

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 Rolex Finvest Private Limited, a registered sub-broker in respect of its dealings in the scrip of Warner multi media Limited.

1.0 BACKGROUND

- 1.1 Pursuant to a complaint received in 2001, Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted an investigation into the alleged price manipulation in the scrip of Warner Multimedia Limited (hereinafter referred to as WML) for the period from September 08, 2000 to December 13, 2000.
- 1.2 The investigation revealed that on The Stock Exchange Mumbai (hereinafter referred to as BSE) the price of the scrip had moved from Rs.18/- on September 08, 2000 to a high of Rs.53.30 on December 13, 2000 which was 196% in a period of about 3 months and the investigation further revealed that the average daily traded volume increased from 1000 shares for the period January 01, 2000 to September 08, 2000 to 17500 shares per day for the period September 11, 2000 to September 18, 2000 which is an increase of 165%.
- 1.3 The investigation further revealed that all the clients of all the major trading brokers in the scrip of WML during the relevant period were interconnected with each other and to the promoters of the WML and the trading done by these clients accounted for 70-80% of the

settlement purchases and the sales done in the market during the investigation period.

- 1.4 The investigation further revealed that Rolex Finvest Pvt. Ltd. (hereinafter referred to as RFPL) a registered sub-broker facilitated price manipulation and creation of false market in the scrip of WML by aiding and abetting the promoters, entities and individuals connected with it.

2.0 Appointment of the Enquiry Officer

- 2.1 Accordingly an Enquiry Officer was appointed by SEBI under Regulation 5 of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as Enquiry Regulations) to enquire into the violations of the provisions of the Securities and Exchange Board of India (Stock Brokers and Sub brokers) Regulations, 1992, Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulation, 1995 read with SEBI Act, 1992 (hereinafter referred to as Broker Regulations and FUTP Regulations respectively), rules, Bye-Laws and Regulations of the Bombay Stock Exchange (hereinafter referred to as BSE) if any by the sub-broker.
- 2.2 The Enquiry Officer after conducting the Enquiry in terms of the Enquiry Regulations found that the sub-broker has violated Clauses (5) of Part A of Code of Conduct specified in Schedule II read with Regulation 7 of Broker Regulations, Section 12 of the SEBI Act 1992, and Regulation 4 (a) and (b) of FUTP Regulations and submitted his Enquiry Report dated July 30, 2004 and

recommended a minor penalty of suspension of the Certificate of Registration of the sub-broker for a period of one month.

3.0 Show Cause Notice, Reply and Personal Hearing

3.1 A copy of the said Enquiry Report along with a show cause notice dated August 10, 2004 was issued to the broker under Regulation 13(2) of the Enquiry Regulations informing about the Enquiry Officer's recommendation for suspension of its Certificate of Registration for a period of one month and advising it to show cause as to why action as may be considered appropriate should not be taken against it. The sub-broker, vide letter September 03, 2004 submitted its reply to the said Show Cause Notice and reiterated most of the submissions made before the Enquiry Officer.

3.2 A personal hearing was also granted to the sub-broker on January 02, 2006 which was attended by the broker who by and large reiterated the submissions made before Enquiry Officer and after that post hearing written submissions were also made by the sub-broker.

4.0 Consideration of the Issues and Findings

4.1 I have carefully examined the facts and circumstances of the case. I have also considered the Enquiry Report and the submissions of the sub-broker made before me during the personal hearing and also the post hearing written submissions submitted by the sub-broker.

4.2 As regards, findings of the Enquiry Officer, I note the following as the most important observations:-

- a) That there are number of transactions executed by RFPL from 5.12.2000 to 22.12.2000 which constitutes more than 50% of daily traded volume in BSE. The Enquiry Officer has found that the argument given by RFPL that there is no mechanism for them to know during the market time as to what percentage the trades done by them constitutes to the total traded volume in a exchange as unconvincing.
- b) That RFPL's trading accounted for more than 70% of the total traded volumes at the exchange in 11 out of 20 settlements and thereby created artificial volumes when there is not much demand for the scrip in the market.
- c) That RFPL had stated that all the trades executed by it in the scrip of WML were for clients only and it is not clear as to how RFPL has executed trades for its clients through a sub-broker in BSE.

4.3 It is also noted that after the personal hearing before me on January 02, 2006 the sub-broker submitted written submission wherein also it has reiterated the submissions already made before the Enquiry Officer.

4.4 Having examined the Enquiry Report, the Show Cause Notice issued to the sub-broker and the reply from the sub-broker reiterating the submissions already made before Enquiry Officer, and the oral and written submissions made before me during the personal hearing, I agree with findings and the recommendation of the Enquiry Officer, in the absence of any substantial information to differ.

5.0 ORDER

5.1 Now, therefore in exercise of the powers conferred upon me under Section 19 of SEBI Act, 1992 read with Regulation 13 (4) of the SEBI (Procedure for Holding Enquiry by the Enquiry Officer and imposing penalty) Regulations 2002, I hereby suspend the Certificate of Registration of Rolex Finvest Private Limited, a registered sub-broker for a period of one month.

5.2 This order shall come into force after 21 days from the date of this order.

DATE:01.02.2006

PLACE : MUMBAI

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA