

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(1) SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002, IN THE MATTER OF DINESH KUMAR KANORIA**1.0 BACKGROUND**

- 1.1 Dinesh Kumar Kanoria (hereinafter referred to as the Broker) is a member of the Calcutta Stock Exchange (hereinafter referred to as CSE) and is registered with the Securities and Exchange Board of India (hereinafter referred to as SEBI) vide registration no INB030485019.
- 1.2 An investigation was conducted by SEBI in buying, selling and dealing of the scrip of M P Investment & Consultancy Services Ltd. (MPICS). Investigation, inter alia, revealed that the Broker has contravened the provisions of SEBI Act,1992 , SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 and SEBI (Stock Brokers and Sub Brokers) Rules and Regulations, 1992. Pursuant to the findings of the investigation in terms of Regulation 5(1) of SEBI(Procedure for Holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as "the said Regulations") read with Regulation 13 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 [hereinafter referred to as SEBI (FUTP) Regulations], an Enquiry Officer was appointed vide order dated 21.08.2003 to enquire into the alleged contravention, if any, by the Broker.

2.0 ENQUIRY REPORT AND RECOMMENDATION :

- 2.1 The enquiry officer, after conducting the enquiry as per the procedure laid down in the said Regulations submitted a report dated 30.06.2004.
- 2.2 The Enquiry Officer (EO) found that there were many cross deals wherein both the buyer and seller belonged to the Broker and there was complete matching of the order price, quantity and order time. Further, EO found that the trades were artificial in nature and were calculated to create false appearance of trading in the market. The EO also found that the Broker had undertaken transactions in large scale only with a view to earn brokerage. In the light of the above , EO recommended a minor penalty of the suspension of the certificate of registration of the Broker for a period of one month.

3.0 SHOW-CAUSE NOTICE AND HEARING :

- 3.1 Pursuant to the above a Show Cause Notice dated 13.07.2004 was issued to the Broker along with a copy of the enquiry report, wherein he was called upon to show cause in terms of Regulation 13(2) of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 as to why the action as considered appropriate should not be taken against him.

4.0 REPLY TO THE SHOW CAUSE NOTICE :

- 4.1 The broker submitted a reply vide letter dated 12.08.2004 stating that he had already made his submissions before the EO and has nothing further to add. The Broker during the Enquiry proceedings had stated that :
- the transactions in the scrip of MPICS were executed for clients ,
 - the trades were done only with a view to earn brokerage,
 - there was no intention to manipulate the prices,

During the Enquiry proceedings before the EO, the Broker had also admitted that he had entered into cross deals.

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 between July 2001 and October 2001, the Broker along with other three broker of CSE generated maximum volumes in the scrip of MPICS. In all, 18,27,060 shares of MPICS were traded at CSE during the said period and the Broker had transacted 6,34,600 shares between settlements number 2002115 to 2002119 and 2002121 to 2002122 constituting 34.73% of the volumes at CSE. During this period the price of the scrip of MPICS declined by 68% from Rs. 45.25 to Rs. 14.30. The details are as under :

Settlement	Date	Buy Qnt.	Sale Qnt.	Total Qnt.	High	Low	Av Price	Delivery

No.					(Rs.)	(Rs)	(Rs)	
2002115 /CSE	02/07/01 -06/07/01	78000	78000	156000	44.00	40.50	42.25	0
2002116 /CSE	09/07/01 – 13/07/01	41000	41000	82000	45.00	44.00	44.5	0
2002117 /CSE	16/07/01 – 20/07/01	106200	106200	212400	46.50	44.00	45.25	0
2002118 /CSE	23/07/01 – 27/07/01	125200	125200	250400	45.50	40.00	42.75	0
2002119 /CSE	30/07/01 – 03/08/01	71200	71200	142400	43.00	43.00	43.00	0
2002120 /CSE	06/08/01 – 10/08/01	53500	53500	107000	43.00	39.60	41.30	0
2002121 /CSE	13/08/01 – 17/08/01	237800	237800	475600	42.00	33.60	37.80	0
2002122 /CSE	20/08/01 – 24/08/01	85000	85000	170000	41.50	36.00	38.75	0
2002123 /CSE	27/08/01 – 31/08/01	3000	3000	6000	34.10	31.50	32.80	0
2002124 /CSE	03/09/01 – 07/09/01	110030	110030	220060	36.00	33.30	34.65	0
2002125 /CSE	10/09/01 – 14/09/01	300	300	600	31.50	29.00	30.25	0
2002126 /CSE	17/09/01 – 21/09/01	300	300	600	27.00	25.10	26.05	0
2002127 /CSE	24/09/01 – 28/09/01	400	400	800	23.10	21.30	22.20	0
2002128 /CSE	1/10/01 – 05/10/01	600	600	1200	19.60	17.10	18.35	0
2002129 /CSE	08/10/01 – 12/10/01	1000	1000	2000	15.80	12.80	14.30	0
TOTAL		913530	913530	1827060				

- 5.3 I find that it has been admitted by the Broker vide his statement dated 19.07.2002 that both buy and sell orders were placed by Shri Sushil Aggrawal on behalf of all his clients.
- 5.4 I further note that the price and the order time were completely matched in a series of transactions. The time lag between punching of buy and sell orders was under a few minutes/seconds and almost the same in a number of transactions. I note that since both buy and sell quantity of the Broker were matched, there was no obligation for delivery to the Exchange. The same quantity of shares were bought and sold at the same price in his own terminal on the same day which resulted in no net obligation of the broker to the Exchange. Both the buying and selling clients belong to the broker who had entered buy and sell orders for the same quantity of shares almost simultaneously. For the matched trades, the time lag is very little.
- 5.5 The value and volume of the transactions are also quite high. Such transactions are highly irregular and defeat the purpose of normal order matching system in the price discovery process in the exchanges and is in violation of Regulation of 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) 1995 .
- 5.6 Further I find that the Broker submitted that he had undertaken transactions in large scale only with a view to earn brokerage. As per Clause 4 (a) of the Code of Conduct for stock brokers, a stock broker shall not encourage sales or purchase of securities with the sole object of generating brokerage. As such the conduct of the broker is not in conformity with the Code of Conduct prescribed under the Regulations.

6.0 ORDER

- 6.1 In View of the above and considering the gravity of the charges, a minor

penalty of suspension of the certificate of registration of the Broker for a period of one month would be adequate. Therefore, I , in exercise of the powers conferred upon me in terms of Section 4(3) of the SEBI Act, 1992 read with Regulation 13(4) of SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing penalty) Regulations, 2002, hereby suspend the certificate of registration of Dinesh Kumar Kanoria for a period of one month.

- 6.2 This order shall come into effect after the expiry of 21 days from the date of this order.

DATE : September 20, 2004

PLACE : MUMBAI

G. N.BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA