

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(4) OF THE SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS,2002 AGAINST M/S. J.T.AMIRTHASINGH & CO., MEMBER – CALCUTTA STOCK EXCHANGE.

1.0 Background

1.1 M/s. J.T.Amirthasingh & Co. (hereinafter referred to as “ the said 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.INB030528917.

1.2 The shares of Blue Print Securities Limited (hereinafter referred to as “BPSL”) were listed on CSE. There was a major spurt in price and volumes traded at this CSE during the period July and October, 2001 (hereinafter referred to as “ the said period “). An investigation was conducted by SEBI into buying, selling and dealings in the scrip of M/s. BPSL. The investigation revealed that between 5th July,2001 and 31st October,2001, the average price of the scrip BPSL at CSE shot up from Rs.4.45 during settlement no.2002115 to Rs.21.40 in settlement no.2002130. The price rise was against low trading volumes. Major volume of trading in the scrip was generated by two CSE brokers viz. J.T.Amirthasingh & Co. and Mukul Bhattacharjee. The investigation revealed many cross deals executed by the said broker from the same terminal in Settlement Nos.2002115,2002117 and 2002124. In Settlement No.2002125 orders from the said broker's terminals were matched with orders from Swadha Securities Ltd. From Settlement No.2002126 onwards, there are a number of trades of the said broker which matched with that of another broker of CSE namely; Shri Mukul Bhattacharjee in terms of order, price and timing.

2.0 Enquiry Proceedings :

2.1 On the basis of the above investigation, vide order dated 18th August, 2003, SEBI appointed an Enquiry Officer to enquire into the irregularities / contraventions alleged to have been committed by the said broker while dealing in the scrip of BPSL and for possible violations of the provisions of the SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations, 1992 (hereinafter referred to as “ the said Regulations “) and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as “ the PFUTP Regulations “).

2.2 The Enquiry Officer, after conducting the enquiry as per the procedure prescribed under the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as “ the said Enquiry Regulations “) submitted a report dated 28th July, 2004 and recommended that a major penalty of suspension of certificate of registration for a period of 6 months against the said broker.

3.0 Show Cause Notice and Hearing :

3.1 A show cause notice dated 12th August, 2004 was issued to the said broker along with a copy of the enquiry report, in terms of regulation 13(2) of the said Enquiry Regulations advising the said broker to show cause as to why appropriate penalty including the penalty as recommended by the Enquiry Officer should not be imposed on it.

3.2 The said broker in response to the said show cause notice dated 30th July, 2004 submitted its reply vide letter dated 31st August, 2004 wherein, inter alia, the said broker submitted the following :-

- That all the transactions were carried through C ' STAR Channel of the CSE, and, therefore, denied the knowledge of the identity of the counter party broker.
- That the delivery obligation wherever applicable was completely carried out through the normal channel and as per the procedure of the Stock Exchange.
- That they have complied with all the requirements such as "Know your clients"

3.3 In the interest of natural justice, an opportunity of hearing was granted to the said broker on 8th November,2004 and Mr. J.T.Amirthasingh Proprietor of J.T.Amirthasingh & Co. appeared before me and reiterated his submissions made vide letter dated 31st August,2004.

4.0 Consideration of Issues and Findings :

4.1 I have considered the facts of the case, the findings of the Enquiry Officer contained in the Report dated 28th July,2004, the show cause notice, the replies and the submissions of the said member during the hearing and other material on record. My findings are as under:-

I observe that between 5th July,2001 and 31st October,2001, the average price of the scrip of BPSL at CSE shot up from Rs.4.45 during Settlement No.2002115 to Rs.21.40 in Settlement No.2002130. I further observe that the price rise was against low trading volumes. The major volume of trading in the scrip was generated by two CSE brokers, namely; J.t.Amirthasingh & Co. and Mukul Bhattacharjee and that there were many cross deals executed by the said broker from the same terminal in Settlement Nos.2002115, 2002117 and 2002124. I also observe that from Settlement No.2002126 onwards, there were a large number of trades of the said broker which matched with that of another broker of CSE viz. Shri Mukul Bhattacharjee in terms of order, price and timing. I also

observe that in settlement no.2002125, orders from the said broker's terminals were matched with the orders from Swadha Securities Ltd., another member of CSE. The said broker had executed trades for his client viz. Southern Lease Finance Ltd. during the aforesaid period. Shri J.T.Amirthasingh is a director of the said company.

4.2 I further find that the time lag between the punching of buy and sell orders was under a few minutes / seconds and almost the same in a number of transactions. In other words, there was a very thin line between the punching of buy and sell orders and the number of transactions entered into.

