

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. CFL SECURITIES LIMITED, MEMBER, NATIONAL STOCK EXCHANGE INDIA LTD, IN THE MATTER OF M/S ROOFIT INDUSTRIES LTD.

BACKGROUND

1. M/s. Roofit Industries Ltd. was incorporated on February 18, 1982 as a private limited company in the name and style of M/s. Ratnagiri Asbestos Private Limited. Its name was changed to M/s. Ratnagiri Building Products Limited on October 21, 1987. In December 1988, the company started commercial production under the 'Roofit' brand. In 1996, the name of the company was further changed to M/s. Roofit Industries Ltd. (hereinafter referred to as "Roofit") During 1986, the Motwani Group acquired the controlling interest in the company. One of the group companies of Roofit is M/s. Sun Earth Ceramics Limited. The company is listed at Delhi Stock Exchange (DSE), National Stock Exchange (NSE), The Stock Exchange, Mumbai (BSE) and The Stock Exchange, Ahmedabad (ASE).
2. A case was initiated by SEBI on March 22, 2000, based on the investigation report submitted by NSE for the time period 06.10.99-03.12.99, to examine the reasons behind the sudden spurt in the price and the trading volume of Roofit. At the same time, SEBI had received a compliant to the effect that the entire shareholding of the captioned company was directly/indirectly controlled by the management of the company and that it is being used to rig the share price. NSE was requested to carry out another investigation. In response, NSE submitted another investigation report on December 31, 2001, for the time period 08.11.2000 to 06.02.2001. Further, NSE conducted an investigation for

the time period 07.02.2001 to 08.05.2001 and submitted its report on September 11, 2002.

3. Since the scrip was also listed and traded on The Stock Exchange, Mumbai (BSE), BSE was requested to investigate the matter and submit its report to the Securities and Exchange Board of India. BSE conducted investigations for the periods 10.10.99-12.12.99 and 22.01.01-04.05.01 and submitted its investigation reports on September 26, 2001 and May 24, 2002, respectively.
4. Thus, cumulatively, the investigations by NSE and BSE, in the scrip of Roofit covered the following time periods
 - a. 06.10.99 to 12.12.99
 - b. 08.11.2000 to 06.02.2001 and
 - c. 07.02.2001 to 08.05.2001.
5. Based on the identification of brokers by NSE and BSE in their reports, the trading details of the 16 brokers, including M/s CFL Securities Ltd. (hereinafter referred to as 'CFL') were examined.

ENQUIRY REPORT AND FINDINGS

6. Based on the above, an enquiry was initiated into the involvement of CFL, member of NSE, in trading in the shares of Roofit. The Enquiry Officer submitted his report on the above matter on 01.04.04. The violations, as put forth by the Enquiry Officer in his report, were as follows:
 - a. *CFL has aided, abetted and acted in concert with related client-M/s Aditi Dalal in*
 - ✍ *Creation of false market and misleading appearance of trading in the market*

✍ Execution of non-genuine transaction

✍ Execution of transaction intended to inflate or cause fluctuations in the market price of the security.

And had thus violated the provisions of Regulation 4(b) and 4(c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets), Regulations, 1995 and Clause A(1) and A(4) coming under Regulation 7 of the SEBI (Stock Brokers and Sub Brokers Rules and Regulations), 1992.

In view of the above findings, the Enquiry Officer had recommended suspension of certificate of registration of CFL for a period of two months.

SHOW CAUSE NOTICE AND REPLY

7. Pursuant to the above, a show cause notice dated 06.04.04 was issued to CFL, advising them to show cause as to why their certificate of registration should not be suspended for a period of two months. CFL had replied vide its letter dated 22.04.04 to the said show cause notice. The primary contentions put forth by CFL in its reply are as follows:

- (a) There was no intention at any time to create artificial volumes, price rigging, misuse of market mechanism, structural dealing etc.,
- (b) The methodology adopted for funding was only a temporary funding arrangement to meet our pay-in obligation in time, as part of the efforts to survive in the midst of hardships and to save the reputation.
- (c) Their NSE terminal had been deactivated since October 16, 2001 and no business has been conducted since then apart from the penalty of Rs.25,000 levied for their transaction in the scrip of Roofit.
- (d) They had never violated any of the provisions of SEBI deliberately and the violations, if any, were unintentional.

