

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST M/S. SUBECHA SECURITIES PRIVATE LIMITED, A SUB-BROKER OF M/S. SVS SECURITIES PRIVATE LIMITED, WITH SEBI REGISTRATION NO. INS 010480536, UNDER SECTION 13 (4) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEEDURE FOR HOLDING ENQUIRY BY AN ENQUIRY OFFICER AND RECOMMENDATION OF PENALTY) REGULATIONS, 2002, IN THE MATTER OF M/S. SOUNDCRAFT INDUSTRIES LIMITED.

Whereas, an investigation was conducted into the dealings in the scrip of M/s. Soundcraft Industries Ltd. (hereinafter referred to as SIL) after a sudden price rise was observed in the scrip in both The Stock Exchange, Mumbai (hereinafter referred to as BSE) and The National Stock Exchange (hereinafter referred to as NSE) during the period December 1998 to July 1999, and,

Whereas, during the investigation it was found that M/s. Subecha Securities Pvt. Ltd., (hereinafter referred to as 'the sub-broker') a sub-broker of M/s. SVS Securities Pvt. Ltd., a member of BSE (one among the top 5 brokers who have dealt in the scrip of SIL at BSE and hereinafter referred to as SVSSPL), had transacted in the scrip of SIL on behalf of its clients Shri Yogesh Panchal and Shri Nagraj Kundar, and,

Whereas, an enquiry officer was appointed by SEBI vide order dated 14.03.03 under Regulation 5 (1) of SEBI (Procedure for holding enquiry by an Enquiry Officer and recommendation of penalty) Regulations, 2002 for inquiring into the possible violation of the SEBI Act, 1992, SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities market) Regulations, 1995 and SEBI (Stock Broker and Sub-broker) Regulations, 1992, and,

Whereas, the enquiry officer after conducting an inquiry into the transactions carried out by the sub-broker in the scrip of SIL had found the sub-broker guilty of violating Clause A (2) of the code of conduct for sub-brokers prescribed in Schedule II read with Regulation 15 of SEBI (Stock Broker and Sub-broker) Regulations, 1992 and Section 12 (3) of the SEBI Act, 1992. However, considering the fact that the transactions of the nature carried out in the scrip of SIL being isolated and not repetitive, the enquiry officer recommended a minor penalty of warning to be issued to the sub-broker, and,

Whereas, a show cause notice dated 01.10.04 was issued to the sub-broker under Section 13 (1) of SEBI (Procedure for holding enquiry by an Enquiry Officer and recommendation of penalty) Regulations, 2002, enclosing therewith a copy of the enquiry report, asking the sub-broker as to why appropriate penalty including the penalty as recommended by the enquiry officer should not be imposed on the sub-broker. It was also mentioned in the notice that their reply, if any, to the show cause notice should be received within 15 days or else it would be presumed that the sub-broker had no explanation to offer and SEBI would be free to take such action in the matter as it deems fit, and,

Whereas, the show cause notice was delivered to the sub-broker on 04.10.04 and no reply has been received from the sub-broker, to the show cause notice dated 01.10.04, and,

Whereas, the issues for consideration is whether, the sub-broker is guilty of violating the provisions of Clause A (2) of the Code of Conduct for sub-brokers prescribed in Schedule II read with Regulation 15 of SEBI (Stock Broker and Sub-broker) Regulations, 1992 and Section 12 (3) of the SEBI Act, 1992.

I have considered the enquiry report and the findings therein. I am convinced that sufficient opportunity has been given to the sub-broker to furnish its reply to the findings in the enquiry report and that the principles of natural justice is adequately satisfied.

I find that the sub-broker had dealt in the scrip of SIL through M/s. Betala Stock Broking Pvt. Ltd. Member, NSE (hereinafter referred to as BSBPL) for the client Shri Nagaraj Kundar. The sub-broker has dealt with Shri Kundar at the NSE, even when its application for acting as a sub-broker to BSBPL was pending with the NSE due to certain technical reasons. Shri Kundar was acting as a front entity to M/s. Rajkumar C. Basantani, the promoter of SIL, a member of NSE and the primary player behind the price manipulation in the scrip of SIL.

The sub-broker has also traded in the BSE through SVSSPL for its ultimate client, Shri Yogesh Panchal, a person connected to Shri Basantani and who was exclusively enrolled with the sub-broker as a client to offload the shares of SIL in the auction conducted at the BSE.

Thus, these transactions of the sub-broker for its ultimate clients only go to prove that they have violated the provisions of Clause A (2) of the Code of Conduct for sub-brokers prescribed in Schedule II read with Regulation 15 of SEBI (Stock Broker and Sub-broker) Regulations, 1992. Also, the sub-broker has admitted that it acted as a sub-broker to BSBPL at NSE while their application was pending with the NSE, a clear violation of Section 12 (3) of the SEBI Act, 1992.

The absence of any representation from the sub-broker merely goes to affirm the findings as above. Therefore, I concur with the findings of the enquiry officer as regards the violations committed by the sub-broker.

As regards the quantum of penalty, I feel a minor penalty in the nature of suspension of certificate of registration of the sub-broker would be warranted in this case, considering the violations of the sub-broker as specified above. But, I note from the enquiry report that the broker, BSBPL has only been warned for dealing with the unregistered sub-broker, since M/s. Subecha Securities Private Limited had already made an application for registration. It has also been observed that, the sub-broker was not habitually trading in securities as an unregistered sub-broker and that trading in the scrip of SIL by the sub-broker is a single isolated incident. Also, the sub-broker is not found guilty of price manipulation in the scrip of SIL as brought out in the enquiry.

Thus, the enquiry officer, I feel, has been considerate in recommending a minor penalty of warning to the sub-broker after going into the violations committed by it. In view of the above, I feel the ends of justice would be met if a warning is issued to the sub-broker as recommended by the enquiry officer.

Therefore, I, in exercise of powers conferred upon me, by virtue of Section 19 of the SEBI Act, 1992 read with Regulation 13 (4) of SEBI (Procedure for holding enquiry by an Enquiry Officer and recommendation of penalty) Regulations, 2002, hereby warn M/s. Subecha Securities Private Limited (SEBI Registration No. INS 010480536) to be careful in the future, to desist from carrying out transactions of the nature carried out in the scrip of Soundcraft Industries Limited.

DATE: 23.01.06
PLACE: MUMBAI

MADHUKAR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA