

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(4) OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY REGULATIONS), 2002 AGAINST TITAN STOCK BROKING PVT. LTD., MEMBER, CALCUTTA STOCK EXCHANGE ASSOCIATION LTD. IN RESPECT OF ITS TRANSACTIONS IN THE SHARES OF DSQ INDUSTRIES LTD.

WTM/GA/141/ISD/02/07

1.0 BACKGROUND

- 1.1 The shares of DSQ Industries Ltd. (hereinafter referred to as DSQ), are inter alia listed on the Calcutta Stock Exchange Association Limited (hereinafter referred to as CSE). DSQ Industries Ltd is a group concern of Shri Dinesh Dalmia, main promoter of DSQ Software Ltd. It was noticed that between the period January 2, 2000 and March 14, 2000 (i.e. twenty trading sessions), the price of the shares of DSQ went up from Rs.97/- to Rs.428/-. It was also noticed that in all the above twenty trading sessions (except on January 20, 2000), the shares of DSQ was in the upper circuit filter compared to the previous day's closure. On January 20, 2000, the shares of DSQ initially went up by 8% compared to the previous day's closure and then showed a downward trend to hit the lower circuit.
- 1.2 Inter alia in view of the above facts and circumstances, Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted an investigation to look into the alleged manipulation in the shares of DSQ and to look into the possible violations of the provisions of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the Act), Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the FUTP Regulations) and Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the Broker Regulations).
- 1.3 The investigation conducted by SEBI, inter alia, revealed that Titan Stock Broking Pvt. Ltd. (hereinafter referred to as the Broker), member, CSE and registered with SEBI (registration number INB031051437) had entered into cross deals in the shares of DSQ in fifteen trading sessions (out of the total of twenty trading sessions) during the above period. The details of the transactions executed by the Broker during the said period are mentioned below :

Table I:

Date	Volume at CSE	Volume of the Broker	Clients of the Broker	Counter Party Broker
6.1.2000	514000	514000	DSQ Holding Ltd.	Mehta Ajmera
14.1.2000	1000	1000	Self	
17.1.2000	1000	1000	DSQ Holding Ltd. & Self	Self
18.1.2000	1000	1000	DSQ Holding Ltd. & Self	Self
19.1.2000	1000	1000	DSQ Holding Ltd. & Self	Self
20.1.2000	1500	1500	DSQ Holding Ltd.	500 shares were sold on own account
21.1.2000	1000	1000	DSQ Holding Ltd. & Self	Self
24.1.2000	1000	1000	DSQ Holding Ltd & Naina Barter	Self
25.1.2000	500	500	DSQ Holding Ltd. & Self	Self
28.1.2000	100	100	Naina Barter	
31.1.2000	100	100	DSQ Holding Ltd & Naina Barter	Self
2.2.2000	100	100	DSQ Holding Ltd & Naina Barter	Self

14.2.2000	100	100	DSQ Holding Ltd & Naina Barter	Self
15.2.2000	100	100	DSQ Holding Ltd & Naina Barter	Self
16.2.2000	100	100	DSQ Holding Ltd & Naina Barter	Self
21.2.2000	100	100	DSQ Holding Ltd & Naina Barter	Self
22.2.2000	100	100	DSQ Holding Ltd & Naina Barter	Self
24.2.2000	100	100	DSQ Holding Ltd & Naina Barter	Self

1.4 From the above table, it can be seen that the aforesaid cross deals were executed by the Broker on behalf of its clients namely DSQ Holdings Ltd. and Naina Barter Pvt. Ltd. In addition to the above, the Broker had also executed proprietary trading in the shares of DSQ. It was found that DSQ Holdings Ltd. was a promoter group entity of DSQ Industries Ltd. and that Naina Barter Pvt. Ltd. and DSQ Industries Ltd. were sharing the common address i.e. 11/A, Chowringee Terrace, Calcutta – 700 020. It has been alleged that the said cross deals on behalf of the promoter group entities of DSQ were executed by the Broker by putting orders at successively higher prices than the last traded/ previous day's price. It has been alleged that the aforesaid transactions executed by the Broker had taken up the price of the share of DSQ from Rs.97/- to Rs.428/- within the said fifteen trading days on low volumes.

1.5 It has been alleged that the increase in the share price of DSQ at CSE during the above period occurred as a result of the aforesaid cross deals executed by the Broker. The Broker had created artificial volumes in the shares of DSQ, which was otherwise illiquid and thereby resulted in creation of artificial price in the said shares and therefore, it has been alleged that the Broker had prima facie violated the provisions of regulation 4(a), (b), (c) and (d) of the FUTP Regulations.

2.0 APPOINTMENT OF ENQUIRY OFFICER

2.1 On completion of the investigation, SEBI appointed an Enquiry Officer, vide order dated July 24, 2003 under regulation 5(1) of 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) to enquire into the aforesaid alleged violations committed by the Broker while executing trades on behalf of its clients in the shares of DSQ. The Broker made its submissions before the Enquiry Officer.

2.2 The Enquiry Officer conducted the enquiry in terms of the provisions of the Enquiry Regulations and, vide his report dated March 31, 2004 recommended for the imposition of the penalty of suspension of the certificate of registration of the Broker for a period of six months. The Enquiry Officer had inter alia observed in his report that the Broker had violated regulation 4(a), (b), (c) and (d) of the FUTP Regulations.

3.0 SHOW CAUSE NOTICE, REPLY:

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3.1 Based upon the recommendation of the Enquiry Officer, a notice dated April 29, 2004 was issued to the Broker under regulation 13(2) of the Enquiry 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 aforesaid show cause notice was served on the Broker by SEBI through CSE. As the Broker had not filed its reply to the show cause notice, a reminder was sent to the Broker by SEBI vide letter dated February 15, 2005.

4.0 CONSIDERATION OF ISSUES AND FINDINGS:

4.1 On a perusal of the investigation report, the enquiry report and the show cause notice issued to the Broker. I observed that the Enquiry Officer had not considered the synchronized transactions executed by the Broker (in the shares of DSQ) with M/s Mehta and Ajmera (Member, CSE) on January 6, 2000 on behalf of the DSQ group entities namely DSQ Holdings Ltd. and Green Field Investments Ltd., though the said details were already communicated to the Broker. On January 6, 2000, the Broker had bought (through the synchronized deals) 5,14,000 shares of DSQ in 53 small trade quantities of 100/ 3,900 / 9,900/ 10,000 shares from the said M/s Mehta & Ajmera. The aforesaid said transactions accounted for the total volume of the shares at CSE on the said date.

4.2 In view of the above, the Broker was called upon to give its comments by SEBI, vide letter dated September 12, 2006 on the said transactions executed by the Broker. The details of the said transactions were once again communicated to the Broker with the said show cause notice. The details of the said transactions are reproduced herein below for the sake of reference :

Table II

Trade Date	Trade Time	Member Name	Buy Or Sell	Qty	Price	Counter Party Name
06-01-2000	2:59:07 PM	TSBPL *	B	100	104	MEHTA & AJMERA
06-01-2000	2:59:07 PM	TSBPL	B	9900	104	MEHTA & AJMERA
06-01-2000	2:59:07 PM	MEHTA & AJMERA	S	100	104	TSBPL
06-01-2000	2:59:07 PM	MEHTA & AJMERA	S	9900	104	TSBPL
06-01-2000	2:59:11 PM	TSBPL	B	100	104	MEHTA & AJMERA
06-01-2000	2:59:11 PM	TSBPL	B	9900	104	MEHTA & AJMERA
06-01-2000	2:59:11 PM	MEHTA & AJMERA	S	100	104	TSBPL
06-01-2000	2:59:11 PM	MEHTA & AJMERA	S	9900	104	TSBPL
06-01-2000	2:59:18 PM	TSBPL	B	100	104	MEHTA & AJMERA
06-01-2000	2:59:18 PM	TSBPL	B	9900	104	MEHTA & AJMERA
06-01-2000	2:59:18 PM	MEHTA & AJMERA	S	9900	104	TSBPL
06-01-2000	2:59:18 PM	MEHTA & AJMERA	S	100	104	TSBPL
06-01-2000	2:59:28 PM	TSBPL	B	100	104	MEHTA & AJMERA
06-01-2000	2:59:28 PM	TSBPL	B	9900	104	MEHTA & AJMERA
06-01-2000	2:59:28 PM	MEHTA & AJMERA	S	100	104	TSBPL
06-01-2000	2:59:28 PM	MEHTA & AJMERA	S	9900	104	TSBPL
06-01-2000	2:59:41 PM	TSBPL	B	100	104	MEHTA & AJMERA
06-01-2000	2:59:41 PM	MEHTA & AJMERA	S	100	104	TSBPL
06-01-2000	2:59:51 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	2:59:51 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:00:00 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:00:00 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:00:07 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:00:07 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:00:14 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:00:14 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:00:21 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:00:21 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:00:27 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:00:27 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:00:33 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:00:33 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:00:39 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:00:39 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:00:48 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:00:48 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:00:54 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:00:54 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:01:00 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:01:00 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:01:06 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:01:06 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:01:13 PM	TSBPL	B	10000	104	MEHTA & AJMERA

[illegible]

06-01-2000	3:06:34 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:06:34 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:06:40 PM	TSBPL	B	10000	104	MEHTA & AJMERA
06-01-2000	3:06:40 PM	MEHTA & AJMERA	S	10000	104	TSBPL
06-01-2000	3:07:12 PM	TSBPL	B	3900	104	MEHTA & AJMERA
06-01-2000	3:07:12 PM	MEHTA & AJMERA	S	3900	104	TSBPL

*TSBPL- Broker.

- 4.3 The aforesaid show cause notice was acknowledged by the Broker on September 15, 2006. However, the Broker failed to give its comments on the aforesaid transactions as mentioned in the aforesaid show cause notice, so far. I note that though sufficient opportunities were given to the Broker, it had failed to furnish any reply to the show cause notices issued by SEBI. In the above circumstances, I observe that the Broker is not interested in filing any reply and availing an opportunity of hearing. Therefore, I proceed in the matter on the basis of the investigation report, the enquiry report, the show cause notices dated April 29, 2004 and September 12, 2006 and other materials available on record.
- 4.4 The synchronized transactions (executed on June 06, 2000) and the cross deals (on other days as mentioned in the Table I) executed by the Broker in the shares of DSQ are not disputed. It can be seen that the Broker had entered into synchronized transactions in the shares of DSQ with M/s Mehta & Ajmera on January 06, 2000. On the said date, a number of transactions were executed by the Broker between 2:59:07 and 3:07:12 PM (i.e. between a time gap of only eight minutes). In the process, 5,14,000 shares of DSQ were traded between the Broker and the said Mehta & Ajmera. Moreover, the clients of the Broker (in respect of the said transactions) were DSQ Holdings Ltd. and Greenfield Investments Ltd. (DSQ group entities). The Broker had admitted before the Enquiry Officer that he knew Shri Dinesh Dalmia for a long time and that the transactions on behalf of aforesaid clients in the shares of DSQ were done as per the instructions of Shri Dinesh Dalmia and one Shri Ashok Sharma. Further, the Broker had also stated that the orders were placed by either of them.
- 4.5 Admittedly, the shares of DSQ were illiquid at that time when the Broker was executing transactions on behalf of its said clients. The fact that trades were executed by the associates of DSQ on a large volume in the shares of DSQ at CSE, which was illiquid at the time of such trades, should have alerted the Broker that something was amiss. Instead of exercising caution, the Broker had executed large number of trades and thereby was instrumental in creating artificial volumes in the scrip of DSQ at CSE. The proximity in putting of orders at the same time, price and quantity resulted in the matching of the aforesaid transactions, with all the ingredients i.e. quantity, price and the time, required to conclude the trades.
- 4.6 I further note that the clients of the Broker were associates of DSQ and the entire traded volume in the shares of DSQ at CSE on January 06, 2000 was executed by the Broker in the method and manner as mentioned above while creating artificial market in the shares of DSQ. Artificial increase in the volumes of the shares of a company has the adverse effect on the innocent investors of the market who get induced to buy the shares because they seldom have knowledge about the factors that drove up such transactions.
- 4.7 I would also like reproduce the following relevant observation of the Hon'ble Securities Appellate Tribunal, Mumbai (hereinafter referred to SAT) in the matter of Nirmal Bang Securities (P) Ltd. vs. SEBI:

