

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

Against M/s Rolex Finvest Pvt Ltd, a registered sub -broker in respect of its dealings in the scrip of Warner Multimedia Ltd

DATE OF HEARING: 19.02.2007

APPEARANCES:

FOR COMPANIES/ BROKERS:

1. Shri. Ketan Rupani, Authorized Representative
2. Shri. Prakash K. Shah, Authorized Representative

FOR SEBI:

1. Shri. Vir Sahab Singh, Manager, 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 Warner Multimedia Ltd. was originally incorporated as Garima Commercial Company Limited, a Public Limited Company on May 23, 1983. Under a scheme of arrangement sanctioned by Hon'ble Calcutta High Court, Ambika Commercial Company Limited and Kennex Commercial Limited, both of which were mainly engaged in investment in shares and securities, were amalgamated with the company w.e.f. March 31, 1994. The name of the company was changed to Classic Global Credit & Securities Ltd. in June 1993. The name was further changed to Classic Global Securities Ltd. and fresh certificate of incorporation was received on July 05, 1994. The name of the company was changed to its present name i.e. Warner Multimedia Ltd. (hereinafter referred to in short as "WML") from December 24, 1999.
- 1.2 Securities and Exchange Board of India (hereinafter referred to as "SEBI") received a complaint on January 24, 2001 alleging artificial shortage of shares in the market created by the management of WML to rig the price and volume of its scrip. Thereafter, SEBI conducted an investigation into the alleged price manipulation in the scrip of WML for the period from September 08, 2000 to December 13, 2000.
- 1.3 Pursuant to initiation of investigation into the scrip, The Stock Exchange Bombay (BSE), Calcutta Stock Exchange (CSE), Madras Stock Exchange (MSE), Ahmedabad Stock Exchange (ASE), Jaipur Stock Exchange (JSE), Delhi Stock Exchange (DSE) and Madhya Pradesh Stock Exchange (MPSE) were asked to look into the trading in the scrip of WML for the period from June 01, 2000 to January 31, 2001 and submit their findings to SEBI. Subsequently, MSE, ASE, JSE, DSE and MPSE informed SEBI that scrip was not listed and traded on their exchanges. From the trading details received from BSE and CSE, it has been observed that the volume of trading was mostly concentrated at the BSE.
- 1.4 Therefore, the investigations carried out have been more focused on the BSE brokers, sub-brokers and their clients including M/s Rolex Finvest Pvt. Ltd. (hereinafter referred to in short as "Noticee"). The Noticee is registered under the companies Act, 1956 and incorporated in the year 1997. The Noticee acquired the certificate of registration as sub - broker of BSE, DSE and CSE in the year 2000.

2.0 APPOINTMENT OF THE ENQUIRY OFFICER

- 2.1 SEBI appointed Enquiry Officer under Regulation 5 of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as "Enquiry Regulations") to enquire into the violations allegedly committed by the Noticee under the provisions of the Securities and Exchange Board of India (Stock Brokers and Sub brokers) Regulations, 1992, hereinafter referred to as "Stock Broker Regulations"), Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulation, 1995 (hereinafter referred to as "PFUTP Regulations") read with Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "SEBI Act") and the rules, Bye-Laws and Regulations of BSE.
- 2.2 The Enquiry Officer after conducting the Enquiry in terms of the Enquiry Regulations found that the Noticee violated Clauses (5) of Part A of Code of Conduct specified in Schedule II read with Regulation 7 of Stock Broker Regulations, Section 12 of the SEBI Act 1992, and Regulation 4 (a) and (b) of PFUTP Regulations and submitted his Enquiry Report dated July 30, 2004. He recommended a minor penalty of suspension of the Certificate of Registration of the Noticee for a period of one month.

3.0 SEBI & SAT ORDERS

3.1 The then Whole Time Member of SEBI, after considering the Enquiry Report, reply of the Noticee to the show cause notice and written submissions made after personal hearing, vide order dated February 01, 2006 suspended the certificate of registration of Noticee for a period of one month.

3.2 The Noticee filed an appeal before the Hon'ble Securities Appellate Tribunal (SAT) against the aforesaid order dated February 01, 2006 of SEBI. SAT after hearing the matter passed its final order on February 22, 2006 wherein SEBI's order was set aside. SAT however in its order observed that it will be open to SEBI to proceed against the appellant and pass afresh order in accordance with law.

4.0 PERSONAL HEARING

4.1 In light of the SAT observation, personal hearing was again granted to the Noticee on February 19, 2007 which was attended by its representatives who by and large reiterated the submissions made before Enquiry Officer and after that post hearing written submissions were also made by them.

5.0 CONSIDERATION OF ISSUES AND FINDINGS

5.1 I have carefully examined the facts and circumstances of the case. I have also considered the Enquiry Report and the submissions of the Noticee made before me during the personal hearing and also the post hearing written submissions made by the Noticee.

5.2 The price of the scrip at BSE moved from Rs.18/- on September 08, 2000 to a high of Rs.53.30 on December 13, 2000 which was 196% in a period of about 3 months. The investigation further revealed that the average daily traded volume in the said scrip at BSE increased from 1000 shares per day for the period January 01, 2000 to September 08, 2000 to 17,500 shares per day for the period September 11, 2000 to September 18, 2000 which is an increase of 1650%.

5.3 The investigation revealed that major clients of all the major trading brokers in the scrip of WML during the relevant period were interconnected with each other and to the promoters of the WML and the trading done by these clients accounted for 70-100% of the settlement purchases and the sales done in the market during the investigation period.

5.4 The investigation further revealed that Noticee facilitated price manipulation and creation of false market in the scrip of WML by aiding and abetting the promoters, entities and individuals connected with it.

5.5 The Enquiry Officer found that there were number of transactions executed by Noticee from December 5, 2000 to December 22, 2000 which constitutes more than 50% of daily traded volume in BSE. The Enquiry Officer also noted the argument given by Noticee that there was no mechanism for them to know during the market time as to what percentage the trades done by them constitutes to the total traded volume in a exchange as unconvincing since the details of volume at exchanges are known after the market time.

5.6 The Enquiry Officer also found that the investigation conducted by the exchanges and SEBI reveals that certain set of persons/entities connected to the promoters of WML traded in the scrip. However, he found that there is no evidence to suggest that Noticee is connected to the company or its promoters.

5.7 The Enquiry Officer also noted one of the submissions of the Noticee to the effect that all the trades executed by it in the scrip of WML were for clients only and it is not clear as to how Noticee has executed trades for its clients through a sub-broker in BSE. Accordingly he concluded that the Noticee had acted as unregistered sub-broker, which is in violation of section 12 of SEBI Act, 1992. During the course of hearing, the Noticee submitted that they are registered sub-broker of BSE, CSE and DSE and details for the same were furnished in their written submission dated March 05, 2007 which is reproduced hereunder:

Name of the Exchange	Name of the main Broker	SEBI Regn. No. & Date
Bombay Stock Exchange	TCP Stock Brokers (P) Ltd. (TCP)	INS010626732/01-09978 dated 25.05.2000
Calcutta Stock Exchange	Agbros Securities (P) Ltd. (Agbros)	INS030637537/03-10175 dated 20.06.2000
Delhi Stock Exchange	M. Agarwal Stock Brokers (P) Ltd.	INS050612139/05-09878 dated 26.05.2000

5.8 The Enquiry Officer also examined price increase from Rs.18/- on September 08, 2000 to Rs.53.30 on December 13, 2000 i.e. in three months and found that Noticee had traded only for a period of 21 days from December 01, 2000 to December 22, 2000. In fact Noticee traded shares at declining prices ranging between Rs.49.06 to Rs.24.13 from settlement no. 38 to 41. In view of this, the Enquiry Officer observed that the charge against Noticee for price manipulation may not stick unless it is shown that it had acted in concert with others. He also added that no such material is found from the findings of investigation. However, the Enquiry Officer found that Noticee is responsible for creating artificial volumes.

5.9 With regard to the creation of artificial volume, the Enquiry officer found that the trading of Noticee accounted for more than 70% of the total traded volume at the exchange in 11 out of 20 settlements. This trading created artificial volumes when there is not much demand for the scrip in the market. In this regard, Noticee stated that they executed trades for their clients. The transactions of their clients in the scrip of WML were not more than 1% of their total volume done by them through the Noticee during that financial year. They stated that the volume of trades in WML scrip was meagre compared to their total volume of business as also clients volume of business in WML scrip was not exorbitant in comparison to their total business with them. The Noticee also submitted that all the trades executed by them in the scrip pf WML were for its clients and the same were only arbitrage transactions i.e bought on BSE and sold on CSE to take the advantage of the price difference. Further, it is evident from the details of the trades executed by Noticee that they have executed trades in the scrip of WML only when the price of the scrip was declining. This fact indicated that the Noticee may not have any intention to create artificial volume in the scrip of WML. In this regard, I note that The Hon'ble SAT in its Order dated February 22, 2006 (Appeal No 46/2006) inter alia observed as hereunder:

"The enquiry officer also found the appellant responsible for creating artificial volumes thereby failing to exercise due skill and care and this according to the enquiry officer was in violation of the code of conduct prescribed for the sub brokers. Accordingly, he submitted his report and recommended that the certificate of registration granted to the appellant as s sub broker be suspended for a period of one month."

5.10 As regard the violation of code of conduct for the stock brokers, the Enquiry Officer also observed that the fundamentals of the scrip WML were not strong and that the scrip was illiquid. Hence, any prudent stock broker could have doubted the intention of the clients and stop the trading for them. In the instant matter the Noticee continued trading for number of settlements which can be termed as failure on their part to exercise due care and skill. Hence, the Noticee violated Clause (5) of the Code of Conduct laid down under the Stock Brokers Regulations and as such considering all aspects of the matter, I am of the view that a punishment of 'censure' will be adequate.

6.0 ORDER

6.1 Taking into account all facts and circumstances of the case and in exercise of the powers conferred upon me under Section 19 of SEBI Act, 1992 read with Regulation 13 (4) of the SEBI (Procedure for Holding Enquiry by the Enquiry Officer and imposing penalty) Regulations 2002, I hereby impose a minor penalty of 'censure' on M/s Rolex Finvest Private Limited.

Place: Mumbai
Date: March 12, 2007

V. K. CHOPRA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA