

SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: DR. T.C.NAIR, WHOLE TIME MEMBER

IN THE MATTER OF

M/S.BANSAL SHAREVEST SERVICES LTD.

**MEMBER - NATIONAL STOCK EXCHANGE & UTTAR PRADESH STOCK EXCHANGE, SEBI REGISTRATION NO.
INB231064339, INF231064339, INB 101064336**

MO/24/MIRSD/06/06

DATE OF HEARING: 27.04.2006 & 09.05.2006

APPEARANCES:

FOR NOTICEES: Shri Virender Ganda, Advocate

Shri P.K. Bansal

Shri R.K.Mehrotra

Shri Rupesh Thakkar, Employee

FOR SEBI : Shri P.K.Kuriachan, General Manager

ORDER

UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.

- 1.1 M/s Bansal Sharevest Services Ltd. (hereinafter referred to as the 'broker') is a member of National Stock Exchange, (hereinafter referred to as 'NSE') and Uttar Pradesh Stock Exchange (UPSE) and is registered with the Securities and Exchange Board of India (hereinafter referred to as 'SEBI') as a Stock broker under Section 12 of SEBI Act, 1992 with Registration Numbers INB231064339, INF231064339 and INB101064336.
- 1.2 An Inspection of the Books of Accounts, Documents and other records maintained by the broker was carried out by SEBI during July 21 – 23, 2003.
- 1.3 Subsequent to inspection, an ad-interim order dated July 23, 2003 was passed by SEBI against the broker prohibiting him from dealing in securities, pending enquiry, for the reasons stated therein.
- 1.4 Accordingly, an Enquiry Officer was appointed vide Order dated September 30, 2004 under Regulation 5(1) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred as the 'said regulations') to enquire into the alleged irregularities committed by the broker.
- 1.5 A Notice dated July 23, 2004 was issued to the broker under Regulation 6 (1) of the said regulations. The broker replied vide letter dated August 16, 2004 to the aforesaid show cause notice. After considering the reply of the broker, the EO proceeded with the enquiry and submitted his report dated December 22, 2004 recommending a major penalty of cancellation of certificate of registration of the broker.
- 1.6 A copy of the Enquiry Report was sent to the broker along with a show cause notice dated January 11, 2005, in terms of Regulation 13(2) of the said Regulations calling upon the broker to show cause as to why appropriate penalty including the penalty as recommended by the Enquiry Officer should not be imposed. The broker was granted 15 days time to submit a reply. The broker replied through its advocate Virender Ganda vide letter dated January 29, 2005.
- 1.7 The broker was given an opportunity of personal hearing before me on 27.04.2006 & 09.05.2006. Shri Virender Ganda, Advocate, Shri P.K. Bansal, Director, Shri R.K.Mehrotra and Shri Rupesh Thakkar, Employee appeared on the said dates and made submissions.

2.0 CONSIDERATION OF ISSUES

- 2.1 I have carefully considered the findings of Inspection, Enquiry Report and the submissions made by the broker and my observations are as under :
- 2.2 It was alleged that there were several single share trades and these trades were done at the exchange to ascertain the prices for facilitating execution of bulk orders in illegal trading outside the exchange mechanism. The EO found that though the broker stated that single trades were executed to ascertain the price at the "precise moment" no explanation was offered by the broker as to why other orders were not executed for such scrip. The EO also found that the price of a particular scrip can be ascertained by viewing the rates at any particular time on the terminal and hence the explanation of

the broker cannot be accepted. The EO further found that the broker's explanation that single trades were also executed for affording practice to the new operators cannot be accepted as the broker had not explained why such single orders were not continuously executed in a day by the new operator. The EO, therefore, concluded that single trades were executed at the exchange to ascertain the prices for facilitating execution of bulk orders in illegal trading outside the Exchange mechanism and hence found that the broker had violated the provisions of Section 19 of the Securities Contracts Regulation Act 1956. The broker replied that the Regulations per se do not prescribe any minimum and maximum quantity of shares which must be traded in a single transaction. The broker further stated that for every transaction there has to be more than one party. SEBI has not been able to bring on record any network or set of parties with whom the illegal trades outside the stock exchange have been carried out. I find that except for facilitating bulk trades outside the exchange there is no genuine or valid reason for the broker to trade in single shares. The broker has admitted that single shares were traded to ascertain the price at the precise moment. It is therefore, quite surprising that after ascertaining the price, the broker did not enter further trades. It is rather strange that the broker was taking the trouble to ascertain the price when he had no intentions to deal further in the scrip. It is, therefore, clear that a small fraction of the trades were conducted on the official exchange for accounting purposes and in order to create a price record. The preponderance of probabilities clearly suggest that the prices were being ascertained in order to arrive at a binding rate on both the parties for executing dabba transactions outside the exchange mechanism.

- 2.3 It was alleged that the broker had indulged in unaccounted and illegal trades outside the exchange mechanism on 18.07.2003 and 30.04.2003. The EO found that the details of the client code and client name as revealed from the data obtained during inspection indicated that the broker had indulged in illegal trades outside the exchange mechanism. If the same were proper trades then the trading data on the Exchange would have reflected the same. Hence the EO concluded that the broker violated the provisions of Section 19 of the Securities Contracts Regulation Act 1956. In reply to the said allegation the broker submitted that all trades had been properly accounted for in the official records. No unaccounted and illegal transaction had been executed. The broker stated that It was not clear how a file containing such data as per Annexure 2 and 3 of the show cause notice had been retrieved from the computer system. According to them, either there was some conspiracy against them or somehow the client with the help of local staff may be misusing the computer system.

I note that if the trades had been executed on the exchange mechanism it should be reflected in the order log of the exchange. The broker has not given any valid explanation but stated that it may be some conspiracy etc. which is baseless and lacking in content.

- 2.4 It has been alleged that the following unaccounted and illegal trades were done by the broker outside the Exchange mechanism on 22.04.2003 as no order numbers and Trade numbers were generated automatically.

Date	Trade No.	Trade time	Party	Scrip	Qty	Rate	Buy/Sell
22.04.03	0	0	Bansal	NIIT	2500	130.44	Buy
22.04.03	0	0	Self	NIIT	2500	130.44	Sell

The EO found that if the transactions had been done in NSE, there would have been an automatic generation of order and trade number with the trade time in the NSE system. The contract notes submitted by the broker in support of its contention cannot be accepted as the same are only reflection of sauda sheets already created and maintained by the broker presented in a different form. In view of the illegal trades executed by the broker outside the stock exchange, he has violated the provisions of Section 19 of the Securities Contracts Regulation Act 1956. The broker submitted that due to power failure, the buying quantity was executed at Calcutta office on user ID 13538 while sell quantity was executed at Bangalore office in the user ID 13321. I note that if the transactions had been done on the exchange mechanism, there should have been an automatic generation of order and trade number with the trade time in the relevant exchange, no matter in which location it is situated.

- 2.5 It was alleged that the broker traded for their client Sujeesha in high value scrips in substantial quantities under client code CS001 on 23.06.2003 and these trades were not recorded in the official Suda book of the broker and therefore, they were unaccounted and illegal trades done outside the exchange mechanism.

DEMO NSE Terminal

CS002 Share Account

Share	ND	Purchase	Purchase Amount in Rs.	Sales	Sale Amt. in Rs.	Net Qty	Net Amt.	Avg Rate
Digital Equip	EQ	6000	2529780	6000	2538840		9060	
Infosys	EQ	1000	3091790	1000	3098450		6660	
SatyamComp	EQ	15000	2792850	15000	2770200		-22650	
Wipro	EQ	2100	1945629	2100	1924335		-21294	
			Rs.10360049		Rs.10331825		-28224	

Client CS001 Sujeesha								
Share	ND	Purchase	Purchase Amount in Rs.	Sales	Sale Amt. In Rs.	Net Qty	Net Amt.	Avg Rate
Digital Equip	EQ	6000	2539560	6000	2529060		-10500	
Infosys	EQ	1000	3099370	1000	3090870		-8500	
SatyamComp	EQ	15000	2770950	15000	2792100		21150	
Wipro	EQ	2100	1924902	2100	1945062		20160	
			Rs.10334782		Rs.10357092		22310	
Grand Total			Rs.20694831		Rs.20688917		-5914	

Scrip	Qty of illegal & unaccounted trades	Qty traded as per official record
Digital Equipment	6000	Nil
Infosys	1000	Nil
Satyam	15000	Nil
Wipro	2100	Nil

The EO found that the name of the scrip, the manner in which the same was maintained etc., indicated that the same were illegal trades executed by the broker outside the stock exchange. In view of the same, the broker has violated the provisions of Section 19 of Securities Contracts (Regulation) Act, 1956, Clauses, A(4) and A(5) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992. In reply to the said allegation the broker submitted that they do not allow their clients to trade in such large value contracts. As the name of the file DEMO NSE terminal, CS002, share account itself shows that this was a DEMO file, which probably contains the trades done on mock environment on Saturday or containing the dummy data generated by frequently visiting software vendors and demonstrating various software reports taking dummy data and figures of settlement results for demonstration. The broker further submitted that these were not part of regular trade or books of accounts. I note that the broker's explanation that these were demo files cannot be accepted. I note from the computer generated statements that the broker had traded for a particular client viz. Sujeesha in high value liquid scrips. The said statement had columns with details such as purchase qty, sale qty, market rate, brokerage, service tax etc. It is not beyond comprehension that a demo file containing trades entered only in high value scrips for a particular client with a specific code alongwith details such as brokerage, service tax etc has been maintained with mala fide intentions. It is very clear that the broker has named the file as 'demo file' with a view to camouflaging his illegal transactions. The manner in which all the details are meticulously entered indicate that these are trades actually executed outside the exchange mechanism for which the broker has maintained record in the form of a demo file.

2.6 It has been alleged that the broker was involved in the following illegal trades.

Client Code	Qty.	Scrip
CBP	-1200	RIL
CBP	-400	ITC
CBP	-900	TELCO
NVP	-700	SAT
NVP	-75	INFO
VSS	+250	HIM
VSS	-750	HIM
VSS	-900	PENTA
SN	+800	TISCO
SN	-200	DIGITAL
RSM	-20	IFLEX
RSM	+79	HIM

The EO found that the data maintained by the broker indicated that the above transactions were executed by the broker outside the exchange. Further, if any of the above transactions were executed as regular and official trades, the same would have official data. Hence, there was no reason for the broker to maintain such data in his personal unofficial note book. Maintenance of such data clearly shows that said data pertain to the unofficial and illegal trades executed by the broker outside the normal Stock Exchange mechanism. The broker submitted that the handwritten sheet as enclosed with the show cause notice is not a copy of books of the sub broker and rough note book on which sub-broker normally instantly write down important things just for memory. The name of the client, scrip and quantity pertain to the orders for a particular day from the clients, which may or may not be executed on the terminals for any reasons. I note that from the broker's reply that he does admit that the handwritten notes pertain to orders from clients. I further note from the above table that the scrips names are highly liquid ones such as Reliance, ITC, Telco etc. It is therefore not justifiable that the scrips could not be executed on the terminals. In case, it is to be inferred that the client cancelled the order, then there should have been a corresponding cancellation remark in the event of the order not being executed. However, this is not the case. Hence the broker's reply in itself is a contradiction i.e. while he admits that the notings pertain to orders from clients, he also says that the orders may not have been executed on the terminals for some reason in which case he should

have made a noting of the non-execution of the order too. Since this is not done, it clearly indicates that these trades have been executed outside the exchange mechanism.

- 2.7 It has been alleged that the broker indulged in illegal and unaccounted trades outside the exchange mechanism executed in terminal ID No. 2 on 23.12.2002 at 6:08 p.m.

Trade No.	Scrip	Buy/Sell	Rate	Dealer ID	Client Code	Date	Time	Order no.
1001	Reliance	1	256.15	2	0	23.12.02	18:08:57	51111
1002	Infosys	2	3509.95	2	0	23.12.02	18:09:14	51112
1003	Satyam	1	240	1	5001R	23.12.02	18:09:37	51130

The EO found that the details pertaining to the scrip traded, the rate of transaction, order no etc., lead to the conclusion that the same are illegal trades executed by the broker outside the Exchange and the same are not demonstration of software package as contended by the broker. The broker submitted that these trades were nothing but data of demonstration of software package. I note from the inspection report that the broker was having several kinds of unlicensed versions of software which were tailor made to suit its requirements for day-to-day operations. One such software was made in MS Access which was available in the system of the broker for his day to day trading activities and the same was supporting order entry and internal order matching mechanism akin to the one being used in a stock exchange. The main feature of this software is that it enables the broker to provide internal order matching mechanism for various orders received through any or all of their terminals without involving the official exchange mechanism. On a specific query by the inspection team in this regard, the broker confirmed the presence of such software in the system. This strengthens the argument that the broker could be using such software for executing trades outside the exchange mechanism. The broker's explanation that these trades were data of demonstration of software package cannot be accepted as mock trading facility is provided by NSE only on Saturdays and that too during trading hours. The data for the above date i.e. 23.12.02 retrieved from the system happens to be a Monday and the trade time recorded is beyond the normal trading hours. The presence of such an unauthorised simulator in the broker's system and the fact that there were several records of trades of the broker which were unaccounted for in the exchange records give clear indications of the intentions of the broker to indulge in illegal trades.

- 2.8 It was alleged that only 10% of the following transactions were accounted for in the official Sauda. It is alleged that the remaining 90% were unaccounted and illegal trades done outside the Exchange. The following are the details of trades done in the name of client Sujeesha (client code CS001) for 18.06.03, 19.06.03 and 23.06.03 by the broker using software "DEMO NSE terminal and DEMO BSE Terminal" (provided by the broker's software vendor M/s Standard Software Pvt Ltd.). The transaction details are as under:

Sauda Date	Scrip	Buy & Sell Qty as per statement issued to client	Buy & sell Qty as per the official Sauda	Difference in the Qty unaccounted in the official Sauda	% of difference not accounted
18.06.03	Digital	6000	600	5400	90
18.06.03	Infosys	1100	110	990	90
18.06.03	Mastek	500	50	450	90
18.06.03	Reliance	3000	300	2700	90
18.06.03	Satyam	13000	1300	11700	90
18.06.03	Wipro	1500	150	1350	90
19.06.03	Digital	11000	1100	9900	90
19.06.03	Infosys	1000	10	900	90
19.06.03	Satyam	12000	1200	10800	90
19.06.03	SBIN	4000	400	3600	90
19.06.03	Wipro	4400	440	3960	90
19.06.03	Zeetele	5000	500	4500	90
23.06.03	Digital	6000	600	5400	90
23.06.03	Infosys	1000	100	900	90
23.06.03	Satyam	15000	1500	13500	90
23.06.03	Wipro	2100	210	1890	90

The EO found that the broker was confirming to the client that 100% order had been executed. However the official Sauda book reflected only 10% of the total trade. This indicated that 90% of the trades were executed by the broker outside the stock exchange. Further the broker did not collect margins for 100% of the trades. By issuing confirmation to the client in respect of 100% of the trades and executing only 10 % of the trade, the broker was obviously transacting the balance trade in illegal trading mechanism. By executing only 10% of the trades of certain clients on the Stock Exchange and by diverting the remaining 90% of the trades to a parallel illegal stock exchange mechanism, the broker had violated the provisions of Section 19 of the SCR Act 1956.

