_pr | Trd_qty | btm_BUYMEM | Trd_buy_dealer | Trd_buy_acc | trd_stm_cd | SELL Nemb | trd_sell_dealer | trd_sell_acc |
|---------|----------|--------|---------|------------|----------------|-------------|------------|-----------|-----------------|--------------|
| 08-Dec- | 15:27:20 | 58.9   | 300     | NAM        | 4821           | 7710        | 07710      | NAM       | 4821            | 7710         |

|             |          |        |      |     |      |      |       |     |      |       |
|-------------|----------|--------|------|-----|------|------|-------|-----|------|-------|
| 1999        |          |        |      |     |      |      |       |     |      |       |
| 08-Dec-1999 | 15:27:28 | 58.9   | 800  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 09-Dec-1999 | 12:33:41 | 63.65  | 200  | NAM | 4824 | CSM  | 07710 | NAM | 4821 | 7710  |
| 22-Dec-1999 | 12:29:49 | 127.4  | 600  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 24-Dec-1999 | 10:36:37 | 148.65 | 500  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 04-Jan-2000 | 11:11:47 | 234.65 | 500  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 04-Jan-2000 | 12:10:58 | 234.65 | 500  | NAM | 4821 | 7710 | 07710 | NAM | 4825 | 7710  |
| 04-Jan-2000 | 15:29:30 | 234.65 | 200  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 05-Jan-2000 | 10:09:29 | 253.45 | 300  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 06-Jan-2000 | 13:09:52 | 273.75 | 500  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 06-Jan-2000 | 14:34:45 | 273.75 | 300  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 06-Jan-2000 | 14:56:23 | 273.75 | 500  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 07-Jan-2000 | 13:00:40 | 295    | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4824 | CMKH  |
| 07-Jan-2000 | 13:00:40 | 295    | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4824 | CSM   |
| 07-Jan-2000 | 13:00:40 | 295    | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4824 | CGTM  |
| 07-Jan-2000 | 13:00:40 | 295    | 200  | NAM | 4821 | 7710 | 07710 | NAM | 4824 | C     |
| 07-Jan-2000 | 13:00:40 | 295.65 | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 07-Jan-2000 | 13:00:40 | 295.65 | 1300 | NAM | 4821 | 7710 | 07710 | NAM | 4824 | CGOEL |
| 07-Jan-2000 | 13:00:40 | 295.65 | 2200 | NAM | 4821 | 7710 | 07710 | NAM | 4824 | CGOEL |
| 07-Jan-2000 | 13:00:40 | 295.65 | 300  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 07-Jan-2000 | 15:12:20 | 295.65 | 500  | NAM | 4821 | 7710 | 07710 | NAM | 4824 | CGOEL |
| 10-Jan-2000 | 10:58:38 | 280    | 100  | NAM | 4824 | CGTM | 07710 | NAM | 4821 | 7710  |
| 12-Jan-2000 | 11:07:16 | 228.55 | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |
| 13-Jan-2000 | 10:39:43 | 210.35 | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4824 | CGTM  |
| 13-Jan-2000 | 11:49:47 | 228.55 | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4824 | C1    |
| 13-Jan-2000 | 15:29:21 | 224.9  | 500  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710  |

|             |          |        |      |     |      |      |       |     |      |      |
|-------------|----------|--------|------|-----|------|------|-------|-----|------|------|
| 13-Jan-2000 | 15:29:21 | 229.6  | 500  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 13-Jan-2000 | 15:29:21 | 230    | 200  | NAM | 4821 | 7710 | 07710 | NAM | 4825 | 7710 |
| 13-Jan-2000 | 15:29:41 | 239.9  | 1000 | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 17-Jan-2000 | 15:09:27 | 270.2  | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 19-Jan-2000 | 15:26:42 | 258.7  | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 20-Jan-2000 | 13:25:37 | 270    | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 03-Feb-2000 | 12:50:46 | 526.3  | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 08-Feb-2000 | 10:42:15 | 663.05 | 200  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 10-Feb-2000 | 11:40:11 | 773.4  | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 10-Feb-2000 | 12:15:25 | 759.5  | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 10-Feb-2000 | 15:27:49 | 773.35 | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 11-Feb-2000 | 11:17:55 | 725    | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |
| 15-Feb-2000 | 13:46:39 | 699    | 100  | NAM | 4821 | 7710 | 07710 | NAM | 4821 | 7710 |

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13. I have noted that in response to this allegation, NSL had submitted that such dealings were carried on between NSL as proprietor and the actual clients with their respective codes. I have observed from the above table that both buy and sell orders were placed through the same terminal with dealer ID 4821, with a few trades through dealer ID's 4824 and 4825. Even in the trades with dealer ID's 4824 and 4825, the buying and the selling member happen to be NSL. This is ample evidence of the fact that artificial trades to the extent of 13,800 shares had been carried out by NSL. These trades accounted for 19.1% of the total transactions carried out by NSL in the scrip of EIL, during the period December 1999 to March 2000, the intent being to artificially create volumes and to influence the price of the scrip.
14. On the same issue, I have also observed that the following trades were executed at the highest prevailing rates for the respective days :

| S.no. | Date       | Quantity | Price  |
|-------|------------|----------|--------|
| 1     | 08.12.99   | 300      | 58.9   |
| 2     | 09.12.99   | 200      | 63.65  |
| 3     | 22.12.99   | 600      | 127.4  |
| 4     | 24.12.99   | 55       | 148.65 |
| 5     | 04.01.2000 | 500      | 234.65 |
| 6     | 05.01.2000 | 300      | 253.45 |
| 7     | 06.01.2000 | 500      | 273.75 |
| 8     | 07.01.2000 | 100      | 295    |
| 9     | 12.01.2000 | 100      | 228.55 |
| 10    | 13.01.2000 | 1000     | 230.90 |
| 11    | 19.01.2000 | 100      | 258.7  |
| 12    | 20.01.2000 | 100      | 270    |

15. I have observed that on several occasions NSL had placed the first buy order of the day in the scrip of EIL, at the circuit breaker limit or near about, thereby benchmarking the price for the day. I have further observed that NSL had placed buy orders at rates that were at variance to the prevailing quotes on the exchange's order book, even though sell orders were pending in the order book of the exchange at lower rates. NSL thus succeeded in sweeping the order book of the exchange, as a result of which the price of the shares shot up immediately. In response, NSL has submitted that it was short in the scrip of EIL. Since the market was rising for TMT stocks and the prices were hitting circuit breaker levels each day, it was mandatory to buy and cover the short sale at whatever price available. It has further stated that :

- a. The fact of placing the order at circuit breaker levels or near about, should not be construed as manipulating the price since, during the period of investigation, there was a software boom and almost 100.0% of the TMT stocks were hitting the circuit breakers. Entering the orders through the NEAT system provided by NSE, automatically set the order at circuit breaker limit.
- b. SEBI has empowered the stock exchanges to monitor circuit breaker limits by reducing or increasing the same and by imposing additional volatility margins. Thereby, it becomes the responsibility of the stock exchange to do the needful in a situation as described above.
- c. NEAT system of trading has a provision of KEY "/" which entitles a broker to enter trades at the highest / market prices. This practice is wide spread amongst the brokers and does not constitute a violation of the stock exchange practices.
- d. As regards the allegation that NSL had placed the buy order at a higher rate even when shares were available at a lower price, in order to "sweep the order books" and thereby influence the prices, it has been submitted that NSL was a net seller at lower rates from Rs.58/- to Rs.273/- for 3,600 shares of EIL. It was also submitted that looking into the market behaviour of increasing TMT stocks including EIL, it was decided to cover all short position. As only few shares were available for sale in the market, an order was placed for 7,000 shares under the NEAT system at the market price. This was done to ensure execution of the order placed though the same is not in line with the economic fundamentals of EIL.

The contentions of the member are baseless. It is but logical that if one were seeking to influence the price of the scrip, one would tend to punch orders at variance from the prevalent market price, so as to influence the price in the direction desired. This is precisely what the member has done. Further, by placing such orders at the beginning of the market trading hours he has established the trade price for the day.

