

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM : V.K COPRA, WHOLE TIME MEMBER

Against Prashant J Patel in the matter of

M/s. Ranbaxy Laboratories Ltd.

DATE OF HEARING 30.08.2006

APPEARANCES;

FOR COMPANIES/ BROKERS:

1. Advocate Shri Vinay Chavan
2. Advocate Shri Aditya Bhansali
3. Advocate Ms Kirti Sansur
4. Shri Bharat Patel

FOR SEBI

1. Mrs Barnali Mukherjee, DGM, SEBI
2. Shri Deepesh M.U, Manager, SEBI
3. Shri. Mohamed Rahaz. P.M, Legal Officer, SEBI

ORDER

Under Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing penalty) Regulations, 2002

1.0 BACKGROUND

- 1.1 M/s Prashant J Patel is a broker of National Stock Exchange (hereinafter referred to as "the broker") with SEBI Registration No.INB230649816. Securities and Exchange Board of India (hereinafter referred to in short as "the Board") had ordered an investigation into the affairs relating to buying, selling and dealing in the shares of Ranbaxy Laboratories Ltd (hereinafter referred to in short as "Ranbaxy").
- 1.2 The price of the scrip of Ranbaxy had moved up significantly from Rs.270/- in January 1999 to about Rs.1200/- in October 1999 accompanied with significant increase in volume. The Board initiated preliminary investigation into the scrip in August 1999 considering the major spurt in price and volumes traded in the Exchanges particularly on the Stock Exchange, Mumbai (BSE), National Stock Exchange (NSE) and Calcutta Stock Exchange (CSE).
- 1.3 The Board, after considering the Investigation Report, appointed an Enquiry Officer vide Order dated November 29, 2002 to enquire into the violations allegedly committed by Prashant J. Patel under the provisions of Regulation 4(a), (b) (c) & (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, (hereinafter referred to in short as "PFUTP Regulations"), Regulation 7 read with schedule II, clause A(3) and (4) of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to in short as "Stock brokers Regulations") and Rules, Regulations and Bye-laws of Stock Exchange.
- 1.4 The Enquiry Officer, after conducting an enquiry in accordance with the provisions of Regulation 6 of the Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002 (hereinafter referred to as "the Enquiry Regulations") submitted a report dated March 26, 2004 under Regulation 13(1) of the Enquiry Regulations. The Enquiry Officer in his report observed that the broker has executed synchronized trades on behalf of its clients and thus violated the provisions of 4 (a), (b),(c) & (d) of PFUTP Regulations 1995 read with Regulation 4(2) (a, b, e & g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, Regulation 7, read with schedule II, clause A(3) and (4) of Stock Brokers Regulations and Regulation 4.6.2 of NSE Capital Market Regulations. He recommended suspension of registration of the broker for a period of one month.

2.0 SHOW CAUSE NOTICE

- 2.1 Pursuant to the receipt of the said Enquiry Report, a Show Cause Notice dated September 24, 2004 was issued to the broker, along with a copy of the said Enquiry Report, advising him to show cause as to why the action, as recommended by the Enquiry Officer or any other penalty deemed appropriate, should not be imposed on him. The broker submitted its reply to the said show cause notice, vide letter dated November 29, 2004.

3.0 REPLY OF THE BROKER

- 3.1 The broker contented that the disputed transactions had been executed by them on behalf of their clients. He further stated that without establishing any charge against their clients, no charge against them can be sustained. They have executed trades under instructions of their clients and there is no relationship with the client other than broker client relationship. The said clients have entered transactions in normal course in several scrips at the relevant time. Further, there was neither any proprietary trading of the broker nor any of the promoters/employees have traded in Ranbaxy with the clients. The broker claimed that they had always maintained high standard of integrity, promptitude and fairness in the conduct of all their business and they have impeccable track record. They have always met their financial obligations vis a vis the clients or stock exchange and no complaints of the clients are pending with them. The broker further stated that they had over 1800 clients who were trading in approximately 500 scrips. Hence it is not practically feasible to get into the details as to why a particular client was trading in particular scrip and with what intention. Also they had only a minuscule percent (0.18% to the total market volume) of the alleged synchronized volume in comparison to the huge market volume in the scrip of Ranbaxy. It was further stated that the trades were speculative in nature.