The broker submitted that these were the output of a dummy file described as 'DEMO NSE TERMINAL'. Mock trading data and rational data for learners of the software like new operators might be kept in the said dummy files. The broker further submitted that there may be instruction to any new operator to pickup a bill of

any client and increase every quantity multiplying by 10 and show what is the outcome just to make the staff comfortable with the software functions. I note that there were record of trades on the aforementioned scrips in the official sauda of the broker for a quantity equivalent to 10% of the total trades executed for the aforementioned client. I further note that the broker has maintained partywise sauda in the form of a demo file containing record of transactions in the above scrips where a quantity equivalent to 90% of the sauda is mentioned. Thus, it cannot be mere coincidence that the broker was having a mock trading session wherein operators were keying in transactions in the same scrip for the same client as in the official sauda and confirming 100% of the trades of which 10% had been executed in the exchange. It is, therefore clear that by confirming 100% of the trades to the client when actually only 10% have been executed on the exchange, the broker was executing the remaining 90% in a parallel illegal exchange or in other words "dabba trading". This is further strengthened by the fact that the broker had not collected any upfront margins from clients nor has he paid any margin to the exchange. Had the trades been executed on the exchange, the broker should have collected margins for trading in huge quantities especially in high value scrips such as Digital, Wipro etc.

- 2.9 It has been alleged that certain illegal and unaccounted transactions in securities outside the floor of the exchange were 'cash settled' to avoid detection as under.

Date	Particulars	Amount (Rs.)	Debit(Rs.)	Credit (Rs.)
16.01.03	By Cash	6500		6500
03.02.03	By Cash	10000		10000
25.02.03	By Cash	15000		15000
10.03.03	To Cash	9770	9770	
05.03.03	By Cash	2625		2625
26.03.03	By Cash	25000		25000
21.04.03	To Cash	40000	40000	
02.06.03	By Cash	48000		48000
03.06.03	By Cash	48000		48000
03.06.03	To Cash	37000	37000	

The EO found that the broker had not given any explanation to the cash transactions. The receipts and payments were not properly recorded as to the source of payment, purpose of payment etc. In the absence of any explanation by the broker, the said transactions indicate that the same are illegal parallel trading facilitated by the broker outside the exchange and the trades were settled in cash to conceal any evidence. The EO, therefore, found that the broker had violated the provisions of Section 19 of the Securities Contracts Regulation Act 1956. The broker submitted that these were handwritten sheets on which copy of bank statement had been kept just to keep in knowledge at every moment of time about the fund positions. The broker submitted that the transactions, alleged as illegal and unaccounted in securities outside the floor of the stock exchange and which might be cash settled is a hypothetical assumption which had no relevance to the cash transactions in the bank account and all the said bank transactions may be verified from the cash book of the sub broker.

I note that the broker had vehemently declined to furnish any information to the inspection team and stated that only his Chartered Accountant can furnish such information. It is strange that the broker was not aware of the transactions of his own organization and had to rely on his CA to give an explanation of his activities. The absence of details like receipt/payment, purpose of payment etc. suggests that the transactions of the broker were not genuine.

- 2.10 It has been alleged that the broker was offering illegal trading facilities like smaller lot size of trades, longer settlement periods, badla etc.

M/s Mudit Securities, sub broker of the broker who is dealing from Bangalore office had released an advertisement through A & M Communications Pvt. Ltd. in Just Dial (the talking yellow pages) which reads as under:

"Share broker NSE & FO with Unique facilities A-Z "

By issuing such advertisements the broker was alleged to have violated the provisions of Clause C(4) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 which prohibit advertisement by brokers.

The EO found that the broker stated that it did not authorise its sub-broker to release such advertisement. However, the document obtained from the broker during the inspection indicated that the broker offered certain facilities like badla system for some scrips. The documents of the broker revealed that such an offer was made to a client Ms. Shalina Naik. The offer of such illegal facilities and advertising such facilities indicated that the broker was indulging in illegal trades. Further, by giving such advertisements, the broker was alleged to have violated the provisions of clause C(4) of the code of conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 which prohibit advertisement by brokers unless permitted by the Stock Exchange. The broker denied issuing any such advertisement since initiation of work as a stock broker. The broker stated that neither the sub broker was authorised nor it has taken the broker's consent to release such advertisement and the broker was not aware of any such advertisement.

referred to in the show cause notice. The broker further stated that there is no allegation that the broker issued any advertisement and hence it is not clear as to how the provisions of Clause C(4) could be invoked in the instant letter. I find that the broker is responsible for the actions of his sub-broker as the sequence of events reveal that the sub-broker was acting on behalf of the broker. Further, it was found that the broker was offering illegal facilities as above which is against the Regulations.

- 2.11 It has been alleged that the broker offered certain "unique facilities" in terms of the above advertisement to the clients :

The EO found that the data contained in the documents obtained from the broker indicated that the broker had indulged in such illegal activities. The data with the file name "Copy (4) of BR Status created on 30. 4. 2003 showed that the broker had been offering badla facilities to the clients. Further, the said data also indicated that the broker had charged carry forward charges in respect of such transactions. Charging of carry forward charges clearly indicated that the broker was offering such illegal facilities to its clients. The broker submitted that the Annexure – 10 to the notice was a paper addressed to one Mrs. Salina Nayak which is identical name to one of the client of sub broker namely Mrs. Shalini Nayak. The broker submitted that this paper was in no way connected with the broker. The broker further submitted that out of the mentioned software C++, Assembly Language and Power Point presentation which were obtained during the inspection were maintained by the sub-broker Shri Mudit Garg and other students who were studying in 2nd year of information technology BE course for learning. The languages in which the above mentioned softwares were developedx indicate that those boys were doing some project on Gradual Reforms in Indian Capital Market and they enquired about the old system of Badla, Carry Forward, Bad Delivery, Odd Lot Trading. This file was created by them to understand the old systems. The word dummy badla in various places itself shows that this may not be an actual data. I note that the broker had charged carry forward charges for the transactions. If the software had been used for learning as claimed by the broker, there would not be charges levied towards carry forward transactions which proves that the broker was indulging in illegal activities.

- 2.12 It has been alleged that the broker had been offering illegal services like badla, flexible settlement cycle, non levying of service tax, transaction charges etc.

The EO found that the data found in the document Indicated that the broker was offering illegal facilities like badla, flexible settlement cycle etc. The broker in its reply stated that documents in support of allegation of offering illegal services like badla, flexible settlement cycle, non levying of service tax, transaction charges etc, as mentioned in the Annexure -12 to the show cause notice were papers of a personal diary of one Shri.Devbrato Dhar who was a client of sub-broker. I find that the broker has not denied the allegation but claimed that the papers belonged to some other person. However, it is not clear how the extracts of the personal diary of a client of one of the sub-brokers was found at the office of the broker. Further, I find that the data in the document indicates that the broker was offering illegal facilities like badla, flexible settlement cycle etc., Hence, the reply of the broker is not tenable.

- 2.13 It has been alleged that the broker had indulged in illegal trades done outside the normal exchange mechanism on 11.10.2001 and 12.10.2001.

The EO found that the trading data in a file by name (NSE OLD) obtained from the broker revealed huge number of transaction data depicting no NSE order number, NSE trade number, NSE trade time etc. However, the entries pertaining to the dates October 11, 2001 and October 12, 2001 were not transacted through the exchange. In this regard, the broker stated that the said transactions were not actual transactions because there were various instances in the said annexure to the show cause notice where scrip name mentioned was NOT AVAILABLE and also the rates of the scrips were not prevailing rates of the concerned scrip as on 11.10.2001 and 12.10.2001. The broker stated that prevailing market rate on the given date may be verified from the official quotation of stock exchange. I note from the inspection report that the trading data for October 11 and 12 runs into nearly 7 pages. While the statement does not have NSE trade no., Order no. etc. the broker has been keying in client code, scrip code and NSE settlement no. etc. However, it is found that the trades have not been executed on NSE. Further the scrip codes (symbols) allotted by the broker for the respective scrips are not the ones used in NSE. It is not clear why the broker should maintain such huge transaction data and retain them over a period of time if they were just demonstration files. It is also not clear why a demonstration data should run into 7 pages. The manner in which such data is entered and maintained over a period of time and the voluminous nature of the data indicate that they were trades actually executed outside the exchange mechanism.

- 2.14 It has been alleged that the broker had installed unauthorized trading terminals in excess of NSE allotted terminals. As per data extracted from NSE DEMO directory under file name DLMAST 39 terminals were installed by the broker. However, only 16 terminals were found authorized by NSE and , therefore, it is alleged that the remaining 23 terminals were unauthorised trading terminals.

The EO found that the broker had installed 39 trading terminals. As 16 trading terminals were NSE authorised trading terminals bearing specific numeric codes, the remaining 23 trading terminals were un-authorised trading terminals installed by the broker. By installing such un-authorised trading terminals, the broker violated the provisions of clause A (5) of Code

of Conduct specified under Regulation 7 of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 which stipulate that the stock broker shall comply with all the statutory requirements. Further, the broker also violated the provisions of NSE Circular NO. 163 dated 20.04.2000 which require that the trading terminals shall be located only in the main / branch offices of the trading broker or in the office of the registered sub-broker of the trading broker. The broker submitted that the data were mere extracts of a computer file by the name DLMAS under the computer directory NSE DEMO which does not contain any specific detail supporting the presumption as alleged and there was no unauthorized terminal found at the time of inspection. The broker stated that allegation is not sustainable on presumption and assumption basis. The broker further stated that they have taken 40 IDs for the CTCL at Kolkata. The broker's explanation cannot be accepted as 16 terminals were found to bear the numeric codes which were missing in the remaining 23 terminals. There is no valid reason for the broker to maintain a demo file containing 23 terminals if they did not actually exist. I further note that the broker has been consistently giving the explanation of "demo files" for every allegation levied against him. The broker's office is not a training institute to be having a demonstration on every aspect of trading.

- 2.15 On comparing the trade data summary with the records dated 21.07.2003 traced during inspection, only 50% of the trades were executed on the NEAT Terminal of NSE. It was, therefore, alleged that the remaining 50% as detailed hereunder were illegal trades executed outside the stock exchange mechanism.

S.No	Scrip	Client Code in Trade data	Client code in Deal sheet	Qty NSE Trade data	Qty in deal sheet	Average rate
1.	Zee tele	6775	D.M.	-500	-1000	110.40
2.	Zee tele	6775	S K Kelly	-500	-1000	110.25
3.	Zee tele	6775	D.M.	-500	-1000	110.20
4.	Tisco	6775	S K Kelly	-500	-1000	200.60
5.	Zee tele	6775	D.M.	-500	-1000	109.00
6.	Zee tele	6775	S.K.	-500	-1000	108.85
7.	Reliance	6775	Bhavesh	-1000	-2000	338.05
8.	Dena Bank	6775	Pragana	-1000	-1000	19.20
9.	Infosys	6775	Bhavesh	100	200	3403.00
10.	Reliance	6775	Bhavesh	1000	2000	338.49
11.	Zee tele	6775	D.M.	400	800	108.60
12.	Geometric	6775	Bhavesh	500	1000	332.95
13.	Zee tele	6775	D.M.	500	1000	108.90
14.	Geometric	6775	Bhavesh	-500	-1000	329.58
15.	Zee tele	6775		250	500	109.60

The EO found that the NSE trade data amounts to only 50% of the trade mentioned in the deal sheet maintained by the member. The trades mentioned in the deal sheet do not match the trades executed on the exchange except one trade pertaining to Dena Bank. The EO found that except one trade pertaining to Dena Bank, all trades were half of the quantity mentioned as ordered quantity in the deal sheet. Hence, the EO found that the member was indulging in illegal trading activities outside the stock exchange by executing only 50% of the said trades on the exchange. The broker stated that it is unjustified to allege that only 50% of the trades were executed on the NEAT terminal of NSE and the remaining 50% as detailed were illegal trades outside stock exchange mechanism. In fact the sheet alleged as deal sheet is memorandum sheet of orders of the clients. There is nothing wrong if executed quantity is less than the ordered quantity. The executed quantity is the final quantity of transaction and the same may be verified from the official data of the transactions executed at the NSE. Further, it is not the case of execution of 50% of the ordered quantity. It may be noted that in the 8th instance (Dena Bank) out of total 15 instances cited 100% ordered quantity was executed.

I note that the deal sheet could be memorandum of orders of the clients and there is nothing wrong if the executed quantity is less than the ordered quantity. However, what is rather strange and suspicious is the fact that out of the 15 instances cited above, in 14 instances the executed quantity is exactly half of the ordered quantity. It cannot be mere coincidence that each time the executed quantity happens to be half of the ordered quantity.

- 2.16 The broker had entered orders for single / few shares on 21.07.2003 as under. It was alleged that such irregular trades were done at the stock exchange to serve as the benchmark for the balance trades to be executed illegally outside the stock exchange.

Scrip	Qty	Price (Rs.)	Code	Trade No.
Union Bank	+1	38.85	Pro	200307215310140
Union Bank	+1	39.20	Pro	200307215279673
Union Bank	-1	38.85	Pro	200307215321796
Union Bank	-1	39.30	Pro	200307215273247
Union Bank	+1	38.85	Pro	200307215310140
Union Bank	+1	39.20	Pro	200307215279673
Union Bank	-1	38.85	Pro	200307215321796
Union Bank	-1	39.20	Pro	200307215273247
Reliance Industries	+1	337.95	Pro	200307215677956
Reliance Industries	-1	338.00	Pro	200307215678664
Essar Oil	+5	10.50	Pro	200307215726598
Essar Oil	+2	10.55	Pro	200307215727823
Essar Oil	+1	10.55	Pro	200307215724950
Essar Oil	+1	10.55	Pro	200307215723549
Essar Oil	+1	10.50	Pro	200307215635137
Essar Oil	-10	10.55	Pro	200307215625702

The EO found that as the trading terminal was available to the broker for executing transactions or for viewing rates at any particular time, there was absolutely no necessity of executing single trades to ascertain the rate of the scrip. The activities of the broker indicated that single trades were executed as a benchmark for the illegal trading executed outside the exchange system. The method and manner of execution of illegal and unaccounted trades as aforesaid in substantial quantities for huge amounts across various centers is highly irregular and illegal being violative of Section 19 of Securities Contracts (Regulation) Act, 1956, Clauses, A(4) and A(5) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.

