

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 PARKLIGHT INVESTMENTS PVT. LTD., MEMBER, BSE, REGISTRATION No. INB 1037836 IN THE MATTER OF MANGALYA EXPORTS LTD.

1.0 BACKGROUND

- 1.1 Parklight Investments Pvt. Ltd. (hereinafter referred to as "the broker") is a member of the Stock Exchange, Mumbai (hereinafter referred to as "BSE") and is registered with Securities and Exchange Board of India (hereinafter referred to as "SEBI") vide registration No. INB 011037836.
- 1.2 SEBI conducted an investigation into the affairs relating to buying, selling and dealing in the shares of Mangalya Exports Ltd. (hereinafter referred to as "MEL") for the period 17.05.2000 to 21.07.2000. Investigation revealed that MEL had been a continuously loss incurring company with a very small volume of turnover. The price of the scrip went up from Rs.96/- to Rs.194/- in a month's time in May-June 2000 and then declined to the same level of Rs.96/- in June-July 2000.
- 1.3 Investigation revealed that the broker traded for their client Rushil Enterprise, proprietor Shri Ashish Suresh Shah. The broker purchased 3,900 shares and sold 3,900 shares of the said scrip for him. Investigation revealed that Shri. Ashish Suresh Shah through his firm viz., M/s. Rushil Enterprise had placed a number of buy and sell orders, through the broker, for same total quantity and same rates with minimum time difference ranging from 30 seconds to 4 minutes in most of the trades and thus he tried to create a market by doing fictitious trades and circular trading and also inflated the price of a illiquid scrip of a loss incurring company from Rs.128 to Rs.194 within a very short period of time. Thus client had dealt in securities which were circular in nature and were not intended to effect transfer of beneficial ownership (as he was the buyer and seller on both the sides), but intended to operate only as a device to inflate the price of the security which had created false and misleading appearance of trading in the securities market.

2.0 APPOINTMENT OF ENQUIRY OFFICER AND ENQUIRY REPORT

- 2.1 SEBI vide order dated 12.03.2004 appointed an Enquiry Officer under the provisions of Regulation 5 of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the "said Regulations") to enquire into the alleged violation committed by the broker of the provisions of Regulation 7 read with clause A(2) of the SEBI (Stock Brokers & Sub - Brokers) Regulations, 1992 (hereinafter referred to as "Stock Broker Regulations") while trading in the scrip of MEL.
- 2.2 The Enquiry Officer, after conducting the enquiry as per the procedure laid down in the said Regulations, submitted a report dated 22.11.2004 and found that the broker was guilty of not exercising due care and diligence as required under the code of conduct prescribed for stock brokers and recommended that warning be issued to the broker to be careful in future.

3.0 SHOW CAUSE NOTICE AND REPLY

- 3.1 A Show Cause Notice dated 22.12. 2004 was issued to the broker along with a copy of the Enquiry Report, calling upon to show cause, in terms of Regulation 13(2) of the Regulations, as to why action as recommended by the Enquiry Officer should not be taken against it. _
- 3.2 The Broker replied to the said show cause notice vide letter dated 10.02.2005 and submitted, inter alia , that
- a) the volume of trades done by the client viz. Ashish Suresh Shah was so small as to arouse suspicion that something amiss in the trading of the client.
 - b) they had exercised adequate due diligence as reasonably expected from a prudent broker when they transacted business for the said clients and they had not violated provisions of Clause A (2) of Schedule II under Regulation 7 of Stock Broker Regulations.
 - c) since BSE had already imposed a fine of Rs.25,000/- on the broker for entering into the said transactions, any further recommendations of penalty by the Enquiry Officer is against Article 20 (2) of the Constitution of India.

The broker also asked for personal hearing in the matter, if SEBI was not satisfied with their written submissions

4.0 CONSIDERATION OF ISSUES AND OBSERVATIONS

- 4.1 I have considered the facts of the case, the findings of the Enquiry Officer and the reply of the broker to the show cause notice. I note that the broker has filed written submissions vide its letter dated 10.02.2005 which has been taken on record. I am, convinced that there is no need to grant an opportunity of personal hearing inasmuch as I have taken into

consideration the submissions made by the broker vide the said letter, therefore, the principles of natural justice have been complied with in the matter.

- 4.2 I observe that the broker had executed orders in the scrip of MEL on behalf of its client M/s Rushil Enterprises whose proprietor is Ashish Suresh Shah. The total shares purchased were 3900 and the quantity sold was also 3900 shares. The details of buy and sell position of the broker is as under:

SN	Date	Buy Client	Sub Broker	Broker	Qty	Price	Sell Client	Sub broker	Broker	Qty	Price
11	6.6.00	Rushil Enterprise		Park Light Inv	1 order of 200 and 2 orders of 1000 each	128, 133, 138	Rushil Ent.		KBS Capital	11 orders of 200 each	Ranging from 128 to 138 with a diff. Of Re.1 per order
11	7.6.00	Rushil Enterprise	M J Shah	Vidyut	1 order of 200 and 2 orders of 400 each	128, 135, 138	Rushil Ent.		Park light Inv.	10 order of 200 each	148, 146, 145, 144, 140, 136, 138, 135, 132, 128
	7.6.00	Rushil Enterprise		KBS Capital	1 order of 1000	146	Rushil Ent.		Park light	1 order of 1000	146
11	8.6.00	Rushil Enterprise	M J Shah	Vidyut	1 order of 500	155	Rushil Ent.		Park light Inv	1 order of 200	155
11	9.6.00	Rushil Enterprise		Park light Inv	1 order of 500	158	Rushil Ent.	M J Shah	Vidyut	1 order of 500	158
		Rushil Ent.	M J Shah	Vidyut	1 order of 500	167	Rushil Ent.		Park light In	2 orders of 500 each	168, 167
12	14.6.00	Rushil Ent		Park light Inv	3 orders of 200, 600 & 400	178, 184, 188	Rushil Ent	M J Shah	Vidyut	6 orders of 200 each	178, 180, 182, 184, 186, 188
12	15.6.00	Rusil Ent.	M J Shah	Vidyut	3 orders of 500, 200, 500	194 194 194	Rushil Ent.		Park light	1 order of 1200	194

- 4.3 From the above table, I observe that during Settlement no.11 on 06.06.2000 Ashish Suresh Shah through his proprietary firm Rushil Enterprise under client code 33111 sold 2200 shares @ Rs.128 to 138 through KBS Capital Management Ltd. and the same were purchased by Ashish Suresh Shah through his proprietary firm Rushil Enterprises under client code R036 through the broker. These 2200 shares purchased by Mr. Ashish Suresh Shah's proprietary firm Rushil Enterprises under client code R 036 were sold by his firm through the broker i.e. 2000 shares @ Rs.128 to 146 on 07.06.2000 and 200 shares on 08.06.2000 @ Rs.155/- while the same were purchased by Mr. Ashish Suresh Shah i.e., 1000 shares on 07.06.2000 and 200 shares on 08.06.2000 under the client code CR 162 through M J Shah & Co. – sub broker to Vidyut Devendrakumar and the remaining 1000 shares on 07.06.2000 under the proprietary firm Rushil Enterprise client code 33111 through KBS Capital Management Ltd. On 09.06.2000 Ashish Suresh Shah under client code CR 162 through M J Shah & Co – sub broker to Vidyut Devendrakumar sold 500 shares @ Rs.158 and the same were purchased by Ashish Suresh Shah in the name of his proprietary firm under the client code R 036 through the broker and reversed the transactions through the same brokers @ Rs.167/-.

- 4.4 I observe that Ashish Suresh Shah squared up his position reversing his transactions during the settlement through M J Shah & Co – sub broker to Vidyut Devendrakumar , KBS Capital Management Ltd. and the broker and in all traded 7200 shares during the settlement which constituted for 100% of the market volume of 7200 shares and were responsible for price rise from Rs.124 to 167.
- 4.5 During settlement no.12 on 14.06.2000 Ashish Suresh Shah under client code CR162 through M J Shah & Co. – sub broker to Vidyut Devendrakumar sold 1200 shares @ Rs.178 – 188 and the same were purchased by Ashish Suresh Shah in the name of his proprietary firm under the client code R 036 through the broker and reversed the transactions on the next day i.e. 15.06.2000 through the same brokers @ Rs.194/-.
- 4.6 It is evident from the above that the buy and sell client was the same in all the above transactions. Thus, the client viz. Rushil Enterprises had been the buy and sell client and has transacted through different sub brokers and brokers. The client has also split the orders to give an impression that the trades have been entered in the terminal and have been done as normal transactions. In effect, the trades have been synchronized and matched.
- 4.7 I observe that the client had obviously done the transactions with no intention of transfer of beneficial ownership as he was himself the buy and sell client. Thus, he had indulged in circular trading in the name of his proprietary firm Rushil Enterprises under different client codes. The shares purchased by Rushil Enterprises were sold back to Ashish Suresh Shah and vice versa. Thus, Ashish Suresh Shah had squared up his positions through the broker. I agree with the finding of the Enquiry Officer that the movement of the scrip, in the absence of any corporate event or industry event, was very artificial and in defiance of price discovery mechanism of the stock exchange and that the volume of trades though small was circular in nature and has had an impact in the price of the scrip. Therefore, smaller trading volumes do not absolve the broker of its responsibility in exercising due diligence and care in the conduct of its business. I hold the broker guilty of violating the provisions of Clause A (2) of Code of Conduct of Stock Broker Regulations. I note that primary duty of the broker is to maintain high standards of integrity, promptitude and fairness and also to act with due skill , care and diligence in the conduct of his business. I also note that, on being alerted by BSE, they had stopped dealing with the client. Thus, I observe that the broker had taken corrective measures as soon as it realized that the trading was fictitious.
- 4.8 I have also noted that the BSE has imposed a fine of Rs.25,000 on the broker for entering into the said transactions. However, on this point I agree with the observation of the Enquiry Officer that action, if any, by any Regulatory Authority against the broker will not preclude SEBI from taking action for violation of its Regulations and that would not be a case of double jeopardy as envisaged by Art. 20(2) of the Constitution of India. I am, therefore, convinced that it is a fit case to impose a minor penalty of warning against the broker.

4.0 ORDER

- 4.1 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 said Regulations in the facts and circumstances of the case, I hereby, impose a minor penalty of 'warning' against Parklight Investments Pvt. Ltd.

DATE : 31.01.2006

PLACE : MUMBAI

MADHUKAR

WHOLE TIME MEMBER

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