

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(4) SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 AGAINST GALAXY BROKING LTD MEMBER BSE, REGN NO. INB 010882739, FOR TRANSACTIONS IN THE SCRIP OF M/S ENRICH INDUSTRIES LTD.

1. Enrich Industries Ltd. (hereinafter referred to as EIL) was incorporated as Jolly Fiscal Ltd. on 24.07.1992. Its name changed to Enrich Finance Ltd. on 02.09.1994 and subsequently on 23.04.1998 the name of the company was changed to EIL. The shares of the company are listed at the Stock Exchange, Mumbai (hereinafter to be referred to as BSE) and at Ahmedabad Stock Exchange. It had come to the notice of Securities and Exchange Board of India (hereinafter referred to as SEBI) that there was a sudden spurt in price and volume of the scrip.
2. Therefore, SEBI conducted investigations in the scrip of EIL for the period from 26.06.2000 to 10.10.2000. During this period the price of the scrip moved on BSE from a low of Rs.2.70 on 26.06.2000 to a high of Rs.19.85 on 05.09.2000. Sudden spurt was also noted in the volumes of the scrip traded.
3. Based on the findings of the said investigation, an Enquiry officer was appointed under Regulation 5(1) of SEBI (Procedure for Holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as Enquiry Regulations) vide order dated 16.03.2004 to enquire into possible violations of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as Stock Brokers Regulations) and SEBI (Prohibition of Fraudulent and Unfair Trade Practices in Securities Market) Regulations, 2003 (hereinafter referred to as FUTP Regulations, 2003) alleged to have been committed by Galaxy Broking Ltd. Regn. No. 010882739 (hereinafter referred to as the broker).
4. **ENQUIRY REPORT AND RECOMMENDATION**
5. The enquiry officer completed the enquiry as per the procedure laid down in the "Enquiry Regulations" and submitted a report dated 16.10.2004. The enquiry officer recommended that a penalty of suspension of 3 months be imposed against the broker.
6. The enquiry officer found that the broker was responsible for the manipulation in the scrip of EIL and has violated regulations 4(2) (a) & (e) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter to be referred to as FUTP Regulations, 2003). The enquiry officer further found that the broker has violated Clause A(1), (2), (3), (4) and (5) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI Stock Brokers Regulations and SEBI Circular No. SMD/RCG/CIR (BKG)/293/95 dated 14.03.95.
7. **SHOW-CAUSE NOTICE AND ALLEGATIONS:**
8. A Show Cause Notice (SCN) dated 3.06.2005 was issued to the Broker along with a copy of the Enquiry Report, calling upon it to show cause, as to why action as recommended by Enquiry Officer, should not be taken against it. The broker replied to the show cause notice vide letter dated 14.06.2005.
9. **Allegations:**
10. The broker was alleged to have traded in the scrip in large volumes on behalf of their client Tushar Jhaveri. It purchased approximately 23,60,455 shares for its client during the BSE settlement nos. 78 to 134 (i.e. during the period 17.07.2000 to 06.10.2000) which accounted for approximately 40% of the share capital of the company. During this period the price of the scrip had moved from Rs.4.35 to Rs.19.05.
11. The broker was alleged to have placed orders above the previous days closing prices or above the prevailing market prices. Such orders of the broker combined with high volume of trading in the scrip by the broker had influenced the share price of the scrip which went on increasing, during the said period.
12. The broker was alleged to have executed 124 synchronized trades in the scrip of EIL with the objective to influence the price of the scrip, out of which in case of 100 transactions, the buy and sale orders had been placed by the broker simultaneously at the same time for the same quantity, same price and for the same client i.e. Tushar Jhaveri. For the remaining 24 transactions, which had been placed around the same time although the quantity was same, there was small difference in the price of buy and sale orders. Such trades had been executed with different client codes, with intention to indicate that the purchase and sale orders had been placed for different clients. However, almost 99% of the broker's trades in the scrip during the investigation period had been executed on behalf of the client Tushar Jhaveri indicating that for such transactions there was no change in beneficial ownership of shares and these were fictitious in nature indicating manipulative intent.
13. The Broker executed trades against various client codes and subsequently transferred the saudas to client code T004 of Tushar Jhaveri. Similarly for certain client codes which were claimed to have been wrongly punched by the broker were

meant for client code D003 which was the code assigned to sub-broker through whom Tushar Jhaveri was trading. 99% of trading executed by the broker were on behalf of Tushar Jhaveri. Repeatedly punching saudas for non-existing clients and transferring it later to Tushar Jhaveri indicates manipulative intent.