4.3 The details of such transactions (matching trades) of the said broker are as per the Annexure `I' ( transaction-wise details ) and Annexure `A' (settlement-wise details) which were annexed to the Enquiry Report. Hence, I do not feel it necessary to reproduce the details of the said transactions inasmuch as the same are matters of record which were made available to the said broker along with a copy of the Enquiry Report. The client-wise details of the aforesaid transactions are as under -

Settlement No.	Date	Securities Bought	Qty	Rate	Date	Securities Sold	Qty	Rate
2002124	7/9/01	Birendra Kumar	50	4.68	7/9/01	Birendra Kumar	50	4.62
2002124	7/9/01	Shivprakash Baldi	50	4.58	7/9/01	Shivprakash Baldi	50	4.72
		Sett. Total Purch	100			Sett. Total Sales	100	
2002125	10/9/01	Shivprakash Baldi	50	4.48	10/9/01	C S T A R	50	5.50
2002125	11/9/01	Shivprakash Baldi	50	6.18	11/9/01	C S T A R	50	6.20
2002125	14/9/01	C S T A R	100	7.00	14/9/01	Shivprakash Baldi	100	6.20
		Sett. Total Purch	200			Sett. Total Sales	200	
2002126	18/9/01	Shivprakash Baldi	50	8.35	18/9/01	C S T A R	50	8.40
2002126	19/9/01	C S T A R	50	9.20	19/9/01	Shivprakash Baldi	50	9.25
2002126	19/9/01	C S T A R	50	9.20	19/9/01	Shivprakash Baldi	50	9.25
2002126	20/9/01	Shivprakash Baldi	50	9.05	20/9/01	C S T A R	50	9.10
		Sett. Total Purch	200			Sett. Total Sales	200	

2002127	24/9/01	Shivprakash Baldi	100	11.18	24/9/01	C S T A R	100	11.20
2002127	25/9/01	C S T A R	100	11.90	25/9/01	Shivprakash Baldi	100	11.92
2002127	27/9/01	C S T A R	100	12.10	27/9/01	Shivprakash Baldi	100	12.12
2002127	28/9/01	Shivprakash Baldi	100	12.98	28/9/01	C S T A R	100	13.00
		<u>Sett. Total Purch</u>	400			<u>Sett. Total Sales</u>	400	
2002128	1/10/01	Shivprakash Baldi	50	13.98	1/10/01	C S T A R	50	14.00
2002128	3/10/01	C S T A R	25	15.00	3/10/01	Shivprakash Baldi	25	15.02
2002128	4/10/01	C S T A R	100	16.10	4/10/01	Shivprakash Baldi	100	16.12
2002128	5/10/01	Shivprakash Baldi	50	17.18	5/10/01	C S T A R	50	17.20
2002128	5/10/01	Shivprakash Baldi	25	17.18	5/10/01	C S T A R	25	17.20
		<u>Sett. Total Purch</u>	250			<u>Sett. Total Sales</u>	250	
2002129	8/10/01	Shivprakash Baldi	100	18.48	8/10/01	C S T A R	100	18.50
2002129	9/10/01	C S T A R	100	19.90	9/10/01	Shivprakash Baldi	100	19.92
		<u>Sett. Total Purch</u>	200			<u>Sett. Total Sales</u>	200	
2002130	15/10/01	C S T A R	100	21.40	15/10/01	Shivprakash Baldi	100	21.42
		<u>Sett. Total Purch</u>	100			<u>Sett. Total Sales</u>	100	

4.4 From the above table, I observe that the trades were done mainly for Shivprakash Baldi and CSTAR and find that CSTAR stands for the counter party broker Mukul Bhattacharjee. As per the statement of Mr.J.T. Amirthasingh dated 22/7/2002, Shri Binoy Kumar Chaudary was placing orders in the scrip of BPSL on behalf of himself and M/s.Armstrong Trakcom Pvt.Ltd., Crystal Vincon Pvt.Ltd. and Dreamland Vinimay Pvt.Ltd. I further observe that Shri Anil Kanoria was placing orders on behalf of himself and M/s.Hanuman Finstock Pvt.Ltd., M/s.Hanuman Resources Pvt.Ltd. and Hail Finvest Pvt.Ltd. whereas Shri Anjan Kanoria was placing orders for himself and on behalf of M/s.Hail Investment Pvt.Ltd. and M/s. Hail Leasing & Finance Pvt.Ltd.

4.5 I further observe from the client registration form that Madhu Kanoria, Anil Kanoria and Anjan Kanoria shared the same address. Anil Kanoria and Madhu Kanoria are directors in Hanuman Resources Ltd. Meeta Kanoria is the wife of Anil

Kanoria. Anjan Kanoria is a director of Hail Investment Pvt. Ltd. Anjan Kanoria and Meeta Kanoria are directors in Hail Leasing and Finance Pvt. Ltd. Madhu Kanoria and Meeta Kanoria are directors of Rabirun Commercial Pvt. Ltd. It is further observed that Hail Investment Pvt. Ltd., Hanuman Resources Pvt. Ltd. Hail Finvest Pvt. Ltd., Hail Leasing and Finance Pvt. Ltd. and Rabrun Pvt. Ltd. shared a common address.