"BEB has been charged for synchronized deals with First Global. I have examined the data provided by the parties on this issue. I find many transactions between BEB and FGSB. There are many instances of such transactions. I find the scrip, quantity and price for these orders had been synchronized by the counter party brokers. Such transactions undoubtedly create an artificial market to mislead the genuine investors. Synchronized trading is violative of all prudential and transparent norms of trading in securities. Synchronized trading on a large scale can create false volumes. The argument that the parties had no means of knowing whether any entity controlled by the client is simultaneously entering any contra order elsewhere for the reason that in the online trading system, confidentiality of counter parties is ensured, is untenable. It was submitted by the Appellants that it was not possible for the broker to know who the counter party broker is and that trades were not synchronized but it was only a coincidence in some cases. Theoretically this is OK. But when parties decide to synchronize the transaction the story is different. There are many transactions giving an impression that these were all

synchronized, otherwise there was no possibility of such perfect matching of quantity price etc. As the Respondent rightly stated it is too much of a coincidence over too long a period in too many transactions when both parties to the transaction had entered buy and sell orders for the same quantity of shares almost simultaneously. The data furnished in the show cause notice certainly goes to prove the synchronized nature of the transaction which is in violation of regulation 4 of the FUTP Regulations. The facts on record categorically establish that BEB had indulged in synchronized trading in violation of regulation 47 of the FUTP Regulations. In a synchronized trading intention is implicit.”

- 4.8 In the above facts and circumstances, it is fairly established that the trades of the Broker in the shares of DSQ were done for the purpose of creating false and misleading appearance of trading in the shares of DSQ and for the purpose of manipulating the price of the shares of DSQ.
- 4.9 In addition to the above synchronized transactions, the Broker had also executed cross deals on various dates in the shares of DSQ. The details of such transactions are already mentioned above. The clients were DSQ holdings Ltd. and Naina Barter Pvt. Ltd., associates of DSQ. On a perusal of Table II, it can be seen that the Broker had executed cross deals in the shares of DSQ on a regular basis. The entire volume in the shares of DSQ on the said dates at CSE was due to the said transactions of the Broker. In addition to the transactions on behalf of the clients, the Broker had also executed cross deals on his proprietary account.
- 4.10 The transactions of the Broker in the shares of DSQ as stated above accounted for the total volume of the said shares at CSE on those days. I note that the entire traded volume in the shares of DSQ on all the fifteen trading session were due to the transactions of the Broker as aforesaid. I note that during the total trading sessions (20) between January 2, 2000 to March 14, 2000, the Broker had executed cross deals in seventeen trading sessions. Out of the aforesaid transactions, in fifteen trading sessions, the price of the shares of DSQ went up by 8% (circuit filter) than the previous day's closure price. The price of the shares of DSQ ultimately reached upto Rs.428/- from Rs.97/- in view of the transactions executed by the Broker. The cross deals were executed from the same terminal and almost at the same time. The said concerted level of activity, that too continuously over a period of two months, is only compatible with the purposes of manipulating the securities market on the part of the Broker.
- 4.11 The clients of the Broker had indulged in fictitious trades in buying and selling the shares of the same company i.e. DSQ and the said trades were executed primarily with a view to artificially increase the trading volumes and the price of the shares of DSQ. When there was no other trading in the shares of DSQ, the Broker should have taken more care while executing orders on behalf of the associates of DSQ. The Broker failed to exercise any due diligence which was expected from a prudent stock broker who had a duty not only towards its client but also to towards the securities market. On the other hand he continued to execute such trades. The series of trades in the form of cross deals, considering its numbers, quantity etc. will only lead to the finding that all the deals were done with the purpose of manipulating the price / volume in the shares of DSQ and thereby the securities market to the detriment of the genuine investors.
- 4.12 The fact that trades were executed on a large volume in the shares of DSQ at CSE, which was illiquid at the time of such trades, should have alerted the Broker that something was amiss. This has to be viewed in the context that the Broker was dealing with clients who were none other than the associates of DSQ and that the transactions by the Broker accounted for the total volume of the shares of DSQ at CSE on those days. The clients of the Broker had indulged in fictitious trades in buying and selling the shares of the same company i.e. DSQ and the said trades were executed primarily with a view to artificially increase the trading volumes in the shares of DSQ. Artificial increase in the volumes of the shares of a company has the adverse effect on the innocent investors of the market who get induced to buy the shares because they seldom have knowledge about these transactions and its nature.
- 4.13 In the above facts and circumstances, it is fairly established that the trades of the Broker in the shares of DSQ were done for the purpose of creating false and misleading appearance of trading in the shares of DSQ and for the purpose of manipulating the price of the shares of DSQ and that the same should be within the knowledge of the Broker, when the anonymity of screen - based trading has been breached by his pervasive presence on both sides. Obviously the tell - tale circumstances surrounding the said transactions make it suspect. In spite of the same, the fact that the Broker executed cross deals for his clients substantially (100% of the total trades of DSQ shares at CSE on the days when it had traded for them) lends support to the finding that the Broker was a necessary party to the transactions giving rise to artificiality in the market. In stead of exercising caution, the Broker had executed large number of trades and thereby was instrumental