ISSUES FOR CONSIDERATION

8. In view of the facts and circumstance of the matter and taking into account the submissions made by the said broker in response to the show cause notice issued to them, it was not deemed necessary to grant a personal hearing to the said broker.
9. The following tables detail the transactions of CFL on behalf of their clients and on their own account:

Sett No.	Client Name	Buy Qty	Sell Qty	Gross	Net
2001012	S Ramdas	47775	775	48550	47000
2001013	CFL Sec. Trading a/c.	5000	0	5000	5000
2001014	CFL Sec. Trading a/c.	7000	0	7000	7000
2001016	CFL Sec. Trading a/c.	47200	0	47200	47200
2001017	CFL Sec. Trading a/c.	5000	0	5000	5000
2001018	CFL Sec. Trading a/c.	35000	0	35000	35000

Date	SN	Trd Time	Trd Pr	Trd Qty	Buy Client Na	Buy Entry Tim	Sell Name	Sell Order time
22-Mar-01	2001012	10:37:42	112.00	3000	S. Ramdas	10:37:42	Ashadevi Beriwalla	10:37:42
22-Mar-01	2001012	12:56:41	111.00	2000	S. Ramdas	12:56:41	Ashadevi Beriwalla	12:56:41
22-Mar-01	2001012	14:36:55	109.00	2000	S. Ramdas	14:36:55	Ashadevi Beriwalla	14:36:55
23-Mar-01	2001012	10:50:48	109.00	500	S. Ramdas	10:50:48	Ashadevi Beriwalla	10:50:47
23-Mar-01	2001012	10:51:049	108.50	499	S. Ramdas	10:51:04	Ashadevi Beriwalla	10:51:04
23-Mar-01	2001012	10:51:10	108.50	1	S. Ramdas	10:51:10	Ashadevi Beriwalla	10:51:04
23-Mar-01	2001012	10:51:26	108.80	475	S. Ramdas	10:51:26	Ashadevi Beriwalla	10:51:26
23-Mar-01	2001012	10:51:31	108.80	25	S. Ramdas	10:51:31	Ashadevi Beriwalla	10:51:26
23-Mar-01	2001012	11:23:06	108.20	400	S. Ramdas	11:23:06	Ashadevi Beriwalla	11:23:06
23-Mar-01	2001012	11:23:12	108.20	100	S. Ramdas	11:23:12	Ashadevi Beriwalla	11:23:06
23-Mar-01	2001012	11:23:28	108.10	450	S. Ramdas	11:23:28	Ashadevi Beriwalla	11:23:28
23-Mar-01	2001012	11:23:34	108.10	50	S. Ramdas	11:23:34	Ashadevi Beriwalla	11:23:28
23-Mar-01	2001012	11:23:50	108.40	300	S. Ramdas	11:23:50	Ashadevi Beriwalla	11:23:50

