

SECURITIES AND EXCHANGE BOARD OF INDIA

DIRECTION UNDER SECTION 11B READ WITH SECTION 11(4)(b) AND 11D OF SECURITIES AND EXCHANGE BOARD OF INDIA, ACT, 1992.

AGAINST M/S. ROSY BLUE SECURITIES PRIVATE LIMITED, IN THE MATTER OF M/S. SURYA ROSHNI LIMITED.

BACKGROUND

1. The shares of M/s Surya Roshni Ltd. were listed for trading at Delhi Stock Exchange (DSE), National Stock Exchange (NSE), The Stock Exchange, Mumbai (BSE), Bangalore Stock Exchange (BgSE), Ahmedabad Stock Exchange (ASE), Madras Stock Exchange (MSE).
2. A case was initiated by SEBI on January 11, 2001, based on an investigation report submitted by NSE, wherein the trading pattern of SRL for the time period July 26, 2000 to September 05, 2000 was examined. However, in view of large trading volumes prior to this period, NSE was requested to extend the scope of their investigation and forward a comprehensive report. NSE conducted another investigation for the period May 17, 2000 to September 05, 2000 (earlier period included) and submitted the report to SEBI on August 31, 2001. Since the scrip was also listed and traded on BSE, it was also requested to investigate the matter and submit its report to SEBI. BSE submitted its investigation report to SEBI on June 10, 2002.
3. For the same time period i.e. from May 17, 2000 to September 05, 2000, Bangalore, Ahmedabad and Madras Stock Exchange reported nil trading; the trading details received from DSE showed trading to have taken place only on one day i.e. April 18, 2000.
4. It was found from the investigations that M/s. Rosy Blue Securities Pvt. Ltd. (hereinafter referred to as 'Rosy Blue') had traded extensively in the shares of

SRL, both on the exchange and on spot basis, thereby being a party to creation of artificial volumes in the scrip. It was also seen that most of the transactions done on their behalf were matched/structured transactions that mirrored the transactions crystallized outside the exchange mechanism.

SHOW CAUSE NOTICE AND HEARING

5. Pursuant to the investigation, a show cause notice dated 26.05.03 was issued to Rosy Blue, asking them to show cause as to why a suitable direction under Section 11B read with Section 11(4)(b) AND 11D of SEBI Act, including directions to desist from entering into matched transactions, should not be issued. It was also mentioned that if they failed to submit any reply within the stipulated period of 15 days, it would be presumed that they had nothing to say in the matter and SEBI would be free to take such action as deemed fit.
6. Rosy Blue submitted a reply vide their letter dated 24.06.03, wherein they had submitted that they had dealt in the scrip of SRL only on two days i.e., July 3-4, 2000, during the total period of investigation. The total number of shares dealt in during the period was to the extent of 2,55,000 and the sales they had made for their clients were delivery based and at the prevailing market price of the scrip at that time. Also, they were not aware of the fact that an associate of their client was the counter-party to the transactions they entered into through the stock exchange.
7. An opportunity of being heard was given to Rosy Blue before me on 21.04.04, on which date the party appeared before me and reiterated their submissions in the reply as specified above. I proceed to analyse the issues based on the facts brought out in the investigation and the submissions made by Rosy Blue in their reply at the time of hearing before me.

ISSUES FOR CONSIDERATION AND FINDINGS

8. I observe that the transactions carried out by Rosy Blue in the scrip of SRL, for Tropical Sec. & Investment Pvt. Ltd. are as below:

Order Date	Order Trade	Qty.	Buy Order Time	Order No.	Buying TM	Buy Order Volume	Price	Sell order time	Sell order no.	Selling TM	Sell order vol.	Sell order price
3/7/00	471829	5000	14:58:12	200007030722808	CFL	5000	20.35	14:58:12	200007030722830	Rosy	5000	20.35
3/7/00	472297	10000	14:58:27	200007030723391	CFL	10000	20.35	14:58:27	200007030723399	Rosy	10000	20.35
3/7/00	472789	10000	14:58:42	200007030723969	CFL	10000	20.25	14:58:43	200007030723993	Rosy	10000	20.25
3/7/00	473369	10000	14:59:03	200007030724775	CFL	10000	20.20	14:59:03	200007030724763	Rosy	10000	20.20
3/7/00	474076	10000	14:59:33	200007030725821	CFL	10000	20.25	14:59:36	200007030725889	Rosy	10000	20.25
3/7/00	474876	5000	15:00:12	200007030727091	CFL	5000	20.30	15:00:13	200007030727110	Rosy	5000	20.30
4/7/00	351664	5000	13:39:39	200007040557111	CFL	5000	19.40	13:39:40	200007040557115	Rosy	5000	19.40
4/7/00	352027	15000	13:39:58	200007040557595	CFL	15000	19.45	13:39:57	200007040557575	Rosy	15000	19.45
4/7/00	352306	10000	13:40:12	200007040557947	CFL	10000	19.40	13:40:13	200007040557959	Rosy	10000	19.40
4/7/00	352659	11000	13:40:31	200007040558464	CFL	11000	19.45	13:40:31	200007040558473	Rosy	11000	19.45
4/7/00	352990	9000	13:40:50	200007040558961	CFL	9000	19.40	13:40:51	200007040558980	Rosy	9000	19.40
4/7/00	353257	15000	13:41:07	20000704055981	CFL	15000	19.45	13:41:07	200007040559393	Rosy	15000	19.45
4/7/00	353448	15000	13:41:20	200007040559700	CFL	15000	19.40	13:41:20	200007040559797	Rosy	15000	19.40
4/7/00	353805	20000	13:41:39	200007040560179	CFL	20000	19.45	13:41:39	200007040560191	Rosy	20000	19.45
4/7/00	401221	25000	14:18:29	200007040624433	CFL	25000	20.00	14:18:29	200007040624458	Rosy	25000	20.00
4/7/00	401548	25000	14:18:46	200007040624995	CFL	25000	19.80	14:18:45	200007040624980	Rosy	25000	19.80
4/7/00	402135	25000	14:19:12	200007040625802	CFL	25000	19.75	14:19:13	200007040625808	Rosy	25000	19.75
4/7/00	402559	30000	14:19:34	200007040626448	CFL	30000	20.05	14:19:33	200007040626410	Rosy	30000	20.05

