

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Regulation 13 (4) of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 against M/s. M J Doshi, Member, INB 010564719, The Stock Exchange, Mumbai, in the matter of M/s. Eonour Software Ltd.

1.0 Background

- 1.1 In January 1996 M/s. Eonour Software Limited (hereinafter referred to as "ESL") had come out with a public issue of 12, 50, 000 shares of Rs.10/- each at a premium of Rs.20/- per share aggregating to Rs.375 lac. Shares of ESL were listed at The Stock Exchange, Mumbai (hereinafter referred to as "BSE"), Madras Stock Exchange, Madhya Pradesh Stock Exchange, and Ahmedabad Stock Exchange.
- 1.2 The scrip of ESL was listed at BSE on 13th March 2000 and the first trade was reported only on 12th June 2000 at a price of Rs.520/- which went up to Rs.634.75 by 7th July 2000. A total of 2, 22, 600 shares were traded at BSE during the period 1st December 1999 and 31st July 2000. The maximum quantity traded on the exchange on a particular day during the said period was on 22nd June 2000 with the number of shares traded being 11, 700.
- 1.3 Securities and Exchange Board of India (hereinafter referred to as "SEBI") had conducted an investigation into the trading of the scrip of ESL.
- 1.4 Brokers mentioned in following Table-1 were the top ten brokers in terms of gross quantity traded during the period June 2000 to December 2000 at BSE. The brokers were selected on the basis of their Gross Purchases, Gross sales and Gross position.

Table -1

Name of Broker	Purchases	% of Total	Sales	% of Total	Gross
Shilpa Stock Brokers P Ltd	45900	20.62	45600	20.49	91500
Bhupendra M. Bheda	43500	19.54	43500	19.54	87000
Joindre Capital Ltd.	42900	19.27	42900	19.27	85800
M. J. Doshi	20700	9.30	20700	9.30	41400
Indo Share & Fintrade Ltd	15300	6.87	15300	6.87	30600
Anantrai A. Parekh	15100	6.78	15100	6.78	30200
Suresh Rathi Sec. P. Ltd.	10800	4.85	10800	4.85	21600
J. N. Jhaveri	9700	4.36	9700	4.36	19400
Dinesh J. Shah	9200	4.13	6700	3.01	15900
GSB Capital Markets Ltd.	6800	3.05	6800	3.05	13600
Others	2700	1.21	5500	2.47	8200
Total	222600	100.00	222600	100.00	445200

- 1.5 From the records submitted by the brokers of BSE, it was seen that most of the clients were linked to each other in some way or the other and had predominantly traded in the scrip of ESL and that most of these clients had not paid margin/deposits to the brokers for the trades executed by them but had traded through them in substantial quantities. Further, they were squaring off their positions not only at the end of settlement but almost on the same day. It was observed during 1st June 2000 and 31st December 2000 deliveries in the scrip were less than 5% of the total trading volume on the exchange. The total quantity traded by the clients / entities is given in Table -2 as under

Table -2

Sr. No	Name of the Entity	Purchases	Sales	Gross
1.	F. T. Traders	67900	65300	133200
2.	Prashant Investment	46400	46400	92800
3.	M/s. K. N. Traders	33500	33300	66800

4.	Jem Fiscal Ltd.	17600	17600	35200
5.	K. P Investment	17200	17200	34400
6.	Hakeem Auto Ltd.	3100	2200	5300
	Total	185700	182000	367700

- 1.6 It can be seen from table – 1 that the gross quantity traded i.e., buy and sell in the scrip at BSE during June 2000 to December 2000 was 4, 45, 200 lac shares, out of which 3, 67, 700 lac shares were traded by the entities named in the table - 2, which constituted approximately 83% of the trading in the scrip.
- 1.7 Investigations revealed that M/s. M J Doshi (hereinafter referred to as “Broker”) had traded in the scrip of ESL on behalf of M/s. K P Investments (hereinafter referred to as “KP”) and M/s. Prashant Investment (hereinafter referred to as “Prashanth”).
- 1.8 Broker by not showing due skill, care and diligence was alleged to be in violation of clause A (2) of Code of Conduct as specified under Schedule II read with regulation 7 of Securities and Exchange Board of India (Stockbrokers and sub-brokers) Regulations, 1992 (hereinafter referred to as “Brokers Regulations”). Further, the trades done by the Broker on behalf of KP and Prashanth were alleged to be in violation of regulation 4 (b) and (d) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as “FUTP Regulations”) and the Broker by trading on behalf of KP and Prashanth had aided and abetted market manipulation done by KP and Prashanth which is a violation of regulation 4 (b) and (d) of FUTP Regulations.

2.0 Enquiry Proceedings

- 2.1 In view of the above irregularities committed by the Broker, Chairman, SEBI vide order dated 18th February 2002, appointed an Enquiry Officer to enquire into the affairs of the Broker. After conducting the enquiry, Enquiry Officer submitted a report dated 31st March 2004 finding the Broker guilty of violating Clause A (2) of Code of Conduct laid down under Schedule II of Broker Regulations and recommended that a minor penalty of warning be imposed on Broker.

3.0 Show cause notice and hearing

- 3.1 Subsequent to the said Enquiry Report, as per regulation 13 (2) of Securities and Exchange Board of India (Procedure for Holding Enquiry By Enquiry Officer and Imposing Penalty) Regulations, 2002, a show cause notice dated 13th April 2004 was issued to the Broker.
- 3.2 Broker vide letter dated 17th May 2004 responded to the said show cause notice inter alia submitting that the clients in question, KP and Prashanth were introduced through a family friend and all the formalities of client introduction were completed. Broker submitted that KP and Prashanth had paid brokerage for their trades through cheques and that once he received a letter from BSE stating that trades of certain clients including KP and Prashanth were appearing to be fictitious, he stopped trading on behalf of KP and Prashanth hence, requested for the charges of violations to be dropped.

4.0 Consideration of Issues and findings

- 4.1 I have carefully considered the Enquiry Report, show cause notice issued to Broker and submissions made by Broker in response to the show cause notice.
- 4.2 I observed that Broker had traded in the scrip of ESL on behalf of KP and Prashanth. Broker had executed trades for KP for total purchases of 13, 000 shares in Settlement no.16-18, 22 & 24 and for Prashanth total purchases was of 7, 700 shares in settlement no. 25-26. All most all of these transactions were squared off without resulting in delivery.
- 4.3 Broker had submitted that transactions were done in the normal course of business. Further that the aforesaid two clients, KP and Prashanth have also traded in M/s. Morepen Hotels Ltd, M/s. Morepen Labs Ltd and M/s. Veronica Laboratories Ltd. The Broker further submitted that since the clients were squaring off their transactions on the same day, no margin was collected. I am not convinced with the submissions of Broker as the said clients along with associates / entities connected with them were trading in the scrip and more than 90% trading in the scrip was done by these connected entities. These clients have shown no inclination of picking up or giving delivery. Broker should have been more diligent in its dealing especially when the clients were new, trading in scrips that were illiquid and were squaring off respective positions on the same day without much profit or loss. Being a registered intermediary, Broker is under positive obligation to be more diligent while dealing with clients, which Broker failed in the instant case resulting in violation of Brokers Regulations. I note that Broker failed to exercise due skill and care as required by Broker Regulations in terms of Clause A (1-4) of the Code of Conduct prescribed for brokers, in Schedule II in terms of Regulation 7 of Brokers Regulations.
- 4.4 As admitted by the Broker, the said clients have traded only in the scrips of ESL, M/s. Morepen Hotels Ltd and M/s. Veronica Laboratories Ltd, which were illiquid scrips. The scrip of ESL has been made liquid by putting artificial volumes and price by certain connected clients including that of the clients of Broker. In such scrip Broker has allowed new clients to trade that

too without collecting margins. These clients have entered into continuous speculative transactions without any genuine interest in giving or taking delivery of shares. This has resulted in creation of artificial volumes and price rise in the scrip which has otherwise no interest from the general investors.

- 4.5 I observe that only few clients connected to each other are able to indulge in circular trading i.e., buy and sell transactions with each other, squaring off positions and reversing trades either on the same day or same settlement, making the net receivables and deliverable positions either nil or in negligible quantities and created a false and misleading appearance of trading on the securities market in the scrip of ESL which include that clients of Broker.
- 4.6 In the above circumstances, any prudent broker should doubt the intentions of the clients and stop trading for them. The Broker instead, continued trading on behalf of his client for number of settlements which resulted in building up of artificial volumes and price in the scrip of ESL. Unsuspected innocent investors would be trapped by such false appearance of trading in securities. This is detrimental to the interest of investors and the orderly development of the securities market.

5.0 Order

- 5.1 Therefore I am in agreement with the recommendation of enquiry officer and in exercise of powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with regulation 13 (4) of Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002, I hereby impose a minor penalty of warning on M/s. M J Doshi. I direct him to be more diligent in complying with the Securities and Exchange Board of India Act, Rules and Regulations framed there under. I further direct him to note that any instances of violations or non-compliance of the Securities and Exchange Board of India Act, Rules and Regulations in future shall be dealt with more stringently.

Place: Mumbai

Date: 27 December 2005

Madhukar
Whole Time Member
Securities and Exchange Board of India