23-Mar-01	2001012	11:23:55	108.40	200	S. Ramdas	11:23:55	Ashadevi Beriwala	11:23:50
23-Mar-01	2001012	11:59:46	107.60	250	S. Ramdas	11:59:46	Ashadevi Beriwala	11:59:45
23-Mar-01	2001012	11:59:51	107.60	250	S. Ramdas	11:59:51	Ashadevi Beriwala	11:59:45
23-Mar-01	2001012	12:00:07	107.70	300	S. Ramdas	12:00:07	Ashadevi Beriwala	12:00:07
23-Mar-01	2001012	12:00:13	107.70	200	S. Ramdas	12:00:13	Ashadevi Beriwala	12:00:07
23-Mar-01	2001012	12:00:34	107.50	400	S. Ramdas	12:00:33	Ashadevi Beriwala	12:00:34
23-Mar-01	2001012	12:00:39	107.50	100	S. Ramdas	12:00:39	Ashadevi Beriwala	12:00:34
23-Mar-01	2001012	12:40:06	108.50	700	S. Ramdas	12:40:06	Ashadevi Beriwala	12:40:06
23-Mar-01	2001012	12:40:11	108.50	50	S. Ramdas	12:40:11	Ashadevi Beriwala	12:40:06
23-Mar-01	2001012	12:40:25	108.10	600	S. Ramdas	12:40:23	Ashadevi Beriwala	12:40:25
23-Mar-01	2001012	12:40:29	108.10	150	S. Ramdas	12:40:29	Ashadevi Beriwala	12:40:25
23-Mar-01	2001012	13:24:16	109.00	500	S. Ramdas	13:24:16	Ashadevi Beriwala	13:24:14
23-Mar-01	2001012	13:24:29	109.10	500	S. Ramdas	13:24:29	Ashadevi Beriwala	13:24:28
23-Mar-01	2001012	13:24:44	108.80	400	S. Ramdas	13:24:44	Ashadevi Beriwala	13:24:43
23-Mar-01	2001012	13:24:49	108.80	100	S. Ramdas	13:24:49	Ashadevi Beriwala	13:24:43
23-Mar-01	2001012	14:40:36	108.50	1200	S. Ramdas	14:40:35	Ashadevi Beriwala	14:40:36
23-Mar-01	2001012	14:40:41	108.50	50	S. Ramdas	14:40:41	Ashadevi Beriwala	14:40:36
23-Mar-01	2001012	14:40:58	108.20	1200	S. Ramdas	14:40:58	Ashadevi Beriwala	14:40:57
23-Mar-01	2001012	14:41:04	108.20	50	S. Ramdas	14:41:04	Ashadevi Beriwala	14:40:57
23-Mar-01	2001012	14:56:13	108.50	750	S. Ramdas	14:56:13	Ashadevi Beriwala	14:56:13
23-Mar-01	2001012	14:56:29	108.40	750	S. Ramdas	14:56:29	Ashadevi Beriwala	14:56:28
23-Mar-01	2001012	15:16:06	108.50	750	S. Ramdas	15:16:06	Ashadevi Beriwala	15:16:06
23-Mar-01	2001012	15:16:21	108.45	750	S. Ramdas	15:16:21	Ashadevi Beriwala	15:16:20
23-Mar-01	2001012	15:29:33	109.00	750	S. Ramdas	15:29:06	Ashadevi Beriwala	15:29:33
26-Mar-01	2001012	10:19:04	109.50	750	S. Ramdas	10:19:04	Ashadevi Beriwala	10:19:03
26-Mar-01	2001012	10:19:22	109.00	750	S. Ramdas	10:19:22	Ashadevi Beriwala	10:19:22
26-Mar-01	2001012	11:08:04	108.50	700	S. Ramdas	11:08:04	Ashadevi Beriwala	11:08:04
26-Mar-01	2001012	11:08:09	108.50	50	S. Ramdas	11:08:09	Ashadevi Beriwala	11:08:04
26-Mar-01	2001012	11:08:21	108.80	650	S. Ramdas	11:08:21	Ashadevi Beriwala	11:08:20
26-Mar-01	2001012	11:08:26	108.80	100	S. Ramdas	11:08:26	Ashadevi Beriwala	11:08:20