The broker submitted that SEBI officials were present at various sites for the purpose of inspection since 11 AM till late hours while the trades under observation were executed between 10.51 AM and 2.25 PM on the very same day in the presence of SEBI officials. Considering this it is clear that the trades as given were the actual transactions executed and there were no transactions executed illegally outside the exchange. Further, out of the 16 trades given, 4 transactions were reported repeatedly by mistake. Further, execution of single trades were adopted to know the exact price of a particular scrip at a particular moment of time.

The explanation of the broker given above that the single trades were executed to know the exact price at a particular time gives insight to the fact that this kind of trading is generally adopted in dabba trading. The very purpose of punching a single trade is to ascertain the price at the precise moment as this rate would be binding on both the buyer and seller. If the intention of the broker was not to indulge in dabba trading, the broker could have very well viewed the price of the scrip on the trading terminal. But the broker wanted to ascertain a rate and make it binding on both parties which is why he punched a single order on the exchange mechanism. It is thus very clear that single trades were executed as a benchmark for the illegal trading executed outside the exchange system. Further, I find that the broker's contention that the trades were executed in the presence of SEBI Officials devoid of merit as SEBI Officials were inspecting the broker and not supervising their trades.

- 2.17 As per the NSE records, the broker did not have any terminal through CTCL software. However, Shri Sonu Agrawal, Director of Bansal Sharevest, in his statement dated 21.07.2003 stated that his sub-broker Ms. Shimpy Garg had installed three CTCL terminals for their clients. Thus, the CTCL terminals installed were unauthorized trading terminals which is in violation of Section 12(1) of SEBI Act, 1992 read with Rule 3 of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992 and SEBI Circular no. SMD/Policy/Circular-11/97 dated 21.05.1997

The EO noted that the broker admitted that the formalities for obtaining terminals through CTCL software were in progress. In view of the admission by the broker, the EO concluded that the broker had violated the provisions of SEBI Circular no. SMD/Policy/Circular-11/97 dated 21.05.1997 which provides that the sub brokers have to register with SEBI. As the said persons are not registered with SEBI as sub brokers, the broker, by extending trading terminal to them has dealt with unregistered sub brokers. The broker submitted that CTCL terminals were provided and the formalities were under process. Since the broker has admitted his mistake, he has violated the provisions as above.

- 2.18 Though the broker was not registered as sub broker of any member of BSE, the broker was in possession of unauthorized BSE trading terminal of Shri Prem Singhal, Member BSE. It was alleged that the broker had acted as unregistered sub broker. This is in violation of Section 12 of SEBI Act, 1992 read with Rule 3 of SEBI(Stock Brokers and Sub-Brokers)Rules, 1992. Further, no board or nameplate indicating the business as broker was displayed at the broker's premises.

The EO did not find the reply of the broker that its premises were provided to Shri Prem Singhal, member, BSE and the trades were executed by Shri Singhal, convincing. The broker did not produce any documentary proof with regard to leasing of such premises to Shri Singhal. The said fact indicated that the broker was acting as unregistered sub broker of Shri Singhal. Hence the broker violated the provisions of Section 12 of SEBI Act, 1992 read with Rule 3 of SEBI(Stock Brokers and Sub-Brokers)Rules, 1992. The broker submitted that Shri Prem Singhal was one of the family friends of the directors of the company and the broker provided him some space with trading terminal at their premises. Shri Prem Singhal has been executing transactions on that terminal. Further, the lease line has been installed by him at his own cost and he has been paying recurring expenses of such leased line himself. It was also submitted by the broker that office was renovated some time back and the sign board indicating the name of the company and its activity was sent to the painter for redesigning. I agree with the findings of the EO that in the absence of documentary proof, the broker's explanation of leasing his premises cannot be accepted.

- 2.19 It was alleged that the broker did not issue contract notes to any of the clients which is in violation of Clause B (2) of the Code of Conduct as specified under Regulation 7 of SEBI(Stock Brokers and Sub-Brokers)Regulations, 1992 and SEBI Circular no SMD/(B)/104/22775/93 dated 29.10.1993.

