

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER AGAINST M/S KANCHAN INVESTMENTS, MEMBER, PUNE STOCK EXCHANGE LTD., SEBI REGISTRATION NO.INB110248714 UNDER REGULATION 13(4) 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/91/ISD/09/06

1.0 BACKGROUND

1.1 M/s Kanchan Investments (hereinafter referred to as the Broker) is a Member, of the Pune Stock Exchange Ltd. (hereinafter referred to as PSE) 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 Act) with registration number INB110248714

1.2 The scrip of Home Trade Ltd. (hereinafter referred to as HTL) was listed at PSE on November 15, 1999 at Rs 250/- and at Bangalore Stock Exchange Ltd. (hereinafter referred to as 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 at PSE 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
May 5, 2000	874.00

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 under 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) into the buying, selling and dealings in the scrip of HTL inter alia by the members of PSE including the Broker for their involvement in the alleged circular trading, price manipulation etc.

1.5 Upon investigation, SEBI inter alia found that the Broker along with some other members of PSE had executed substantial trades in the scrip of HTL, wherein the shares were traded amongst themselves and thereby created artificial volume by executing trades which were not genuine. The said transactions had contributed for more than 90% of the volumes of trading in the said scrip at PSE. The transaction details of the Broker on behalf of his only client, Smt. Kanchan Devi Singh in the scrip of HTL at PSE are as follows:

Period	Gross purchase (shares)	% to the total buy volume at PSE	Gross Sales (shares)	% to the total sell volume at PSE.
April 01, 2001 to December 31, 2001	34,500	8.08%	32,400	7.59%

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 of the Broker in the scrip of HTL.

2.2 A show cause notice was issued to the Broker in which the following allegations were leveled against him:

- "1) The client was not known to the Broker and Shri Raj Singhi used to place orders on behalf of the client which is in violation of SEBI Circular No. SMD/POLICY/IECG/1-97 dated 11.02.97.
- 2) The broker did not obtain acknowledgment of the client on the counterfoil of the contract notes.
- 3) The transactions are not genuine trade transactions and in contravention of Regulation 4(b) of SEBI(Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and violated Clause A(3)

of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (SB&SB) Regulations 1992.”

- 2.3 Pursuant to the said show cause notice, the Broker was also granted a fair and reasonable opportunity to make his submissions. The Broker inter alia submitted before the Enquiry Officer that he had not conducted any circular trading and that the trades were conducted on behalf of a single client and that all the trades were done on the system of PSE. The Broker further submitted that there was no lack of due diligence on his part while dealing on behalf of his client as he had obtained client introduction form and member client agreement, photograph of the client etc.
- 2.4 The Enquiry Officer vide his report dated November 10, 2004 observed that it could not be stated that the Broker had exercised due care and diligence while trading in the scrip of HTL for a relatively new client. The Enquiry Officer had also observed that no material was produced to suggest that the client had traded in any scrip other than HTL and that the Broker had to ensure that the client would be capable of lifting deliveries. However, taking into account certain mitigating circumstances, the Enquiry Officer recommended for the imposition of a minor penalty of censure against the Broker, in terms of 2002 Regulations.

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, which was served on the Broker through PSE. Sufficient time was given to the Broker to file his reply to the said show cause notice. But the Broker failed to submit any reply 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 The fact that he had traded for 34,500 (buy) shares and 32,400 (sell) shares of the scrip of HTL at PSE from July 24, 2001 for his sole client, Smt. Kanchan Devi Singh, is not disputed by the Broker. While executing trades on behalf of his clients, 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. A stock broker has to evaluate his clients before he takes up trading on behalf of his clients. Further, 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.
- 3.3 It is an admitted fact in the present matter, that the orders were placed by Shri. Raj Singh, the son of his client. The Broker further submitted before the Enquiry Officer that he was aware that Shri Raj Singh was the son of his client, but it was not known to him that the said person was working in HTL. This statement of the Broker confirms that he had not verified the details and antecedents of his client, as required in terms of the above circulars. In such a situation, like any other prudent stock broker, the Broker should have ascertained further about the financial capacity and the details of the client and the details of the person on whose behalf the trades were executed. Further the networth of the client was stated to be Rs.4,00,000/-. However, the value of the transactions executed by the Broker on behalf of his client was much higher, as the price of the said scrip at that time was about Rs.150/-. In a situation like this, the assessment of the client is highly relevant and can not be taken lightly and the fact that the most of the transactions were squared off does not pare the relevance of a real time assessment of the client. The Broker could not adduce any evidence to the effect that his client was also trading in scrips other than HTL. Therefore, it is established that the Broker had violated the SEBI circular dated February 11, 1997.
- 3.4 However, I note that the Broker had executed the transactions in the scrip of HTL after entering into the member client agreement and also after obtaining the client introduction form. I also note that the Broker had furnished the acknowledgement copies of the contract notes. I also note that the securities were delivered to the client and the Broker had made no proprietary trades in the scrip of HTL. Taking into account the above mentioned mitigating circumstances, I am inclined to agree with the recommendations of 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 powers conferred vide regulation 13(4) of (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations 2002, hereby impose a minor penalty of censure on the certificate of registration of M/s Kanchan Investments (INB 110248714), Member, Pune Stock Exchange Ltd.

G. ANANTHARAMAN
SECURITIES AND EXCHANGE BOARD OF INDIA
WHOLE TIME MEMBER

Place: Mumbai

Date: 19/09/2006