26-Mar-01	2001012	11:45:13	108.80	650	S. Ramdas	11:45:13	Ashadevi Beriwala	11:45:12
26-Mar-01	2001012	11:45:18	108.80	100	S. Ramdas	11:45:18	Ashadevi Beriwala	11:45:12
26-Mar-01	2001012	11:45:27	108.70	700	S. Ramdas	11:45:27	Ashadevi Beriwala	11:45:27
26-Mar-01	2001012	11:45:33	108.70	50	S. Ramdas	11:45:33	Ashadevi Beriwala	11:45:27
26-Mar-01	2001012	12:08:18	108.50	500	S. Ramdas	12:08:18	Ashadevi Beriwala	12:08:16
26-Mar-01	2001012	12:08:24	108.50	250	S. Ramdas	12:08:24	Ashadevi Beriwala	12:08:16
26-Mar-01	2001012	12:08:38	108.80	700	S. Ramdas	12:08:38	Ashadevi Beriwala	12:08:38
26-Mar-01	2001012	12:08:43	108.80	50	S. Ramdas	12:08:43	Ashadevi Beriwala	12:08:38
26-Mar-01	2001012	12:31:48	110.50	500	S. Ramdas	12:31:48	Ashadevi Beriwala	12:31:48
26-Mar-01	2001012	12:31:55	110.50	250	S. Ramdas	12:31:55	Ashadevi Beriwala	12:31:48
26-Mar-01	2001012	12:32:03	110.40	700	S. Ramdas	12:32:03	Ashadevi Beriwala	12:32:03
26-Mar-01	2001012	12:32:09	110.40	50	S. Ramdas	12:32:09	Ashadevi Beriwala	12:32:03
26-Mar-01	2001012	12:53:10	109.50	750	S. Ramdas	12:53:10	Ashadevi Beriwala	12:53:10
26-Mar-01	2001012	12:53:22	109.80	750	S. Ramdas	12:53:22	Ashadevi Beriwala	12:53:21
26-Mar-01	2001012	13:28:06	110.50	750	S. Ramdas	13:28:06	Ashadevi Beriwala	13:28:05
26-Mar-01	2001012	13:28:15	110.20	700	S. Ramdas	13:28:15	Ashadevi Beriwala	13:28:15
26-Mar-01	2001012	13:28:23	110.20	50	S. Ramdas	13:28:23	Ashadevi Beriwala	13:28:15
26-Mar-01	2001012	14:28:33	110.50	750	S. Ramdas	14:28:32	Ashadevi Beriwala	14:28:33
26-Mar-01	2001012	14:29:05	110.40	700	S. Ramdas	14:29:05	Ashadevi Beriwala	14:29:05
26-Mar-01	2001012	14:29:10	110.40	50	S. Ramdas	14:29:10	Ashadevi Beriwala	14:29:05
26-Mar-01	2001012	14:54:42	111.00	750	S. Ramdas	14:54:42	Ashadevi Beriwala	14:54:42
26-Mar-01	2001012	14:54:52	110.80	700	S. Ramdas	14:54:52	Ashadevi Beriwala	14:54:52
26-Mar-01	2001012	14:54:58	110.80	50	S. Ramdas	14:54:58	Ashadevi Beriwala	14:54:52
26-Mar-01	2001012	15:23:43	111.50	750	S. Ramdas	15:23:43	Ashadevi Beriwala	15:23:42
26-Mar-01	2001012	15:23:55	111.40	700	S. Ramdas	15:23:55	Ashadevi Beriwala	15:23:53
26-Mar-01	2001012	15:24:01	111.40	50	S. Ramdas	15:24:01	Ashadevi Beriwala	15:23:53
27-Mar-01	2001012	10:18:46	111.00	750	S. Ramdas	10:18:46	Ashadevi Beriwala	10:18:46
27-Mar-01	2001012	10:18:56	111.50	700	S. Ramdas	10:18:56	Ashadevi Beriwala	10:18:56
27-Mar-01	2001012	10:19:06	111.50	50	S. Ramdas	10:19:06	Ashadevi Beriwala	10:18:56
27-Mar-01	2001012	10:39:33	110.80	750	S. Ramdas	10:39:33	Ashadevi Beriwala	10:39:32

