

# 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 RENAISSANCE SECURITIES PVT. LTD. - IN THE MATTER OF BIRMINGHAM THERMOTECH LTD.

MO/06/IVD/08/05

WTM/M/ /05

#### 1.0 BACKGROUND

- 1.1 M/s. Renaissance Securities Ltd. (hereinafter referred to as "Renaissance") is a member of the Stock Exchange, Mumbai (registration no. INB 0101207756) and OTC Exchange of India Ltd (registration no. INB 200683836).
- 1.2 SEBI conducted an investigation into the buying, selling and dealing in the scrip of Birmingham Thermotech Ltd. (BTL) for the period, November 29, 1999 to December 30, 1999 (hereinafter referred to as "Investigation period"). During the said period, Renaissance was seen to have executed three trades of 6,00,000 shares for its client, M/s Parklight Securities on just one day i.e. on December 22, 1999. In such trades, the orders got matched with a little gap of 0 to 3 seconds with M/s. Parklight Investment Pvt. Ltd. who had placed three buy orders of 6,00,000 shares of BTL at the same time for its client M/s. H Nyalchand Financial Services Ltd.
- 1.3 During its investigation, SEBI examined these trades of Renaissance in order to determine whether there was a possibility of violations by Renaissance of the provisions of Regulation 4 (a), (b) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade practices Relating to Securities Market) Regulations, 1995 [hereinafter referred to as "SEBI (FUTP) Regulations"] and SEBI Circular nos. SMD/POLICY/CIRCULAR/3-97 dated March 31, 1997 and SMD/POLICY/CIR-/98 dated January 16, 1998. SEBI found a prima-facie violation by Renaissance and hence the matter was referred to an Enquiry Officer under the provisions of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereafter referred to as "Enquiry Regulations") read with Regulation 13 of SEBI (FUTP) Regulations.

#### 2.0 ENQUIRY REPORT AND RECOMMENDATION

- 2.1 The Enquiry Officer, after conducting an enquiry in accordance with the Enquiry Regulations submitted his report dated 25.11.2004.
- 2.2 The Enquiry Officer found that the alleged three trades of 6,00,000 shares of BTL executed by Renaissance for their clients M/s. Parklight Securities Ltd. (member, Ahmedabad Stock Exchange) did not result in any manipulation in the scrip of BTL and thus Renaissance was not guilty of manipulation in the scrip of BTL, on the basis of following facts:
  - a) The volume of 6,00,000 shares of BTL sold by Renaissance on behalf of their client M/s. Parklight securities Ltd. is negligible in comparison to the total traded volume in the scrip of BTL.
  - b) Knowledge of existence of any relationship between the Broker's client and other entities who were allegedly involved in circular trading among themselves does not prove that the broker had the knowledge of circular trading. Further, knowledge of relationship between its clients and other entities does not entail the Broker to know the counterparty to the trades.
- 2.3 The charge against Renaissance for dealing with M/s Parklight Securites (member ASE) without their being registered as sub-broker of the broker, was found to be established by the Enquiry officer who held that Renaissance has technically violated the SEBI Circulars nos. SMD/ POLICY/CIRCULAR/3-97 dated March 31, 1997 and SMD/POLICY/ CIR-/98 dated January 16, 1998 which mandated that the members of one exchange, for dealing through members of another exchange, have to necessarily register themselves as sub-brokers.
- 2.4 On the basis of above findings, the Enquiry officer recommended that a minor penalty of warning be issued to the Broker to be careful in future.

#### 3.0 SHOW CAUSE NOTICE

- 3.1 On the basis of findings of Enquiry Officer, a show cause notice dated 15.12.2004 was issued to Renaissance along with a copy of the enquiry report in terms of Regulation 13 (2) of the Enquiry Regulations, wherein it was called upon to show cause as to why the appropriate penalty including the penalty as recommended by the Enquiry Officer should not be imposed against it.

#### 4.0 REPLY TO THE SHOW CAUSE NOTICE

- 4.1 Renaissance submitted a reply vide letter dated 22.12.2004 stating inter alia that the Enquiry Officer has absolved them from the charge of being guilty of any alleged manipulation in the scrip of BTL. On the issue of dealing with an unregistered sub-broker, Renaissance drew attention to the matter of Sawaca Business machines Ltd. where a similar technical violation had taken place and the concerned broker was not punished for the technical violation. Therefore Renaissance requested for closure of enquiry against them without issuing any warning or levying any penalty. Further Renaissance gave an assurance that they will remain committed to observe rules and regulations of the Stock exchanges as well as of SEBI.