- 4.6 I also note that from the client registration forms that Mr. Binesh Kumar Chaudary is a common director in Armstrong Trackcom Pvt. Ltd., Crystal Windcom Pvt. Ltd. and Dreamland Vinimi Pvt. Ltd. I observe from the above-referred annexures as regards settlement-wise and transaction-wise details of the said broker that there were large number of transactions which were cross deals wherein both the buyer and the seller were of the same broker and the orders were executed through the same terminal. The order quantity, price and time were matched. I find that the said broker had entered buy and sell orders for the same quantity of shares almost simultaneously. The value and the volume of such transactions are also quite high.
- 4.7 It is relevant to note that Southern Lease Finance Ltd. wherein J. T. Amirthasingh is a director had also sold 26,200 shares during the relevant period. In view of the frequent churning of shares amongst few clients of the said broker including Southern Lease Finance Ltd. wherein J. T. Amirthasingh is a director, the price of the scrip rose dramatically. I observe that it was the duty of the said broker to exercise due diligence and should have questioned the clients on such types of transactions. I find that there is no material to suggest that these clients were dealing with the said broker in any other securities other than BPSL and for how long they have been the clients of the said broker.
- 4.8 I observe that the client registration form and member-client agreement of all these clients found to be undated and the column regarding client introduction details found to be blank. This suggests to me that the broker had not acted in good faith but with negligence before executing transactions for these clients in the scrip of BPSL. I found that Mr. J.T. Amirthasingh had also indirectly sold

shares of Blue Print Securities Ltd. held by Southern Lease Finance Ltd. wherein he was a director. The transactions wherein the buy and sell orders were entered into as cross deals and matched in terms of order quantity, price and time amongst few clients of the broker who are mostly closely related, I found the same to be highly irregular which ultimately defeats the very purpose of normal order matching system in the price discovery process in the Exchanges. Therefore, I find the aforesaid transactions are in violation of Regulation 4 of the PFUTP Regulations.

- 4.9 I observe that in appeal no.54 of 2002 – Nirmal Bang Securities Pvt. Ltd. vs SEBI, the Hon'ble Securities Appellate Tribunal has held as under with regard to the synchronised deals.

“BEB has been charged for synchronized deals with First Global. I have examined the date provided by the parties on this issue. I find many transactions between BEB and FGSB. There are many instances of such transactions. I find the scrip, quantity and price for these orders had been synchronized by the counter party brokers. Such transactions undoubtedly create an artificial market to mislead the genuine investors. Synchronized trading is violative of all prudential and transparent norms of trading in securities. Synchronized trading on a large scale, can create false volumes. The argument that the parties had no means of knowing whether any entity controlled by the client is simultaneously entering any contra order elsewhere for the reason that in the online trading system, confidentiality of counter parties is ensured, is untenable. It was submitted by the Appellants that it was not possible for the broker to know who the counter party broker is and that trades were not synchronized but it was only a coincidence in some cases. Theoretically this is OK. But when parties decide to synchronize the transaction the story is different. There are many transactions giving an impression that these were all synchronized, otherwise there was no possibility of such perfect matching of quantity price etc. As the Respondent rightly stated it is too much of a coincidence over too long a period in too many transactions when both parties to the transaction had entered buy and sell orders for the same quantity of shares almost simultaneously.”

4.10 I note that Regulation 4 of PFUTP Regulations reads as under : -

Prohibition against market manipulation.

4 No persons shall

- (a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person;
- (b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities markets;
- (c) indulge in any act, which results in reflection of prices of securities based on transactions that are not genuine trade transactions;
- (d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuation in the market price of securities.

4.11 I note that regulation 7 of the SEBI (Stock Brokers and Sub-Brokers) Regulations,1992 provides as under :-

Stock Brokers to abide by Code of Conduct

7. The stock broker holding a certificate shall at all times abide by the Code of Conduct as specified in Schedule II.

A. General

- (1) Integrity : A stock broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.
- (2) Exercise of due skill and care : A stock broker shall act with due skill, care and diligence in the conduct of all his business.

(3)

(4) Malpractices : 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.

(5) Compliance with statutory requirements : A stock - broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

B. Duty to the Investor

(4) Business and Commission :

(a) A stock broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

4.12 In view of my findings mentioned hereinabove, I am convinced that the said broker has violated regulation 7 of the said Regulations read with clauses A(1),A(2),A(4),A(5) and B(4)(a) of the Code of Conduct prescribed for Stock Brokers under Schedule II of the said Regulations and regulation 4(a),(b),(c) and (d) of the PFUTP Regulations.

4.13 I am satisfied that this is a fit case to impose a major penalty of suspension of Certificate of Registration and I agree with the recommendation of the Enquiry Officer regarding the suspension of the certificate of registration of the said broker for a period of six months which would be adequate and commensurate with the gravity of the violations committed by the said broker.

5.0 **Order**

Therefore, I, in exercise of the powers conferred upon me by virtue of Section 4(3) of the Securities and Exchange Board of India Act, 1992 read with Regulation 13(4) of the said Enquiry Regulations, hereby suspend the Certificate of Registration of M/s.J.T.Amirthasingh & Co. (SEBI Registration No. INB030528917) for a period of six months.

This Order shall come into effect on the expiry of twenty one days from the date of this Order.

Place : Mumbai
Date : 27/1/2005

G.N.BAJPAI
CHAIRMAN
SECURITIES AND EXCHANGE BOARD OF INDIA