27-Mar-01	2001012	10:39:49	110.40	700	S. Ramdas	10:39:49	Ashadevi Beriwala	10:39:48
27-Mar-01	2001012	10:39:54	110.40	50	S. Ramdas	10:39:54	Ashadevi Beriwala	10:39:48
27-Mar-01	2001012	11:10:18	108.50	750	S. Ramdas	11:10:18	Ashadevi Beriwala	11:09:47
27-Mar-01	2001012	11:10:53	107.50	700	S. Ramdas	11:10:53	Ashadevi Beriwala	11:10:53
27-Mar-01	2001012	11:10:59	107.50	50	S. Ramdas	11:10:59	Ashadevi Beriwala	11:10:53
27-Mar-01	2001012	11:33:52	107.80	750	S. Ramdas	11:33:52	Ashadevi Beriwala	11:33:52
27-Mar-01	2001012	11:34:05	107.50	700	S. Ramdas	11:34:05	Ashadevi Beriwala	11:34:05
27-Mar-01	2001012	11:34:11	107.50	50	S. Ramdas	11:34:11	Ashadevi Beriwala	11:34:05
27-Mar-01	2001012	12:07:12	108.20	750	S. Ramdas	12:07:12	Ashadevi Beriwala	12:07:12
27-Mar-01	2001012	12:07:22	107.80	700	S. Ramdas	12:07:22	Ashadevi Beriwala	12:07:22
27-Mar-01	2001012	12:07:27	107.80	50	S. Ramdas	12:07:27	Ashadevi Beriwala	12:07:22
27-Mar-01	2001012	12:52:19	106.80	750	S. Ramdas	12:52:19	Ashadevi Beriwala	12:52:19
27-Mar-01	2001012	12:52:30	106.70	700	S. Ramdas	12:52:30	Ashadevi Beriwala	12:52:29
27-Mar-01	2001012	12:52:35	106.70	50	S. Ramdas	12:52:35	Ashadevi Beriwala	12:52:29
27-Mar-01	2001012	13:39:47	107.80	750	S. Ramdas	13:39:47	Ashadevi Beriwala	13:39:47
27-Mar-01	2001012	13:39:58	107.40	650	S. Ramdas	13:39:58	Ashadevi Beriwala	13:39:57
27-Mar-01	2001012	13:40:03	107.40	100	S. Ramdas	13:40:03	Ashadevi Beriwala	13:39:57
28-Mar-01	2001013	11:53:03	113.50	750	CFL Account Tr	11:53:03	Ashadevi Beriwala	11:53:02
28-Mar-01	2001013	11:53:13	112.80	650	CFL Account Tr	11:53:13	Ashadevi Beriwala	11:53:12
28-Mar-01	2001013	11:53:19	112.80	100	CFL Account Tr	11:53:19	Ashadevi Beriwala	11:53:12
28-Mar-01	2001013	12:54:49	112.50	750	CFL Account Tr	12:54:49	Ashadevi Beriwala	12:54:49
28-Mar-01	2001013	12:54:59	112.20	700	CFL Account Tr	12:54:59	Ashadevi Beriwala	12:54:58
28-Mar-01	2001013	12:55:03	112.20	50	CFL Account Tr	12:55:03	Ashadevi Beriwala	12:54:58
28-Mar-01	2001013	15:05:34	112.50	1000	CFL Account Tr	15:05:34	Ashadevi Beriwala	15:05:34
28-Mar-01	2001013	15:05:45	112.20	950	CFL Account Tr	15:05:45	Ashadevi Beriwala	15:05:45
28-Mar-01	2001013	15:05:53	112.20	50	CFL Account Tr	15:05:53	Ashadevi Beriwala	15:05:45
9-Apr-01	2001014	13:55:52	107.80	1000	CFL Account Tr	13:55:52	Ashadevi Beriwala	13:55:51
9-Apr-01	2001014	13:56:07	107.70	1000	CFL Account Tr	13:56:06	Ashadevi Beriwala	13:56:07
9-Apr-01	2001014	14:02:40	107.00	500	CFL Account Tr	14:02:38	Ashadevi Beriwala	14:02:40
9-Apr-01	2001014	14:02:50	106.95	1500	CFL Account Tr	14:02:50	Ashadevi Beriwala	14:02:50