## 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 Renaissance to the show cause notice and other materials on record.
- 5.2 I find that during the investigation period i.e. between November 29, 1999 to December 30, 1999, in all, Renaissance had placed three sell orders for 6,00,000 shares on just one day i.e. on December 22, 1999, for its clients M/s. Parklight securities Ltd. These orders got matched with a little gap of 0 to 3 seconds with M/s. Parklight Investment Pvt. Ltd. who had placed three buy orders of 6,00,000 shares of BTL at the same time for its client M/s. H Nyalchand Financial Services Ltd. The details of the trades executed by Renaissance are as under:

| Member Code | No. of Shares | Price | B/S | Date      | Order Time | Counter Party Member | Client      |
|-------------|---------------|-------|-----|-----------|------------|----------------------|-------------|
| D0407       | 200000        | 6.4   | B   | 22-Dec-99 | 14:22:09   | D0122                | H Nyalchand |
| D0122       | 200000        | 6.4   | S   | 22-Dec-99 | 14:22:12   | D0407                | PSL         |
| D0407       | 300000        | 6.4   | B   | 22-Dec-99 | 14:22:31   | D0122                | H Nyalchand |
| D0122       | 300000        | 6.4   | S   | 22-Dec-99 | 14:22:32   | D0407                | PSL         |
| D0407       | 100000        | 6.4   | B   | 22-Dec-99 | 14:22:47   | D0122                | H Nyalchand |
| D0122       | 100000        | 6.4   | S   | 22-Dec-99 | 14:22:47   | D0407                | PSL         |

- 5.3 I also note from trading volume of the scrip of Birmingham at BSE that a total of 95,02,100 shares were traded during the investigation period.  
Out of this total volume, broker has done only 3 transactions on a single day during the whole period and that too for his client. Though, I do not entirely agree with the findings of the Enquiry Officer that volume of 6,00,000 shares is negligible in comparison to the total volume, I do agree that putting 3 sell orders of 6,00,000 shares, may not be sufficient to hold him liable for marker manipulation.
- 5.4 The above finding is further supported by the fact that all the 3 transactions in question which were done for its clients, had resulted in delivery of shares and the broker has not done a single proprietary trading.
- 5.5 On the issue as to whether the Broker is guilty of dealing with an unregistered Sub-broker, I note that M/s. Parklight Securities Ltd. is a member of ASE and CSE but is not registered with SEBI to act as a sub-broker of the Broker. It is also an admitted fact that M/s. Parklight Securities Ltd. had traded in the scrip of BTL through Renaissance. Therefore, I agree with the findings of the Enquiry Officer that the broker has violated the provisions of the following SEBI Circulars:

- 1) Circular no. SMD/ POLICY/CIRCULAR/3-97 dated March 31, 1997 which stipulates as under:

"No broker shall deal with a person who is acting as a sub-broker unless he is registered with SEBI. It shall be the responsibility of the broker to ensure that his clients are not acting in the capacity of a sub-broker unless he is registered with SEBI as sub-broker or is recognised by the stock exchange as a remisier".

- 2) Circular no. SMD/POLICY/CIR-/98 dated January 16, 1998 which stipulates as under:

"This matter was discussed by SEBI separately with the heads of some major Stock Exchanges. In this connection, it has been decided that the members of stock Exchanges executing transactions of his clients through the members of other Exchanges are to be treated as a "sub - broker". In terms of Rule 3 of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992 read with Section 12 of SEBI Act, no stock broker or sub-broker shall buy, sell, deal in securities unless he holds a certificate granted by the Board under the regulations. Thus, it is necessary for any person who acts as sub-broker to hold Certificate of Registration as a sub-broker granted by SEBI and accordingly the members of Stock Exchanges who also act as sub-brokers should hold a separate registration with SEBI as a sub-broker. However, presently some of the members of exchanges who are acting as sub-brokers through the members of other exchanges have not obtained separate registration from SEBI to act as sub-brokers.

In view of the above it is advised that the members of the stock exchanges who are acting as sub-brokers through the members of other exchanges should obtain Certificate of Registration from SEBI to act as a sub-broker under SEBI (Stock Brokers and Sub-Brokers) Rules & Regulations, 1992."

- 5.6 I agree with the findings of the Enquiry Officer that by dealing with an unregistered sub-broker, broker had violated the SEBI Circulars mentioned above. I have also noted that Hon'ble Securities Appellate Tribunal (SAT) in the *Appeal no. 95/2003 - Chona Financial Services Pvt. Ltd. Vs. SEBI*, under similar circumstances, interalia found that the broker had dealt with unregistered sub-broker and issued a minor penalty of warning to the broker.
- 5.7 In view of the aforesaid, in the facts and circumstances of this case, I feel that it will be appropriate to impose a minor penalty of warning on the broker.

**ORDER**

- 6.1 Having regard to the above, I, 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, hereby warn Renaissance Securities Pvt. Ltd. for the aforesaid violations and advise it to be careful and not to repeat similar violations in future in order to avoid major penalty.

**Date:08.08.2005**

**Place: Mumbai**

**MADHUKAR**

**WHOLE TIME MEMBER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**