9. As can be observed, all the transactions of Rosy Blue, totaling 2,55,000 shares, have been entered into with M/s. CFL Securities as the counter-party in all cases. Rosy Blue had thus entered into 18 structured transactions with CFL Securities Ltd. CFL was acting on behalf of its clients M/s. Harbinger Trading Company Pvt. Ltd. The time differential between the buy and sell orders was negligible, implying that these transactions have been structured/matched between the parties involved.

10. I have observed from the investigation report that these transactions, executed by Rosy Blue for M/s. Tropical Sec. & Investment Pvt. Ltd. mirrored the off the market financing made available by Rosy Blue to Tropical Sec. & Investment Pvt. Ltd.
11. I have observed that the above transactions were a part of an exercise undertaken by the M/s Tropical Sec. and Inv. Pvt. Ltd., M/s CFL Securities Ltd. and M/s Harbinger Trading Co. Pvt. Ltd., in order to tide over their financial problems. The modus operandi followed by the involved entities was as under:
 - a. Tropical would sell shares of SRL to various entities on spot/off market basis and these entities would make payments to Tropical for the shares so bought.
 - b. Immediately, in order to safeguard the financing made available by these clients to Tropical, the clients would sell the shares bought from Tropical, to Tropical/related entities (in this case CFL), on the stock market, through various brokers, ostensibly to create an obligation on the part of Tropical to return the monies financed.
 - c. The trading that took place on the exchange would thus mirror the financing arrangements crystallised outside the exchange as spot/off market deals, resulting into matched/structured transactions, as shown above.
12. In view of the above, I find that Rosy Blue has been a party to creation of false and misleading appearance of trading in the market in the shares of SRL .
13. However, unlike the other brokers involved in the exercise mentioned at para 13 above, I find that no linkage has been established between Rosy Blue and Tropical. I have also seen that Rosy Blue had traded on behalf of Tropical only on two days i.e. on July 3rd and 4th, 2000. I have also observed that they had

not dealt in the shares of SRL for any other client or on their own behalf, during the investigations period. I have also considered their submission that they had sold a total of 2,55,000 shares of SRL on behalf of Tropical on 2 days and that the transactions resulted in delivery, and payments were made only on completion of the transaction. They have also denied entering into any off market transactions with Tropical or having funded them in any manner whatsoever.

14. Having considered the submissions of Rosy Blue, coupled with the facts that no case has been made out regarding the linkage between Rosy Blue and Tropical; the number of transactions and the frequency of transactions executed by Rosy Blue were minimal, I am inclined to grant a benefit of doubt to Rosy Blue, as regards their role in the above mentioned exercise.
15. Notwithstanding the above, looking at the transaction details reproduced at para 8 above, especially the fact that the clients, the order times, the price, the quantity of shares transacted were the same/similar for all 18 transactions, I find it improbable that these transactions were mere coincidences. I am convinced that Rosy Blue had indeed entered into structured/matched transactions with CFL.
16. Such transactions defeat the raison d'être of an anonymous quote/order driven stock exchange mechanism, thereby affecting the price discovery process. Artificial trades of the kind mentioned above; even if they are executed at/near the prevailing market rates can have a debilitating effect on the market mechanism as a whole. Hence, I am of the view that suitable directions need to be passed against entities indulging in such transactions, cautioning them from continuing in such manner.

ORDER

17. In view of the above, in the interests of investors and to safeguard the integrity of the securities market, in exercise of powers conferred upon me by Section 19 read with Sections 11B and Section 11 (4) and 11D of the SEBI Act, 1992, I, hereby direct M/s Rosy Blue Securities Ltd. to desist from entering into matched transactions. I also direct them to note that any instances of the above kind, if noticed in future, shall be dealt with more stringently.

A.K.BATRA

PLACE : MUMBAI

WHOLE TIME MEMBER

DATE : SEPTEMBER 30 , 2004

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