16. It is to be noted that 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 with efficient and fair price discovery mechanism. This mechanism was also meant to ensure matching of the orders through an anonymous autonomous screen based system, on the basis of "best offer price" wherein the sellers would realize the true price of their securities within the circuit filters prescribed by SEBI. It is to be further noted that in order to reinforce confidence in the bourses, the exchanges, under the initiative of SEBI, guaranteed settlement of the obligations by putting in place the concept of the Trade/ Settlement Guarantee Fund, to back up this assurance. However, upon an analysis of the trades of NSL, I have noted that the very purpose of anonymous autonomous screen based trading system has been defeated through punching of artificial trades by NSL.
16. I observe that though the act of placing orders at or near the circuit filter is not barred, it is the persistent nature this activity by NSL that raises a doubt regarding the intent of such action. This in combination with the fact that the member had placed buy orders at a higher price when the shares were available at lower prices, thereby resulting in the sweeping the order book, placed the orders at a rate different from the previous day's closing price during the opening sessions, executed a series of synchronized transactions with other brokers, executed artificial transactions, etc proves beyond doubt that NSL had practiced these methods with an intention to influence the price of the shares of EIL.
17. The following instances illustrate the trades transacted by NSL in the shares of EIL at a price consistently higher than the previous closing or the prevailing price:
  - o On 03.01.00, the closing price was Rs.217.25 at NSE and on the following day i.e. 04.01.00, only 3 transactions were reported in which NSL was the buy and sell member for the same client (Code 7710) at Rs.234.65. Again on 05.01.00, the first transaction of the day was executed with NSL as the buyer at Rs.253.45.
  - o On 07.01.00, a trade took place at 12:59:08 at Rs.275 for 100 shares when 7,000 shares were pending for sale in the case of Rs.276-295.65. NSL placed a buy order for 7,000 shares at Rs.295.65 at 13:00:40, although shares were available at lower price as seen earlier and swept the order book.
  - o On 13.01.00, a trade took place at 11:36:49 for Rs.217. At 11:47:58, a buy order for 1,000 shares was entered by NSL which swept the orders ranging from Rs.219.85 to Rs.228.55 (8 transactions). On the same day, a trade was reported at 15:23:30 for Rs.210.45. NSL had entered a buy order for 3,500 shares at 15:29:21 for Rs.238 and another order for 3,000 shares was punched @ 15:29:41 for Rs.240 which swept the entire order book and the price shot up to Rs.239.90 in less than a minute.
18. In the following instances, NSL has entered the orders at upper circuit filter level immediately during the opening session for the day.

| Date     | Price  | Order Size | Time     | Previous date | Previous days closing price |
|----------|--------|------------|----------|---------------|-----------------------------|
| 05.01.00 | 253.45 | 2000       | 10:00:31 | 04.01.00      | 234.65                      |
| 06.01.00 | 273.75 | 2000       | 10:00:35 | 05.01.00      | 253.45                      |
| 07.01.00 | 295.65 | 2000       | 10:00:32 | 06.01.00      | 273.75                      |

The method and manner of placing buy orders at higher rates, at the circuit filter limits, without any change in economic fundamentals of EIL and at a time when the shares were available at lower rates and thereby sweeping the order book, has resulted in creation of artificial trades and jacking up the price. This is further aggravated by the fact that trading volumes in the scrip were low and there was no general interest of the investors to trade in the scrip of EIL.

19. I have also noted that NSL had executed the following transactions, in which his sub-broker Share Plaza (hereinafter referred to as 'SP') was the common client for NSL and SFMS.

