

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K CHOPRA, WHOLE TIME MEMBER

Against Shree Harivansha Securities Pvt. Ltd., Broker, Calcutta

Stock Exchange in the matter of Ranbaxy Laboratories Limited

DATE OF HEARING: 28.09.2006

APPEARANCES:

FOR THE BROKER:

1. M/s M. M. Patel & Co., Advocate

FOR SEBI:

1. Mrs. Barnali Mukherjee, DGM, 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 Ranbaxy Laboratories Ltd. (hereinafter referred to as "Ranbaxy") is engaged mainly in the business of manufacturing and marketing of pharma products. The price of the scrip of Ranbaxy moved up significantly from Rs.270/- in January 1999 to about Rs.1200/- in October 1999 accompanied by significant increase in volumes. Considering the above 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). Securities and Exchange Board of India (hereinafter referred to as "the Board") conducted an investigation into the dealings of several entities and brokers including M/s Shree Harivansha Securities Pvt. Ltd. (hereinafter referred to as "the Broker") of Calcutta Stock Exchange(CSE) bearing SEBI Registration no. INB030757231, in the shares of Ranbaxy.
- 1.2 The Board after considering the Investigation Report, appointed an Enquiry Officer vide Order dated November 27, 2002 under Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002 (hereinafter referred to as "Enquiry Regulations") to enquire into the alleged violations of the provisions of Regulation 4(a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995 (hereinafter referred to in short as "PFUTP Regulations"), Regulation 7 read with clause A(3) and (4) of the Code of Conduct for Stock Brokers as specified in Schedule II of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as "Stock Brokers Regulations") and Rules, Regulations and Bye-laws of Stock Exchanges.
- 1.3 The Enquiry Officer, after conducting an enquiry in accordance with the provisions of Regulation 6 of the Enquiry Regulations submitted a report dated November 14, 2003 whereby he observed that the Broker violated the provisions of SEBI circular No.SMDRP/POLICY/CIR-32/1999 dated September 14, 1999, Regulation 7 read with clause A(3) and (4) of Code of Conduct as specified in Schedule II of SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992; and Regulation 4(b) & (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995. He recommended suspension of registration of the Broker for a period of five months.

2.0 SHOW CAUSE NOTICE

- 2.1 Pursuant to the receipt of the said Enquiry Report, a Show Cause Notice dated December 05, 2003 was issued to the Broker, along with a copy of the said Enquiry Report, advising it 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 them. The Broker submitted its reply to the said show cause notice, vide letter dated January 22, 2004.

3.0 REPLY OF THE BROKER TO THE SHOW CAUSE NOTICE

- 3.1 The Broker submitted that the settlement period for Ranbaxy during the time under consideration (i.e. 1999) was 7 days and there used to be substantial difference in the price of Ranbaxy scrip at NSE, BSE and CSE. Everybody as usual expects and wants to earn benefit out of such fluctuations in price at different exchanges. So, the Broker had dealt in Ranbaxy shares at NSE and BSE in their capacity as an investor apart from the transactions in Ranbaxy carried out at CSE in their capacity as a member of CSE.
- 3.2 The Broker submitted that the transaction of their buying of 557500 and selling of 202800 shares done by them in their capacity as a member are very low and negligible compared to total volume of transactions taken place in Ranbaxy at CSE. The said transactions were entered into at CSE through 'C star' system in usual and ordinary course of business. Hence, all the transactions were bonafide and carried out with the sincere and honest intention in usual course of business with object to gain some profit, during the peak time for earning from the fluctuation in difference in prices of Ranbaxy.
- 3.3 With regard to the time gap in executing the trade, Broker submitted that the very intention of trading through C star computer system is to execute the trade in the shortest time to get desired benefit of price.

4.0 HEARING

- 4.1 The Broker was advised to attend for a personal hearing before me at Head Office SEBI at Mumbai on September 28, 2006. M/s M. M. Patel & Co, Advocates attended the hearing on behalf of the Broker and reiterated the same contentions which are explained hereinabove. Therefore, I am proceeding in the matter on the basis of the submissions 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.
- 5.2 I find that the Enquiry Officer has arrived at a conclusion in his enquiry report that the Broker has carried out 40 instances of synchronization of trades with a view to create misleading appearance of trading which tampers with price discovery mechanism of stock exchange .
- 5.3 The scrip of 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 Rs.650/- by 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 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 by significant increase in volumes.
- 5.4 The issue to be decided in this case is whether the Broker has carried out any such synchronized trades and to take a decision as to whether the penalty recommended by the enquiry officer against the Broker is proper or not. In order to decide the said issue, I felt it necessary to analyze the details given hereunder of synchronized trades executed by the Broker;

