

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER AGAINST M/S M's SECURITIES, MEMBER, BANGALORE STOCK EXCHANGE LTD., SEBI REGISTRATION NO. INB080800013, UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 FOR THE IRREGULAR TRANSACTIONS IN THE SCRIP OF HOME TRADE LTD.

WTM/GA/89/ISD/09/06

1.0 BACKGROUND

- 1.1 M/s M's Securities (hereinafter referred to as the Broker) is a member of the Bangalore Stock Exchange Ltd. (hereinafter referred to as BgSE) and is registered with the Securities and Exchange Board of India (hereinafter referred to as SEBI) as a stock broker under section 12 of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the said Act) with registration number INB080800013.
- 1.2 The scrip of Home Trade Ltd. (hereinafter referred to as HTL) was listed at Pune Stock Exchange Ltd. (hereinafter referred to as PSE) on November 15, 1999 at Rs 250/- and at BgSE on November 16, 1999 at Rs.275/-. There was a very sharp rise in the price of the scrip of HTL both at PSE and BgSE. The price of the scrip of HTL reached Rs.315/- within two weeks of its listing, i.e. by December 06, 1999. The subsequent rise in the price of the scrip of HTL is as detailed below:

Date	Price (Rs.)
December 30, 1999	525.00
January 31, 2000	735.00
March 31, 2000	809.00
April 10, 2000	825.25

- 1.3 The maximum rise in the price of the scrip of HTL took place between November 16, 1999 and March 31, 2000, when it moved from Rs.275/- to Rs.815/-.
- 1.4 SEBI conducted an investigation into the buying, selling and dealings in the scrip of HTL inter alia by the members of BgSE including the Broker for alleged circular trading and price manipulation thereby contravening the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995 (hereinafter referred to as FUTP Regulations) and SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the Broker Regulations).
- 1.5 The transactions details of the Broker in the scrip of HTL on behalf of his clients , Shri Pradip Porwal, Shri Mukesh Porwal and Shri Amit Porwal and on his proprietary account are mentioned below:

Period	Gross Purchase (shares)	% to the total buy volume at BgSE	Gross Sales (shares)	% to the total sell volume at BgSE
November 16, 1999 to March 31, 2000	16,800	8.80%	16,200	8.48%
April 01, 2000 to March 31, 2001	1,61,940	18.89%	1,63,450	19.07%
April 01, 2001 to December 31, 2001	22,900	7.86%	23,090	7.93%

1.6 The transaction details executed by the Broker in the scrip of HTL on his proprietary account are as follows:

Period	Gross Purchase (shares)	Gross Sales (shares)
November 16, 1999 to March 31, 2000	2,000	2,000
April 01, 2000 to March 31, 2001	1,20,940	1,20,750
April 01, 2001 to December 31, 2001	22,900	23,090

1.7 The transaction details of the Broker on behalf of his clients in the scrip of HTL are shown as under:

Mukesh Porwal			Pradip Porwal			Amit Porwal		
Date	Qty bought	Qty sold	Date	Qty bought	Qty sold	Date	Qty bought	Qty sold
29.2.2000	400	400	28.3.2000	500	500	2.3.00	500	500
1.3.2000	700	700	29.3.00	400	300	3.3.00	600	600
16.3.2000	800	800	30.3.00	800	800	6.3.00	500	500
22.3.2000	700	600	31.3.00	600	600	7.3.00	900	900
23.3.2000	800	800	3.4.00	600	600	8.3.00	500	500
24.3.2000	700	600	4.4.00	600	700	9.3.00	500	500
24.4.2000	---	100	6.4.00	600	600	10.3.00	600	600
23.5.2000	800	1000	7.4.00	700	700	13.3.00	500	500
24.5.2000	900	900	10.4.00	800	800	14.3.00	900	900
25.5.2000	700	700	11.4.00	400	400	15.3.00	900	900
26.5.2000	300	300	12.4.00	400	400	21.3.00	800	800
29.5.2000	600	300	13.4.00	700	700	27.3.00	700	600
30.5.2000	500	500	18.4.00	400	400	12.4.00	200	-
31.5.2000	400	400	20.4.00	400	400	24.4.00	-	200
1.6.2000	500	500	24.4.00	300	300	27.4.00	300	100
2.6.2000	400	400	25.4.00	500	700	21.2.01	-	1500
5.6.2000	800	800	26.4.00	500	500			
6.6.2000	400	400	28.4.00	300	300			
7.6.2000	300	200	2.5.00	500	500			
8.6.2000	400	500	3.5.00	700	500			
9.6.2000	300	300	4.5.00	700	700			
12.6.2000	500	500	5.5.00	500	500			
13.6.2000	500	500	8.5.00	600	600			
14.6.2000	600	600	9.5.00	500	500			
15.6.2000	300	200	10.5.00	300	300			
16.6.2000	300	300	11.5.00	500	500			

19.6.2000	400	500	12.5.00	500	500			
20.6.2000	200	300	15.5.00	400	400			
21.6.2000	400	400	16.5.00	400	400			
22.6.2000	300	--	17.5.00	300	300			
23.6.2000	200	600	18.5.00	600	600			
26.6.2000	500	300	19.5.00	400	400			
23.10.2000	--	200	22.5.00	400	400			
22.2.2001	--	500						
8.2.2002	--	300						

- 1.8 The investigation conducted by SEBI revealed inter alia that the members of BgSE including the Broker were involved in creation of abnormally high volumes in the scrip of HTL and had resorted to circular trading with other members of BgSE, wherein the shares of HTL were traded amongst themselves, thereby rigging up the price of the scrip of HTL by executing a number of trades, which appeared to be not genuine, for various clients introduced by the employees of HTL.

2.0 APPOINTMENT OF ENQUIRY OFFICER

- 2.1 On completion of the investigation, SEBI appointed an Enquiry Officer, vide order dated May 28, 2003, under regulation 5(1) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the 2002 Regulations) to enquire into the alleged irregular transactions made by the Broker in the scrip of HTL.
- 2.2 A show cause notice was also issued to the Broker and it was alleged that the Broker had resorted to circular trading with other members of BgSE wherein the shares of HTL were traded amongst themselves and rigged up the prices of the said scrip by trades which were not genuine and created artificial price and volumes. It was also alleged that the Broker had no knowledge of his clients and did not meet them generally against the concept of 'Know Your Client' as per SEBI Guidelines and the orders on

behalf of the clients were placed by one Shri Rakesh Karanpuria of HTL at successively higher rates.

- 2.3 Pursuant to this, the Enquiry Officer had given the Broker a fair and reasonable opportunity to make his submissions. The Broker inter alia submitted before the Enquiry Officer that the clients belonging to Porwal family were from Udaipur and as the said clients were from Udaipur, he did not meet them personally. The Broker further submitted that the aforesaid clients were introduced by one Shri Padam Porwal, a neighbour of the Broker and the brother in law of Shri Rakesh Karanpuria. The Broker had further stated that he was not aware that Shri Rakesh Karanpuria was an agent of HTL. The Broker had also submitted that he had delivered the securities personally to Shri Padam Porwal / Shri. Rakesh Karanpuria by hand delivery to be handed over to the respective clients in Udaipur.
- 2.4 The Enquiry Officer had observed in his report that having regard to the price of the scrip of HTL, the value of the transactions executed by the Broker was significant and the same was unusual for clients who were not properly introduced and just started trading only in the scrip of HTL. The Enquiry Officer had further observed that the Broker had not assessed the financial net worth of his clients and that the volumes traded by the clients were disproportionate to their income. The Enquiry Officer had stated in his report that under the circumstances, not obtaining the acknowledgement copies of the contract notes might be treated as a minor procedural lapse in violation of regulation 17(1) (i) of the Broker Regulations. The Enquiry Officer has noted that the Broker did not act in good faith and without negligence and did not exercise proper caution and diligence while trading in the scrip of HTL.

- 2.5 The Enquiry Officer has submitted his report dated November 08, 2004 in terms of the 2002 Regulations and recommended for the imposition of a minor penalty of suspension of certificate of registration (granted by SEBI) of the Broker for a period of two months.

3.0 CONSIDERATION OF ISSUES AND FINDINGS.

- 3.1 Based upon the recommendation of the Enquiry Officer, a show cause notice dated November 22, 2004 was issued to the Broker under regulation 13(2) of the 2002 Regulations, asking him to show cause as to why the penalty as considered appropriate should not be imposed upon him. A copy of the Enquiry Report was also forwarded to the Broker with the said show cause notice. The said show cause notice was served on the Broker through BgSE. Though, sufficient time was given to the Broker to file his reply, he has failed to submit any reply to the said show cause notice till date. In the circumstances, it is observed that the Broker is not interested in filing any reply and in availing the opportunity of hearing before SEBI.
- 3.2 As the Enquiry Officer has not recorded any specific findings in respect of the violation of the provisions of FUTP Regulations, I deal with the other alleged violations attributed to the Broker. I note that the Broker had executed significant trades in the scrip of HTL during the period November 16, 1999 to December 31, 2001 on his proprietary account as well as on behalf of his clients namely, Shri Mukesh Porwal, Shri Amit Porwal and Shri Pradeep Porwal. The said transactions were admitted by the Broker in the course of proceedings before the Enquiry Officer. When the price of the scrip of HTL was very high during the period November 16, 1999 to March 31, 2000, the Broker had placed orders in the scrip of HTL in his proprietary account and on behalf his clients which amounted to 8.80% of the total volume at BgSE. I also note that the Broker has failed to adduce

any evidence to show that the clients had traded in any scrip other than HTL during the time when the Broker had executed trades for them.

- 3.3 It is the basic requirement that a stock broker has to compulsorily ensure that his clients are personally known to him or has been introduced to him in order to satisfy that they are genuine. The very purpose of such practice is to enable the stock brokers to evaluate the client before the broker takes up trading on behalf of his clients.
- 3.4 In terms of SEBI Circular dated February 11, 1997, the stock brokers were advised to maintain a database [pertaining to 'Know Your Client' (KYC) norms/ guidelines] of their clients. SEBI, vide circular dated April 11, 1997, had once again advised the stock brokers to follow the circular dated February 11, 1997 and further advised that the brokers might seek additional information, if any, so as to satisfy themselves about the antecedents of the client and that it would be the responsibility of the stock brokers to provide for clients' details as and when need arises.
- 3.5 I note that, one of the clients namely, Shri Amit Porwal was a student at the time when the Broker was executing transactions on his behalf in the scrip of HTL. The Broker had started trading in the scrip of HTL on behalf of the said client on March 02, 2000 and thereafter, he had executed continuous transactions on behalf the said client. This is evident from the table shown at para 1.7 above, relating to the trade details of the clients. However, the KYC form was obtained only on March 12, 2000, much after the trading was commenced on behalf of the said client. It can be seen from the transaction details that, Shri Amit Porwal had bought 4,100 shares of HTL through the Broker, before the KYC form was obtained by the Broker. The said client had bought a total of 7,900 shares of HTL between March 02, 2000 and March 27, 2000, when the price of the scrip

was at its maximum. The purchase by the above client amounted to 47.02% to the total buy position of the Broker at BgSE, during the period November 16, 1999 and March 31, 2000. I note that the Broker had commenced trading in the scrip of HTL on behalf his clients, before obtaining the KYC form from the said clients.

3.6 I also note that in the case of Shri Mukesh Porwal, the KYC form was obtained by the Broker on March 12, 2000, whereas he had started trading on behalf of the said client in the scrip of HTL from February 29, 2000. It can be seen from the table at para 1.7 above, that the Broker had bought 1,100 shares of HTL before March 12, 2000, on behalf of the said client. The total purchase by the Broker on behalf the said client during February 29, 2000 to March 24, 2000 was 4,100 shares of HTL, which amounted to 24.41% to the total buy position of the Broker during the period November 16, 1999 and March 31, 2000. It may be mentioned here that, when the Broker was executing such trades, the price of the scrip of HTL was very high. The Broker had also failed to adduce any evidence to suggest that his clients had traded in any other scrip. This view was further supported by the statement of Shri Mahendra Lunavat, Proprietor of the Broker made before the Investigating Officer of SEBI. The Broker could have taken more care while dealing with such clients, who were not even introduced to him before the trades and at a time when the price of the scrip of HTL was high. I note that the Broker had commenced trading in the scrip of HTL on behalf his clients, before obtaining the KYC form from the said clients.

3.7 In view of the above, I note that the Broker did not act in good faith and without negligence and did not exercise proper caution and diligence while dealing in the scrip of HTL on behalf of his clients. In view of the above, it is established that the Broker had failed to comply with the KYC norms

and verification of his clients, as required in terms of SEBI circulars dated February 11, 1997 and April 11, 1997 and thereby, violated the above circulars, pertaining to KYC norms/guidelines.

- 3.8 It is one of the precautionary measures of a stock broker to verify the financial capacity of his clients before executing the trades on their behalf, which is one of the checks under the KYC norms/guidelines. Such assessment of financial capacity of the client is necessary in order to avoid the risk. When a stock broker fails to perform the said primary requirements and further, if he happens to be transacting on behalf of such clients without knowing their antecedents and financial capacity, he is putting the entire system in jeopardy.
- 3.9 I note that, one of the clients, Shri Amit Porwal was a student when the Broker was trading in the scrip of HTL on his behalf. The annual income of the said client as reported in the KYC form was only Rs.40,000/-, however, the said client started trading in the scrip of HTL from March 02, 2000 and bought 7,900 shares till March 27, 2000, when the price of the said scrip of HTL was at its maximum. The said client had also executed trades for 500 shares of HTL, during the period April 12, 2000 and April 27, 2000. I observe that the value of 200 shares of HTL bought by the said client, through the Broker, on April 12, 2000 was Rs.1,68,080/-. Further, the Broker had purchased 300 shares of HTL and sold 100 shares of HTL on April 27, 2000, involving Rs.2,53,960/- and Rs.85,000/- respectively. The net payment in the said transactions involved Rs.1,68,960/- to the Broker.
- 3.10 I further note that, the annual income of Shri Pradip Porwal and Shri Mukesh Porwal in terms of the 'KYC' form was as Rs.55,000/- and Rs.60,000/-, respectively. It can be seen that Shri Pradeep Porwal had

bought 16,800 shares of HTL during March 28, 2000 to May 22, 2000 and Shri Mukesh Porwal had bought 15,600 during the period February 29, 2000 to June 26, 2000. The said clients made the payment of Rs.1,00,000/- and Rs.8,00,000/- respectively to the Broker, between the period March 2000 to October 2000.

- 3.11 It can be seen that the annual income of the aforesaid clients as reported in the KYC form was substantially less as compared to the value of the transactions made by them. This will show that the Broker had failed to assess the financial capacity of his clients, which is one of the important checks under the KYC norms. The financial capability of the client is an important factor to be taken into account by the broker before undertaking trading on behalf of his clients and such assessment is relevant even for the transactions which were squared off.
- 3.12 As observed by the Hon'ble SAT in Madhukar Sheth Vs. SEBI (Appeal No.46/2002), before executing series of transactions for his client, any prudent broker would have gone a bit far to ascertain the financial capability of the person for whom he was trading. The transactions executed by the Broker appears to be excessive speculation to create artificial volumes in the scrip by himself and relatively new clients.
- 3.13 The Enquiry Officer in his report had referred to the admission of the Broker that the securities were delivered personally to Shri Padam Porwal / Shri Rakesh Karanpuria by hand delivery to be handed it over to the respective clients. This is further corroborated by the statement of Shri Rakesh Karanpuria, of HTL made on January 27, 2003 before the investigating officer that he had introduced the above clients to the Broker and used to place the orders and take deliveries on behalf of the above clients. The Enquiry Officer has specified the above admission of the

Broker in his report, and concluded that the securities have been reached to the clients. However, I note that there is nothing on record to show that the Broker had received specific instructions or authorization from his clients to deliver the same to the aforesaid people.

- 3.14 It is also noted that during the period from November 16, 1999 to March 31, 2001, the Broker had purchased about 1,45,000 shares of HTL from his own account. The trades of the Broker had constituted significant volumes at BgSE. It is observed that maximum trades executed by the Broker were in the proprietary account and most of the said transactions were squared off and did not result in deliveries. It is also admitted by the Broker, during the investigations that he did jobbing transactions for various other scrips also.
- 3.15 In view of the above, I note that the Broker had failed to obtain the required details of his clients, failed to assess the financial capacity of his clients and not carried out the verification as per KYC norms/ guidelines, in terms of the above circulars, before executing the transactions on their behalf. Further, I note that the Broker had dealt with Shri Rakesh Karanpuria without specific instruction or authorization.
- 3.16 The Enquiry Officer has further observed that non obtaining the acknowledgement copies of the contract notes might be treated as a minor procedural lapse in violation of regulation 17(1)(i) of the Broker Regulations. In terms of the provisions of the Broker Regulations, a stock broker, without any delay shall issue the contract note to his client and in terms of regulation 17(1) (i) of the Broker Regulations, he has to maintain the counterfoils or duplicates of such contract notes.

- 3.17 In the present matter, the Broker had failed to submit even a single copy of acknowledgment of counterfoils of contract notes. It can be seen from the trading details, that the Broker had executed several transactions of significant volume in the scrip of HTL on behalf his clients, without any specific authorization. Despite of executing large transactions, the Broker had failed to obtain the acknowledgement copy of contract notes of even in a single transaction. It does not appear to be a simple omission and has to be viewed seriously in the background of the allegations that the orders were placed by Shri Rakesh Karanpuria of HTL and the delivery of the securities were also received by the same person. I also note that the Broker had also traded substantially in the scrip of HTL in his proprietary account during the period in November 16, 1999 and December 31, 2001 .
- 3.18 As the Broker could not establish that he had verified the financial capacity of his clients and coupled with the admitted facts that these clients were introduced by a third party before complying with KYC norms and who dealt only in the scrip of HTL will establish that the Broker did not act in good faith and without negligence and did not exercise proper caution and diligence while trading in the scrip of HTL by undertaking trade on behalf clients without KYC verification and thereby, failed to comply with the norms and guidelines relating to the KYC norms as per the SEBI circulars dated February 11, 1997 and April 11, 1997 and thereby violated the said circulars. I also note that the Broker had made substantial trading in the scrip of HTL on his proprietary account during the period between November 16, 1999 and December 31, 2001. However, as there is no sufficient evidence to suggest that the Broker had violated the provisions of FUTP Regulations, I decide to reduce the quantum of penalty recommended by the Enquiry Officer.

4.0 ORDER

In view of the foregoing and taking into account the mitigating circumstances as stated above, I, in exercise of the powers conferred vide regulation 13(4) of (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, hereby impose a penalty of suspension of the certificate of registration (granted by SEBI) of M/s M's Securities (INB080800013), Member, Bangalore Stock Exchange Ltd. for a period of one month.

This order shall come into effect on expiry of 21 days from the date of this order.

G ANANTHARAMAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

Place Mumbai

Date 14-09-2006