| Trading Date   | Trading Time    | Traded qty. | Buy Order Time  | Buy Order Qty. | Name       | Sell order time | Sell order Qty | Stmt. Name  | Diff in time buy and sell |
|----------------|-----------------|-------------|-----------------|----------------|------------|-----------------|----------------|-------------|---------------------------|
| 7/1/00         | 14:50:23        | 500         | 14:50:10        | 500            | NSL        | 14:50:23        | 500            | SFMS        | 0:00:13                   |
| 7/1/00         | 14:51:03        | 500         | 14:50:49        | 500            | NSL        | 14:51:03        | 500            | SFMS        | 0:00:14                   |
| 7/1/00         | 14:51:48        | 500         | 14:51:34        | 500            | NSL        | 14:51:48        | 500            | SFMS        | 0:00:14                   |
| 7/1/00         | 14:52:09        | 300         | 14:52:02        | 300            | NSL        | 14:52:09        | 300            | SFMS        | 0:00:07                   |
| 7/1/00         | 14:57:49        | 900         | 14:57:46        | 1000           | NSL        | 14:57:49        | 1000           | SFMS        | 0:00:03                   |
| 7/1/00         | 14:58:47        | 800         | 14:58:36        | 800            | NSL        | 14:58:47        | 800            | SFMS        | 0:00:11                   |
| 7/1/00         | 15:15:49        | 2000        | 15:15:46        | 2000           | SFMS       | 15:15:49        | 2000           | NSL         | 0:00:03                   |
| 7/1/00         | 15:17:11        | 1600        | 15:16:51        | 1600           | SFMS       | 15:17:11        | 1600           | NSL         | 0:00:20                   |
| <b>13/1/00</b> | <b>15:29:21</b> | <b>2100</b> | <b>15:29:21</b> | <b>3500</b>    | <b>NSL</b> | <b>11:35:16</b> | <b>3000</b>    | <b>SFMS</b> | <b>3:54:05</b>            |
| <b>13/1/00</b> | <b>15:29:37</b> | <b>500</b>  | <b>15:29:37</b> | <b>500</b>     | <b>NSL</b> |                 |                | <b>SFMS</b> | <b>3:54:21</b>            |
| <b>13/1/00</b> | <b>15:29:41</b> | <b>400</b>  | <b>15:29:41</b> | <b>2000</b>    | <b>NSL</b> |                 |                | <b>SFMS</b> | <b>3:54:25</b>            |
| 17/1/00        | 13:45:30        | 900         | 13:45:30        | 900            | SFMS       | 13:44:46        | 900            | NSL         | 0:00:44                   |
| 18/1/00        | 11:32:54        | 1500        | 11:32:54        | 1500           | SFMS       | 11:32:36        | 1500           | NSL         | 0:00:18                   |

NSL had submitted that there are only three trades that have taken place between NSL and SFMS. Also, in these trades neither the order quantities nor the time of placing the order matched. Further, there is a material time difference of 3 hours 54 minutes and a few seconds. In view of this, the conclusion of treating the above trades as synchronous trades is unjust, unlawful and wrong. I do not agree with the contention of NSL as except for the trades mentioned in bold, in all other instances the time interval between the placement of the order and its matching is too narrow and the complete order quantity has been matched in all the transactions. The above trades clearly constitute a sequence of synchronized transactions between NSL and SFMS. There has been no transfer of title in these shares since purchase and sale quantity are one and the same. Also, I am convinced that these transactions have been entered into with a view to create artificial or illusory volumes.

20. NSL has denied that they, SFMS and SP are associate entities. The allegations that SP was behind both the buy and sell transactions was also denied by SP. The submission that NSL, SP and SFMS are not associate entities is untrue and is not tenable. SP is a registered sub-broker under NSL (Registration No: 230514924) and has also acted as a sub-broker to SFMS without proper registration in violation of the SEBI stipulations. This is sufficient proof of the fact that the above entities are associated among themselves though they do not share a common address as pointed out by NSL in its submission.
21. As regards that the allegation that NSL has received huge funds from Eider Financial Services Ltd (hereinafter referred to as EFSL), a group company of EIL during the period of price manipulation to rig the prices of EIL as detailed in the show cause notice, NSL had submitted that out of the ten demand drafts alleged to be received by NSL, seven were denied by the bankers, M/s. IndusInd Bank Ltd to have been issued in NSL's favour. The remaining three demand drafts aggregating to Rs.16,68,000/- were received during January 2000 from a client Mr. Davinder Singh in settlement of dues arising from dealings in the shares of EIL in DSE. These demand drafts were received from EFSL on behalf of Mr. Davinder Singh. According to EIL, on a specific request made by Mr. Davinder Singh, these demand drafts were issued in the name of NSL. It is also submitted that there was no correlation between the dates of the above alleged receipts and pay-ins for EIL's scrip.
22. I have gone through the communication sent by M/s. IndusInd Bank, Chandigarh Branch, signed by Mr. L. S. Dosanji, Assistant Vice President dated 10.01.02 which stands proof of the fact that NSL has received the following payments:

| Date & Instrument | Amount<br>(In Rs.) | Nature of instrument<br>DD/PO | Issued in favour of |
|-------------------|--------------------|-------------------------------|---------------------|
| 28/12/99          | 16,925             | DD                            | NSL                 |
| 11/1/00           | 17,050             | DD                            | NSL                 |
| 12/1/00 - 052292  | 2,00,000           | DD                            | NSL                 |
| 13/1/00 - 052298  | 1,00,000           | DD                            | NSL                 |
| 13/1/00 - 052299  | 40,000             | DD                            | NSL                 |
| 18/1/00 - 062349  | 10,68,878          | DD                            | NSL                 |
| 21/1/00 - 052403  | 10,00,000          | DD                            | NSL                 |
| 27/1/00 - 052443  | 77,978             | DD                            | NSL                 |
| 27/1/00 - 052444  | 3,00,000           | DD                            | NSL                 |