14. It was further alleged that the broker transferred shares purchased on behalf of Tushar Jhaveri on at least 16 occasions between 09.08.2000 to 17.11.2000 to various entities. Even after becoming aware of the financial position of Tushar Jhaveri, the broker went on purchasing huge quantities of shares on his behalf and then transferring the shares so purchased to other entities. It was also alleged that above 16 deals of transfer of shares to other entities, which are of the nature of spot deals / off market deals and were executed by the broker on instructions of Tushar Jhaveri had not been reported to the Stock Exchange thereby violating SEBI Circular SMD/RCG/CIR (BKG)/293/95 dated 14.03.95.
15. It was alleged that by the above acts the broker had assisted / abetted in creating artificial volumes in the scrip and distorting the market equilibrium of the shares and also influencing the price of the scrip with fraudulent and manipulative purposes. Hence it was alleged that the broker violated the provisions of Regulation 4(a), (b), (c) and (d) of FUTP Regulations, 1995 as applicable at the time when act was committed read with regulation 4(2) (a), (b), (e) and (g) of the FUTP Regulations, 2003.
16. Hence it was further alleged that the broker had violated Regulation 7 read with Clause A(1), (2), (3), (4) and (5) of Code of Conduct as specified in Schedule II of the Stock Brokers Regulations.
17. **Reply:**
18. The broker submitted that the Enquiry Regulations under which enquiry was sought to be initiated is prima facie under misconception of law in as much as the Enquiry Regulations came into force by notification dated 27.09.02 whereas alleged transactions were during the period prior to that.
19. The broker further submitted that the transactions of its clients were within the price and order matching mechanism of the stock exchange. The Broker further submitted that its client's transactions alone could not be said to have influenced the prices at the exchange.
20. The Broker further contended that SEBI failed to establish the alleged manipulative intent of its client and submitted that the role played by it as an intermediary in the market, was that of a discount broking house only and that it did not control or influence the investment decisions of its clients and that as an intermediary, it only executed orders of its clients. The broker denied that trades aggregating to 40% are large volume.
21. With regard to the allegation of placing of orders at a price higher than the ruling price / last trade price and inferring that such orders were only for the purpose of influencing the price, the Broker stated that if a buy order was for a larger quantity of shares vis-à-vis the quantity available for sale the buy orders would have to be placed at a price higher than the ruling price /last traded price in order to fully fulfill or fulfill a substantial portion of the buy order. The Broker argued that if the buy orders were to be placed at the existing price / last traded price or at a relatively lower price, it might be possible that the full quantity required by its client may not be available and to ensure that the full quantity of buy order is fulfilled it would have been necessary to place orders higher than ruling price / last traded price. The Broker contended that the inference drawn by SEBI that the orders were placed only with the purpose to influence the price is improper and incorrect. The Broker clarified that any increase in the price is incidental to the said buy orders and the inference that these orders were placed with the purpose to influence the price is unjustified.
22. The broker further submitted that it is impossible as a broker to detect and perceive the intentions of the client and the allegation of its having failed to exercise due skill, care and diligence cannot be extended in a manner to suggest that the purpose and objective of the client should always be known to them as a result of which their alleged acts of influencing the price.
23. The broker stated that show cause notice did not contain any information with regard to the buyers, if any, the quantity and price at which such other buyers also bought the shares of the same scrip during the very same time period during which its clients were alleged to have caused a rise in the price of the scrip of EIL.
24. The broker submitted that with variety of safeguards in place such as circuit filter scrip wise broker wise limit etc. in a screen based trading system, a buy and sell order of unlimited quantity or at rates exceeding the circuit filter limits cannot be booked on the screen. The broker further submitted that such order if placed would be rejected outright. The broker contended that the said show cause notice failed to satisfactorily address these issues and place on record material which would indicate that the alleged transaction were at prices unrelated to the vis-à-vis the quantum of shares to be purchased by their client and price at which the quantum of shares available for sale.
25. The broker submitted that a genuine transaction by itself cannot attract the provisions of FUTP Regulations, 1995 even if such a transaction had resulted in market price variation. The Broker stated that FUTP Regulations, 1995 could be attracted only

