

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(4) OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.

AGAINST ANANTRAI A PAREKH & SONS, MEMBER, THE STOCK EXCHANGE, MUMBAI, IN THE MATTER OF EONOUR SOFTWARE LIMITED.

BACKGROUND

1. In January 1996, Eonour Software Limited (hereinafter referred to as "ESL") had come out with a public issue of 12,50,000 shares of Rs. 10/- each at a premium of Rs.20/- per share, aggregating to Rs.375 lac. Subsequently, the shares of ESL were listed at The Stock Exchange, Mumbai (hereinafter referred to as "BSE"), Madras Stock Exchange, Madhya Pradesh Stock Exchange, and Ahmedabad Stock Exchange.
2. The scrip was listed at BSE on 13.03.2000 and the first trade was reported on 12.06.2000, at the price of Rs. 520/-. The share price went up to Rs. 634.75 by 07.07.2000. A total of 2,22,600 shares were traded at BSE during the period 12.06.2000 to 31.07.2000. The maximum quantity traded on the exchange on a particular day during the said period was on 22.06.2000, with number of shares traded being 11, 700 shares.
3. Securities and Exchange Board of India (hereinafter referred to as "SEBI") had conducted an investigation into the trading of the scrip of ESL for the period June-December, 2000. During the investigation it was observed that for the said period, deliveries in the scrip were less than 5% of the total trading volume on the exchange.
4. From the records submitted by the brokers of BSE, it was seen that
 - i. most of the clients were linked to each other in some way or the other
 - ii. they had predominantly traded in the scrip of ESL and had traded in substantial quantities
 - iii. most of these clients had not paid margin/deposits to the brokers for the trades executed by them
 - iv. further, they were seen to be squaring off their positions not only at the end of settlement but almost on the same day.
5. The total quantity traded by such "clients/ entities" was as under:

Sr.No	Name of the Entity	Purchases	Sales	Gross
1.	F. T. Traders	67900	65300	133200
2.	Prashant Investment	46400	46400	92800
3.	M/s. K. N. Traders	33500	33300	66800
4.	Jem Fiscal Ltd.	17600	17600	35200
5.	K. P Investment	17200	17200	34400
6.	Hakeem Auto Ltd.	3100	2200	5300
	Total	185700	182000	

6. The total quantity traded in the scrip, at BSE, during June 2000 to December 2000 was approximately 2.2 lac shares, of which approximately 2 lac shares were traded by the entities named in the above table, which constitutes approximately 90% of the trading in the scrip.

7. One of the six entities who accounted for 90% of the trades during the aforesaid period was M/s F T Trades (hereinafter referred to as "the said Client"), who had traded through M/s Anantrai A. Parekh & Sons, member, BSE (hereinafter referred to as "the said broker"). The trading of the said broker, on behalf of the said Client, in the scrip of ESL was as under:

Settl. No.	Gross Purchases	Gross Sales	Net
12	6100	6100	0
22	2200	2200	0
24	3200	3200	0
25	3600	3600	0
Total	15100	15100	0

8. The trades done by the said broker on behalf of the said Client were alleged to be in violation of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair trade practices relating to securities market) Regulations, 1995 (hereinafter referred to as "FUTP Regulations". The said broker was alleged to have not shown due skill, care and diligence in his dealings with the said Client, which was in violation of Code of Conduct as given under Schedule II read with regulation 7 of Securities and Exchange Board of India (Stockbrokers and sub-brokers) Regulations, 1992 (hereinafter referred to as "Brokers Regulations").

ENQUIRY PROCEEDINGS

9. In view of the above findings, Chairman, SEBI, vide order dated 18th February 2002, appointed an Enquiry Officer (hereinafter referred to as "Enquiry Officer") to enquire into the affairs of the said broker, as per the provisions of Securities and Exchange Board of India (Procedure for Enquiry by Enquiry Officer and Imposing penalty) Regulations, 2002 (hereinafter referred to as "the Enquiry Regulations").

10. The Enquiry Officer, having conducted the enquiry proceedings as per the Enquiry Regulations, submitted a report to SEBI dated 31st March 2004, with the recommendation that a minor penalty of warning be imposed on the said broker.

SHOW CAUSE NOTICE AND REPLY

11. Subsequent to the receipt of the Enquiry Report, as required under regulation 13(2) of the Enquiry Regulations, a show cause notice dated 13.04.2004 was issued to the said broker, along with a copy of enquiry report, advising them to show cause as to why the penalty as recommended by Enquiry Officer should not be imposed on them.

12. The said broker, vide letter dated 06.05.2004 responded to the said show cause notice and inter-alia submitted that

- the said client was introduced to him by one of his other client, Shri Yogesh R Patel, whom they had known for four years.
- he did not have knowledge of intentions of the said client or of the modus operandi.
- due to competition in the business, he had not collected advance margins from the said Client as the account was settled immediately.
- he stopped dealing with the said client once he received information from BSE stating that trades done by certain clients, including the said client, were appearing to be fictitious.
- when a new company gets listed with small share capital, liquidity is bound to be small. As such it is not possible for broker to find out as to why a client wants to deal in the scrip and in such scrip a client deals based on his own judgment. Further that in computerized trading, it is not possible to know who the other broker or client is. Hence, it is not possible to know either the other party or their intentions.
- even the Enquiry Officer opined that he was innocent however felt that he had not be diligent enough.

13. In view of the above submissions, the said broker requested SEBI not to impose any penalty including the penalty as recommended by Enquiry Officer.

CONSIDERATION OF ISSUES

14. I have carefully considered the Enquiry Report, the show cause notice issued to the said broker and the submissions made by him in response to the show cause notice.

15. The said broker had submitted that he had dealt with the said client only in the scrip of ESL and was not aware that the said client was trading in the scrip through other brokers too. Sri Anantrai further submitted that he had stopped trading on behalf of the said client once he received intimation from BSE regarding the suspicious trading activities of the client.

16. I note that a few entities/clients, connected to each other, were indulging in circular trading i.e., buy and sell transactions with each other, squaring off positions and reversing trades either on the same day or same settlement, making the net receivables and deliverable positions either nil or negligible and thus they created a false and

misleading appearance of trading in the securities market, in the scrip of ESL. These clients had traded through certain brokers while indulging in the aforesaid manipulative practices and the said broker was one such broker who had traded for one of these clients.

17. I observe that the said broker did not have any of his own trades in the scrip of ESL. In view of the fact that Sri Anantrai had only traded in few settlements on behalf of FT and had stopped trading once he received intimation from BSE, the charge of violation of FUTP Regulations is dropped.

18. However, I have noted that the said client had traded through the said broker only in the scrip of ESL, which was an illiquid scrip. The scrip had been made liquid by way of artificial volumes and price by certain connected clients, including the said client of the said broker. The said broker had allowed a new client to trade in such scrip, that too without collecting margins. The client had entered into speculative transactions without any genuine interest in giving or taking delivery of the shares. Any prudent broker would have doubted the intentions of such a client and would have stopped trading for them. It is possible that allowing unfettered trading to clients, given the circumstances, might result in unsuspecting innocent investors to be trapped by such false appearance of trading in securities. This is detrimental to the interest of investors and the orderly development of the securities market.

19. As admitted by the said broker, he had traded on behalf of the said Client. He had however submitted that he was not aware of the said Client trading through other brokers also. Being a registered intermediary, the said broker is under obligation to be more diligent while dealing with clients, which he has failed from doing in the instant case, resulting in violation of Brokers Regulations. I find that the said broker failed to exercise due skill and care in terms of Clause A(2) of the Code of Conduct prescribed for brokers, in Schedule II, in terms of Regulation 7 of Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992. However, considering the fact that the said broker traded in few settlements, a lenient view needs to be taken while considering the penalty. Hence, I agree with the Enquiry Officer that the said broker needs to be warned to be more careful in future.

ORDER

20. Therefore, in exercise of powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with regulation 13(4) of Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002, I hereby impose a minor penalty of warning on Anantrai A Parekh & Sons and direct them to be more diligent in complying with the SEBI Act, 1992 and the Rules and Regulations framed there under. I also direct them to note that any instance of violations or non-compliance of the Act, Rules and Regulations, in future, shall be dealt with more stringently.

A.K.BATRA

PLACE : MUMBAI

WHOLE TIME MEMBER

DATE : SEPTEMBER 16, 2004

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