9-Apr-01	2001014	14:08:03	107.20	1500	CFL Account Tr	14:08:02	Ashadevi Beriwalla	14:08:03
9-Apr-01	2001014	14:08:16	106.70	500	CFL Account Tr	14:08:16	Ashadevi Beriwalla	14:08:16
9-Apr-01	2001014	14:16:13	106.50	1000	CFL Account Tr	14:16:12	Ashadevi Beriwalla	14:16:13
19-Apr-01	2001016	13:13:38	108.50	1900	CFL Account Tr	13:13:38	Ashadevi Beriwalla	13:13:37
19-Apr-01	2001016	13:13:49	108.85	100	CFL Account Tr	13:13:49	Ashadevi Beriwalla	13:13:48
20-Apr-01	2001016	10:58:13	111.00	5000	CFL Account Tr	10:58:10	Ashadevi Beriwalla	10:58:13
20-Apr-01	2001016	10:58:27	110.50	5000	CFL Account Tr	10:58:27	Ashadevi Beriwalla	10:58:27
20-Apr-01	2001016	11:36:00	111.00	5000	CFL Account Tr	11:35:59	Ashadevi Beriwalla	11:36:00
20-Apr-01	2001016	11:36:09	111.00	5000	CFL Account Tr	11:36:08	Ashadevi Beriwalla	11:36:09
20-Apr-01	2001016	12:17:09	111.00	5000	CFL Account Tr	12:17:09	Ashadevi Beriwalla	12:17:08
20-Apr-01	2001016	12:17:23	111.00	5000	CFL Account Tr	12:17:23	Ashadevi Beriwalla	12:17:23
20-Apr-01	2001016	13:46:15	109.00	4100	CFL Account Tr	13:46:15	Ashadevi Beriwalla	13:46:13
20-Apr-01	2001016	13:47:23	109.00	4100	CFL Account Tr	13:47:23	Ashadevi Beriwalla	13:47:22
20-Apr-01	2001016	13:47:57	108.95	5200	CFL Account Tr	13:47:57	Ashadevi Beriwalla	13:47:56
30-Apr-01	2001017	15:04:16	107.00	2410	CFL Account Tr	15:04:16	Ashadevi Beriwalla	15:04:15
30-Apr-01	2001017	15:04:37	106.00	2500	CFL Account Tr	15:04:37	Ashadevi Beriwalla	15:04:37
3-May-01	2001018	11:01:27	107.50	5000	CFL Account Tr	11:01:27	Ashadevi Beriwalla	11:01:27
3-May-01	2001018	11:23:07	107.80	5000	CFL Account Tr	11:23:07	Ashadevi Beriwalla	11:23:07
3-May-01	2001018	11:29:38	107.10	5000	CFL Account Tr	11:29:38	Ashadevi Beriwalla	11:29:38
3-May-01	2001018	11:44:40	106.95	5000	CFL Account Tr	11:44:40	Ashadevi Beriwalla	11:44:40
3-May-01	2001018	11:56:06	107.00	5000	CFL Account Tr	11:56:06	Ashadevi Beriwalla	11:56:06
3-May-01	2001018	12:06:54	107.00	5000	CFL Account Tr	12:06:54	Ashadevi Beriwalla	12:06:54
3-May-01	2001018	12:07:09	106.80	5000	CFL Account Tr	12:07:09	Ashadevi Beriwalla	12:07:08

10. An analysis of the information contained in the above table indicated the following:

- a. CFL had executed 126 structured deals with another member of the stock exchange, M/s DGP Securities Ltd. (hereinafter referred to as 'DGP'), amounting to 143,560 shares.

- b. CFL had acted as a buyer and DGP acted as a seller for all the structured deals.
- c. The orders were placed at the same price and at approx. the same time.

11. Analysis of the trading details and the demat statement(s) revealed the following:

- (i) CFL had purchased the shares on behalf of its related client Mr. S. Ramdas and also on self account. The counter party broker for these purchases was DGP. While giving information to SEBI, CFL had stated that all the shares purchased by/through it were sold as off market deals to Ms. Aditi Dalal, wife of one of the directors of CFL.
- (ii) The counter party selling broker, DGP, had stated that it had executed the above sale transactions on behalf of one Ms. Ashadevi Beriwal, who in turn has been found to be related to the trading member DGP.
- (iii) It was seen that for the sales made by DGP, on behalf of Ms. Ashadevi Beriwal, the shares for pay-in were received from the account of Ms. Aditi Dalal. On payout, on receipt of the shares, CFL was seen to have entered into off market deals with Ms. Aditi Dalal and transferred the shares into her account of on the payout day itself. As brought out earlier, Ms. Aditi Dalal had in turn transferred these shares to the account of DGP, the selling broker (who was ostensibly selling these shares for Ms. Ashadevi Beriwal, who was shown as the client). Therefore, circular movement of shares was seen to have taken place, with the shares moving from the account of CFL to Ms. Aditi Dalal to DGP and thereafter again back to Ms. Aditi Dalal.