- if the transaction was made with the purpose of artificially raise or depress the prices of securities so as to induce any other person to sell or purchase the securities.
26. With regard to the allegation that the broker executed 124 synchronized trades out of which 100 transactions of buy and sale orders are at simultaneously at the same time, same quantity, same price and for same client i.e Tushar Jhaveri, and 24 transactions were also synchronised with slight variation in price, the broker submitted that this was factually incorrect.
27. With regard to the allegation that the broker has not exercised due skill, care and diligence in executing large purchases on behalf of Tushar Jhaveri and subsequently transferring /selling shares to other clients as off market deals, the broker submitted that the saudas were wrongly punched and has been ignored and has not been accepted and that committing mistakes cannot be automatically translate into an indication of manipulative intent as envisaged in the allegation.
28. The Broker also denied having violated any provisions of code of conduct as specified in schedule II of Stock Brokers Regulations.
29. **CONSIDERATION OF ISSUES AND OBSERVATIONS:**
30. I have considered the facts of the case, the findings of the Enquiry Officer and the reply of the Broker. I observe that the following issues have been framed by Enquiry Officer.
- Whether the broker indulged in synchronized trades.
 - Whether the scrip of EIL had been manipulated.
 - Whether the broker has indulged in any fraudulent or unfair trade practices?
 - Whether the broker had exercised due diligence and maintained integrity and fairness in the conduct of his business.
31. **Whether the broker indulged in synchronized trades?**
32. I observe from the enquiry report that the broker had executed 124 synchronized trades out of which in case of 100 transactions, the buy and sale orders had been placed by the broker simultaneously at the same time for the same quantity, same price and for the same client i.e. Tushar Jhaveri. The instances of synchronized trading are indicated in Annexure of the show cause notice.
33. I observe from the enquiry report that almost 99% of the broker's trades in the scrip during the investigation period had been executed on behalf of the client Tushar Jhaveri. This goes to show that for such transaction there was no change in beneficial ownership of shares and these are irregular in nature.
34. On synchronized trades and the trades which had influenced the price of the scrip, the broker made submission to the effect that during the period market was booming and clients purchased stock when prices rise. The broker's explanation that it had done the transactions through BOLT system where trades of the clients would be matched by the system cannot be accepted, since transactions which violate the FUTP Regulations are also carried out through BOLT system only. I observe that even by applying simple logic one can infer that it is not possible for transactions of buy and sell orders of the same scrip to coincidentally match on 124 occasions with price and quantity matching exactly. It is clear that both the buy and sell orders had been placed by the broker with the time difference of less than 60 seconds for its client Tushar Jhaveri with a view to influence the price of the scrip, thereby disturbing market equilibrium.
35. **Whether the scrip of EIL had been manipulated?**
36. It is observed from the enquiry report that the price of the scrip of EIL moved on BSE from a low of Rs.2.70 on 26.06.2000 to high of Rs.19.95 on 05.09.2000. Sudden spurt was also noted in the volumes of the scrip traded and the details are as under. A total of 57,85036 shares of the company were traded at BSE during the period out of 19 trades which its purchase quantity was more than 23 Lacs shares.

Table 1

Date	Volume	Closing Price (in Rs.)
06.26.00	1100	2.7
06.27.00	2000	2.7
06.28.00	590	2.7
07.05.00	100	3.35

Date	Volume	Closing Price (in Rs.)
07.06.00	100	3.5
07.11.00	800	3.5
07.17.00	100	4.35
07.18.00	911	5.2
07.19.00	12200	6.45
07.20.00	57600	8
07.21.00	128400	9.75
07.24.00	78500	11.8
07.25.00	11700	12.65
07.26.00	99000	13
07.27.00	46100	12.55
07.28.00	98400	13
07.31.00	228200	13
08.01.00	104500	13.5
08.02.00	11830	14
08.03.00	65700	14.4
08.04.00	84902	14.95
08.07.00	129050	15
08.08.00	57692	15.2
08.09.00	107900	15.75
08.10.00	62100	16
08.11.00	24800	16.6
08.14.00	91692	16.15
08.16.00	120500	16.5
08.17.00	89000	16.5
08.18.00	185400	16.95
08.21.00	144600	16.95
08.22.00	70700	17
08.23.00	35000	17.5
08.24.00	159100	17.7
08.25.00	138400	17
08.28.00	265205	17.4
08.29.00	269800	17.95
08.30.00	176285	17.85
08.31.00	96200	18.55
09.04.00	157200	19.1
09.05.00	73100	18.85