Buy Mem Name	Trade date	Buy Order time	Buy order Qty	Buy orderrate	Sell Mem Name	Sell Order time	Sell Order Qty	Sell order rate	Time Difference	Price difference
SHREE HARIVANSA SECURITIES PVT	5/5/1999	11:11:15	10000	634.80	SHANKAR LAL CHOKHANY	11:11:15	10000	634.80	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	5/10/1999	11:42:31	25000	728.30	SHANKAR LAL CHOKHANY	11:42:31	25000	728.30	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	5/18/1999	10:42:07	25000	709.90	SHANKAR LAL CHOKHANY	10:42:07	25000	709.90	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	6/1/1999	11:06:25	50000	643.80	SANJAY KHEMANI	11:06:25	50000	643.80	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	6/1/1999	12:19:18	50000	649.80	SANJAY KHEMANI	12:19:18	50000	649.80	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	6/8/1999	12:19:41	25000	603.70	SHANKAR LAL CHOKHANY	12:19:40	25000	603.70	0:00:01	0.00
SHREE HARIVANSA SECURITIES PVT	6/9/1999	10:30:46	25000	609.70	SHANKAR LAL CHOKHANY	10:30:46	25000	609.70	0:00:00	0.00
SHANKAR LAL CHOKHANY	6/15/1999	12:32:33	10000	570.00	SHREE HARIVANSA SECURITIES PVT	12:32:33	10000	570.00	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	6/23/1999	13:12:50	20000	668.50	SHANKAR LAL CHOKHANY	13:12:49	20000	668.50	0:00:01	0.00
SHANKAR LAL CHOKHANY	6/29/1999	12:08:43	18200	666.70	SHREE HARIVANSA SECURITIES PVT	12:08:43	18200	666.70	0:00:00	0.00
SHANKAR LAL CHOKHANY	6/30/1999	11:42:06	21800	659.40	SHREE HARIVANSA SECURITIES PVT	11:42:07	21800	659.40	0:00:01	0.00
SHREE HARIVANSA SECURITIES PVT	7/5/1999	13:18:33	15000	675.80	RAJENDRA KUMAR CHOKHANY	13:18:33	15000	675.80	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	7/5/1999	13:19:16	25000	675.80	SHANKAR LAL CHOKHANY	13:19:16	25000	675.80	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	7/5/1999	15:24:02	5000	675.70	RAJENDRA KUMAR CHOKHANY	15:24:02	5000	675.70	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	7/6/1999	14:37:42	20000	683.50	SHANKAR LAL CHOKHANY	14:37:42	20000	683.50	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	7/7/1999	11:11:08	15000	703.30	SHANKAR LAL CHOKHANY	11:11:08	15000	703.30	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	7/20/1999	13:11:39	25000	811.20	SHANKAR LAL CHOKHANY	13:11:39	25000	811.20	0:00:00	0.00
SHANKAR LAL CHOKHANY	7/23/1999	12:30:39	25000	897.20	SHREE HARIVANSA SECURITIES PVT	12:30:39	25000	897.20	0:00:00	0.00
SHANKAR LAL CHOKHANY	8/10/1999	10:26:00	25000	975.50	SHREE HARIVANSA SECURITIES PVT	10:26:01	25000	975.50	0:00:01	0.00
SHANKAR LAL CHOKHANY	8/10/1999	10:26:52	20000	974.60	SHREE HARIVANSA SECURITIES PVT	10:26:52	20000	974.60	0:00:00	0.00
RAJENDRA KUMAR CHOKHANY	8/10/1999	10:27:22	5000	975.60	SHREE HARIVANSA SECURITIES PVT	10:27:22	5000	975.60	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	8/10/1999	13:20:32	5000	999.50	VINOD RATHI & CO	13:20:32	5000	999.50	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	8/10/1999	13:21:12	25000	998.60	KANODIA STOCK BROKING (P) LTD	13:21:12	25000	998.60	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	8/10/1999	13:22:31	25000	999.00	KANODIA STOCK BROKING (P) LTD	13:22:30	25000	999.00	0:00:01	0.00
A CHHOTARIA & CO.	8/16/1999	14:19:44	6000	982.50	SHREE HARIVANSA SECURITIES PVT	14:19:44	6000	982.50	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	8/17/1999	12:55:18	20000	992.50	SHANKAR LAL CHOKHANY	12:55:17	20000	992.50	0:00:01	0.00
SHREE HARIVANSA SECURITIES PVT	8/17/1999	15:14:11	25000	986.30	SHANKAR LAL CHOKHANY	15:14:11	25000	986.30	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	8/18/1999	11:16:50	25000	1003.00	B L B SHARE & FINANCIAL SERVIC	11:16:50	25000	1003.00	0:00:00	0.00
KAMAL KUMAR DUGAR & CO	8/25/1999	11:10:02	25000	1016.60	SHREE HARIVANSA SECURITIES PVT	11:10:02	25000	1016.60	0:00:00	0.00
D. P. KHEMKA	8/27/1999	13:10:56	10000	1060.70	SHREE HARIVANSA SECURITIES PVT	13:10:56	10000	1060.70	0:00:00	0.00
D. P. KHEMKA	8/30/1999	11:20:24	5000	1118.50	SHREE HARIVANSA SECURITIES PVT	11:20:24	5000	1118.50	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	9/24/1999	14:46:07	5000	1077.60	MOHAN LAL DHELIA	14:46:07	5000	1077.60	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	9/24/1999	14:48:55	10000	1077.60	KANDOI SECURITIES PVT. LTD	14:48:54	10000	1077.60	0:00:01	0.00
SHREE HARIVANSA SECURITIES PVT	9/28/1999	13:49:35	12500	1068.60	SHANKAR LAL CHOKHANY	13:49:35	12500	1068.60	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	10/6/1999	11:08:08	10000	1008.40	SANT KUMAR SONTHALIA	11:08:08	10000	1008.40	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	10/8/1999	12:05:58	25000	1135.90	SHANKAR LAL CHOKHANY	12:05:58	25000	1135.90	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	10/8/1999	12:08:11	25000	1134.40	SANJAY KHEMANI	12:08:11	25000	1134.40	0:00:00	0.00
KANDOI SECURITIES PVT. LTD	10/12/1999	13:21:33	6800	1147.60	SHREE HARIVANSA SECURITIES PVT	13:21:33	6800	1147.60	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	10/15/1999	13:22:37	25000	1174.70	SHREE HARIVANSA SECURITIES PVT	13:22:37	25000	1174.70	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	10/15/1999	14:40:15	10000	1136.40	M/s Loknath Saraf	14:40:15	10000	1136.40	0:00:00	0.00

- 5.5 I find from the above table that the Broker had executed synchronized/matching trades in the shares of Ranbaxy. I find that the Broker executed 40 synchronized deals on 28 days during January 01, 1999 to October 31, 1999. The Broker had purchased 25,000 shares from counter party broker Shankar Lal Chokhany on June 09, 1999 (settlement period June 04, 1999 to June 10, 1999). Out of the above 25,000 shares, 10,000 shares were reversed in the next settlement period (June 11, 1999 to June 17, 1999) on June 15, 1999. Again on June 23, 1999 (Settlement period June 18, 1999 to June 24, 1999) a reversal of the earlier synchronized trade happened for 20,000 shares. Then again in next settlement period (i.e. June 25, 1999 to July 01, 1999) this was reversed for 18,200 shares. Similar transactions were again observed on July 16, 1999 and July 22, 1999. The aforementioned trades show a definite pattern and cannot be a mere coincidence as contested by the Broker. I also observe that the Broker and their counter party brokers placed orders having the same quantity and price simultaneously either at the same time or within a time gap of one second. I also find that similar proceedings had already been initiated against the aforesaid brokers for the same violation.
- 5.6 I have also observed that the percentage of matching transactions of the Broker to its total transactions in the shares of Ranbaxy during the period under consideration is 8%. The Broker also submitted that their transactions were very low and negligible compared to total volume of transactions done in Ranbaxy at CSE. I am of the view that the synchronization of trades irrespective of volume will affect the real price discovery. Further in all those trades, I find clear evidence of synchronization of trades and reversal of trades among the said entities.
- 5.7 Further, I am of the view that number of instances of synchronization of trades cannot be treated as mere coincidence and are only possible if the trades are put in the system with prior understanding. In such cases prices and quantities have been negotiated outside the system and orders had been executed simultaneously. I find that all the above mentioned 40 transactions give an impression that these were all synchronized and traded to create artificial market, otherwise there was no possibility of such perfect matching of quantity, price 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. The strict rules of Evidence Act and proof beyond reasonable doubt are not applicable to a proceeding of this nature.
- 5.8 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 also militates against concept of transparency. The Broker had entered into several synchronized deals. These trades abetted in creating artificial volumes and false market in the scrip of Ranbaxy Laboratories Ltd. and thus the trades executed by the Broker are in violation of the Regulation 7 read with the clause A (3) and (4) of Code of Conduct as specified in Schedule II of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, 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.

5.9 Further, the Broker through these dealings in the scrip of Ranbaxy has also violated the provisions of Regulation 4 (b) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, 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;*
- o *(c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;*

5.10 Having considered all aspects and circumstances of the case, I am of the view that suspension of certificate of registration issued to the Broker for a period of 7 days is sufficient to meet the ends of justice.

6.0 ORDER

6.1 Taking into consideration all facts and circumstances of the matter and in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 13(4) of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby impose a minor penalty of suspension of certificate of registration of M/s Shree Harivansha Securities Pvt. Ltd., the Broker of CSE and registered with SEBI bearing Registration No. INB030757231 for a period of 7 days.

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

Place: Mumbai
Date: March 15, 2007

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