4.0 HEARING

- 4.1 The broker was accordingly advised to attend the personal hearing before me at SEBI's Head office at Mumbai on August 30, 2006, which he attended along with his Advocates. During the course of hearing, the broker sought 5 days time to file written submission which was granted. Accordingly written submission dated September 01, 2006 was filed by the broker on September 06, 2006. Therefore, I am proceeding in the matter on the basis of the submission of the broker and the material before me.

5.0 CONSIDERATION OF ISSUES & FINDINGS

- 5.1 I have carefully examined the Enquiry Report, Show Cause Notice, Reply of the broker and submissions made at the time of hearing. I, now proceed to deal with the same as under.
- 5.2 I find that the scrip of Ranbaxy Laboratories Ltd. (hereinafter referred to as "Ranbaxy") traded around the price range of Rs.270/- at the beginning of January 1999. The price of the scrip moved up to Rs.320/- by the end of January 1999. Subsequently, price continued to move upward during February – March 1999 and reached to Rs.650/- by the end of March 1999. Further, the price of the scrip moved to Rs.700/- during May 1999 and came down to Rs.600/- during June 1999. The price subsequently moved upwards and touched Rs.800/- during July 1999 and Rs.1000/- during August 1999. The scrip was being traded in the range of Rs.900/- to Rs.1100/- during August – September 1999 and the price increased to Rs.1200/- during October 1999. Effectively the price of the scrip moved up from Rs.267 on 01.01.99 to a high of Rs.1215/- on 13.10.99. Later on the price started falling gradually and closed at Rs.869 on 29.10.99 at BSE. The price of the scrip of Ranbaxy had moved significantly during the period from Rs.270/- in January 1999 to about Rs.1200/- in October 1999. The price rise in the scrip was accompanied with significantly high volumes.
- 5.3 I find that the Enquiry Officer has concluded in his enquiry report that the broker Prashant J Patel has carried out 54 instances of synchronization of trades with a view to create misleading appearance of trading and which tampers with price discovery mechanism of stock exchange .
- 5.4 I find the entire charge leveled against the broker is on the basis of the aforesaid synchronized trades. A synchronised trade is a kind of transaction where the seller and buyer execute the trade for almost same quantity and price with orders placed at substantially the same time. I find that synchronised deal is per se not illegal. On the other hand, a synchronised deal with fraudulent or deceptive intention to create misleading appearance of trading, to manipulate the price and/or volume of the scrip and thereby tampering the price discovery mechanism of the stock exchange with a view to get undue gain out of it is, no doubt, a grave offence.
- 5.5 Hence the issue to be decided in this case is whether the broker has carried out any such synchronised trades and to take a decision as to whether the penalty recommended by the enquiry officer against the broker is warranted or not. In order to decide the said issue, I felt it necessary to analyze the details of synchronised trades executed by the broker which are given hereunder;

Trade Dt	Trd Sett No	Trd Time	Trade No	Trd Pr	Trd Qty	Buy Order Entry Time	Buy Order No	Buy Member Name	Buy User Id	Buy Client Code	Buy Disclosed Vol	Buy Original Volume	Buy Limit Price	Sell Order Entry time	Sell Order No	Sell Member Name	Sell User Id	Sell Client Code	Sell Disclosed Volume	Sell Original Volume	Sell Limit Price
16-Jun-99	1999024	10:10:23	199906160009974	553.00	9850	10:10:23	199906160026138	Prashant J Patel	2644	B21	0	10000	553.00	10:10:23	199906160026117	Prashant J Patel	2645	X	0	10000	553.00
16-Jun-99	1999024	10:11:09	199906160010863	553.50	10000	10:11:09	199906160027989	Prashant J Patel	2644	B21	0	10000	553.50	10:11:09	199906160027981	Prashant J Patel	2645	X	0	10000	553.50
16-Jun-99	1999024	10:12:15	199906160012018	554.50	9950	10:12:15	199906160030524	Prashant J Patel	2644	B21	0	10000	554.50	10:12:15	199906160030519	Prashant J Patel	2645	X	0	10000	554.50
16-Jun-99	1999024	10:12:55	199906160012729	554.00	10000	10:12:55	199906160032088	Prashant J Patel	2644	B21	0	10000	554.00	10:12:55	199906160032082	Prashant J Patel	2645	X	0	10000	554.00
16-Jun-99	1999024	10:13:32	199906160013327	554.00	10000	10:13:32	199906160033384	Prashant J Patel	2644	B21	0	10000	554.00	10:13:29	199906160033301	Prashant J Patel	2645	X	0	10000	554.00
17-Jun-99	1999024	10:13:51	199906170016896	601.25	47085	10:13:51	199906170041803	Prashant J Patel	2644	B21	0	49000	601.25	10:13:51	199906170041801	Prashant J Patel	2645	H048	0	49000	601.25
23-Jun-99	1999025	11:43:17	199906230117531	654.50	19900	11:43:17	199906230217015	Prashant J Patel	2644	P34	0	19900	654.50	11:43:17	199906230217014	Prashant J Patel	2647	X	0	19900	654.50
23-Jun-99	1999025	11:43:42	199906230117873	654.50	25200	11:43:42	199906230217624	Prashant J Patel	2644	P34	0	30000	654.50	11:43:41	199906230217595	Prashant J Patel	2647	X	0	30000	654.50
24-Jun-99	1999025	10:23:47	199906240029119	685.50	7000	10:23:47	199906240067067	Prashant J Patel	2644	H048	0	8000	685.50	10:23:47	199906240067061	Prashant J Patel	2647	P34	0	8000	685.50
24-Jun-99	1999025	10:24:45	199906240030062	685.50	8506	10:24:45	199906240069404	Prashant J Patel	2644	H048	0	10000	685.50	10:24:44	199906240069375	Prashant J Patel	2647	P34	0	10000	685.50
24-Jun-99	1999025	10:27:21	199906240032974	681.80	8488	10:27:21	199906240075699	Prashant J Patel	2644	H048	0	10000	681.80	10:27:20	199906240075674	Prashant J Patel	2647	P34	0	10000	681.80
24-Jun-99	1999025	10:28:39	199906240034311	681.50	10000	10:28:39	199906240078594	Prashant J Patel	2644	H048	0	10000	681.50	10:28:38	199906240078555	Prashant J Patel	2647	P34	0	10000	681.50
24-Jun-99	1999025	10:29:14	199906240034994	680.50	10000	10:29:14	199906240079959	Prashant J Patel	2644	H048	0	10000	680.50	10:29:09	199906240079789	Prashant J Patel	2647	P34	0	10000	680.50
24-Jun-99	1999025	12:27:02	199906240127358	667.90	22301	12:27:02	199906240250226	Prashant J Patel	2644	H048	0	24000	667.90	12:27:02	199906240250225	Prashant J Patel	2647	P34	0	24000	667.90
24-Jun-99	1999025	12:29:55	199906240128776	667.25	24665	12:29:55	199906240253033	Prashant J Patel	2644	H048	0	25000	667.25	12:29:55	199906240253032	Prashant J Patel	2647	P34	0	25000	667.25
29-Jun-99	1999025	15:05:06	199906290214295	666.60	6724	15:05:06	199906290368963	Prashant J Patel	2644	X	0	9000	666.60	15:05:06	199906290368975	Prashant J Patel	2647	6498	0	9000	666.60
29-Jun-99	1999025	15:06:19	199906290216037	665.80	10000	15:06:19	199906290370814	Prashant J Patel	2644	X	0	10000	665.80	15:06:19	199906290370829	Prashant J Patel	2647	6498	0	10000	665.80
29-Jun-99	1999025	15:06:51	199906290216706	665.60	10000	15:06:49	199906290371612	Prashant J Patel	2644	X	0	10000	665.60	15:06:49	199906290371615	Prashant J Patel	2647	6498	0	10000	665.60
29-Jun-99	1999025	15:07:51	199906290217882	665.40	10000	15:07:40	199906290372961	Prashant J Patel	2644	X	0	10000	665.40	15:07:40	199906290372963	Prashant J Patel	2647	6498	0	10000	665.40
29-Jun-99	1999025	15:29:06	199906290264559	664.00	9402	15:29:05	199906290414104	Prashant J Patel	2646	X	0	9900	664.00	15:29:05	199906290414099	Prashant J Patel	2647	6498	0	9900	664.00
22-Jul-99	1999029	13:39:49	199907220226160	875.50	1000	13:39:49	199907220403923	Prashant J Patel	2644	H14	0	1000	875.50	13:39:48	199907220403912	Prashant J Patel	2645	X	0	1000	875.50
22-Jul-99	1999029	13:40:10	199907220226410	874.50	9000	13:40:10	199907220404367	Prashant J Patel	2644	H14	0	9000	874.50	13:40:10	199907220404372	Prashant J Patel	2645	X	0	9000	874.50
22-Jul-99	1999029	13:40:48	199907220226934	874.75	10000	13:40:48	199907220405157	Prashant J Patel	2644	H14	0	10000	874.75	13:40:46	199907220405108	Prashant J Patel	2645	X	0	10000	874.75
22-Jul-99	1999029	13:41:09	199907220227316	875.50	10000	13:41:09	199907220405630	Prashant J Patel	2644	H14	0	10000	875.50	13:41:07	199907220405576	Prashant J Patel	2645	X	0	10000	875.50
22-Jul-99	1999029	13:41:46	199907220227798	875.20	10000	13:41:31	199907220406147	Prashant J Patel	2644	H14	0	10000	875.20	13:41:30	199907220406129	Prashant J Patel	2645	X	0	10000	875.20
22-Jul-99	1999029	13:42:12	199907220228387	875.60	9630	13:42:12	199907220407084	Prashant J Patel	2644	H14	0	10000	875.60	13:42:11	199907220407071	Prashant J Patel	2645	X	0	10000	875.60
30-Jul-99	1999030	14:50:27	199907300288792	888.70	1000	14:50:27	199907300500392	Prashant J Patel	2644	B21	0	1000	888.70	14:50:27	199907300500391	Prashant J Patel	2645	H015	0	1000	888.70
30-Jul-99	1999030	14:50:48	199907300289229	889.40	3000	14:50:48	199907300500887	Prashant J Patel	2644	B21	0	3000	889.40	14:50:48	199907300500885	Prashant J Patel	2645	H015	0	3000	889.40
30-Jul-99	1999030	14:51:13	199907300289678	889.65	5020	14:51:13	199907300501569	Prashant J Patel	2644	B21	0	5020	889.65	14:51:13	199907300501580	Prashant J Patel	2645	H015	0	5020	889.65
3-Aug-99	1999030	14:51:05	199908030284313	880.75	1000	14:51:05	199908030460299	Prashant J Patel	2645	H015	0	1000	880.75	14:51:05	199908030460286	Prashant J Patel	2644	B21	0	1000	880.75
3-Aug-99	1999030	14:51:23	199908030284710	880.25	6300	14:51:23	199908030460769	Prashant J Patel	2645	H015	0	6300	880.25	14:51:23	199908030460768	Prashant J Patel	2644	B21	0	6300	880.25
24-Sep-99	1999038	14:05:40	199909240306086	1081.00	1000	14:05:40	199909240503091	Prashant J Patel	2644	N024	0	1000	1081.00	14:05:40	199909240503090	Prashant J Patel	2645	H015	0	1000	1081.00
24-Sep-99	1999038	15:02:46	199909240371534	1069.50	15000	15:02:45	199909240594282	Prashant J Patel	2644	A043	0	15000	1069.50	15:02:46	199909240594301	Prashant J Patel	2645	H015	0	15000	1069.50
28-Sep-99	1999038	15:43:11	199909280410524	1054.10	4000	15:43:11	199909280621610	Prashant J Patel	2645	H015	0	4000	1054.10	15:43:11	199909280621607	Prashant J Patel	2644	A043	0	4000	1054.10
28-Sep-99	1999038	15:57:33	199909280450594	1054.50	2475	15:57:33	199909280658009	Prashant J Patel	2645	H015	0	4000	1054.50	15:57:33	199909280657988	Prashant J Patel	2644	A043	0	4000	1054.50
5-Oct-99	1999039	11:33:07	199910050081307	995.50	5000	11:33:07	199910050175018	Prashant J Patel	2645	H015	0	5000	995.50	11:33:07	199910050175020	Prashant J Patel	2644	P020	0	5000	995.50
5-Oct-99	1999039	15:37:49	199910050389169	1004.50	9960	15:37:49	199910050595623	Prashant J Patel	2645	H015	0	10000	1004.50	15:37:48	199910050595539	Prashant J Patel	2644	A043	0	10000	1004.50
5-Oct-99	1999039	15:39:08	199910050392288	1003.60	2000	15:39:07	199910050598895	Prashant J Patel	2644	H015	0	2000	1003.60	15:39:08	199910050598957	Prashant J Patel	2645	J025	0	2000	1003.60

Trade Dt	Trd Sett No	Trd Time	Trade No	Trd Pr	Trd Qty	Buy Order Entry Time	Buy Order No	Buy Member Name	Buy User Id	Buy Client Code	Buy Disclosed Vol	Buy Original Volume	Buy Limit Price	Sell Order Entry time	Sell Order No	Sell Member Name	Sell User Id	Sell Client Code	Sell Disclosed Volume	Sell Original Volume	Sell Limit Price
6-Oct-99	1999040	15:13:31	199910060337659	1006.60	5000	15:13:30	199910060541033	Prashant J Patel	2644	P020	0	5000	1006.60	15:13:31	199910060541054	Prashant J Patel	2645	H015	0	5000	1006.60
12-Oct-99	1999040	12:04:34	199910120186279	1150.50	14195	12:04:34	199910120336642	Prashant J Patel	2645	H015	0	15000	1150.50	12:04:33	199910120336618	Prashant J Patel	2644	A043	0	15000	1150.50
12-Oct-99	1999040	14:58:01	199910120414244	1150.50	2460	14:58:00	199910120633004	Prashant J Patel	2645	H015	0	2500	1150.50	14:58:01	199910120633038	Prashant J Patel	2644	P114	0	2500	1150.50
13-Oct-99	1999041	13:48:22	199910130413120	1215.50	2045	13:48:22	199910130629567	Prashant J Patel	2644	B21	0	5000	1215.50	13:48:22	199910130629570	Prashant J Patel	2645	H015	0	5000	1215.50
15-Oct-99	1999041	15:02:35	199910150330927	1138.25	3152	15:02:35	199910150538321	Prashant J Patel	2644	A043	0	5000	1138.25	15:02:35	199910150538324	Prashant J Patel	2645	H015	0	5000	1138.25
18-Oct-99	1999041	14:16:29	199910180355118	1117.00	19926	14:16:29	199910180561911	Prashant J Patel	2645	H015	0	20000	1117.00	14:16:28	199910180561895	Prashant J Patel	2644	A043	0	20000	1117.00
20-Oct-99	1999042	14:04:42	199910200332912	1124.50	1480	14:04:42	199910200536163	Prashant J Patel	2645	J025	0	1500	1124.50	14:04:42	199910200536158	Prashant J Patel	2644	H015	0	1500	1124.50
22-Oct-99	1999042	13:00:08	199910220227549	1037.50	4950	13:00:08	199910220403848	Prashant J Patel	2644	P020	0	5000	1037.50	13:00:08	199910220403856	Prashant J Patel	2645	H015	0	5000	1037.50
26-Oct-99	1999042	13:09:05	199910260239629	994.10	5000	13:09:04	199910260420582	Prashant J Patel	2644	H015	0	5000	994.10	13:09:05	199910260420638	Prashant J Patel	2645	P020	0	5000	994.10
26-Oct-99	1999042	13:09:05	199910260239629	994.10	5000	13:09:04	199910260420582	Prashant J Patel	2644	H015	0	5000	994.10	13:09:05	199910260420638	Prashant J Patel	2645	P020	0	5000	994.10
27-Oct-99	1999043	10:31:08	199910270069355	1022.50	24500	10:31:08	199910270130711	Prashant J Patel	2645	J	0	25000	1022.50	10:31:08	199910270130718	Prashant J Patel	2644	H	0	25000	1022.50
28-Oct-99	1999043	10:09:57	199910280014593	967.00	24884	10:09:57	199910280040044	Prashant J Patel	2645	H048	0	25000	967.00	10:09:57	199910280040047	Prashant J Patel	2644	P34	0	25000	967.00
28-Oct-99	1999043	13:56:11	199910280256726	924.00	23685	13:56:11	199910280453037	Prashant J Patel	2645	H048	0	25000	924.00	13:56:11	199910280453031	Prashant J Patel	2644	P34	0	25000	924.00
28-Oct-99	1999043	14:14:58	199910280277626	920.60	25000	14:14:58	199910280480908	Prashant J Patel	2645	H048	0	25000	920.60	14:14:57	199910280480904	Prashant J Patel	2644	P34	0	25000	920.60
29-Oct-99	1999043	11:21:34	199910290108496	934.00	1000	11:21:10	199910290208297	Prashant J Patel	2644	P020	###	6500	934.00	11:21:34	199910290209030	Prashant J Patel	2644	H015	0	1000	934.00
29-Oct-99	1999043	15:29:59	199910290440452	883.00	23701	15:29:59	199910290664252	Prashant J Patel	2644	X	0	25000	883.00	15:29:59	199910290664255	Prashant J Patel	2645	H015	0	25000	883.00

5.6 From the above table, I observe that the broker during the period June 16, 1999 to October 29, 1999 had executed 54 trades in the scrip of Ranbaxy where the buy and sell orders were placed simultaneously or within seconds of each other at the same price and also for exactly the same quantities or approximately same quantities. I also observe that a client of the broker, Hinduja Finance (client codes are used interchangeably by the broker) sold 50,000 shares (5 transactions of 10,000 shares each) on June 16, 1999 at Rs 553 -554.50 which were bought by another client of the broker Superior Financial Consultancy Services Pvt Ltd. out of which 49,800 shares were synchronised. On the very next date i.e. on June 17, 2006, his client Superior Financial Consultancy Services Pvt Ltd sold 50,000 shares which were bought back by Hinduja Finance at 601.25 (out of which 47,085 shares were synchronised). Thus, by this reverse transaction the positions of the two clients got squared up and no delivery was given or taken at the end of the settlement. I find that similar type of transactions involving large number of shares - 49,900 shares, 98,000 shares and 48,900 shares were executed on June 23, 1999, June 24, 1999 and June 29, 1999 between the same two clients within the same settlement. Further, I find that two transactions of 25,000 synchronised shares and 75,000 shares were executed between the same two clients on October 27, 1999 and October 28, 1999 within the same settlement. However, the number of shares reversed within the same settlement was not exactly the same.

5.7 Against these specific transactions, the broker submitted that these are speculative trades of two clients. The Enquiry Officer held that matching of trade on many occasions with the same order quantity and price at almost same order time, is not speculation but reversal of transaction. Such reversal transactions between two clients within the same settlement in a synchronised manner in the form of circular trading creates artificial volume. The Enquiry Officer also examined the contention of the broker that these transactions are part of arbitrage of their client Hinduja Finance on NSE and BSE and held that these transactions executed at loss do not appear to be in the nature of arbitrage. The broker in their post show cause notice reply dated November 29, 2004 stated that they (broker) can not question the trading wisdom of the client. Further, they stated that the shares have not been sold at a lower rate, but there might have been some nominal loss when considering the brokerage in the trade. The said contentions of the broker can not be sustainable in very liquid scrip like Ranbaxy. At any point of time, there would be a large number of orders pending execution in such liquid scrips. Hence there is little probability of trades matching between two clients more than once. However in the instant case many such matching trades had happened on the same day, for e.g., 7 synchronised trades on June 24, 1999. I find that many of these trades had resulted in reversal of earlier trades, thereby pointing to the manipulative intent. Further, it is quite unlikely that two clients of the same broker will place exact contra orders at almost the same time, that too on a number of occasions, without prior understanding between them and broker. Such exact matching can not happen without the knowledge and support of the broker.

5.8 I find that the broker has executed 54 deals by giving 14 different client codes. The broker in their explanation furnished vide letter dated March 04, 2004 mentioned names of 7 clients only. The Enquiry Officer held that the trades on behalf 7 clients have been executed by giving 14 different client codes with ulterior motives, to create an impression that transactions were executed among a large number of clients in normal course of business. The broker, during enquiry proceedings, submitted that there was no ulterior motive in doing so since in the screen based trading mechanism, no one can come to know how many clients have traded in a particular scrip. They also stated that there is no legal bar on assignment of different client code to the same client nor there is any legal requirement to enter client code while placing orders in system. The broker pointed out that it was only in November 27, 2000 NSE issued a Circular No NSE/CMO/0026/2000 stating that members are required to mandatorily enter the client code as per SEBI Circular No SMDRP/POLICY/CIR-33/2000 dated July 27, 2000. Further they stated that it was only in July 2001, NSE issued a Circular No NSE/CMO/0022/2001 dated July 24, 2001 directing that all members should use unique code for all the clients as per SEBI Circular SMRDP/Policy/Cir-39/2001 dated July 18, 2001. I find that there was no legal requirement at the relevant time for the broker to maintain unique client code. However, I am of the view that though there were no legal binding on the broker to exercise unique client code, the way the broker had used the client codes while placing the order could have prevented normal audit trail at the exchange level which is considered against the principles of broking business. Using client codes interchangeably, that too in suspected transactions puts the integrity of the broker in question. I find that specific charges have already been framed against the broker under the provisions of PFUTP Regulations, Stock Brokers Regulations, and Regulation 4.6.2 of NSE Capital Market Regulations. It is clear from the above facts and analysis of the trade details of the broker in this scrip that they were hand in glove with their clients and entered into synchronised deals in the form of circular trading. The fact that broker entered into 54 instances of synchronised trade clearly indicates his manipulative intent. In this context, I also observe that the broker in the entire proceedings had taken a stand that they can not be questioned for the act of their clients. But, the broker's statement is nullified since he himself had assigned different client codes to their clients and allowed them to use the same in synchronising trades.