37. It is further observed from enquiry report no corporate events reported from the company during that period. There was no market event which would influence the price of the scrip even at industry level. The presence of same brokers on both the sides and day-by-day increase in the price of the scrip and the volumes in the scrip definitely point out at the fact that the rise in the price is artificial and hence manipulated.
38. **Whether the broker has indulged in any fraudulent or unfair trade practices?**
39. I observe from the enquiry report that on examination of the price chart of the scrip for the relevant period the difference in closing price and opening price of the next day is very clear.
40. I observe from the above Table 1 that the price continuously moved up from Rs.3.5 on 11.07.2000 to Rs.18.00 on 24.08.2000. I have observed from the order / trade log details for the relevant period that the orders were placed by the

broker above the previous day's closing price or above the prevailing market price. The following Table indicates the details.

Table 2

OrderNo	Member Code	Counter Party Code	TradeDateTime	Price (Rs.)	Buy Or Sell	**
40100800000002825	D0401	D0438	11/7/2000 15:24	3.5	S	C
51300100000003819	D0513	D0771	17/07/2000 12:09:16 PM	4.35	B	O
77101300000002974	D0771	D0513	17/07/2000 12:09:16 PM	4.35	S	C
51300100000003879	D0513	D0438	18/07/2000 11:19:06 AM	5	B	O
40100700000004422	D0401	D0185	18/07/2000 03:47:35 PM	5.2	S	C
51300100000003935	D0513	D0401	19/07/2000 10:24:31 AM	6.25	B	O
43801400000011541	D0438	D0766	20/07/2000 10:12:04 AM	6.5	S	C
51300100000004056	D0513	D0438	20/07/2000 10:37:36 AM	7.45	B	O
51300100000004057	D0513	D0401	20/07/2000 10:37:52 AM	7.5	B	O
51300100000004058	D0513	D0030	20/07/2000 10:38:08 AM	7.9	B	O
51300100000004060	D0513	D0564	20/07/2000 12:35:40 PM	8.05	S	O
1400500000007437	D0014	D0513	20/07/2000 01:40:51 PM	8	S	C
51300100000004175	D0513	D0030	21/07/2000 10:38:06 AM	9.9	B	O
51300100000004175	D0513	D0438	21/07/2000 10:38:06 AM	9.95	B	O/C
51300100000004243	D0513	D0027	24/07/2000 10:02:00 AM	12.15	B	O
51300100000004243	D0513	D0027	24/07/2000 10:09:12 AM	12.15	S	O
61500200000005632	D0615	D0014	24/07/2000 02:59:27 PM	11.8	S	C
51300100000004369	D0513	D0014	25/07/2000 10:23:10 AM	12.7	B	O
49103200000005106	D0491	D0062	25/07/2000 03:00:09 PM	12.65	S	C
74702900000000890	D0747	D0513	2/8/2000 15:25	14	S	
51300100000005216	D0513	D0513	3/8/2000 10:18	14.5	B	O
51300100000005216	D0513	D0601	3/8/2000 10:18	14.5	B	O
51300100000005216	D0513	D0601	3/8/2000 10:18	14.5	B	O
51300700000000070	D0513	D0513	3/8/2000 10:18	14.5	S	
51300100000005217	D0513	D0601	3/8/2000 10:18	14.5	B	O
51300100000005217	D0513	D0601	3/8/2000 10:18	14.5	B	O
51300100000005217	D0513	D0601	3/8/2000 10:18	14.5	B	O
51300100000005217	D0513	D0601	3/8/2000 10:18	14.5	B	O
56402100000007010	D0564	D0513	3/8/2000 15:02	14.4	S	C
51300100000005287	D0513	D0321	4/8/2000 10:29	14.95	B	O
55203100000003694	D0552	D0688	8/8/2000 15:28	15.5	S	C
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
51300100000005520	D0513	D0380	9/8/2000 10:41	15.6	B	O
60100400000005343	D0601	D0653	10/8/2000 15:10	16	S	C
51300100000005726	D0513	D0688	11/8/2000 10:03	16.6	B	O
68800400000002818	D0688	D0513	11/8/2000 10:03	16.6	S	C
51300100010005817	D0513	D0258	14/08/2000 10:20:01 AM	16.85	B	O
51300100010005817	D0513	D0258	14/08/2000 10:20:01 AM	16.85	B	O
60100400010005479	D0601	D0513	14/08/2000 03:22:53 PM	16.15	S	C
51300100010005943	D0513	D0401	16/08/2000 10:43:55 AM	16.4	B	O
51300100010005943	D0513	D0401	16/08/2000 10:43:55 AM	16.4	B	O
12202300010008471	D0122	D0185	18/08/2000 03:25:39 PM	17	S	C
51300100010006295	D0513	D0438	21/08/2000 10:22:27 AM	17.4	B	O