in creating artificial volumes in the scrip of DSQ at CSE. I also note that the Broker had executed proprietary trading in the shares of DSQ on various days between January 14, 2000 to February 24, 2000.

4.14 In terms of regulation 4 of the FUTP Regulations, 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.
- (e) pay, offer or agree to pay or offer, directly or indirectly, to any person any money or money’s worth for inducing another person to purchase or sell any security with the sole object of inflating, depressing, or causing fluctuations in the market price of securities”.

4.15 On an examination of the trades executed by the Broker in the shares of DSQ at CSE, as explained above in detail, it can be seen that the trades executed by the Broker were not genuine. I note that the transactions executed by the Broker (on eighteen trading sessions) were the only transactions that took place at CSE in the said shares on those days. Therefore, the trades executed by the Broker in the shares of DSQ at CSE can be said to be with an intention of artificially raising the prices of securities and thereby inducing the sale or purchase of securities by unsuspecting investors.

4.16 I further note that the trades executed by the Broker in the shares of DSQ as aforesaid created a false appearance of trading and was intended to operate only as a device to inflate, depress, or cause fluctuations in the shares of DSQ. Once the factum of manipulation is proved, then as observed by SAT in the matter of Ketan Parekh Vs SEBI, the investors are affected by the said price difference. The relevant observation made by SAT in this regard is reproduced as below:

"When a person takes part in or enters into transactions in securities with the intention to artificially raise or depress the price he thereby automatically induces the innocent investors in the market to buy / sell their stocks. The buyer or the seller is invariably influenced by the price of the stocks and if that is being manipulated the person doing so is necessarily influencing the decision of the buyer / seller thereby inducing him to buy or sell depending upon how the market has been manipulated. We are therefore of the view that inducement to any person to buy or sell securities is the necessary consequence of manipulation and flows therefrom. In other words, if the factum of manipulation is established it will necessarily follow that the investors in the market had been induced to buy or sell and that no further proof in this regard is required. The market, as already observed, is so wide spread that it may not be humanly possible for the Board to track the persons who were actually induced to buy or sell securities as a result of manipulation and law can never impose on the Board a burden which is impossible to be discharged."

4.17 The volumes of the trades executed by the Broker vis - a - vis the total volumes at CSE in the shares of DSQ, the frequency with which such transactions were undertaken, the value of the transactions are material factors to reckon with. Further, the method and manner in which the said cross deals were executed will clearly establish that the same were meant for the purpose of manipulating the price and volumes in the shares of DSQ, against the fundamentals of the functioning of the securities market.

4.18 Having regard to the frequency of the transactions, their value and volumes and taking note of the fact that the associate entities of DSQ were involved in circular trading/ synchronized trades without actually intending to transfer the beneficial ownership, it can be undoubtedly held that the transactions made on behalf of the clients of the Broker (associates of DSQ) were non genuine, fictitious and circular in nature and that they were executed only to create artificial market in the shares of DSQ.

- 4.19 Therefore, by entering into cross deals and creating artificial volumes, it is fairly established that the Broker has violated regulation 4(a), (b), (c) and (d) of the FUTP Regulations. In view of the facts and circumstances and also the fact that no justifiable explanation has been received from the Broker with respect to its transactions made in the shares of DSQ, I find this case as a fit case to impose a penalty as recommended by the Enquiry Officer.

5.0 ORDER

- 5.1 In view of the forgoing, 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 major penalty of suspension of the certificate of registration of Titan Stock Broking Pvt. Ltd., {Registration no. INB031051437}, Member, Calcutta Stock Exchange Association Ltd. for a period of six months.

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

G ANANTHARAMAN

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA

Place: Mumbai

Date : 12/02/2007