5.9 The Enquiry Officer found that the broker executed trades for 5.70 lakhs shares in the price range from Rs. 553.00 to Rs. 1215.00 in a short span of time i.e during June to October 1999. He also observed 7 synchronised deals on a single day e.g on June 24, 1999 were executed which member broker described as speculative in nature. I have not found any specific reply from the broker regarding the said finding except the general statement that they have acted under the instructions of their client.

5.10 Market Intermediaries are expected to observe due diligence to maintain harmony in the market. In the instant case, the broker could have simply identified the continuous sell and buy orders in a synchronized manner and should not have entertained the clients who carried out such synchronized deals. I find that the broker has not disputed the execution of 54 synchronized trades but he has taken a stand that they are not responsible for the trades of their clients. This stand of theirs is against the concept of broking business and hence not tenable.

5.11 Further, I am of the view that number of synchronization of trades can not be treated as mere coincidence or without knowledge and are only possible if the trades are put in the system with prior understanding. I find that all the afore mentioned 54 transactions give an impression that these were all synchronized and traded in circular manner, otherwise there was no possibility of such perfect matching of quantity and price etc. The intention of the parties to execute such synchronized transactions could be inferred from the above attending circumstances especially execution of several synchronised transactions in a single day, circular trading and reversal of transactions etc. Further, I observe that the standard of proof required in a proceeding of this nature is at variance with the standard of proof required in criminal cases. It is sufficient if the preponderance of probabilities suggests towards the indulgence of the delinquent in the misconduct.

5.12 In view of these, I find that that broker has put these trades with a view to create misleading appearance of trading. This synchronization of trades tampers with price discovery mechanism of stock exchange and is against the concept of transparency. The synchronized deals entered into by the broker abetted in creating artificial volumes and false market in the scrip of Ranbaxy Laboratories Ltd. These acts of broker are in violation of the provisions of Regulation 4 (a) to (d) of PFUTP Regulations, 1995, which provides that,

"4. No person shall -

(a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person;

(b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;

(c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;

(d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuations in the market price of securities;"

5.13 Further, the broker has violated Regulation 7 read with the clause A (3) and (4) of Code of Conduct as specified in Schedule II of Stock Brokers Regulations, which provides that,

"(3) Manipulation : A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) Malpractices : A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness".

5.14 It is also established that the broker has violated NSE Capital Market Regulation 4.6.2 which reads as follows;

"No Trading Member shall, for the purpose of creating or inducing a false or misleading appearance of activity in an eligible security or creating or inducing a false or misleading appearance with respect to the market in such security,

(a) enter any order or orders for the purchase of such security with knowledge that an order or orders of substantially the same size, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties, or

(b) enter any order or orders for the sale of such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price for the purchase of such security has been or will be entered by or for the same or different parties".

6.0 ORDER

6.1 I find that the broker had violated the provisions of 4 (a) to (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 read with Regulation 4(2) (a, b, e & g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, Regulation 7 read with Section A (3) and (4) of Code of Conduct as specified in Schedule II of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 and Regulations 4.6.2 of NSE Capital Market Regulations. Considering all aspects and circumstances of the case, I am of the view that suspension of certificate of registration issued to the broker Prashant J Patel for a period of 7 (seven) days is sufficient to have a deterrent effect on the broker.

6.2 Now, 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 the said Regulations, I hereby impose a minor penalty of suspension of certificate of registration issued to Prashant J Patel, the broker of NSE and registered with SEBI bearing Registration No. INB230649816 for a period of seven days in terms of Regulation 13(4) of SEBI Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.

6.2 This order shall come into force immediately on the expiry of twenty one days from the date of this order.

**Mumbai
December 7, 2006**

**T C NAIR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**