OrderNo	Member Code	Counter Party Code	TradeDateTime	Price (Rs.)	Buy Or Sell	**
32201400010011973	D0322	D0443	21/08/2000 03:19:54 PM	16.5	S	C
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
51300100010006399	D0513	D0380	21/08/2000 03:24:01 PM	17.4	B	O
38000100010007833	D0380	D0513	21/08/2000 03:24:01 PM	17.4	S	C
51300100010006741	D0513	D0771	24/08/2000 12:19:04 PM	18	B	O

41. I observe from the enquiry report that by placing orders at such higher prices had influenced the share prices. From the above table it is noted that the broker entered several transactions including both buy and sell. I further observe from enquiry report that the broker was always placing orders at prices higher than previous closing price or last traded price. I further observe the enquiry report brings out how the price of the scrip was appreciated. I observe when the last traded price / previous closing price on 11.07.2000 was Rs.3.50 and on the next day of trading i.e., on 17.07.2000 the broker bought 100 shares at Rs. 4.35. Likewise, on the next traded day i.e. 18.07.2000, the broker purchased 11 shares at Rs.5.00 when the last closing price was Rs.4.35. Similarly, on 19.07.2000 broker purchased 500 shares at Rs. 6.25 when the previous closing price was Rs.5.20. On 20.07.2000 at 10.37 am when the price was Rs.7.45 broker purchased shares as mentioned below, thereby taking the price from Rs. 7.45 to Rs.8.05.

Table 3

Date and Time	Price(Rs)	Quantity	Buy or Sell
20.07.2000 10:37:36 AM	7.45	400	B
20.07.2000 10:37:52 AM	7.5	500	B
20.07.2000 10:38:08 AM	7.9	300	B
20.07.2000 12:35:40 PM	8.05	300	S
20.07.2000 01:40:51 PM	8	500	B

42. I further observe from the enquiry report that when the closing price was Rs.8.00 on 20.07.2000, the broker purchased shares at Rs.9.90 thereby contributing to rise of almost Rs.2.00. Next order was also placed by broker on 24.07.2000 at Rs.12.15 whereas the previous closing price was Rs. 9.75 on 21.07.2000. On 03.08.2000 broker purchased shares at Rs.14.50 whereas the closing price on the previous day was only Rs.14.40. Broker purchased 28000 shares in three trades. There were two cross deals also. Similarly, on 04.08.2000 it purchased 500 shares at Rs.14.95 contrast to previous closing price of Rs.14.40. On 09.08.2000 the broker purchased 5000 shares at Rs.15.60 in contrast to previous closing price of Rs.15.50. It is observed that in the same manner the broker has placed orders at higher prices and taken the price of the scrip to Rs.18.00. The explanation given by the broker that there might be other reasons for rise in price other than their dealing is not satisfactory. The reply of the broker that if a buy order is for a larger quantity of shares vis-à-vis the quantity available for sale, the buy orders will have to be placed at a price higher than the ruling price / last traded prices in order to fully fulfill or fulfill a substantial portion of the buy order, is not acceptable. Broker argued that if the buy orders were placed at the exiting price / last traded price or at a relatively lower price, it may be possible that the full quantity required by their

client may not be available and to ensure that the full quantity of buy order is fulfilled it would have been necessary to place orders higher than ruling price / last traded price, but has not substantiated that the order was for such and such higher quantities and that the client placed an order for at such a higher price. It is obvious from the above table that these orders were placed with the purpose to influence the price since very order placed by the broker had resulted in increase in price.

