

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

**Against M/s Wallfort Financial Services Ltd. in the
matter of M/s Ranbaxy Laboratories Ltd.**

ORDER

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

1.0 Background

1.1 M/s Wallfort financial services Ltd, is a broker of National Stock Exchange (SEBI Registration no. INB230852430), Stock Exchange Mumbai (SEBI Registration no. INB 010852433), Calcutta Stock Exchange (SEBI Registration no. INB030852439). Securities and Exchange Board of India (hereinafter referred to in short as "Board") had conducted an investigation into the affairs relating to buying and selling of shares of Ranbaxy Laboratories Ltd (hereinafter referred to in short as "Ranbaxy") on observing sudden spurt in the price and volumes of Ranbaxy traded in the Exchanges particularly in the National Stock Exchange (NSE), Calcutta Stock Exchange (CSE). The price of the scrip of Ranbaxy had moved up significantly during the period from Rs.270/- in October 1999 accompanied with significant increase in volumes.

1.2 The Board, after considering the Investigation Report, appointed an Enquiry Officer vide Order dated February 11, 2003 to enquire into the violations allegedly committed by M/s Wallfort financial services Ltd (hereinafter referred to in short as "Broker") under the provisions of the 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 the provisions of Regulation 4 (a), (b), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities) Regulations, 1995 (hereinafter referred to in short as "PFUTP Regulations") and Rules, Regulations and Bye-laws of the Stock Exchange.

1.3 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 in short as "Enquiry Regulations") submitted a report dated August 11, 2004 under Regulations 13(1) of the Enquiry Regulations. The Enquiry Officer observed that the broker had generated artificial volume in the scrip of Ranbaxy which amounts to misuse of trading system in terms of Regulation 4(b) of PFUTP Regulations and Clause A(3) of Stock Brokers Regulations. He recommended a minor penalty of warning to the broker.

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 the broker to state why the action, as recommended by the Enquiry Officer or any other action should not be imposed on it. In the said show cause notice, it was specifically stipulated that the broker's explanation should be reached in SEBI within 15 days from the date of receipt of the said show cause notice and also advised it to indicate as to whether the broker is desirous of attending for personal hearing. The broker submitted its reply to the said show cause notice nor sought for a personal hearing.

3.0 Consideration of issue

3.1 I have carefully considered the findings in the Enquiry Report. I find that the Enquiry Officer has dealt with the issue as to whether the broker has violated SEBI Circular No. SMDRP/POLICY/CIR-3 dated September 14, 1999. I find that the said issue is beyond the scope of enquiry since the same were not covered under the Order dated November 29, 2002 appointing the Enquiry Officer.

3.2 The Enquiry Officer has also examined as to whether the trades executed by Wallfort are illegal and / or manipulative. He held that trades executed by the broker are in the nature of jobbing trades. In the enquiry proceedings, the broker has stated that in all except in one case, buy order has been placed first. The reason given by the broker for such manner of execution is that since NSE system does not allow for cancelling the part of buy orders, they entered trades for unexecuted quantity of shares so as to reduce losses. However, the Enquiry Officer rejected the said contention of the broker and held that the order for buy is put in the trading system and the broker does not want to get the buy order matched, it only has the option to cancel the trades and should not enter into an opposite transaction to generate artificial volumes. In view of this finding, Enquiry Officer held that the act of the broker had generated artificial volume in the scrip of Ranbaxy and misused the trading system which amounts to violation of Regulation 4 (b) of PFUTP and Clause A(4) of Stock Brokers Regulations.

3.3 Further, I find that the entire charge levelled against the broker is on the basis of the structured/synchronised trades. I find that structured/synchronised deal is per se not illegal. On the other hand, dealing with fraudulent or deceptive intention to create misleading appearance of trading and to manipulate the price or volume of the scrip, is a grave offence.

3.4 Hence the issue to be decided in this case is, whether the broker has carried out any such trades and whether the penalty recommended by the Enquiry Officer against the broker is warranted or not. To decide the said issue, I felt it necessary to analyse the details of synchronised trades executed by the broker which is hereunder;

Trd Time	Trd Pr	Trd Qty	Buy Order Entry Time	Buy Order No	Buy Member Name	Buy Client Code	Buy Original Volume	Buy Limit Price	Sell Order Entry time	Sell Order No	Sell Member Name	Sell Client Code	Sell Original Volume	Sell Limit Price	Price diff
13:52:55	511.00	15202	13:52:17	9903110344023	WALLFORT FINANCIAL SERVICES LTD	8524	50000	511.00	13:52:55	9903110344761	WALLFORT FINANCIAL SERVICES LTD	8524	20000	511.00	0
13:00:31	559.55	25000	13:00:09	9903170284556	WALLFORT FINANCIAL SERVICES LTD	8524	50000	559.55	13:00:30	9903170285077	WALLFORT FINANCIAL SERVICES LTD	8524	25000	559.55	0
13:00:31	559.55	7465	13:00:09	9903170284556	WALLFORT FINANCIAL SERVICES LTD	8524	50000	559.55	13:00:31	9903170285096	WALLFORT FINANCIAL SERVICES LTD	8524	50000	559.55	0
12:44:07	610.00	13241	12:43:33	9903190254251	WALLFORT FINANCIAL SERVICES LTD	8524	50000	610.00	12:44:07	9903190255130	WALLFORT FINANCIAL SERVICES LTD	8524	30000	610.00	0
11:22:41	582.00	13782	11:22:05	9904120149906	WALLFORT FINANCIAL SERVICES LTD	8524	40000	582.00	11:22:41	9904120150756	WALLFORT FINANCIAL SERVICES LTD	8524	25000	582.00	0