The EO noted from the reply of the broker that they had not issued contract notes w.e.f. July, 2003. Further, it was noted that during the inspection some of the contract notes were found at the Calcutta office of the broker which contained no details about their branch office at Calcutta. From the broker's own admission it was noted that the broker failed to issue contract notes to the clients in the proper manner and thus the broker violated the provisions of Clause B (2) of the Code of Conduct as specified under Regulation 7 of SEBI(Stock Brokers and Sub Brokers)Regulations, 1992 and SEBI Circular no SMD/(B)/104/22775/93 dated 29.10.1993. The broker submitted that contract notes were properly issued in the past up to July 01, 2003. However, with effect from July 02, 2003 no contract notes could be issued for the capital market segment because they had applied to NSEIT for the 'Endorser package' for issuance of digital contract notes. Due to delay in the installation of software package they were short of pre printed contract notes (hard copies) and thus after July 02, 2003 they were not able to issue any contract notes in the capital market segment. The broker submitted that contract notes for F&O segment were issued regularly.

I find that the broker's explanation cannot be accepted as shortage of pre-printed contract notes or delay in installation of some package is no excuse for not issuing contract notes. Contract notes are primary documents evidencing a transaction and in the event of dispute between the broker and client, they play a vital role. Non-issuance of contract notes is, therefore in violation of Clause B (2) of the Code of Conduct as specified under Regulation 7 of SEBI(Stock Brokers and Sub-Brokers)Regulations, 1992 and SEBI Circular no SMD/(B)/104/22775/93 dated 29.10.1993.

- 2.20 It has been alleged that for clients namely Shri Yogesh Jain and Ms. Jyoti Jain, the broker did not obtain bank account number, proof of identity, DP ID, proper introduction, photograph etc., and further the client registration form was undated which is in violation of SEBI Circular No. SMD/Policy/Cir/5-97 dated 11.04.1997.

The EO found that the broker had stated that Shri Jain was its employee and person in charge of inspection but had not replied as to why the details in the client registration form were not maintained properly. In view of the same the EO found that the broker violated the provisions of SEBI Circular No. SMD/Policy/Cir/5-97 dated 11.04.1997 which prescribe the information to be obtained and recorded in the client registration forms. The broker submitted that Shri Yogesh Jain was an employee with them as an accountant and was also handling all the back office management. Ms. Jyoti Jain is the wife of Shri Yogesh Jain. He was also responsible for compliance with regard to client introduction and doing other formalities. Further, he was also present at the time of inspection and thus non availability of bank account or DP account should not have been in question.

The broker's explanation does not answer why the details of the above clients were missing in the client registration form. Just because the clients were employees does not mean that their details were not required to be recorded. The broker has therefore violated the provisions of SEBI Circular cited supra.

- 2.21 There was non cooperation and resistance in production of the books of accounts and other documents besides non furnishing of statements and information relating to the transactions in securities market to the inspecting authority which is in violation of Regulation 21 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.

The EO found that the broker was not cooperating with the inspection conducted by SEBI. The broker however submitted that there was no instance of non cooperation. In the absence of any specific instance cited in the report, the EO accepted

the broker's reply.

- 2.22 The broker had provided trading terminals to following unregistered sub brokers which is in violation of SEBI Circular No. SMD/Policy/Cir-3/97 dated 31.03.1997 and Sub-brok/Cir-02/2001 dated January 15, 2001.
- a) Shri Sunil Kumar Kanoria
 - b) Shri R G Almal
 - c) Ms. Renu Agrawal
 - d) Shri Suresh Kumar Goenka
 - e) M/s Suman Securities

The broker stated that the persons mentioned above were clients and not its sub brokers. However, the EO noted that the offices of the Shri Kanoria and Shri Almal were situated in the same building and connected through LAN. Further, M/s Suman Securities and Ms. Renu Agarwal were connected through telephone lines and also using CTCL software to connect to the NSE trading terminal. Shri Sunil Kumar Kanoria, Member of Calcutta Stock Exchange had 2 trading terminals provided by the broker. Hence, it was concluded that the broker violated the provisions of SEBI Circular No. SMD/Policy/Cir-3/97 dated 31.03.1997 and Sub-brok/Cir-02/2001 dated January 15, 2001 which prohibits the brokers from dealing with unregistered sub-brokers. From the facts of the case and the preponderance of probabilities, it is clear that the above entities were not just clients but sub-brokers of the broker. As the broker has dealt with unregistered sub-brokers, he has violated the circulars cited supra.

- 3.0 Considering the seriousness of the violations found to have been established against the broker viz. the illegal nature of trades, running a parallel exchange, cash transactions, offering illegal facilities, non issuance of contract notes thereby defeating the purpose of audit trail, using of unauthorized software etc., I am of the view that the penalty of cancellation of certificate of registration of the broker as recommended by the EO would be appropriate and essential to safeguard the interests of the investors and the safety and integrity of the securities market.
- 3.1 Now, therefore, in exercise of powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 13(4) of the said Regulations, I hereby cancel the certificate of registration of M/s Bansal Sharevest Services Ltd., Member, National Stock Exchange, bearing SEBI Registration Nos. INB231064339, INF231064339 and Uttar Pradesh Stock Exchange bearing SEBI Regn No. INB101064336.
- 3.2 This order shall come into force on the expiry of 21 days from the date of this order.

Place: Mumbai

Date: 28.06.2006

T.C.NAIR

Whole Time Member

Securities and Exchange Board of India