43. I am unable to agree with the contention of the broker that it is impossible as a broker to detect and perceive the objectives of the client. I have observed from the trading of the broker that it was dealing in the scrip mostly for one client Tushar Jhaveri when a client was dealing in a scrip like EIL placing orders regularly at appreciating prices, in large volumes and the same should have alerted any reasonable and prudent broker.
44. As far as the objective of the Broker is concerned the same is reflected in the series of acts which go to constitute the price manipulation. I find that the following acts when done together would prove the necessary purpose to manipulate the price.
- a) Placing of orders at higher than the ruling price
 - b) Trading in large volumes
 - c) The no of clients with whom the script under manipulation is traded
 - d) Circumstances warranting the broker to suspect the objectives of the client when he placed orders for execution.
 - e) Frequent wrong punching of Saudas
 - f) Presence of same broker on both the sides and day by day increase in the price of the scrip and volumes in the scrip
 - g) The activity of broker who transferred shares purchased on behalf of its client atleast 16 occasions between 9.08.2000 and 17.11.2000 to various entities
 - h) Evenafter knowing the financial position of Shri. Tushar Jhaveri, the broker continued to trade with him.
45. The acts of the broker had defied the natural price discovery mechanism of the exchange since the broker had aided and abetted with the client who deliberately took the price of the scrip to Rs.19 from Rs.3.50 as observed above. I also observe that it is also not proved that the transactions resulted in any unlawful gains to the broker in addition to the brokerage earned. The enquiry officer concluded that the no direct connection can be established since no other data other than trade data is available on record. Hence the Enquiry Officer held that the broker is indirectly responsible for the manipulation in the scrip of EIL and found the broker had violated regulations 4(2) (a) & (e) of FUTP Regulations, 2003. I find that the violations were committed in the year 2000 when FUTP Regulations,1995 was in force. Hence he has violated Regulation 4(a) (b) (c) and (d) of FUTP Regulations,1995.By virtue of Regulation 13 of FUTP Regulations, 2003, I find the broker guilty of Regulation 4(a) (b) (c) and (d) of FUTP Regulations,1995 read with 4(2) (a) & (e) of FUTP Regulations, 2003.
46. **Whether the broker had exercised due diligence and maintained integrity and fairness in the conduct of his business.**
47. I observe from enquiry report that out of the above 124 synchronized trades in case of 100 transactions, the buy and sale orders were placed by the broker simultaneously at the same time for same quantity, same price and same client. For example 24 transactions, which were placed around the same time, there was only a small difference in buy and sale orders and were executed with different clients.
48. I further observe from the enquiry report that the broker executed several trades against various client codes viz. T007, K002, 5559, 5070, 4001, T004, V 009, 7, P015, H003, T002, A018, P016, D 007, 5525, A 004 etc. Tthe broker executed saudas against client code K 002 and subsequently transferred the saudas to client code T 004 i.e. Tushar Jhaveri. Similarly, for saudas executed for client code T 007 the broker stated that sauda was wrongly punched as T007 instead of T004 i.e. Tushar Jhaveri. Similarly, for client codes 5559, 5070, 4001 etc. the broker submitted that the saudas were wrongly punched and were meant for client code no.D003. I have noted from the reply of the broker that D003 is the client code assigned to sub broker Devani Finvest Pvt. Ltd. through whom Tushar Jhaveri dealt in the shares. I further observe that during the period of investigation the broker executed trades in the scrip only on behalf of five clients. Almost 99% of the total trade in the scrip were executed on behalf of Tushar Jhaveri. However, the broker executed such trades by giving at least 17 different client codes in their orders. Hence, I observe from that, punching of saudas against different client codes for non-existing client on a number of occasions and subsequently terming it as sauda wrong 'punched' and transferring it as trades of Tushar Jhaveri indicates manipulative intentions on the part of the broker. It is difficult to accept that so many different client codes would be wrongly punched on several occasions. The above has apparently done with the objective of showing trades of Tushar Jhaveri as trades executed on behalf of other clients.