The aforesaid letter of the bank unequivocally establishes the transfer of funds to the account of NSL. Representations made by NSL regarding the above and the communications received from the bank subsequently are contradictory, as evidenced below:

23. During the enquiry proceedings, NSL submitted a letter dated 25.06.03 from M/s. IndusInd bank which stated that no entry was found in the books of the bank in respect of the following demand drafts:

| Date       | Amount (in Rs.) | Instrument No. | Nature of Instrument |
|------------|-----------------|----------------|----------------------|
| 28/12/1999 | 16,925          | NA             | DD                   |

|           |          |    |    |
|-----------|----------|----|----|
| 11/1/2000 | 17,050   | NA | DD |
| 27/1/2000 | 7,97,781 | NA | DD |
| 11/1/2000 | 3,00,600 | NA | DD |

The same letter further states as under, in the remarks column in respect of the following demand drafts :-

| Date       | Amount (in Rs.) | Instrument No. | Nature of Instrument | Remarks                                                                                       |
|------------|-----------------|----------------|----------------------|-----------------------------------------------------------------------------------------------|
| 13/1/2000  | 1,00,000        | 052298         | DD                   | This DD is in favour of Minstreal Insulation issued by Sadashiv Metallics Ltd                 |
| 24/1/2000  | 10,00,000       | 052403         | DD                   | This DD is in favour of U-like Electronics issued by LG Electronics for Rs.36,281 at Ludhiana |
| 27/01/2000 | 3,00,000        | ----           | DD                   | DD number 052444 was issued to EFSL and got cancelled on 28/1/2000                            |

24. In the Enquiry proceedings, NSL claimed that certain demand drafts stated to have been issued in their favour were not issued by the bank in their favour and agreed to produce another letter from the bank to further substantiate his claim. Thereafter, another letter with the same date i.e. 25.06.03 was received on 18.09.03. It is inexplicable as to how the second letter from the bank is also dated 25.06.03 when NSL in the proceedings dated 22.08.03 agreed to submit further documents from the bank in support of his contention. Nevertheless, the same is examined and it is interesting to note the following discrepancies:-

- a. It is surprising to note that the bank has given the following remarks as under in its letter dated 25.06.03:

| Date       | Amount | Instrument No. | Nature of Instrument | Remarks                                 |
|------------|--------|----------------|----------------------|-----------------------------------------|
| 28/12/1999 | 16925  | NA             | DD                   | We have not issued any DD favouring NSL |
| 11/1/2000  | 17050  | NA             | DD                   |                                         |
| 27/1/2000  | 797781 | NA             | DD                   |                                         |
| 11/1/2000  | 300600 | NA             |                      |                                         |

- b. This letter of the bank also allegedly in response to the letter dated 17.06.03 of NSL. It is not understood as to how after participating in the enquiry proceedings at Delhi on 22.08.03 and agreeing to file document from the bank to substantiate his claim, NSL could produce a letter from the bank dated 25.06.03 which is also supposedly in response to his letter dated 17.06.03.
- c. It is further observed that the letter dated 10.01.02 of the bank, as obtained by SEBI at the time of investigation, is in complete agreement with the details of funds transferred to NSL account. This letter of the Bank further confirms the following:
- that the above demand drafts were issued by their bank branch.
  - that the demand drafts were drawn in the name of NSL.
  - that none of the demand drafts were received by them for cancellation.
- d. Further, this letter was signed by one Mr. L S Dosanji, AVP, whereas the letters produced by NAM, purportedly issued by the bank, were both dated 25.06.03 and signed by "authorized signatory", with no details regarding the name and designation of the person.

Taking into account the above said factors, I conclude that the letters submitted by NAM cannot be admitted in evidence as they do not stand the test of credibility and the bank's communication dated 10.01.02 stands proof of the fact that the amounts have in fact been received and the efforts of NSL to manipulate the later communications may be taken as sufficient justification of their receiving money from EIL for dealing and influencing the prices of the shares of EIL.

25. As regards the allegation that NSL had placed orders for just one share near the circuit breaker limit and that cross deals were executed for just one share, with buyer and seller being the clients of NSL at successively higher rates in combination with EIL deliberately delaying DEMAT and transfer request, thereby creating conducive conditions of scarcity in floating stock for rolling settlement, enabling price rigging even with small volumes, NSL has submitted that:

- NSL had made only three trades of one share each and in each case NSL was the seller and there was no cross deal in any of the transactions.
- NSL had placed only sale transactions for one share and in upward price rigging, sale orders at the circuit filter limit cannot be placed. Since, any member can place orders at the lower rate and NSL having been left with stocks bought at higher rates, it was an act of desperation to sell even one share at available rates.

c) The reason for the low volume in the second period of investigation was due to the transfer of scrip to the rolling settlement during the period.

25. I have noticed that NSL has indulged in certain cross deals in which it has executed transaction for a single share. The reply from NSL that there were several terminals and it is possible that one trader would have entered order for one share and due to lack of depth another trader would have sold that one share appearing on the screen and that in a market of several crores, one share of Rs.200 - Rs.300 cannot alter the trends of the market and further that such kind of matching orders is normal cannot be accepted. Placing of such transactions in a single share at successively higher rates than the last traded price is highly irregular and the share price had shot up against low trading volumes and without any change in the economic fundamentals of the company. It goes to show that there was no trading interest generally by the investors and with low trading volumes, the share prices had shot up significantly. The method and manner of execution of these cross deals by NSL by placing orders at successively higher rates than the last traded price is a manipulative practice which resulted in the price of the scrip going up.
26. The facts detailed above prove that NSL, being the primary trader in the shares of EIL during the period of investigation, was responsible for the rapid increase in the price of the scrip. This constitutes an act of price manipulation on the part of NSL. I am fully convinced that the broker had committed irregularities pertaining to manipulating the prices of EIL in association with his sub-brokers, by cornering the floating stock in the market to reap unfair advantage, entering into artificial trades in the scrip, received and using funds from EFSL (a group company of EIL) to rig the prices of EIL's shares and has thus indulged in the act of manipulating the prices of EIL's shares.
27. Regulation 7 of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 provides that the stock broker holding the certificate of registration shall at all times abide by the Code of Conduct as specified in Schedule II. Further, Schedule II-Clause A provides that
- 1) *a stock broker shall maintain high standard of integrity, promptitude and fairness in the conduct of all his business.*
  - 2) *A stock broker shall act with due skill, care and diligence in the conduct of all his business.*
  - 3) *A Stock broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.*
  - 4) *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.*
28. In view of the findings as given in paragraphs 10 to 26 above, I conclude that the irregular trades of NSL, in the shares of EIL, which resulted in the steep price rise in the shares are in violation of the provisions of Regulation 4(a), (b) and (d) of the FUTP Regulations. Therefore, I hold NSL guilty of having violated the provisions of clauses A(1-4) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.
29. I find that NSL has committed several violations and has not taken due care and diligence in observance and compliance of the statutory requirement in conduct of its business as a stock broker. Looking into the violations committed by Nam Securities Ltd., I am satisfied that it is necessary in the interest of the securities market to impose a suitable penalty on NSL. In this regard, I concur with the recommendation of the Enquiry Officer to suspend the registration of NSL for a period of 6 months.

#### **ORDER**

30. Therefore, in exercise of powers conferred on me vide Section 19 of the Securities and Exchange Board of India Act read with Regulation 13 (4) of the SEBI (Procedure for Holding Inquiry by Enquiry Officer and Imposing Penalties) Regulations, 2002, I hereby order that the certificate of Registration No. INB 230771039 of M/s. Nam Securities Ltd., member, National Stock Exchange of India Ltd., be suspended for a period of six months.
31. This order shall come into force on expiry of three weeks from the date of the order.

**PLACE : MUMBAI**

**DATE : 19.08.2004**

**A.K.BATRA  
WHOLE TIME MEMBER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**