					SERVICES LTD						SERVICES LTD				
12:40:13	545.00	3949	12:39:25	9904290232932	WALLFORT FINANCIAL SERVICES LTD	8524	25000	545.00	12:40:13	9904290233733	WALLFORT FINANCIAL SERVICES LTD	8524	10000	545.00	C
14:44:01	574.00	5000	14:43:44	9904300333395	WALLFORT FINANCIAL SERVICES LTD	8524	50000	574.00	14:44:01	9904300333666	WALLFORT FINANCIAL SERVICES LTD	8524	5000	574.00	C
14:44:01	574.00	10000	14:43:44	9904300333395	WALLFORT FINANCIAL SERVICES LTD	8524	50000	574.00	14:43:35	9904300333260	WALLFORT FINANCIAL SERVICES LTD	8524	10000	574.00	C
14:44:09	574.00	24319	14:43:44	9904300333395	WALLFORT FINANCIAL SERVICES LTD	8524	50000	574.00	14:44:09	9904300333822	WALLFORT FINANCIAL SERVICES LTD	8524	30000	574.00	C
11:24:18	648.00	32518	11:23:55	9905050183214	WALLFORT FINANCIAL SERVICES LTD	8524	40000	648.00	11:24:18	9905050183840	WALLFORT FINANCIAL SERVICES LTD	8524	35000	648.00	C
10:30:26	695.00	9670	10:29:43	9905070106192	WALLFORT FINANCIAL SERVICES LTD	8524	50000	695.00	10:30:26	9905070107835	WALLFORT FINANCIAL SERVICES LTD	8524	15000	695.00	C
10:30:26	695.00	20476	10:29:43	9905070106192	WALLFORT FINANCIAL SERVICES LTD	8524	50000	695.00	10:30:26	9905070107836	WALLFORT FINANCIAL SERVICES LTD	8524	30000	695.00	C
10:32:07	698.00	9891	10:31:52	9905070111145	WALLFORT FINANCIAL SERVICES LTD	8524	25000	698.00	10:32:07	9905070111762	WALLFORT FINANCIAL SERVICES LTD	8524	25000	698.00	C
14:43:48	689.00	26406	14:43:35	9905070448381	WALLFORT FINANCIAL SERVICES LTD	8524	50000	689.00	14:43:48	9905070448629	WALLFORT FINANCIAL SERVICES LTD	8524	30000	689.00	C
15:29:41	725.00	13168	15:28:26	9905120602145	WALLFORT FINANCIAL SERVICES LTD	8524	30000	725.00	15:29:08	9905120603231	WALLFORT FINANCIAL SERVICES LTD	8524	20000	725.00	C
10:27:03	729.00	28001	10:26:32	9905190096743	WALLFORT FINANCIAL SERVICES LTD	8524	50000	729.00	10:27:03	9905190098116	WALLFORT FINANCIAL SERVICES LTD	8524	50000	729.00	C
14:36:59	818.00	2326	14:36:29	199907190490256	WALLFORT FINANCIAL SERVICES LTD	8524	25000	818.00	14:36:59	199907190490890	WALLFORT FINANCIAL SERVICES LTD	8524	10000	818.00	C
10:31:30	1075.00	18340	10:31:13	199910070176306	WALLFORT FINANCIAL SERVICES LTD	8524	35000	1075.00	10:31:30	199910070177147	WALLFORT FINANCIAL SERVICES LTD	8524	25000	1075.00	C

3.5 I find from the above table that the broker had executed 18 synchronised transactions during the course of investigation period i.e. between January 01, 1999 to October 31, 1999. The broker and buy order ranging from 5,000 shares to 50,000 shares. Further, the broker executed four trades in March 1999, five trades in April 1999, seven trades in May 1999, one trade in July 1999 and October 1999. These transactions can be treated as minuscule percentage of total market volume in the scrip of Ranbaxy.

3.6 I note that that the broker had neither disputed the above price rise nor denied entering into the synchronised deals in the scrip of Ranbaxy during the period January 01, 1999 to October 31, 1999 contented before the Enquiry Officer that such synchronised trades are part of their jobbing business.

3.7 I find that the matching of transactions has taken place in a number of days. I am of the view that the said transactions cannot be coincident, but is possible only if such trades are put in the system understanding simultaneously to match. The reason given by the broker for such trade is that since NSE system was very slow for cancelling the part of buy orders, they enter trades for unexecuted shares so as to reduce losses. This is not an acceptable reason and the Enquiry Officer has already discussed the said issue and rejected this contention as stated supra. I do agree with the submission of the Enquiry Officer. Further, the broker had not given any other sufficient reason for such transactions.

3.8 In view of these, I find that that broker has put these trades with a view to create misleading appearance of trading. These trades tamper with price discovery mechanism of stock exchange. They entered into a number of synchronized deals. These trades abetted in creating artificial volumes and false market in the scrip of Ranbaxy and are in violation of the Regulation 7 read with the clause of Code of Conduct as specified in Schedule II of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, which provides that,

- (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 interfere with 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 soundness.

3.9 Further broker through these dealings in the scrip of Ranbaxy has violated the provisions of Regulation 4 (b) of PFUTP, which provides that,

- No person shall –

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

4.0 ORDER

- 4.1 Therefore, I find that the broker had violated the provisions of 4 (b) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and Regulation Section A (4) of Code of Conduct as specified in Schedule II of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992. At the same time, I also observe that the broker has carried out volume in the scrip of Ranbaxy. Considering the said aspects and all other facts and circumstances of the case, I am of the view that a penalty of censure is sufficient.
- 4.2 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 in terms of Regulation 13(4) of SEBI Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 on M/s Wallfort financial services Ltd.
- 4.2 This order shall come into force with immediate effect.

Mumbai
December 11, 2006

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