12. I have noted the submissions made by Shri Milan Dalal, Director, CFL, in his statement to SEBI, wherein he had stated that CFL was in need of funds for their pay-in obligations to the exchange. In order to fund their requirements they had used a block of shares of Roofit available with them. Instead of selling the shares in the open market, they had arranged for spot funding by selling the said shares on spot basis to M/s Asha Beriwalla, who would in turn sell the shares right back to CFL, through DGP, on the exchange. It is clear that CFL had used the stock exchange mechanism to meet its funding requirements.
13. In view of the above, I find that:
- a. CFL had churned a block of shares in the market, by selling the shares to Ms. Aditi Dalal through off market deals, who in turn transferred the shares to DGP, who then sold the shares back to CFL through matched transactions.
 - b. CFL had, in having traded as detailed above, executed a series of matched/structured trades with DGP, resulting in creation of volumes in the shares of Roofit.
 - c. CFL had misutilised the stock exchange mechanism, using the system to enter into transactions for the purpose of meeting its funding requirement.
14. Therefore, I find that CFL has been a party to
- a) Creation of false market or misleading appearance of trading in the shares of Roofit,.
 - b) execution of transactions that were not genuine trade transactions and
 - c) execution of transactions intended to inflate or cause fluctuations in the market price of the security

and has therefore violated the provisions of Regulation 4(b) and (c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, which read as under:

"No person shall-

- a)*
- b) Indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;*
- c) indulge in any act, which results in reflection of prices of securities based on transactions that are not genuine trade transactions ;*
- d)"*

15. I also note that Regulation 13 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 reads as under:

"Repeal and savings

13. (1) The Securities and Exchange Board of India ((Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 is hereby repealed.

(2) Notwithstanding repeal of the Securities and Exchange Board of India ((Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, any violation of regulations 3, 4, 5 and 6 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 shall be investigated and proceeded against in accordance with the procedure laid down in these regulations.

(3) Notwithstanding repeal of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, any investigation pending, at the commencement of these regulations shall be continued and disposed of in accordance with the procedure laid down in these regulations."

16. 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)*
- 3)*
- 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.*

17. In view of the findings detailed in the above paragraphs, I conclude that CFL is guilty of having violated,

(a) the provisions of Regulations 4(b) and (c) of the SEBI (Prohibition of Fraudulent and Unfair Trade

Practices relating to Securities Market) Regulations, 1995 and

(b) the provisions of clauses A(1) and (4) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

Thus, the said broker is liable for action under regulation 13(1)(b) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.

18. Under section 11 of the SEBI Act, SEBI can take measures to protect the interests of investors and to regulate the securities market, inter alia, by registering and regulating the working of stock brokers. I find that CFL, having entered into a series of matched transactions, has distorted the trading pattern of the shares and has been responsible for creation of artificial volumes in the shares of Roofit. In having used the stock exchange mechanism for what were essentially funding transactions, CFL has subverted the integrity of the system. The indulgence of the CFL in such transactions can not be allowed as such transactions are likely to have a detrimental effect on the functioning of the securities market. It is clear that CFL has not taken due care and diligence in observance and compliance of the statutory requirement in conduct of its business as a stock broker. I have further observed that CFL had indulged in similar transactions in the case of M/s Surya Roshni Ltd., on account of which their registration as member of NSE was suspended for a period of one month. I am satisfied that it is necessary to secure the proper management of the stock broker and hence, in the interest of the securities market, a penalty of suspension of certificate of registration for a period of two months, as recommended by the enquiry officer, is reasonable.

ORDER

19. Therefore, in exercise of the powers conferred upon me by virtue of Section 19 of the Securities and Exchange Board of India Act, 1992 read with regulations 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby order that the certificate of Registration of M/s. CFL Securities Ltd., member, NSE, having registration number INB230629433, be suspended for a period of two months.
20. This order shall come into force with effect on expiry of three weeks from the date of the order.

Place: Mumbai

Date: October 18th, 2004

**A K Batra
Whole Time Member
Securities and Exchange Board of India**