49. The contention of the broker that for client T004 and D003 the broker had wrongly punched client code 5559, 4001, T007, K002 etc. is not acceptable as it is not possible to repeatedly punch wrong codes on so many occasions. I further observe from the enquiry report that the broker's submission goes to show his negligent attitude and indicates that it had failed to exercise due diligence and care in the conduct of its business. Therefore I hold that the broker is guilty of violating the provisions of A(1) and A (2) of Code of conduct of the Stock Broker Regulations. Since the above said intentional wrong punching was infact in furtherance of the abetment to manipulate the price of the EIL scrip, the same is violative of A (3) (4) and (5) of the Code of Conduct of the Stock Broker Regulations
50. I observe from the investigation report that the broker initially transferred 94,000 shares on 09.08.2000 to another entity. Subsequently, the broker transferred shares purchased on behalf of Tushar Jhaveri on at least 16 occasions between 09.08.2000 to 17.11.2000 to various entities. The details of the said transfers is as under:

1. Pankaj A. Desai

Sr. No.	Date	DP ID	Client ID	Qty
1	23.08.2003	IN 30046	10035163	50400
2	24.08.2003	IN 30046	10035163	40700
3	25.08.2003	IN 30046	10035163	51000
4	31.08.2003	IN 30046	10035163	30000
			Total	172100

2. Havemore Financial Services

Sr. No.	Date	DP ID	Client ID	Qty
1	23.08.2003	IN 301330	17044954	55000
2	24.08.2003	IN 301330	17044954	31300
3	25.08.2003	IN 301330	17044954	30000
4	31.08.2003	IN 301330	17044954	60000
			Total	176300

3. N N Saraf

Sr. No.	Date	DP ID	Client ID	Qty
1	09.08.2000	IN 300126	10536713	94000
2	29.08.2000	IN 300126	10536713	82000
3	08.09.2000	IN 300126	10536713	50000
			Total	226000

4. Lalkar Securities Pvt. Ltd.

Sr. No.	Date	DP ID	Client ID	Qty
1	28.08.2000	IN607396		74600
			Total	74600

5. Ruchiraj Shares & Stock Broking

Sr. No.	Date	DP ID	Client ID	Qty
1	11.09.2000	IN 30086	10047271	45000
2	13.09.2000	IN 30086	10047271	50000
3	08.09.2000	IN 30086	10047271	126659
			Total	221659

51. The broker submitted that their client Tushar Jhaveri was unable to meet his financial obligations and on his instructions the broker transferred shares purchased on his behalf to other entities. I observe that even after becoming aware of the financial position of Tushar Jhaveri the broker went on purchasing the huge quantities of shares on his behalf and then transfer the shares so purchased to other entities. I observe from the enquiry report that from the ledger for 01.04.2000 to 31.03.2001 of Tushar Jhaveri with the broker, it becomes clear that the account of Tushar Jhaveri was mostly showing debit and despite this broker continued to deal with him without seeking appropriate margins and funds to regularize the account. I note that the broker has not exercised due skill, care and diligence in executing large purchases on behalf of Tushar Jhaveri and subsequently transferring/ selling shares to other clients in off market deals.
52. I also observe from the enquiry report that the above 16 deals of transfer of shares to other entities, were spot deals / off market deals and were executed by the broker on instructions of Tushar Jhaveri and these transactions have not been

reported to the Stock Exchange. The broker did not give any reply to this charge. It is not indicated in the reply whether the said transactions were later reported to the exchange as off the floor transactions. Thus, the broker has violated SEBI Circular No.SMD/RCG/CIR/(BKG)/293/95 dated 14.03.95 which states that broker are required to report all transactions done on spot basis to the stock exchange on the same day. Also brokers are required report on the same day all transactions adjusted in their books – whether between two clients or whether between a client and broker. In view of my observations, I don't find any valid reason to differ with the findings and recommendations of the enquiry officer. I am, therefore, convinced that the broker is guilty of violating the provisions of A (1), (2), (4) & (5) of Code of Conduct of Stock Brokers Regulations.

53. **ORDER**

54. In view of my above observations and considering the gravity of the charges, a penalty of suspension of the certificate of registration of the Broker for a period of three months would be adequate in the facts and circumstances of this case as recommended by the Enquiry Officer.
55. I note that SEBI, vide ad interim exparte order dated January 24, 2006 under Sections 11(1), 11B and 11(4) (b) of SEBI Act,1992, , interalia, suspended the certificate of registration of M/s Galaxy Broking Limited pending inquiry and passing of final order in the matter and prohibited it from buying , selling or dealing in securities, in any manner, either directly or indirectly, till further directions in this regard.
56. Therefore, in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992 read with Regulation 13(4) of Enquiry Regulations, I hereby suspend the certificate of registration of Galaxy Broking Ltd for a period of three months.
57. This order shall come into effect after the expiry of 21 days from the date of this order. The present order shall run concurrently with the above order dated January 24, 2006 passed by SEBI.

Place: Mumbai

Date: 25.01.06

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA