

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 M/S EMMKAY SHARE & STOCKBROKERS LTD, THE SAID BROKER, DELHI STOCK EXCHANGE, IN THE MATTER OF VATSA WORLD LTD.****BACKGROUND**

1. Vatsa World Limited (hereinafter referred to as "VWL") was incorporated as a private company named as Ongoing Advertising and Packing Pvt Ltd, which was converted into a public company on 20th February 1996 and on 19th June 2001 the name was changed to VWL. Subsequently VWL acquired the business of Little Kingdom Edutech Ltd, an educational technology based company and adopted its name.
2. The shares of VWL are listed for trading on the Delhi Stock Exchange (hereinafter referred to as "DSE"). DSE, on observing a significant variation in the price of scrip of VWL, conducted an investigation and submitted a report to the Securities and Exchange Board of India (hereinafter referred to as "the SEBI"). 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 the said brokers 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.
 - v. The scrip of VWL was traded for 33 days with 26,700 shares being traded i.e an average of 810 shares per day.

Some of the the said brokers 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.

3. Based on the investigation report of DSE, SEBI had ordered an investigation in May 2002, to look into the possible irregularities in the trading of the scrip of VWL. From the trading of the scrip of VWL it was observed that an entity New Age Finsec Pvt Ltd (hereinafter referred to as "the client") had traded through Emmkay Share & Stock Brokers Ltd (hereinafter referred to as "the said broker") and squared off all its transactions. It did not have any net position in any of the settlements (excepting some spot transactions).
4. It was alleged that the said broker had traded in the scrip of VWL, which was illiquid scrip, to create artificial price and volume and hence was involved in price rigging. It was seen that the said broker had traded in the scrip of VWL from the price of Rs. 14.81 to Rs. 43.03 and all these trades were squared off. It was also observed that the said broker had used different client codes for same client, New Age Finsec Pvt Ltd.
5. The above actions of the said the said broker were found to be in violation of clause A (2-5) of the Code of Conduct specified in the Schedule II framed under regulation 7 of Securities and Exchange Board of India (Stockbroker and sub-broker) Regulations, 1992 (hereinafter referred to as "the Broker Regulations") rule 4 (b) of Securities and Exchange Board of India (Stockbroker and sub-broker), Rules, 1992.
6. In addition, it was also seen that the data provided by the said broker, regarding his trades in VWL, was substantially different from the data provided by DSE. As per DSE data, the said broker had purchased 8,100 shares and sold 8,000 shares whereas the broker's submission showed purchases of 4, 500 shares and sale of 4,500 shares.

ENQUIRY PROCEEDINGS

7. In view of the above, SEBI, vide order dated 24th July 2003, appointed an Enquiry Officer (herein after referred to as the "the Enquiry Officer") under Regulation 5 (1) of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as "the Regulations") to enquire into possible violations, inter alia of the Broker Regulations.
8. As required under regulation 6 of the Regulations, Enquiry Officer issued a show cause notice dated 11th September 2003 to the The said broker, advising them to show cause as to why action should not be initiated for violations mentioned therein.
9. The said broker, vide letter dated 9th October 2003, replied to the show cause notice, iner-alia submitting as follows:
 - i. All the trades were done for clients and not in its self account.

- ii. With regard to making and receiving payments from third parties, the said broker submitted that there were no third party payments on behalf of the client reflecting in its accounts.
- iii. Regarding the difference in its data and DSE's, it was submitted that it was a mistake and was not done with any intention of not disclosing the data.
- iv. As regards the use of different client codes for the same client, it was submitted that it was a mistake of computer and not intentional.
- v. About the client being an associate of VWL, The said broker submitted that it was not possible to find out in such detail about each client. The said broker submitted that the client had also traded in other scrips and hence, it was not possible to keep track of all trades done by all clients.

10. Having considered the submissions made by the said broker, the Enquiry Officer submitted his report dated 16th February 2004, recommending a penalty of suspension of certificate of registration of the said broker for a period of four months.

SHOW CAUSE NOTICE

11. A show cause notice dated 20th February 2004 was issued to the said broker, communicating the findings of Enquiry Officer and advising them to show cause as to why the recommendation of Enquiry Officer should not be accepted. The said broker did not respond to the notice.

CONSIDERATION OF ISSUES

12. I have carefully considered the enquiry report and other material available on record. Since The said broker did not respond to show cause notice, it is implied that The said broker does not have anything to add to the submissions made in response to show cause notice issued by Enquiry Officer. Hence, the submissions made before Enquiry Officer during personal hearing are being taken as final submissions. 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. My findings with respect to the allegations against the said broker are as under.

13. 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.

14. 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 the said brokers 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.

- 15. I have observed that the said broker had executed trades involving purchase of 8100 shares and sale of 8000 shares for his clients, as per the data provided by DSE. However, I find that the said broker had provided a data to SEBI that was different from the data provided by DSE. The said broker had admitted the difference and submitted that it was a mistake and not intentional. I have observed that the said broker had given the same reason even for using different client codes for the same client, wherein they had submitted that it was a mistake of computer and not intentional. It is clear that the said broker was not taking its responsibilities seriously and instead adopting a casual approach.
- 16. The said broker has not even been careful when information was sought by SEBI. During investigation when questioned about not providing SEBI with information regarding making and received payments from third party on behalf of the client, the said broker submitted it would check with its accounts department and provide information to SEBI, but did not do so. When questioned by Enquiry Officer about the same, the said broker had submitted that it had agreed to provide information to SEBI if there were any instances of receiving, making payments to third parties on behalf of the client but since there were none, it did not get back to SEBI.
- 17. I find that the said broker has traded in illiquid scrip, at an increasing price from Rs. 14.81 to Rs. 43.03 and all the trades were squared off, without any delivery being given or taken. I have also noted that the said broker had dealt for a client whose orders were placed from the registered office address of VML. Moreover, one of the subscribers to the MoA of the said client was a director of SRG Infotech Ltd., which was an associate of VML. Thus, the said client of the said broker was an associate of VML.
- 18. The said broker ought to have been more careful while dealing substantially in an illiquid scrip like VWL. Trading in illiquid shares may induce innocent investors into trading in the scrip. As submitted by the said broker, while there is no bar on trading in illiquid shares, it does not take away from the broker's duty to be diligent while trading in any scrip. The said broker ought to have shown more skill and care while dealing with a client like New Age Finsec Pvt Ltd who was trading substantially and squaring off his positions, with no deliveries except for some spot transactions.
- 19. In view of the above discussion, I find that the said broker has violated clauses A(2-5) of Code of Conduct of the Broker Regulations. Hence, a suitable penalty ought to be levied on the said broker. As regards the quantum of penalty, I am in agreement with the recommendation of the Enquiry Officer.

ORDER

- 20. Therefore, in 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 impose a penalty

of suspension of certificate of registration of M/s. Emmkay Shares & Stock Broking Pvt Ltd. for a period of four months.

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

PLACE : MUMBAI

DATE : AUGUST 31, 2004

A.K.BATRA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA